Q. In reference to page 6 of the Financial Consultant's 2003 report. Has the long term effects on pension expense of a switch to the market related value approach been forecast in a long term calculation and if so show that long term calculation, demonstrating that this change is beneficial to consumers in the long run.

A. We do not have the necessary information to forecast the long term calculation of the effects on pension expense of a switch to the market related value approach. However, in response to CA-539, Newfoundland Power has provided the pension expense under the fair market value method and the market related value approach for the period 2003 to 2007.

According to the table provided in this response, the total projected expense for the next five years using the fair market value method is $13.1 million compared to a total expense of $12.4 million using the market related approach. This illustrates a savings of $0.7 million over the next five years.

The CICA Handbook Section 3461 stipulates that the market rate of interest be used in the calculation of the interest cost on the accrued pension liability. Changes in the market rate for interest and the market value of the pension assets contribute to volatility in pension expense, and as the Company as indicated in its pre-filed evidence, this volatility can be reduced by adopting the market-related method of valuing the pension assets.

The market-related value approach recognizes the difference between the expected and the actual value of the plan assets over three years. This method of valuing pension assets in determining pension expense is intended to smooth the recognition of this cost.