Q. Re: BVP-24: Early Retirement Programs 2000, 2001 Recalculate the schedules contained in BVP-24 using a discount rate of 9.31% and assuming the benefit of reduced salaries only applied for 5 years.

A. As explained in the Company's response to Request for Information NLH-250, the rate of 9.31% is a before-tax weighted average cost of capital, and is not appropriate for use in an analysis of cash flows calculated on an after-tax basis.

The original net present value calculations for 2000 and 2001 assume that the salary savings subsist for 10 years. The 10-year period is based on the estimated average remaining years to retirement for the employees who availed of the retirement programs, and is considered the most appropriate basis for the analysis.

Attachment A contains a recalculated version of Exhibit BVP-24 for the 2000 and 2001 Early Retirement Programs, assuming reduced salaries for 5 years only. The discount rate used in Attachment A is 7.22%, which is consistent with the discount rate used in Exhibit BVP-24.

The net present values in Attachment A, calculated on the basis of salary savings over 5 years, as requested, indicate savings of approximately $0.5 million with respect to each of the 2000 and 2001 Early Retirement Programs. As stated above, the Company contends that net present value analysis based on salary savings over 10 years, as provided in Exhibit BVP-24, is more appropriate. The calculations in Exhibit BVP-24 indicate savings of $2.1 million with respect to each of the two early retirement programs.

Net Present Value Analysis of the 2001 Early Retirement Programs

NET PRESENT VALUE ANALYSIS OF THE 2000 EARLY RETIREMENT PROGRAM

With A Discount Rate of 7.22% And Only 5 Years Salary Savings

TOTAL COSTS						TOTAL BENEFITS										
					Net					Tax Deductions				Current	Net	**After Tax**
	Retirement	Pension	Tax	Tax	After Tax	Net Reduction in Salarie		UCC		UCC	CCA	Expense		Tax	After Tax	**Inflow**
Year	Allowances	Funding	Deductions	Rate	Cost	Capital	Operating	Opening	Additions	End of Year	Claim	Claim	Total	Reduction	Benefit	**(Outflow)**
	A	B	C	D	E	F	G	H	I	J	K	L	M	N	O	**P**
2000	591,172	2,387,000	2,978,172	1,250,832	1,727,340	-	-	-	-	-	-	-	-	-	-	**(1,727,340)**
2001	-	-	-	-	-	172,177	623,962	-	(172,177)	(159,989)	(12,188)	(623,962)	(636,150)	(260,822)	535,317	**535,317**
2002	-	-	-	-	-	172,177	667,092	(159,989)	(172,177)	(297,327)	(34,838)	(667,092)	(701,931)	(273,753)	565,516	**565,516**
2003	-	-	-	-	-	172,177	667,092	(297,327)	(172,177)	(415,222)	(54,282)	(667,092)	(721,374)	(266,909)	572,361	**572,361**
2004	-	-	-	-	-	172,177	667,092	(415,222)	(172,177)	(516,426)	(70,973)	(667,092)	(738,065)	(258,323)	580,946	**580,946**
2005	-	-	-	-	-	172,177	667,092	(516,426)	(172,177)	(603,302)	(85,301)	(667,092)	(752,393)	(263,338)	575,932	**575,932**
CCA End Effects (5 yrs)											(428,390)		(428,390)	(149,937)	(149,937)	**(149,937)**
NPV at a Discount Rate of 7.22%. (5 yrs)					$ 1,727,340										$ 2,202,861	**$ 475,521**

Notes:

A is the retirement allowances.
B is the funding associated with the unfunded liability created by the early retirement program. The funding figures were determined by the actuary as shown in Schedule A. The liability is being funded entirely in 2000.
C is the tax deduction claimed as a result of the pension funding and retirement allowances (A + B).
D is C multiplied by the tax rate. The income tax rate is assumed to be 42% in 2000, 41% in 2001, 39% in 2002, 37% in 2003 and 35% thereafter.
E is C less D.
F and G reflect the allocation of savings in salaries/pension costs to capital and operating as outlined in Schedule B. The splits are based on an analysis of the cap/op splits for each individual retiree.
The operating savings in 2001 have been adjusted fro the April 30 retirement of V. Hewlin.
H is the undepreciated capital cost (UCC) balance from the end of the previous year.
I is the reduction in UCC incurred during the current year as a result of the capital reduction shown in F.
J is the balance in UCC at the end of the year. It is the opening balance less the reductions less the capital cost allowance (CCA) claims in the current year.
K is the CCA claim that results from the UCC and an incremental CCA rate for Newfoundland Power of 14.2 %. It accounts for the CCA half-year rule.
L is the expense reduction that arises from the reduction in operating expenses shown in G.
M is the sum of K and L.
N is M multiplied by the applicable tax rates as outlined above.
O is the sum of F,G, and N.
P is O less E.

NET PRESENT VALUE ANALYSIS OF THE 2001 EARLY RETIREMENT PROGRAMS
With A Discount Rate of 7.22% And 5 Years Salary Savings Only

	TOTAL COSTS					TOTAL BENEFITS										**After Tax Inflow (Outflow)**
						Net Reduction in Salarie				Tax Deductions						
Year	Retirement Allowances A	Pension Funding B	Tax Deductions C	Tax Rate D	Net After Tax Cost E	Capital F	Operating G	UCC Opening H	Additions I	UCC End of Year J	CCA Claim K	Expense Claim L	Total M	Current Tax Reduction N	Net After Tax Benefit O	**P**
2001	601,354	2,523,357	3,124,711	1,281,132	1,843,579	31,489	72,231	-	(31,489)	(28,869)	(2,620)	(72,231)	(74,851)	(30,689)	73,031	**(1,770,548)**
2002	-	-	-	-	-	207,288	439,990	(28,869)	(207,288)	(214,107)	(22,050)	(439,990)	(462,040)	(180,196)	467,082	**467,082**
2003	-	-	-	-	-	284,764	569,567	(214,107)	(284,764)	(439,551)	(59,320)	(569,567)	(628,887)	(232,688)	621,643	**621,643**
2004	-	-	-	-	-	284,764	569,567	(439,551)	(284,764)	(627,482)	(96,834)	(569,567)	(666,401)	(233,240)	621,091	**621,091**
2005	-	-	-	-	-	284,764	569,567	(627,482)	(284,764)	(784,140)	(128,105)	(569,567)	(697,672)	(244,185)	610,146	**610,146**
2006	-	-	-	-	-	284,764	569,567	(784,140)	(284,764)	(914,731)	(154,173)	(569,567)	(723,740)	(253,309)	601,022	**601,022**
CCA End Effects (5 yrs)											(683,994)		(683,994)	(239,398)	(239,398)	**(239,398)**
NPV at a Discount Rate of 7.22%. (5 yrs)					$ 1,843,579										$ 2,281,526	**$ 437,947**

Notes: A is the retirement allowances.
B is the funding associated with the unfunded liability created by the early retirement program. The funding figures were estimated based on current year numbers.
C is the tax deduction claimed as a result of the pension funding and retirement allowances (A + B).
D is C multiplied by the tax rate. The income tax rate is assumed to be 41% in 2001, 39% in 2002, 37% in 2003 and 35% thereafter.
E is C less D.
F and G reflect the allocation of savings in salaries/pension costs to capital and operating as outlined in Schedule B. The splits are based on an analysis of the cap/op splits for each individual retiree.
H is the undepreciated capital cost (UCC) balance from the end of the previous year.
I is the reduction in UCC incurred during the current year as a result of the capital reduction shown in F.
J is the balance in UCC at the end of the year. It is the opening balance less the reductions less the capital cost allowance (CCA) claims in the current year.
K is the CCA claim that results from the UCC and an incremental CCA rate for Newfoundland Power of 14.2 %. It accounts for the CCA half-year rule.
L is the expense reduction that arises from the reduction in operating expenses shown in G.
M is the sum of K and L.
N is M multiplied by the applicable tax rates as outlined above.
O is the sum of F,G, and N.
P is O less E.