LPMA Interrogatory #2

Interrogatory

Ref: Exhibit B1, Tab 1, Sch. 1, Att. 1

In the Introduction and Methodology section, the Navigant report states that *"The dollar- weighted net lag (lag minus lead) days is then divided by 365 (or 366 for leap years)* ***and then multiplied by the annual test year expenses to determine the amount of working capital required****"*. (emphasis added)

OPG has stated (Ex. B1, Tab 1, Sch. 2, page 2) that it used its actual financial results for 2019 to calculate the cash working capital amount for each of 2020 through 2026.

In Navigant's experience, is using actual financial historical results rather than bridge year and test year forecast financial results, common in the calculation of the cash working capital amount? Please explain fully.

Response

The following response was prepared by Navigant Consulting Inc. ("Navigant"):

Navigant's preferred methodology involves using both actual financial historical results and test year forecast financial results in calculating cash working capital. Under this methodology, the lead/lag days calculated in the study are based on actual historical results, such as the analysis Navigant performed for OPG in this proceeding, and the lead/lag days are held constant throughout the test years. The cash working capital requirement for the test years is calculated using the lead/lag days and forecast financial results. This is the methodology that Navigant has used for cash working capital studies filed by several distribution utilities in Ontario.

Navigant understands that, in part due to the small size of its cash working capital amount in relation to total rate base, OPG's approach is to apply lead/lag days (held constant) to revenue and expense information from the most recent available historical year to calculate the cash working capital amount and that this methodology has been accepted by the OEB in OPG's prior proceedings.