

1 **Q. In reference to the Financial Consultant's 2003 Report, page 6 - Adjustments to**
2 **Pension Accounting - has the long term effect on pension expense beyond 2004 of a**
3 **switch to the market related value approach been forecast and, if so, please provide**
4 **particulars as to how long a period the forecast includes and provide a copy of any**
5 **particulars, including any studies in reference to the same.**
6

7 A. In response to CA-539, Newfoundland Power has provided the pension expense under
8 the fair market value method and the market related value approach for the period 2003
9 to 2007.
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11 According to the table provided in this response, the total projected expense for the next
12 five years using the fair market value method is \$13.1 million compared to a total
13 expense of \$12.4 million using the market related approach. This illustrates a savings of
14 \$0.7 million in the next five years.
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16 The CICA Handbook Section 3461 stipulates that the market rate of interest be used in
17 the calculation of the interest cost on the accrued pension liability. Changes in the market
18 rate for interest and the market value of the pension assets contribute to volatility in
19 pension expense, and as the Company as indicated in its pre-filed evidence, this volatility
20 can be reduced by adopting the market-related method of valuing the pension assets.
21

22 The market-related value approach recognizes the difference between the expected and
23 the actual value of the plan assets over three years. This method of valuing pension assets
24 in determining pension expense is intended to smooth the recognition of this cost. In
25 theory, over time the expense using either methodology would be the same.