

1 **Q. CA 13.0 NP**

2
3 **Reference:** Company Evidence, p. 28 (section 3.3.1 Asset Rate Base Method
4 **("ARBM")**)

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6 **Preamble:** NP states: "The working capital included in rate base is an allowance
7 **based upon a study that examines timing differences between receipt**
8 **of revenue and payment of expenses [footnote: Commonly referred to**
9 **as a lead/lag study]."**

10
11 **Please confirm that NP's cash working capital is not based on a lead/lag study.**

12
13 **A.** Newfoundland Power confirms that:

- 14 (i) its balance sheet working capital is not based on a lead/lag study; and,
15 (ii) the cash working capital allowance included in the Company's rate base is
16 based on a lead/lag study.

17
18 Balance sheet working capital is the difference between current accounts receivable and
19 current accounts payable as shown on the Company's balance sheet. It is a snapshot of
20 the Company's working capital as at the balance sheet date. The calculation of
21 Newfoundland Power's forecast balance sheet working capital for 2005 and 2006 is set
22 out in Exhibit NP-10, lines 1 through 7.

23
24 Newfoundland Power's cash working capital allowance is the amount included in the
25 Company's rate base to reflect its ongoing working capital requirements. The
26 methodology used by Newfoundland Power for calculating the cash working capital
27 allowance was approved by the Board in Order No. P.U. 37 (1984). That methodology
28 uses a cash working capital allowance factor¹ which is based on lead/lag analyses. The
29 calculation of Newfoundland Power's forecast 2006 cash working capital allowance is set
30 out in Exhibit NP-10, lines 10 through 20.

¹ See Exhibit NP-10, page 1 of 1, line 18.