

1 **Q. RATE BASE**

2
3 **PUB 37.0 (RE: Report on the Amortization of the Unfunded Pension Liability –**
4 **Volume I)**

5
6 **PUB 37.1**

7 **Confirm that although under current Provincial pension legislation unfunded**
8 **pension liabilities can be amortized over a period of 15 years, NP continues to use a**
9 **5 year period to amortize its unfunded pension liability.**

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11 A. Newfoundland Power does not *use* a 5-year period to amortize its unfunded pension
12 liability. The amortization used is effectively the end of an approximately 25 year funding
13 program that has been authorized by the Board, applied to the current unfunded pension
14 liability.

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16 The amount of Newfoundland Power's special pension funding payments which are made
17 to liquidate the unfunded pension liability are principally the result of a series of
18 amortizations approved by the Board. The amounts of the amortizations are set out on page
19 4 of the letter from Mercer Human Resource Consulting, filed as Appendix A of the *Report*
20 *on the Amortization of the Unfunded Pension Liability*, (the "Mercer letter").

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22 The results of the most recent valuation indicate, as at December 31, 2003, that there
23 remained a going concern unfunded liability of \$24.1 million. As explained in Mercer
24 letter, the present value of the current schedule of Board authorized special payments is
25 approximately \$26.8 million, or \$2.7 million greater than the unfunded liability. Mercer
26 adjusted the amortization payments in the most distant future so that the present value of
27 the revised schedule of payments equals the going concern unfunded liability. This
28 effectively results in an amortization period which is expected to be completed on
29 July 31, 2008.

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31 The July 31, 2008 completion is sooner than initially anticipated. The \$4,188,000 annual
32 payment approved by the Board in 1984 was originally expected to conclude on
33 March 31, 2009. The \$521,000 annual payment approved by the Board in 1999 was
34 initially expected to conclude on January 31, 2010.

35
36 Accordingly, the unfunded pension liability is currently expected to be fully amortized by
37 July 31, 2008, which is in approximately 4 ½ years.