Board Staff Interrogatory #34

Interrogatory

Reference:
Exhibit B1 / Tab 1 / Schedule 2 / p. 4

Preamble:

OPG retained Navigant Consulting Inc. (Navigant) to conduct a study on OPG's lead / lag days for cash working capital purposes. OPG stated that the types of costs Navigant determined should be included in the analysis are consistent with those in the previous lead / lag study, with the exception of interest on long-term debt.

Question(s):

a) Please explain why Navigant's inclusion of interest on long-term debt in the analysis is appropriate.

b) Please explain any other key differences or revised assumptions used in the lead / lag study conducted by Navigant when compared to the original lead / lag study conducted by OPG in 2006. Please indicate how / why such revisions are appropriate.

Response

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

The purpose of a working capital study is to model revenues and expenses to calculate the funds required to finance the day-to-day operations of an entity. Interest on long-term debt is an expense incurred by OPG that factors into these day-to-day operations. Navigant has included interest on debt (short term and long term) in its working capital studies filed with the OEB for utilities across Ontario.

a) There are no other key differences between the two studies. For clarity, as noted in Ex. B1-1-2, p. 2, footnote 4, Other Revenue component of cash working capital

that was presented in prior applications based on the 2006 study was not studied for materiality reasons and therefore has been excluded.[1]

[1] In EB-2016-0152, Other Revenue accounted for a total of $1.2M in cash working capital, including the HST component.