

1 **Perry/Hutchens**

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3 **Q. Given that the “Working Capital” allowance afforded NP under the current**  
4 **regulatory environment is some \$22 million more then what would appear to be**  
5 **actually required, what immediate measures is NP taking to adjust for the**  
6 **difference when calculating its rate base in future years.**

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8 A. The allowance for ‘Working Capital’, which is included as a component of average rate  
9 base, is calculated in accordance with Board Order No. P.U. 37 (1984). Order No. P.U.  
10 37 (1984) states:

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12 *“The Board approves, for the years 1984 and thereafter until otherwise ordered by the*  
13 *Board, an allowance for working capital of 1.7% of total operating expenses plus current*  
14 *income tax.”*

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16 In Order No. P.U. 19 (2003), the Board directed Newfoundland Power to move toward  
17 adoption of the Asset Rate Base method for determining rate base beginning in 2003 by  
18 including average deferred charges in rate base. The calculation of forecast average rate  
19 base for 2003 shown in Exhibit BVP-1 to the *Prefiled Evidence: Perry and Hutchens* has  
20 been provided on this basis.

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22 Order No. P.U. 19 (2003) also requires Newfoundland Power to provide a reconciliation  
23 of average rate base to average invested capital annually at its capital budget hearing.  
24 This reconciliation is found in Table 1, page 4 of the *Prefiled Evidence: Perry and*  
25 *Hutchens*. As shown in Table 1 of the *Prefiled Evidence: Perry and Hutchens*, and as  
26 discussed at the hearing into Newfoundland Power’s 2003 General Rate Application,  
27 working capital is one of the remaining reconciling items which make up the difference  
28 between average rate base and average invested capital.

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30 In accordance with Order No. P.U. 19 (2003), Newfoundland Power will review and file  
31 a report with the Board on the appropriateness and approach to including the remaining  
32 reconciling items, including the difference in working capital, in rate base. As ordered in  
33 Order No. P.U. 19 (2003), this report will be filed with the Board prior to or in  
34 conjunction with Newfoundland Power’s next general rate application.