

1 **Section 4: Rate Base and Return on Rate Base**
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3 **Q. Volume 2, Tab 2, 2025 and 2026 Rate Base Allowances, page 5 of 5. Please provide a**
 4 **calculation of the Materials and Supplies Allowance included in the 2025 and 2026**
 5 **Test Year Average Rate Base, and also provide an explanation of the change in the**
 6 **expansion factor to 13.27% for the 2025 and 2026 test years, as compared to 19.08%**
 7 **calculated for the 2022 and 2023 test years.**

8
 9 **A.** Table 1 provides the calculation of the materials allowance for the 2025 and 2026 test
 10 years.

Table 1:
Materials Allowance
2025 and 2026 Test Years
(\$000s)

	2025TY	2026TY
13-Month Average Inventory	17,504	17,782
Expansion (13.27% factor)	<u>(2,323)</u>	<u>(2,360)</u>
Materials Allowance – Rate Base	15,181	15,422

11 The expansion factor of 13.27% used in the calculation of the 2025 and 2026 materials
 12 allowance was based on a review of actual inventories used in expansion projects in
 13 2022. Similarly, the expansion factor of 19.08% from the *2022/2023 General Rate*
 14 *Application* was determined based on a review of actual inventories used in expansion
 15 projects in 2020.¹

16
 17 Generally, the reduction in the materials expansion factor is primarily due to a higher
 18 percentage of capital work related to plant replacement as compared to system growth or
 19 expansion.²

¹ For comparative purposes, the materials expansion factor used in the *2019/2020 General Rate Application* was 24.05%.

² See, for example, page 28 of Newfoundland Power's *2021 Capital Plan* filed in its *2021 Capital Budget Application*, which shows that over the 2016 to 2020 period, *Plant Replacement* and *Customer/Load Growth* accounted for approximately 55% and 25% of the Company's capital expenditures, respectively. Over the 2021 to 2025 plan period, *Plant Replacement* and *Customer/Load Growth* were forecasted to account for approximately 58% and 21% of the Company's capital expenditures, respectively.