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**P.U. 49(2004)**

**IN THE MATTER OF** the *Public Utilities Act*, R.S.N. 1990, Chapter P-47 (the “*Act*”)

**AND**

**IN THE MATTER OF** an application by Newfoundland Power Inc. for the approval of a variation from generally accepted accounting principles concerning the amortization of costs associated with a proposed Early Retirement Program, pursuant to Section 58 of the *Act*.

**WHEREAS** Newfoundland Power Inc. (“Newfoundland Power”) is a corporation duly organized and existing under the laws of the Province of Newfoundland and Labrador, is a public utility within the meaning of the *Act*, and is also subject to the provisions of the *Electrical Power Control Act, 1994*; and

**WHEREAS** Newfoundland Power proposes to offer in early 2005 an enhanced early retirement program to certain of its employees (the “2005 Retirement Program”); and

**WHEREAS** Newfoundland Power proposes to implement the 2005 Retirement Program to ensure that the continued management and operation of its facilities results in power being delivered to consumers in the Province of Newfoundland and Labrador at the lowest possible cost consistent with reliable service as required by section 3(b)(iii) of the *Electrical Power Control Act, 1994*; and

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**WHEREAS** Canadian generally accepted accounting principles (“GAAP”) require Newfoundland Power to recognize the total costs associated with the 2005 Retirement Program at the time employees who elect to participate in the 2005 Retirement Program indicate their desire to so participate; and

**WHEREAS** the current financial reporting standards effectively require Newfoundland Power to recognize the costs associated with the 2005 Retirement Program either: (a) in accordance with what is normally considered to be GAAP; or (b) in accordance with an Order of the Board; and

**WHEREAS** if GAAP were applied to these costs in 2005, Newfoundland Power states that it would not have the opportunity to earn a just and reasonable return in that year, as provided by Section 80 (1) of the *Act*; and

**WHEREAS** Newfoundland Power proposes that the aggregate pension costs created in its defined benefit retirement income plan as a result of the 2005 Retirement Program be amortized and funded over a ten-year period, and more specifically, by: (a) charging pension expense associated with the 2005 Retirement Program to operations based on a ten-year amortization period, commencing upon implementation in 2005; and (b) funding the pension liability associated with the 2005 Retirement Program over a ten-year amortization period, commencing upon implementation in 2005 (collectively, the “Ten-Year Amortization Methodology”); and

**WHEREAS** the Ten-Year Amortization Methodology results in the net benefits associated with the 2005 Retirement Program being amortized over a timeframe which is approximately equivalent to the average remaining time to ordinary retirement of those employees of Newfoundland Power who will be eligible to participate in the 2005 Retirement Program; and

**WHEREAS** Newfoundland Power also proposes that the aggregate retirement allowances be charged to operating account over a period of 24 months commencing in the month during which the retirement allowances are paid (the “Twenty-Four Month Amortization Methodology”); and

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2           **WHEREAS** the Board’s Financial Consultants Grant Thornton LLP reviewed the  
3 application and supporting documentation and advised the Board that providing for alternate  
4 accounting treatment for the associated costs of the program is appropriate from a regulatory  
5 perspective and that the proposed amortization periods are reasonable; and

6           **WHEREAS** the Board is satisfied that Newfoundland Power has demonstrated that the  
7 proposed amortization methodology is an appropriate and acceptable treatment of the costs of the  
8 2005 Retirement Program.

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10 **IT IS THEREFORE ORDERED THAT:**

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12           The Board approves the following treatment of the 2005 Retirement Program:

- 13           (a)     the Ten-Year Amortization Methodology for the pension expense and the funding of  
14                   the pension liability, and  
15           (b)     the Twenty-Four Month Amortization Methodology for the aggregate retirement  
16                   allowance.

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**DATED** at St. John's, Newfoundland and Labrador, this 9<sup>th</sup> day of December 2004.

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Robert Noseworthy,  
Chair & Chief Executive Officer.

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Darlene Whalen, P.Eng.  
Vice-Chair

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G. Cheryl Blundon,  
Board Secretary.