

Q. Further to CA628, please complete your calculation to show what Newfoundland Power's rate of return on equity and rate of return on rate base would have been for the years 2000, 2001 and 2002 had the company amortized the pension liability associated with the early retirement program over a ten year period instead of what transpired.

A. As detailed in CA628, the pension liability associated with the early retirement program for 2000 was \$2,287,275 and for 2001 was \$2,896,248. Based on a simple straight line amortization of these pension costs over a ten-year period, the impact on earnings in each year from 2000 to 2004 would be as detailed in the following table. The annual amortization would continue beyond 2004 to the end of the ten year period.

	2000	2001	2002	2003	2004
Pension liability for 2000 program	\$2,287,275				
Amortization of 2000 program	(228,728)	\$ (228,728)	\$ (228,728)	\$ (228,728)	\$ (228,728)
Pension liability for 2001 program		2,896,248			
Amortization of 2001 program		(289,625)	(289,625)	(289,625)	(289,625)
Total increase (decrease) in earnings	\$2,058,548	\$2,377,896	\$ (518,352)	\$ (518,352)	\$ (518,352)

Based on the above table and assuming everything else remains constant, the resulting effect on the Company's rate of return on equity and rate of return on rate base for 2000, 2001 and 2002 had the Company amortized the pension liability would be as follows:

<u>Return on Regulated Average Common Equity:</u>	Actual 2000	Actual 2001	Actual 2002
Regulated earnings, as originally stated	\$ 27,237	\$ 29,699	\$ 29,518
Increase due to amortization of pension liability-tax effected	1,172	1,377	(316)
Regulated earnings, as restated	\$ 28,409	\$ 31,076	\$ 29,202
Average common shareholder's equity, as originally stated	\$ 252,275	\$ 261,753	\$ 277,119
Average increase due to amortization of pension liability	586	1,861	2,391
Average common shareholder's equity, as restated	\$ 252,861	\$ 263,614	\$ 279,510
Rate of return on average common equity, as originally stated	10.80%	11.35%	10.65%
Rate of return on average common equity, as restated	11.24%	11.79%	10.45%

Return on Regulated Average Rate Base:

	Actual 2000	Actual 2001	Actual 2002
Return on rate base, as originally stated	\$ 54,494	\$ 57,024	\$ 56,984
Increase due to amortization of pension liability-tax effected	1,172	1,377	(316)
Return on rate base, as restated	<u>\$ 55,666</u>	<u>\$ 58,401</u>	<u>\$ 56,668</u>
Average rate base	<u>\$ 520,979</u>	<u>\$ 545,162</u>	<u>\$ 573,337</u>
Rate of return on average rate base, as originally stated	10.46%	10.46%	9.94%
Rate of return on average rate base, as restated	<u>10.68%</u>	<u>10.71%</u>	<u>9.88%</u>