Q. With reference to CA-NP-25, p. 1 of 2, please fully describe how the decision was reached to proceed with the 2005 ERP which is described as "a significant contribution to labour cost stability since 2003." Without limiting the generality of the foregoing, please fully describe how management at NP concluded that NP could adequately function with significantly less employees.

A. In planning the 2005 early retirement program (the "2005 ERP"), management at Newfoundland Power reviewed the appropriate cost and operating data and used its experience to assess both the operating implications across its service territory and overall cost impacts of the proposed offering.

Given the magnitude of the proposed offering (131 employees would be eligible to participate), potential service delivery and associated staffing implications for many of the Company's 23 operational locations were specifically considered.

The potential costs associated with the proposed offering also were assessed particularly in light of the voluntary nature of the proposed offering. In addition, an appropriate regulatory accounting treatment for the costs and benefits of the 2005 ERP was assessed.

The overall result of Newfoundland Power's management assessment was the conclusions that (i) reasonable service levels could be maintained following the offering of the 2005 ERP and (ii) the 2005 ERP would yield *sustainable* long-term cost reductions.

In advance of offering the 2005 ERP, the Company made an application to the Board for approval of the expensing and funding of the associated costs.

Attachment A is a copy of Newfoundland Power's November 5, 2004 *Application for Approval of the Expensing and Funding of Costs Associated with the 2005 ERP*.[1]

The assessment and execution effort, which was extensive, took months.

Please refer to the response to CA-NP-324 for further information on how Newfoundland Power generally views the relationship between costs (including labour costs) and service and specific detail associated with the 2005 ERP.

[1] The robustness of the Company's participation assumptions were the subject matter of Board staff requests for information on this Application. Attachment B contains copies of the Board staff requests for information.

Application for Approval of the Expensing and Funding of Costs Associated with a Proposed Voluntary Early Retirement Program

November 5, 2004

NEWFOUNDLAND POWER
A FORTIS COMPANY

Newfoundland Power Inc.

55 Kenmount Road
PO Box 8910
St. John's, Newfoundland
A1B 3P6
Business: (709) 737-5600
Facsimile: (709) 737-2974
www.newfoundlandpower.com

DELIVERED BY HAND

November 5, 2004

Board of Commissioners
of Public Utilities
P.O. Box 21040
120 Torbay Road
St. John's, Newfoundland A1A 5B2

Attention: Ms. Cheryl Blundon
Director of Corporate Services
and Board Secretary

Ladies and Gentlemen:

Re: Application for Approval of the Expensing and Funding of Costs Associated with a Proposed Voluntary Early Retirement Program (the "2005 Retirement Program")

Please find enclosed fifteen (15) copies of an application (the "Application") for approval of the expensing and funding of the pension costs, and the expensing of the retirement allowances, associated with the 2005 Retirement Program.

Description of the Application

The 2005 Retirement Program is described under *A. Background* in the Application.

In the Application, Newfoundland Power seeks the Board's approval for (i) the funding and expensing of the pension costs associated with the 2005 Retirement Program over a period of ten years commencing in 2005 (the "Ten-Year Amortization Methodology") and (ii) the expensing of the retirement allowances associated with the 2005 Retirement Program over a period of 24 months commencing in 2005 (the "Twenty-Four Month Amortization Methodology").

Schedule A to the Application is a net present value ("NPV") analysis of the pro-forma costs and benefits[1] of the 2005 Retirement Program.

Schedule B to the Application illustrates the pro-forma pension expense and funding requirements associated with the 2005 Retirement Program. It is the Ten-Year Amortization Methodology, and not the pro-forma amounts shown in Schedule B, for which Newfoundland Power is seeking Board approval. Actual amounts will vary from the pro-forma amounts shown in Schedule B depending upon which employees decide to participate in the 2005 Retirement Program.

Schedule C to the Application illustrates the Twenty-Four Month Amortization Methodology. The purpose of the Twenty-Four Month Amortization Methodology is to smooth, on an after-tax basis, the cost impacts of the retirement allowances associated with the 2005 Retirement Program. It is the Twenty-Four Month Amortization Methodology, and not the pro-forma amounts shown in Schedule C, for which Newfoundland Power is seeking approval. Actual amounts will vary from the pro-forma amounts shown in Schedule C depending upon which employees decide to participate in the 2005 Retirement Program.

Schedule D to the Application illustrates the pro-forma effect of the Ten-Year Amortization Methodology on Newfoundland Power's deferred pension asset which is included in its rate base.

Schedule E to the Application is a letter from Ernst & Young LLP, Newfoundland Power's auditors, confirming the accounting rules associated with the 2005 Retirement Program.

At this juncture, Newfoundland Power seeks only approval of accounting methodologies. Newfoundland Power is not seeking the Board's approval of the prudency of the 2005 Retirement Program. A prudency review can only reasonably be undertaken once the costs of the 2005 Retirement Program are known. Newfoundland Power expects such a review to be undertaken at its next general rate proceeding.

Pro-Forma Costs and Benefits of the 2005 Retirement Program

The 2005 Retirement Program is estimated to cost approximately $9.7 million on a pro-forma basis.

[1] The pro-forma costs and benefits described in the Application are based upon (i) employee eligibility to participate in the 2005 Retirement Program being established as of December 31, 2004, (ii) retirement in April, 2005 for participants in the 2005 Retirement Program and, (iii) approximately 57% of eligible employees (75/131) electing to participate in the 2005 Retirement Program and replacement of approximately 30% (23/75) of those participants.

Telephone: (709) 737-5859 *Email: palteen@newfoundlandpower.com* *Fax: (709) 737-2974*

The present value of the benefits of the 2005 Retirement Program in excess of costs is $13.6 million on a pro-forma basis over 10 years.

Based upon the Ten-Year Amortization and Twenty-Four Month Amortization Methodologies proposed in the Application, costs associated with the 2005 Retirement Program will cause Newfoundland Power's pre-tax 2005 operating costs to increase by approximately $600,000 (net of salary savings) on a pro-forma basis.

Over the past 10 years or so, Newfoundland Power has implemented a series of voluntary early retirement programs to ensure least-cost management. The 2005 Retirement Program represents the latest installment of an ongoing effort by Newfoundland Power to achieve service excellence at least cost.

Justification for, and Timing of, Approvals Sought

The principal justification for the approvals sought in the Application is that they will enable implementation of the 2005 Retirement Program. The 2005 Retirement Program is clearly consistent with the least cost management and operations of Newfoundland Power.

If Newfoundland Power was to recognize fully in 2005 the total costs associated with the 2005 Retirement Program in accordance with Canadian generally accepted accounting principles ("GAAP"), then it would not have the opportunity to earn a just and reasonable return in 2005. Accordingly, Newfoundland Power's implementation of the 2005 Retirement Program is dependent upon it receiving a Board order which would allow it to recognize the resultant costs in a manner other than that normally required by GAAP.

Newfoundland Power's proposed treatment of costs associated with the 2005 Retirement Program is consistent previous approvals by the Board for Newfoundland Power's larger retirement programs.

The average age of the employees who are expected to be eligible to participate in the 2005 Retirement Program is 54.3 years. The ten-year timeframe therefore approximately reflects the remaining time to ordinary retirement for the eligible employees. This tends to provide a reasonable matching of the costs and benefits of the 2005 Retirement Program.

Accounting approval is being sought in advance of implementation to ensure that Newfoundland Power would not be required to recognize the total costs of the 2005 Retirement Program in 2005. In the absence of a Board order approving an alternate accounting treatment, GAAP would require Newfoundland Power to expense all of the costs of the 2005 Retirement Program in 2005.

Telephone: (709) 737-5859 *Email: palteen@newfoundlandpower.com* *Fax: (709) 737-2974*

In the circumstances, Newfoundland Power submits that the proposed accounting treatment for the costs of the 2005 Retirement Program as set out in the Application is reasonable and prudent.

We trust that the above and enclosed are in order.

Yours very truly,

Peter Alteen
Vice President, Regulatory Affairs
& General Counsel

Enclosures

IN THE MATTER OF the *Public Utilities Act*, R.S.N. 1990, Chapter P-47 (the "Act"); and

IN THE MATTER OF an Application by Newfoundland Power Inc. pursuant to section 58 of the Act for the approval of a variation from generally accepted accounting principles concerning the amortization of costs associated with a proposed early retirement program.

TO: The Board of Commissioners of Public Utilities (the "Board")

THE APPLICATION OF Newfoundland Power Inc. ("Newfoundland Power") **SAYS THAT:**

A. Background:

1. Newfoundland Power is a corporation organized and existing under the laws of the Province of Newfoundland and Labrador, is a public utility within the meaning of the Act and is subject to the provisions of the *Electrical Power Control Act, 1994.*

2. Newfoundland Power proposes to offer an enhanced early retirement program to those of its employees who will be either (i) 50 years of age or older and have a minimum of 30 years of service or (ii) 55 years of age or older and have an age and service combination of 85 years (the "2005 Retirement Program"). It is proposed that employees who wish to participate in the 2005 Retirement Program will be required, in early 2005, to indicate their desire to do so.

3. It is expected that 131 employees of Newfoundland Power will be eligible to participate on a voluntary basis in the 2005 Retirement Program. The average age of these employees is 54.3 years.

4. Newfoundland Power estimates that the total costs of the 2005 Retirement Program will be approximately $9.7 million (pre-tax), which is composed of the following amounts:

   (a) approximately $8.1 million in aggregate pension costs created in Newfoundland Power's defined benefit retirement income plan (the "Plan") as a result of the 2005 Retirement Program; and

   (b) approximately $1.6 million in aggregate retirement allowances offered as part of the 2005 Retirement Program.

5. Newfoundland Power proposes to implement the 2005 Retirement Program to ensure that the continued management and operation of its facilities results in power being delivered to consumers in the province of Newfoundland and Labrador at the lowest possible cost consistent with reliable service as required by section 3(b)(iii) of the *Electrical Power Control Act, 1994.*

B. Newfoundland Power Proposal:

6. Canadian generally accepted accounting principles ("GAAP") require Newfoundland Power to recognize the total costs associated with the 2005 Retirement Program at the time employees who elect to participate in the 2005 Retirement Program indicate their desire to so participate.

7. If Newfoundland Power were to recognize fully in 2005 the total costs associated with the 2005 Retirement Program, then it would not have the opportunity to earn a just and reasonable return in 2005, as provided by section 80(1) of the Act.

8. The net present value of the 2005 Retirement Program is estimated by Newfoundland Power to be approximately $13.6 million over a ten-year period.

   Schedule A to the Application contains, on a pro-forma basis, the details of the net present value of the 2005 Retirement Program.

9. Newfoundland Power proposes that the aggregate pension costs created in the Plan as a result of the 2005 Retirement Program be amortized and funded over a ten-year period, and more specifically, by:

   (a) charging pension expense associated with the 2005 Retirement Program to operations based on a ten-year amortization period, commencing upon implementation in 2005; and

   (b) funding the pension liability associated with a 2005 Retirement Program over a ten-year amortization period, commencing upon implementation in 2005.

   Schedule B to this Application contains details, on a pro-forma basis, of the proposed ten-year amortization of the aggregate pension costs associated with the 2005 Retirement Program (collectively, the "Ten-Year Amortization Methodology").

10. Newfoundland Power also proposes that the aggregate retirement allowances be charged to operating account over a period of 24 months commencing in the month during which the retirement allowances are paid (the "Twenty-Four Month Amortization Methodology").

   Schedule C to the Application illustrates, under the Twenty-Four Month Amortization Methodology, on a pro-forma basis, the proposed amortization of retirement allowances associated with the 2005 Retirement Program.

C. Justification of Newfoundland Power Proposal:

11. Newfoundland Power's implementation of the 2005 Retirement Program is dependent upon Newfoundland Power recognizing the costs associated with the 2005 Retirement Program in a manner other than that normally required by GAAP as set out in paragraph 6 of this Application.

12. The Ten-Year Amortization Methodology results in the net benefits associated with the 2005 Retirement Program being amortized over a timeframe which is approximately equivalent to the average remaining service life of those employees of Newfoundland Power who will be eligible to participate in the 2005 Retirement Program as set out in paragraph 3 of this Application.

13. The approval of the Ten-Year Amortization Methodology and the Twenty-Four Month Amortization Methodology, will permit:

    (a) the continued management and operation of Newfoundland Power's facilities consistent with section 3(b) (iii) of the *Electrical Power Control Act, 1994*; and

    (b) the opportunity for Newfoundland Power to earn a just and reasonable return in 2005 consistent with section 80 (1) of the Act.

14. The approval of the Ten-Year Amortization Methodology and the Twenty-Four Month Amortization Methodology by the Board is consistent with past approvals of the Board relating to major retirement initiatives of Newfoundland Power.

15. The approval of the Ten-Year Amoritization Methodology is expected to result in a reduction in Newfoundland Power's deferred pension asset, over the ten-year period.

    Schedule D to this Application indicates, on a pro-forma basis, the effects of the Ten-Year Amortization Methodology upon Newfoundland Power's deferred pension asset.

D. Timing of Application and Future Review:

16. The approval of the Ten-Year Amortization Methodology and the Twenty-Four Month Amortization Methodology is being sought in advance of the implementation of the 2005 Retirement Program because current financial reporting standards effectively require Newfoundland Power to recognize the costs associated with the 2005 Retirement Program either:

    (a) in accordance with what is normally considered to be GAAP, as set out in paragraph 6 of this Application; or

    (b) in accordance with an Order of the Board.

    Schedule E to this Application is a letter from Ernst & Young LLP, Newfoundland Power's auditors, which outlines the accounting rules relating to the costs associated with the 2005 Retirement Program.

17. This Application seeks the Board's approval of the Ten-Year Amortization Methodology and the Twenty-Four Month Amortization Methodology for costs associated with the 2005 Retirement Program. This approval is necessary because these amortization methodologies constitute a variation by Newfoundland Power from what is normally considered to be GAAP.

18. This Application does not seek approval of the 2005 Retirement Program itself. As actual costs of the 2005 Retirement Program will differ from the estimated costs reflected in this Application, the prudence of the 2005 Retirement Program as implemented is expected to be subject to full public review before the Board at Newfoundland Power's next general rate application.

E. Order Requested:

19. Newfoundland Power requests the Board make an Order approving the Ten-Year Amortization Methodology and the Twenty-Four Month Amortization Methodology for costs associated with the 2005 Retirement Program, all as set out in this Application.

F. Communications:

20. Communications with respect to this Application should be forwarded to the attention of Peter Alteen and Gerard Hayes, Counsel to Newfoundland Power.

DATED at St. John's, Newfoundland and Labrador, this 5th day of November, 2004.

NEWFOUNDLAND POWER INC.

Peter Alteen and Gerard Hayes
Newfoundland Power Inc.
P.O. Box 8910
55 Kenmount Road
St. John's, Newfoundland
A1B 3P6

Telephone: (709) 737-5859
Telecopier: (709) 737-2974

IN THE MATTER OF the
Public Utilities Act, R.S.N.
1990, Chapter P-47 (the "Act"); and

IN THE MATTER OF an Application
by Newfoundland Power Inc. pursuant
to section 58 of the Act for the approval
of a variation from generally accepted
accounting principles concerning the
amortization of costs associated with a
proposed early retirement program.

AFFIDAVIT

I, Lisa A. Hutchens, of St. John's in the Province of Newfoundland and Labrador, make oath and say as follows:

1. That I am Vice-President, Finance and Chief Financial Officer of Newfoundland Power Inc.

2. To the best of my knowledge, information and belief, all matters, facts and things set out in this Application are true.

SWORN to before me at St. John's
in the Province of Newfoundland and Labrador
this 5th day of November 2004,
before me:

Barrister

Lisa A. Hutchens

Newfoundland Power Inc.

Net Present Value of the 2005 Early Retirement Program
Pension Costs Funded Over 10 Years
Retirement Allowances Funded In 2005
Pro-Forma

	TOTAL COSTS						TOTAL BENEFITS										
		Pension Funding							Tax Deductions								
Year	Retirement Allowance A	Special Funding B	Current Service C	Tax Deductions D	Tax Savings E	Net After Tax Cost F	Reduction In Salaries Capital G	Reduction In Salaries Operating H	UCC Opening I	UCC Reductions J	UCC End Of Year K	CCA Reduction L	Operating Expense Reduction M	Total CCA/Expense Reduction N	Current Tax Increase O	Net After Tax Benefit P	After Tax Cash Inflow (Outflow) Q
2005[1]	(1,589,635)	(797,090)	333,276	(2,053,450)	741,706	(1,311,744)	1,219,554	1,225,167	-	1,219,554	1,148,698	70,856	1,225,167	1,296,023	(468,124)	1,976,597	664,854
2006	-	(1,062,787)	466,630	(596,157)	215,332	(380,825)	1,626,072	1,633,556	1,148,698	1,626,072	2,546,817	227,953	1,633,556	1,861,509	(672,377)	2,587,251	2,206,426
2007	-	(1,062,787)	497,740	(565,047)	204,095	(360,952)	1,626,072	1,633,556	2,546,817	1,626,072	3,782,474	390,415	1,633,556	2,023,971	(731,058)	2,528,570	2,167,618
2008	-	(1,062,787)	530,841	(531,946)	192,139	(339,807)	1,626,072	1,633,556	3,782,474	1,626,072	4,874,548	533,998	1,633,556	2,167,554	(782,921)	2,476,707	2,136,900
2009	-	(1,062,787)	566,059	(496,729)	179,418	(317,310)	1,626,072	1,633,556	4,874,548	1,626,072	5,839,723	660,897	1,633,556	2,294,453	(828,756)	2,430,872	2,113,561
2010	-	(1,062,787)	603,524	(459,263)	165,886	(293,377)	1,626,072	1,633,556	5,839,723	1,626,072	6,692,744	773,051	1,633,556	2,406,606	(869,266)	2,390,362	2,096,985
2011	-	(1,062,787)	643,377	(419,410)	151,491	(267,919)	1,626,072	1,633,556	6,692,744	1,626,072	7,446,645	872,172	1,633,556	2,505,728	(905,069)	2,354,559	2,086,640
2012	-	(1,062,787)	685,767	(377,020)	136,180	(240,841)	1,626,072	1,633,556	7,446,645	1,626,072	8,112,942	959,775	1,633,556	2,593,331	(936,711)	2,322,917	2,082,076
2013	-	(1,062,787)	730,852	(331,935)	119,895	(212,040)	1,626,072	1,633,556	8,112,942	1,626,072	8,701,815	1,037,199	1,633,556	2,670,754	(964,677)	2,294,951	2,082,911
2014	-	(1,062,787)	778,799	(283,988)	102,577	(181,412)	1,626,072	1,633,556	8,701,815	1,626,072	9,222,262	1,105,626	1,633,556	2,739,182	(989,392)	2,270,236	2,088,824
2015[2]	-	(265,697)	197,742	(67,955)	24,545	(43,410)	406,518	408,389	9,222,262	406,518	8,533,534	1,095,246	408,389	1,503,634	(543,113)	271,794	228,385
CCA End Effects												5,690,755		5,690,755	(2,055,501)	(2,055,501)	(2,055,501)
NPV at a Discount Rate of 7.03%.						$ (3,281,995)										$ 16,914,560	$ 13,632,565

Notes: A is the retirement allowances which are based on 20 weeks salary for retiring employees.
B is the actuarially determined funding requirements for the liability created by the 2005 early retirement program .
C is the reduction in current service funding requirements attributable to the 2005 early retirement program.
D is the tax deduction claimed as a result of the pension funding and retirement allowances. D = A+B+C.
E is D multiplied by the tax rate (absolute value). The income tax rate used is the statutory rate of 36.12%.
F is the net after-tax cost of the 2005 early retirement program. F = D + E.
G and H reflect the allocation of savings in salaries/pension costs to capital and operating. The allocation of salaries is based on an analysis of the capital/operating splits for each individual retiree.
I is the cumulative reduction in undepreciated capital cost (UCC) balance at the end of the previous year.
J is the reduction in UCC during the current year as a result of the capital reduction shown in G.
K is the cumulative reduction in the UCC balance at the end of the year. K = I + J - L.
L is the reduction in the current year CCA claim caused by the cumulative UCC reduction. It is based on an incremental CCA rate of approximately 11.62% with application of the CCA half-year rule.
It is calculated as L = ((I x 11.62%) + (J x 11.62% x 0.5)) x -1
M is the reduction in operating expenses shown in H.
N is the total CCA and operating expense reduction. N = L + M.
O is the total increase in income tax caused by the reduction in tax deductible operating expenses and CCA. O = N x 36.12% x -1.
P is the net after-tax benefit of the 2005 early retirement program. P = G + H + O.
Q is the net after tax cash impact of the 2005 early retirement program. Q = P + F.

[1] Nine months, April through December 2005.
[2] Three months, January through March 2015.

Newfoundland Power Inc.

2005 Early Retirement Program
10 Year Amortization Schedule
Pro-Forma

Year	Pension Expense[1]	Pension Funding[2]
2005	$1,206,656	$ 797,090
2006	1,585,978	1,062,787
2007	1,554,503	1,062,787
2008	1,521,431	1,062,787
2009	1,486,433	1,062,787
2010	1,449,351	1,062,787
2011	1,411,465	1,062,787
2012	1,372,193	1,062,787
2013	1,331,132	1,062,787
2014	1,288,203	1,062,787
2015	319,338	265,697

1 Represents the 10 year pro-forma increase in pension expense attributable to the 2005 early retirement program before the reduction in current service costs attributable to the program.

2 Represents the actuarially determined 10 year pro-forma funding requirements for the 2005 early retirement program before the reduction in current service funding attributable to the program. These funding amounts have an actuarially determined net present value of approximately $8.1 million.

Newfoundland Power Inc.

2005 Early Retirement Program
Retirement Allowances
Twenty-Four Month Amortization Schedule
Pro-Forma

Twenty-Four Month Amortization Methodology

To amortize the effective impacts of the payment of retirement allowances associated with the 2005 early retirement program over a multi-year period, the retirement allowances should be considered on a tax-effected basis. This reflects the fact that all retirement allowances are tax deductible in the year of payment. This Schedule describes the methodology by which Newfoundland Power proposes to amortize the retirement allowances associated with the 2005 early retirement program over 24 months.

A. Calculation of Monthly Amortization Amount

Total Retirement Allowances	$1,589,635
Tax Effects (@ 36.12%)	574,176
After-tax Retirement Allowances	$1,015,459
Monthly Amortization Amount[1]	$ 42,311

B. Allocation of Retirement Allowances

	2005 9 Months	2006 12 Months	2007 3 Months	Total 24 Months
After-tax Retirement Allowances[2]	$380,797	$507,729	$126,933	$1,015,459
Tax Effects[3]	574,176	-	-	574,176
Total Retirement Allowances Charged to Operating Account[4]	$954,973	$507,729	$126,933	$1,589,635

1 Represents, on an after-tax basis, the amount of retirement allowances to be effectively charged to operating account each month ($1,015,459 ÷ 24).

2 Represents, on an after-tax basis, the total amount of retirement allowances effectively allocated to each year (number of months multiplied by $42,311).

3 In accordance with tax legislation, the income tax impact associated with the retirement allowances is recognized in the year during which taxes are paid, which will be 2005. Accordingly, for expense recognition in 2005, an amount equal to the tax effects of the total retirement allowances is allocated to 2005.

4 Represents the amount of retirement allowances charged to operating account in each year.

Newfoundland Power Inc.

**2005 Early Retirement Program
Impact on Deferred Pension Asset
Pro-Forma**

	Pension Expense			Pension Funding			
	Program Expense[1]	Current Service[2]	Net Expense[3]	Special Funding[4]	Current Service[5]	Net Funding[6]	Decrease in Deferred Pension Asset[7]
2005	$ 1,206,656	$ (262,436)	$ 944,220	$ 797,090	$ (333,276)	$ 463,814	$ (480,406)
2006	1,585,978	(369,806)	1,216,172	1,062,787	(466,630)	596,157	(620,015)
2007	1,554,503	(397,734)	1,156,769	1,062,787	(497,740)	565,047	(591,722)
2008	1,521,431	(427,633)	1,093,798	1,062,787	(530,841)	531,946	(561,852)
2009	1,486,433	(459,637)	1,026,796	1,062,787	(566,059)	496,728	(530,068)
2010	1,449,351	(493,891)	955,460	1,062,787	(603,524)	459,263	(496,197)
2011	1,411,465	(530,546)	880,919	1,062,787	(643,377)	419,410	(461,509)
2012	1,372,193	(569,765)	802,428	1,062,787	(685,767)	377,020	(425,408)
2013	1,331,132	(611,724)	719,408	1,062,787	(730,852)	331,935	(387,473)
2014	1,288,203	(656,605)	631,598	1,062,787	(778,799)	283,988	(347,610)
2015	319,338	(167,003)	152,335	265,697	(197,742)	67,955	(84,380)
Total							$ (4,986,639)

1 Represents the 10 year pro-forma increase in pension expense attributable to the 2005 early retirement program before the reduction in current service expense attributable to the program.

2 Represents the 10 year pro-forma reduction in current service expense attributable to the 2005 early retirement program.

3 Represents the 10 year pro-forma net increase in pension expense attributable to the 2005 early retirement program.

4 Represents the actuarially determined 10 year pro-forma funding requirements for the 2005 early retirement program.

5 Represents the actuarially determined 10 year pro-forma reduction in current service funding requirements attributable to the 2005 early retirement program.

6 Represents the actuarially determined 10 year pro-forma net funding requirements attributable to the 2005 early retirement program (special funding less current service funding).

7 Represents the excess, on a pro-forma basis, of net pension expense over net pension funding during the 10 year amortization period. Pension funding is based on actuarial determination by Newfoundland Power's actuary and is governed by pension legislation whereas pension expense is determined in accordance with CICA recommendations. Net pension expense over the 10 year period exceeds net pension funding by $4,986,639. This results in a reduction in Newfoundland Power's deferred pension asset.

ERNST & YOUNG

Ernst & Young LLP
Chartered Accountants
The Fortis Building
7th Floor
139 Water Street
St. John's, NL A1C 1B2

Phone: 709-726-2840
Fax: 709-726-0345

November 3, 2004

Newfoundland Power Inc.
P.O. Box 8910
55 Kenmount Road
St. John's, NL
A1B 3P6

Attention: Ms. Lisa Hutchens
Vice President, Finance
& Chief Financial Officer

Dear Ms. Hutchens:

Re: Accounting Treatment – 2005 Early Retirement Program
Special Termination Benefits

It is our understanding that Newfoundland Power Inc. (the "Company") intends to offer an Early Retirement Program to qualifying employees (the "2005 ERP"). You have asked us to confirm the accounting treatment of the special termination benefits associated with the 2005 ERP.

We offer the following comments:

1. Canadian generally accepted accounting principles ("GAAP") with respect to the foregoing are set out in Emerging Issues Committee Abstract, EIC-134 and Section 3461 of the CICA Handbook. Paragraph 136 of Section 3461 states that an entity that offers special termination benefits to employees for voluntary terminations shall recognize a liability and an expense when employees accept the offer.

   EIC-134 states that an offer of special termination benefits may also include an enhancement of the retirement benefits provided to employees whose employment has been terminated for "early retirement". The committee reached a consensus that a liability for early retirement and other enhancements to the entity's pension plan and/or other post retirement benefit plans should be recognized as a liability and an expense when employees accept the offer of the enhancements and the amount of the benefits can be reasonably estimated.

2. It is our understanding that the Company is making an application to the Board of Commissioners of Public Utilities of Newfoundland and Labrador (the "Board") for approval of (i) a methodology pursuant to which the Company will expense and fund the incremental pension costs of the 2005 ERP over a ten-year period commencing in 2005 and (ii) the expensing of the after tax retiring allowances associated with the 2005 ERP on a straight line basis over a period of 24 months commencing in the month during which the retirement allowances are paid.

   The Company is regulated by the Board who sometimes prescribes accounting requirements related to specific assets, liabilities, expenses and revenues. The timing of the Company's recognition of certain assets, liabilities, revenues and expenses as a result of regulation may differ from that otherwise expected using Canadian generally accepted accounting principles for entities not subject to rate regulation.

   It is our understanding that the timing of the Company's recognition of certain assets, liabilities revenue and expense as a result of regulation is in accordance with existing Canadian generally accepted accounting principles for rate regulated entities provided all of the criteria of paragraph 36 of section 1100 of the CICA Handbook are met. The criteria are as follows:

   (a) the rates for regulated services or products provided to its customers are established by or are subject to approval by a regulator or governing body empowered by statute or contract to establish rates to be charged for services or products;
   (b) the regulated rates are designed to recover the cost of providing the service or products; and,
   (c) it is reasonable to assume that rates set at levels that will recover costs can be charged to and collected from customers in view of the demand for the service or products and the level of direct or indirect competition.

We trust the foregoing to be satisfactory. Should you require anything further, please call.

Yours truly,

Ernst + Young LLP

Chartered Accountants

Application for Approval of the Expensing and Funding Of Costs Associated with a Proposed Voluntary Early Retirement Program

Board Staff RFIs

November 26, 2004

NEWFOUNDLAND POWER
A FORTIS COMPANY

Newfoundland Power Inc.

55 Kenmount Road
PO Box 8910
St. John's, Newfoundland
A1B 3P6
Business: (709) 737-5600
Facsimile: (709) 737-2974
www.newfoundlandpower.com

DELIVERED BY HAND

November 26, 2004

Board of Commissioners of Public Utilities
P.O. Box 21040
120 Torbay Road
St. John's, Newfoundland A1A 5B2

Attention: Ms. Cheryl Blundon
Director of Corporate Services
& Board Secretary

Ladies & Gentlemen:

Re: Application for approval of a variation from generally accepted accounting principles concerning the amortization of costs associated with a proposed early retirement program (the "2005 Retirement Program")

Enclosed are 15 copies of the Company's Responses to Information Requests PUB-1.0 through PUB-4.0.

If you have any further questions, please feel free to contact us.

Yours very truly,

Gerard M. Hayes
Senior Counsel

Enclosures

Q. The Net Present Value analysis of the 2005 Retirement Program includes an assumption that 57% of eligible employees will take advantage of this offer. What is the basis for this assumption?

A. On a pro-forma basis, 131 employees are eligible to participate in the 2005 Retirement Program. In order to determine the most likely scenario for participation in the 2005 Retirement Program, the Company conducted a detailed review of all eligible employees. The review consisted of consultation with senior management and supervisory personnel to obtain informed opinions on which eligible employees are likely to avail of the 2005 Retirement Program. As a result of this review, the Company identified 75 individuals who are expected to participate. This represents a participation rate of approximately 57%.

As a reasonableness check, the Company also reviewed actual participation in all of the Company's early retirement programs since 1993. Of a total of 565 employees eligible to participate in those early retirement programs, 312 employees elected to participate. This represents an overall historic participation rate in the Company's early retirement programs of approximately 55%.

Q. Please provide a Net Present Value analysis that includes the assumption that 100% of eligible employees, or 131 employees, will take advantage of this offer, and that the company will replace 79 of the participants.

A. The requested net present value analysis is attached as Appendix A. Under the assumptions that all 131 eligible employees will participate and that 79 of the participants will be replaced, the pro-forma net present value of the 2005 Retirement Program is approximately $10.1 million.

The principal benefit of the 2005 Retirement Program is the reduction in salaries that is attributable to the reduction in the workforce. The Company's estimates are based on the assumptions that 75 employees will participate in the 2005 Retirement Program and that 23 of these participants will be replaced, which yields a net workforce reduction of 52 employees. The assumptions set out in PUB-2.0 also result in a net workforce reduction of 52 employees. Therefore, the present value of the benefits under each set of assumptions is similar.

The principal costs of the 2005 Retirement Program are the retirement allowances and the funding of the incremental pension benefits. Under varied assumptions, these costs will vary accordingly, and will result in differences in the pro-forma net present value of the 2005 Retirement Program.

Under the revised assumptions posed in PUB-2.0, the 2005 Retirement Program remains consistent with least cost management of the Company.

Newfoundland Power Inc.

Net Present Value of the 2005 Early Retirement Program
Pension Costs Funded Over 10 Years
Retirement Allowances Funded in 2005
Pro-Forma

	TOTAL COSTS						TOTAL BENEFITS										
		Pension Funding				Net	Reduction In Salaries		Tax Deductions				Operating	Total	Current	Net	After Tax
Year	Retirement Allowance	Special Funding	Current Service	Tax Deductions	Tax Savings	After Tax Cost	Capital	Operating	UCC Opening	UCC Reductions	UCC End Of Year	CCA Reduction	Expense Reduction	CCA/Expense Reduction	Tax Increase	After Tax Benefit	Cash Inflow (Outflow)
	A	B	C	D	E	F	G	H	I	J	K	L	M	N	O	P	Q
2005[1]	(2,762,142)	(1,446,000)	583,739	(3,624,402)	1,309,134	(2,315,268)	1,212,797	1,115,549	-	1,212,797	1,142,334	70,464	1,115,549	1,186,012	(428,388)	1,899,959	(415,310)
2006	-	(1,928,000)	816,262	(1,111,738)	401,560	(710,178)	1,617,063	1,487,399	1,142,334	1,617,063	2,532,706	226,691	1,487,399	1,714,089	(619,129)	2,485,333	1,775,155
2007	-	(1,928,000)	869,319	(1,058,681)	382,395	(676,285)	1,617,063	1,487,399	2,532,706	1,617,063	3,761,517	388,252	1,487,399	1,875,650	(677,485)	2,426,977	1,750,691
2008	-	(1,928,000)	925,825	(1,002,175)	361,986	(640,189)	1,617,063	1,487,399	3,761,517	1,617,063	4,847,541	531,040	1,487,399	2,018,438	(729,060)	2,375,402	1,735,212
2009	-	(1,928,000)	986,003	(941,996)	340,249	(601,747)	1,617,063	1,487,399	4,847,541	1,617,063	5,807,368	657,236	1,487,399	2,144,634	(774,642)	2,329,820	1,728,072
2010	-	(1,928,000)	1,050,093	(877,906)	317,100	(560,806)	1,617,063	1,487,399	5,807,368	1,617,063	6,655,664	768,768	1,487,399	2,256,166	(814,927)	2,289,534	1,728,728
2011	-	(1,928,000)	1,118,349	(809,650)	292,446	(517,204)	1,617,063	1,487,399	6,655,664	1,617,063	7,405,387	867,339	1,487,399	2,354,738	(850,531)	2,253,930	1,736,726
2012	-	(1,928,000)	1,191,042	(736,957)	266,189	(470,768)	1,617,063	1,487,399	7,405,387	1,617,063	8,067,993	954,457	1,487,399	2,441,856	(881,998)	2,222,463	1,751,695
2013	-	(1,928,000)	1,268,460	(659,540)	238,226	(421,314)	1,617,063	1,487,399	8,067,993	1,617,063	8,653,604	1,031,452	1,487,399	2,518,851	(909,809)	2,194,653	1,773,339
2014	-	(1,928,000)	1,350,910	(577,090)	208,445	(368,645)	1,617,063	1,487,399	8,653,604	1,617,063	9,171,167	1,099,500	1,487,399	2,586,899	(934,388)	2,170,074	1,801,429
2015[2]	-	(482,000)	342,960	(139,039)	50,221	(88,818)	404,266	371,850	9,171,167	404,266	8,486,255	1,089,177	371,850	1,461,027	(527,723)	248,392	159,574
CCA End Effects												5,659,226		5,659,226	(2,044,112)	(2,044,112)	(2,044,112)
NPV at a Discount Rate of 7.03%.						$ (6,075,562)										$ 16,174,147	$ 10,098,586

Notes:

A is the retirement allowances which are based on 20 weeks salary for retiring employees.
B is the actuarially determined funding requirements for the liability created by the 2005 early retirement program .
C is the reduction in current service funding requirements attributable to the 2005 early retirement program.
D is the tax deduction claimed as a result of the pension funding and retirement allowances. D = A+B+C.
E is D multiplied by the tax rate (absolute value). The income tax rate used is the statutory rate of 36.12%.
F is the net after-tax cost of the 2005 early retirement program. F = D + E.
G and H reflect the allocation of savings in salaries/pension costs to capital and operating. The allocation of salaries is based on an analysis of the capital/operating splits for each individual retiree.
I is the cumulative reduction in undepreciated capital cost (UCC) balance at the end of the previous year.
J is the reduction in UCC during the current year as a result of the capital reduction shown in G.
K is the cumulative reduction in the UCC balance at the end of the year. K = I + J - L.
L is the reduction in the current year CCA claim caused by the cumulative UCC reduction. It is based on an incremental CCA rate of approximately 11.62% with application of the CCA half-year rule.
It is calculated as L = ((I x 11.62%) + (J x 11.62% x 0.5)) x -1
M is the reduction in operating expenses shown in H.
N is the total CCA and operating expense reduction. N = L + M.
O is the total increase in income tax caused by the reduction in tax deductible operating expenses and CCA. O = N x 36.12% x -1.
P is the net after-tax benefit of the 2005 early retirement program. P = G + H + O.
Q is the net after tax cash impact of the 2005 early retirement program. Q = P + F.

[1] Nine months, April through December 2005.

[2] Three months, January through March 2015.

Q. Please provide a Net Present Value analysis that includes the assumption that 30% of the eligible employees, or 39 employees, will take advantage of the offer, and that the company will replace 0 of the participants.

A. The requested net present value analysis is attached as Appendix A. Under the assumptions that 39 eligible employees will participate and that none of the participants will be replaced, the pro-forma net present value of the 2005 Retirement Program is approximately $11.5 million.

The principal benefit of the 2005 Retirement Program is the reduction in salaries that is attributable to the reduction in the workforce. Under the assumptions posed in PUB-3.0, the workforce is reduced by 39 employees, versus a net reduction of 52 employees under the Company's assumptions. As a result, the present value of the benefits of the 2005 Retirement Program under the revised assumptions is somewhat lower than under the Company's assumptions.

Under the revised assumptions posed in PUB-3.0, the 2005 Retirement Program remains consistent with least cost management of the Company.

Newfoundland Power Inc.

Net Present Value of the 2005 Early Retirement Program
Pension Costs Funded Over 10 Years
Retirement Allowances Funded in 2005
Pro-Forma

	TOTAL COSTS						TOTAL BENEFITS										After Tax Cash Inflow (Outflow)
		Pension Funding					Reduction In Salaries		Tax Deductions								
Year	Retirement Allowance A	Special Funding B	Current Service C	Tax Deductions D	Tax Savings E	Net After Tax Cost F	Capital G	Operating H	UCC Opening I	UCC Reductions J	UCC End Of Year K	CCA Reduction L	Operating Expense Reduction M	Total CCA/Expense Reduction N	Current Tax Increase O	Net After Tax Benefit P	Q
2005[1]	(838,565)	(396,974)	180,318	(1,055,220)	381,145	(674,075)	1,131,671	724,282	-	1,131,671	1,065,921	65,750	724,282	790,032	(285,359)	1,570,594	896,519
2006	-	(529,298)	252,145	(277,153)	100,108	(177,045)	1,508,895	965,709	1,065,921	1,508,895	2,363,290	211,527	965,709	1,177,236	(425,218)	2,049,387	1,872,341
2007	-	(529,298)	268,534	(260,764)	94,188	(166,576)	1,508,895	965,709	2,363,290	1,508,895	3,509,904	362,281	965,709	1,327,990	(479,670)	1,994,934	1,828,358
2008	-	(529,298)	285,989	(243,309)	87,883	(155,426)	1,508,895	965,709	3,309,904	1,508,895	4,523,281	495,518	965,709	1,461,227	(527,795)	1,946,809	1,791,383
2009	-	(529,298)	304,578	(224,720)	81,169	(143,551)	1,508,895	965,709	4,523,281	1,508,895	5,418,905	613,272	965,709	1,578,981	(570,328)	1,904,276	1,760,725
2010	-	(529,298)	324,376	(204,922)	74,018	(130,904)	1,508,895	965,709	5,418,905	1,508,895	6,210,456	717,344	965,709	1,683,052	(607,919)	1,866,686	1,735,781
2011	-	(529,298)	345,460	(183,838)	66,402	(117,436)	1,508,895	965,709	6,210,456	1,508,895	6,910,030	809,322	965,709	1,775,031	(641,141)	1,833,463	1,716,027
2012	-	(529,298)	367,915	(161,383)	58,292	(103,091)	1,508,895	965,709	6,910,030	1,508,895	7,528,313	890,612	965,709	1,856,321	(670,503)	1,804,101	1,701,010
2013	-	(529,298)	391,830	(137,468)	49,654	(87,815)	1,508,895	965,709	7,528,313	1,508,895	8,074,751	962,457	965,709	1,928,166	(696,453)	1,778,151	1,690,336
2014	-	(529,298)	417,299	(111,999)	40,454	(71,545)	1,508,895	965,709	8,074,751	1,508,895	8,557,693	1,025,953	965,709	1,991,662	(719,388)	1,755,216	1,683,671
2015[2]	-	(132,325)	105,941	(26,383)	9,530	(16,854)	377,224	241,427	8,557,693	377,224	7,918,597	1,016,321	241,427	1,257,748	(454,299)	164,352	147,499
CCA End Effects												5,280,672		5,280,672	(1,907,379)	(1,907,379)	(1,907,379)
NPV at a Discount Rate of 7.03%.						$ (1,554,829)										$ 13,100,841	$ 11,546,011

Notes: A is the retirement allowances which are based on 20 weeks salary for retiring employees.
B is the actuarially determined funding requirements for the liability created by the 2005 early retirement program.
C is the reduction in current service funding requirements attributable to the 2005 early retirement program.
D is the tax deduction claimed as a result of the pension funding and retirement allowances. D = A+B+C.
E is D multiplied by the tax rate (absolute value). The income tax rate used is the statutory rate of 36.12%.
F is the net after-tax cost of the 2005 early retirement program. F = D + E.
G and H reflect the allocation of savings in salaries/pension costs to capital and operating. The allocation of salaries is based on an analysis of the capital/operating splits for each individual retiree.
I is the cumulative reduction in undepreciated capital cost (UCC) balance at the end of the previous year.
J is the reduction in UCC during the current year as a result of the capital reduction shown in G.
K is the cumulative reduction in the UCC balance at the end of the year. K = I + J - L.
L is the reduction in the current year CCA claim caused by the cumulative UCC reduction. It is based on an incremental CCA rate of approximately 11.62% with application of the CCA half-year rule.
It is calculated as L = ((I x 11.62%) + (J x 11.62% x 0.5)) x -1
M is the reduction in operating expenses shown in H.
N is the total CCA and operating expense reduction. N = L + M.
O is the total increase in income tax caused by the reduction in tax deductible operating expenses and CCA. O = N x 36.12% x -1.
P is the net after-tax benefit of the 2005 early retirement program. P = G + H + O.
Q is the net after tax cash impact of the 2005 early retirement program. Q = P + F.

[1] Nine months, April through December 2005.

[2] Three months, January through March 2015.

Q. Please provide a Net Present Value analysis that includes the assumption that 10% of the eligible employees, or 13 employees, will take advantage of the offer, and that the company will replace 0 of the participants.

A. The requested net present value analysis is attached as Appendix A. Under the assumptions that 13 eligible employees will participate and that none of the participants will be replaced, the pro-forma net present value of the 2005 Retirement Program is approximately $3.7 million.

The principal benefit of the 2005 Retirement Program is the reduction in salaries that is attributable to the reduction in the workforce. Under the assumptions posed in PUB-4.0, the workforce is reduced by 13 employees, versus a reduction of 52 employees under the Company's assumptions. As a result, the present value of the benefits of the 2005 Retirement Program under the revised assumptions is significantly lower than under the Company's assumptions.

Under the revised assumptions posed in PUB-4.0, the 2005 Retirement Program remains consistent with least cost management of the Company.

Newfoundland Power Inc.

Net Present Value of the 2005 Early Retirement Program
Pension Costs Funded Over 10 Years
Retirement Allowances Funded in 2005
Pro-Forma

	TOTAL COSTS						TOTAL BENEFITS										
		Pension Funding					Reduction In Salaries		Tax Deductions								
Year	Retirement Allowance A	Special Funding B	Current Service C	Tax Deductions D	Tax Savings E	Net After Tax Cost F	Capital G	Operating H	UCC Opening I	UCC Reductions J	UCC End Of Year K	CCA Reduction L	Operating Expense Reduction M	Total CCA/Expense Reduction N	Current Tax Increase O	Net After Tax Benefit P	After Tax Cash Inflow (Outflow) Q
2005[1]	(275,784)	(148,683)	58,242	(366,225)	132,280	(233,944)	380,017	230,361	-	380,017	357,938	22,079	230,361	252,440	(91,181)	519,197	285,253
2006	-	(198,244)	81,442	(116,802)	42,189	(74,613)	506,689	307,149	357,938	506,689	793,596	71,031	307,149	378,180	(136,598)	677,239	602,626
2007	-	(198,244)	86,736	(111,508)	40,277	(71,232)	506,689	307,149	793,596	506,689	1,178,630	121,654	307,149	428,803	(154,884)	658,954	587,722
2008	-	(198,244)	92,374	(105,871)	38,240	(67,630)	506,689	307,149	1,178,630	506,689	1,518,924	166,395	307,149	473,544	(171,044)	642,794	575,163
2009	-	(198,244)	98,378	(99,866)	36,072	(63,795)	506,689	307,149	1,518,924	506,689	1,819,675	205,938	307,149	513,086	(185,327)	628,511	564,716
2010	-	(198,244)	104,773	(93,472)	33,762	(59,710)	506,689	307,149	1,819,675	506,689	2,085,480	240,885	307,149	548,034	(197,950)	615,888	556,178
2011	-	(198,244)	111,583	(86,661)	31,302	(55,359)	506,689	307,149	2,085,480	506,689	2,320,397	271,771	307,149	578,920	(209,106)	604,732	549,372
2012	-	(198,244)	118,836	(79,409)	28,682	(50,726)	506,689	307,149	2,320,397	506,689	2,528,018	299,069	307,149	606,217	(218,966)	594,872	544,146
2013	-	(198,244)	126,560	(71,684)	25,892	(45,792)	506,689	307,149	2,528,018	506,689	2,711,512	323,194	307,149	630,343	(227,680)	586,158	540,366
2014	-	(198,244)	134,786	(63,458)	22,921	(40,537)	506,689	307,149	2,711,512	506,689	2,873,685	344,516	307,149	651,665	(235,381)	578,456	537,919
2015[2]	-	(49,561)	34,219	(15,342)	5,542	(9,801)	126,672	76,787	2,873,685	126,672	2,659,075	341,282	76,787	418,069	(151,007)	52,453	42,652
CCA End Effects												1,773,257		1,773,257	(640,500)	(640,500)	(640,500)
NPV at a Discount Rate of 7.03%.						$ (634,039)										$ 4,318,445	$ 3,684,406

Notes: A is the retirement allowances which are based on 20 weeks salary for retiring employees.
B is the actuarially determined funding requirements for the liability created by the 2005 early retirement program .
C is the reduction in current service funding requirements attributable to the 2005 early retirement program.
D is the tax deduction claimed as a result of the pension funding and retirement allowances. D = A+B+C.
E is D multiplied by the tax rate (absolute value). The income tax rate used is the statutory rate of 36.12%.
F is the net after-tax cost of the 2005 early retirement program. F = D + E.
G and H reflect the allocation of savings in salaries/pension costs to capital and operating. The allocation of salaries is based on an analysis of the capital/operating splits for each individual retiree.
I is the cumulative reduction in undepreciated capital cost (UCC) balance at the end of the previous year.
J is the reduction in UCC during the current year as a result of the capital reduction shown in G.
K is the cumulative reduction in the UCC balance at the end of the year. K = I + J - L.
L is the reduction in the current year CCA claim caused by the cumulative UCC reduction. It is based on an incremental CCA rate of approximately 11.62% with application of the CCA half-year rule.
It is calculated as L = ((I x 11.62%) + (J x 11.62% x 0.5)) x -1
M is the reduction in operating expenses shown in H.
N is the total CCA and operating expense reduction. N = L + M.
O is the total increase in income tax caused by the reduction in tax deductible operating expenses and CCA. O = N x 36.12% x -1.
P is the net after-tax benefit of the 2005 early retirement program. P = G + H + O.
Q is the net after tax cash impact of the 2005 early retirement program. Q = P + F.

[1] Nine months, April through December 2005.
[2] Three months, January through March 2015.