

WORKING CAPITAL

1.0 INTRODUCTION

Working capital is the amount of funds required to finance the day-to-day operations of a regulated utility and is included as part of rate base for ratemaking purposes. The determination of working capital relies on a lead-lag study.

In 2005, Hydro One commissioned Navigant to carry out a lead-lag study. In the OEB's RP-2005-0020/EB-2005-0378 Decision with Reasons, the OEB accepted the results of the Navigant lead-lag study. In 2009, Hydro One commissioned Navigant to conduct an updated lead-lag study which is included in Exhibit D1, Tab 1, Schedule 4, Attachment A (entitled "A Determination of the Working Capital Requirements of Hydro One Networks' Distribution Business – dated June 19, 2009).

2.0 SUMMARY

Hydro One Distribution's net cash working capital requirement for the 2010 test year is \$300.7 million or 11.7% of OM&A (\$560.0M) and Cost of Power expenses (\$2,008.4M). Net cash working capital requirement for the 2011 test year is \$305.4 million or 11.9% of OM&A (\$575.2M) and Cost of Power expenses (\$1,994.6M). The net cash working capital requirement was calculated using the Navigant methodology accepted in RP-2005-0020/EB-2005-0378 and updated in 2009 as part of this application. Table 1 summarizes the net cash working capital requirements determined by using the lead/lag days from the Navigant study filed in Exhibit D1, Tab 1, Schedule 4, Attachment 1 to reflect the 2010 and 2011 test year revenues, expenses and GST amounts (Table 2).

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Exhibit D1

Tab 1

Schedule 4

Page 2 of 4

1 The methodology used to determine the net working cash required is based on the
2 Navigant study that was accepted by the OEB, and it takes the following into
3 consideration:

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5 • the three most important elements of revenue lags i.e., service, billing and collections;
6 the most important elements of expense lead such as payroll and benefits, operations,
7 maintenance, administration expenses, cost of power, taxes and interest.

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Table 1
Distribution Net Cash Working Capital Requirement
(All Data in \$M Except Lead/Lag Days)

	Revenue Lag (Days)	Expense Lag (Days)	Net Lag (Lead Days)	2010 Test Year	2011 Test Year
	(A)	(B)	(C)	(D)	(E)
Expenses					
Cost of Power	69.99	32.67	37.32	\$2,008.4	\$1,994.6
OM&A	69.99	22.92	47.07	\$560.0	\$575.2
Removal Costs	69.99	30.02	39.97	\$33.0	\$35.7
Environmental Costs	69.99	34.84	35.15	\$12.8	\$16.9
Interest on Long-Term Debt	69.99	52.87	17.12	\$154.8	\$164.7
Income & Capital Tax	69.99	16.51	53.48	\$16.4	\$39.5
Total				\$2,785.4	\$2,826.6
GST (see Table 2)				\$24.5	\$31.0
Total Amounts Paid/Accrued				\$2,810.0	\$2,857.6
<u>Working Capital Required</u>					
(Calculations based on above values, for each expense category, calculated using the following formula: For 2010 and 2011 (Col (D)*Col (C)/365))					
Cost of Power				\$205.3	\$203.9
OM&A				\$72.2	\$74.2
Removal Costs				\$3.6	\$3.9
Environmental Costs				\$1.2	\$1.6
Interest on Long-Term Debt				\$7.3	\$7.7
Income & Capital Tax				\$2.4	\$5.8
Total				\$292.1	\$297.2
GST (see Table 2)				\$8.7	\$8.2
Net Working Cash Required				\$300.7	\$305.4

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Table 2
Distribution Summary of GST Cash Working Capital Requirement
(All Data in \$M Except Lead-Lag Days)

GST Category	2010 Test Year		2011 Test Year	
	(A)	5% GST Projection (B)	(C)	5% GST Projection (D)
Revenue	3,158.0	157.9	3,258.1	162.9
Cost of Power	2,008.4	(100.4)	1,994.6	(99.7)
OM&A Expenses	212.8	(10.6)	218.6	(10.9)
Removal Costs	33.0	(1.7)	35.7	(1.8)
Environmental Costs	12.8	(0.6)	16.9	(0.8)
Capital	400.6	(20.0)	372.8	(18.6)
TOTAL		\$24.5		\$31.0
GST (Benefit) Cost	2010 Test Year		2011 Test Year	
	Expense Leads (Days) (C)	GST Amounts (D)	Expense Leads (Days) (C)	GST Amounts (D)
The values shown in the Col (D) labeled "GST Amounts" are calculated using the expense leads shown in Col (C) divided by 365 and multiplied by the 5% GST projected amount in Col (B)				
Revenue	(18.23)	(7.9)	(18.23)	(8.1)
Cost of Power	46.50	12.8	46.50	12.7
OM&A Expenses	36.59	1.1	36.59	1.1
Removal Costs	43.95	0.2	43.95	0.2
Environmental Costs	43.95	0.1	43.95	0.1
Capital	43.95	2.4	43.95	2.2
TOTAL		\$8.7		\$8.2

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