

1 **Volume 2, Tab 2 – Cash Working Capital Lead/Lag Study**
2

3 **Q. Please provide a survey of the Revenue Lag Days, the Expense Lag Days and the**
4 **CWC Factors for other Canadian electric utilities based on the most recent**
5 **Lead/Lag studies they have filed with their respective regulators.**
6

7 A. Newfoundland Power has not performed a survey of the revenue lags, expense lags and
8 resultant CWC Factor¹ for Canadian utilities.
9

10 Newfoundland Power surveyed Canadian utilities to determine the *methodology* used to
11 calculate the Cash Working Capital (“CWC”) Allowance.
12

13 The survey indicated that mainstream regulatory practice of Canadian utilities, including
14 Newfoundland and Labrador Hydro, is to use a lead/lag study of cash operating expenses
15 to calculate the CWC Allowance. Newfoundland Power has used this methodology to
16 calculate its proposed 2008 CWC Allowance.
17

18 With the exception of Newfoundland and Labrador Hydro, Newfoundland Power did not
19 review the revenue lags, expense lags and resultant CWC Factor of the surveyed utilities
20 because that data is not relevant or helpful to the calculation and assessment of
21 *Newfoundland Power’s* proposed 2008 CWC Allowance.
22

23 The revenue and expense lags of the survey group, other than Hydro, have no impact on
24 Newfoundland Power’s revenue and expense lags because Newfoundland Power does
25 not have material transactions with those utilities.
26

27 With the exception of the revenue lag of Newfoundland and Labrador Hydro related to
28 sale of electricity to Newfoundland Power, the revenue and expense lags of the survey
29 group are highly unlikely to be comparable to those of Newfoundland Power. To be
30 comparable, those utilities would have to have (i) the same types of revenues and other
31 cash inflows as Newfoundland Power, (ii) the same types of expenses and other cash
32 outflows, (iii) similar billing and collection procedures, and (iv) similar payment
33 procedures.²

¹ The CWC Factor is merely a mathematical expression of the revenue and expense lags, ie. $CWC\ Factor = (Weighted\ Average\ Revenue\ Lag - Weighted\ Average\ Expense\ Lag) \div 365\ days$.

² Examples of differences include (a) Newfoundland Power’s primary business is electricity distribution whereas some utilities in the survey group are in the oil and gas business or are electricity generators, (b) utilities outside of the Atlantic Provinces are not subject to HST and therefore would not have an HST adjustment to their CWC Allowance and (c) whereas nearly 80% of Newfoundland Power’s forecast 2008 cash operating expenses relate to purchased power (see Exhibit 2 *Cash Working Capital Lead/Lag Study*, Appendix A, Schedule 2, Line 31), other utilities may have little or no purchased power expense.

- 1 Newfoundland Power did review the calculation of Newfoundland and Labrador Hydro's
2 CWC Allowance, for three reasons:
3
4 1. To determine whether there may be circumstances unique to Newfoundland and
5 Labrador and its regulatory environment that should be considered when determining
6 Newfoundland Power's CWC Allowance. None were identified.
7
8 2. To align, where applicable and appropriate, the calculation of Newfoundland Power's
9 CWC Allowance with that of Newfoundland and Labrador Hydro. This is conducive
10 to regulatory consistency in the province.
11
12 3. Newfoundland Power purchases most of the electricity that it sells from
13 Newfoundland and Labrador Hydro. As purchased power represents nearly 80% of
14 Newfoundland Power's forecast 2008 cash operating expenses, the associated
15 expense lag has a material impact on Newfoundland Power's proposed 2008 CWC
16 Allowance.