

1 **Q. Reference: Section 4.0 Cost Recovery Alternatives**

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3 **Section 4.2 describes two amortization methods: Straight-line and Mortgage. Please**
4 **confirm that under both of these amortization methods, the OPEBs reserve, which**
5 **will be zero at the time of the move to the Accrual Method, will be equal to the**
6 **accrued obligation at the end of the amortization time (whatever term is approved**
7 **by the Board). If this is not correct, please explain.**

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9 A. Newfoundland Power is unable to provide the confirmation requested.

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11 Adoption of the accrual method of accounting for OPEBs costs as proposed by
12 Newfoundland Power will not result in the creation of a *reserve* as indicated in the
13 question. Please refer to the Response to Request for Information CA-NP-3.

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15 Conceptually, the straight-line and mortgage methods should both result in recovery of
16 the past service components of the accrued obligation at the end of the amortization
17 period. This assumes that all underlying assumptions used to calculate the accrued
18 obligation are fully borne out in fact. If these assumptions are not fully borne out in fact,
19 the past service components of the accrued obligation will not be *zero* at the end of the
20 amortization period. In addition, accounting standards can impact the extent to which
21 past service cost recovery will be completed at the end of the amortization period.¹

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23 Use of either amortization method analysed by Newfoundland Power in its evidence
24 should result in *substantial* recovery of past service components of the accrued obligation
25 by the end of the amortization term. However, that recovery is not proposed to involve a
26 *reserve* as this question indicates, nor is it likely that past service components of the
27 accrued obligation will equal *zero* at the end of the amortization period.

¹ See, for example, Table 10 at page 15 of the Company's evidence which describes the differences in unrecovered balances at the end of a 15-year amortization using the Mortgage Method under Canadian GAAP and IFRS.