

1 **Q. At page 67 it is stated that the Company proposes to change the valuation of pension**
2 **assets using a market related method “on a prospective basis rather than a**
3 **retroactive basis.” Please provide detailed calculations showing how results would**
4 **change under a retroactive change.**

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6 A. Adoption of the market-related method of valuing pension assets in determining pension
7 expense, if applied on a retroactive basis since 2000, would not change the proposed
8 forecast of pension expense for either 2003 or 2004. The retroactive application of the
9 market-related valuation method would only result in a cumulative increase in pension
10 expense to the end of 2002 of approximately \$215,000, with a corresponding decrease of
11 \$215,000 in the Company’s retained earnings as of December 31, 2002.

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13 On page 8 of the report by JTBrowne Consulting entitled *Newfoundland Power,*
14 *Accounting and Regulatory Issues Related to Future Employee Benefits and the Hydro*
15 *Production Equalization Reserve* filed with the Company’s 2003 General Rate
16 Application on October 11, 2002, Mr. Browne states that:

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18 “Should the Board accept NP’s proposed change, it should be
19 applied on a prospective basis as proposed by NP. Consistent with
20 the cost of service standard, all changes in accounting policy
21 should be applied prospectively for rate setting purposes. This is
22 required if a regulated enterprise is to have a reasonable
23 opportunity to recover its costs of providing service, and not have
24 an opportunity to recover costs twice.”

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26 Newfoundland Power proposes to prospectively adopt the market-related method of
27 valuing pension assets in determining pension expense beginning on January 1, 2003. As
28 shown in Table 18 on page 66 of the *Finance & Accounting Evidence*, the net impact of
29 adopting this policy will be a \$1.2 million reduction in forecast pension expense for 2003
30 and a \$0.2 million reduction in forecast pension expense for 2004.