

# WORKING CASH ANALYSIS

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## 1. SUMMARY

The Working Cash Study estimates the level of funds required to meet Gazifère's current operations' needs for the 2004 Test Year.

The methodology used in this study is consistent with the Régie's findings in the 2002 Rate Case (R-3464-2001, D-2002-45). The actual lag days for revenues, O&M expenses and taxes, approved in the 2002 Regulatory Closing of the Books were applied to the level of expenses forecasted in the Test Year. These lag days were used since they represent the most recent historical results, and no significant changes in payment patterns have occurred or are anticipated to occur in the Test Year. The Company anticipates a change in payment pattern to occur for its gas cost lag day compared to its 2002 actuals. The 2002 actual gas cost lag was unusually high as a result of reconciliations of inter-company accounts and processing of bank payments with Enbridge Gas Distribution due to the implementation of a new financial system. The Company anticipates its gas cost payment lag will decrease in fiscal 2004 and return to its usual levels. The Company generated a gas cost lag day for fiscal 2004 based on its expected payment pattern.

The requested working cash for 2004 is \$253.6 thousand, as outlined in Exhibit GI-8, Document 2. This amount includes the impact of the Goods and Services Tax ("GST"), Quebec Sales Tax ("QST"), and the Uncollectibles (the Uncollectibles are not part of this study). This represents a decrease of \$661.4 thousand in the working cash requirement compared to the 2002 Rate Case Decision. Figure 1 compares the lag days that give rise to the change in working capital from that previously approved.

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Figure 1

**LAG DAYS**

	Col. 1 <u>D-2002-45</u>	Col. 2 <u>PROPOSED</u>
Revenues	42.7	40.9
Gas Costs	32.9	35.8
O&M	19.7	19.9
Taxes	(43.0)	(52.3)
Income Taxes	15.2	15.2

## 2. WORKING CASH AS A COST OF SERVICE

Working cash is the funds provided by the investors in the Company that is employed as current cash to provide for the payment of goods and services prior to the receipt of revenues from the customers of the Company. As such, it is a component of the working capital.

In Québec, original cost rate base is employed for rate-making purposes. The original cost rate base represents the amount of investor-supplied capital which has been committed to investment in property plant and equipment that is used or useful in rendering utility service. A component of that rate base is the working capital.

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Figure 4 gives the results from this analysis.

## 4.2 EXPENSE LAG

Considering the number of transactions falling into the expense category, not all transactions can be analyzed. A degree of judgement must be exercised in selecting the transactions that will specifically fall into the scope of the analysis. For the most significant cost items, the entire population of transactions is analyzed while random sampling is used for the other remaining costs.

**FIGURE 5**  
**GAZIFERE INC.**  
**COMPUTATION OF DISBURSEMENT LAG**  
**GAS COSTS AND O&M EXPENSE**  
**FISCAL 2004**

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Item No.	Col. 1 Forecasted Costs (\$000)	Col. 2 Disbursement Lag Days	Col. 3 Weighted Dollar Days (\$000)	Col. 4 Reference	
<b>GAS PURCHASE COSTS</b>					
1.	Total Gas Purchase Costs	36,407.0	35.8	1,302,547.0	Appendix A1
<b>OPERATING AND MAINTENANCE EXPENSE</b>					
2.1	Labour	2,378.5	11.6	27,603.8	Appendix B1
<b>EMPLOYEE BENEFITS</b>					
2.2.1	Unemployment Insurance	88.2	13.8	1,215.6	Appendix C1
2.2.2	Québec Pension	66.4	19.1	1,270.1	Appendix C2
2.2.3	Workmen's Compensation	34.4	(7.2)	(246.4)	Appendix C3
2.2.4	Group Insurance	9.7	41.7	405.4	Appendix C4
2.2.5	Québec Health Insurance	135.4	18.9	2,557.9	Appendix C5
2.2.6	Dental/Health Insurance	89.3	35.8	3,196.6	Appendix C6
2.2.7	Retirement Plan	94.0	44.5	4,181.4	Appendix C7
2.2.8	Stock Purchase & Savings Plan	37.5	13.3	498.9	Appendix C8
2.2.9	Long Term Disability	11.2	34.8	389.5	Appendix C9
		0.0			
2.3	Insurance	149.4	(66.4)	(9,916.1)	Appendix D1
2.4	Voucher Analysis	2,509.0	32.0	80,287.0	D-95-66
2.	<b>TOTAL OPERATING AND MAINTENANCE EXPENSE</b>	5,603.0	19.9 a/	111,443.7	

a/ Total Column 3 divided by Total Column 1.

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- Québec health insurance,
- Health insurance,
- Dental insurance,
- Pension plan,
- Savings plan,
- Long-term disability, and
- Insurance.

The results are seen in Appendix B1 through D1. The payment patterns remain unchanged for the voucher analysis and hence was not updated.

## 4.3 TAXES

A voucher analysis of actual fiscal 2002 transactions was undertaken for the municipal taxes, capital tax, the Régie dues, and fees to the Province of Québec. The dollar weighted lags for taxes are developed in Appendix E1.1 through E1.4.

**FIGURE 6**  
**GAZIFERE INC.**  
**ANALYSIS OF TAXES**  
**FISCAL 2004**

Item No.	Col. 1 <u>Amount</u> (\$)	Col. 2 <u>Disbursement Lag Days</u>	Col. 3 <u>Weighted Dollar Days</u> (\$)	a/
1.1 Municipal Taxes	348,000	(133.6)	(46,491,835.8)	
1.2 Capital Taxes	354,000	15.0	5,310,000.0	
1.3 La Régie Dues	18,500	(9.3)	(172,050.0)	
1.4 Fees-Province of Québec	<u>39,700</u>	<u>40.9</u>	<u>1,623,730.0</u>	
1. Tax Liability	<u>760,200</u>	<u>(52.3) b/</u>	<u>(39,730,156)</u>	

a/ Column 1 multiplied by Column 2.

b/ Total Column 3 divided by Total Column 1.

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## 4.4 INCOME TAXES

The income taxes expense lag was deemed to be 15.2 days or 1/24<sup>th</sup> of a year. This approach recognizes that installments are paid monthly to the Government.

## 4.5 RECOMMENDATION

It is recommended that the lags found in Figure 4 for revenues, Figure 5 for expenses, and Figure 6 for taxes and paragraph 4.4 for income taxes are used for the determination of the working cash for gas supply, O&M expenses and taxes. This results in a net working cash allowance, when applied to the 2004 expenses, of \$253.6 thousand.

## 5. WORKING CASH REQUIREMENTS FOR THE GOODS AND SERVICES TAXES

### 5.1 SUMMARY

The 7% GST must be paid on specific items. A refund for those payments is collected from the Federal Government. Concomitantly, the GST is collected on services rendered to customers, and is remitted to the Government. The differences in the levels and timing of the taxes paid and collected impacts the working cash requirement of the Company. For 2004 this results in a \$22.0 thousand decrease in the working cash requirements of the Company.

Following the May 13, 1994 Québec provincial budget, a single rate of 6.5% for QST was adopted. Effective January 1, 1998, this rate went up to 7.5%. This tax applies to essentially the same tax base for acquisitions made in Québec as the GST, and also applies to the total costs incurred, including the GST. The net combined GST and QST are remitted/collected to/from the Québec Government on a similar basis that is in effect for the GST. A difference in treatment arises when the Company is entitled to a refund that was created by its net position on QST. However, the two taxes can be basically considered as one combined tax in most situations. For 2004, the QST results in a \$25.2 thousand decrease to the working cash requirements.

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In practical terms, only the net of paid and collected for both GST and QST will be settled for each month. The determination of the working cash for GST/QST follows this framework.

## 5.3 WORKING CASH REQUIREMENT CALCULATION ARISING FROM THE GST/QST

The detailed monthly calculation can be found in Appendix F1, which applies the above theory specifically for the GST and QST. However, for explicative purposes, Figure 8 is an extract from Appendix F1 that illustrates the calculation of the average cash impact from revenues only for the GST and QST, for the months of July to September 2004.

Figure 8					
<b>ILLUSTRATION OF THE WORKING CASH</b>					
<b><u>EFFECT ARISING FROM REVENUES</u></b>					
<u>Item No.</u>		Col.1	Col. 2	Col. 3	Col. 13
		<u>July</u>	<u>August</u>	<u>September</u>	<u>Total</u>
1.	Revenue (\$000)	(3,157.2)	(1,345.0)	(2,626.3)	(51,808.5)
3.1	GST Amounts (\$000)	(221.0)	(94.2)	(183.8)	(3,626.6)
4.1	QST Amounts (\$000)	(253.4)	(107.9)	(210.8)	(4,157.6)
LAG DAYS					
6.1	Average Payment Days	(5.5)	(5.5)	(6.5)	
6.2	Days to Remit/Refund-GST	31.0	30.0	31.0	
6.3	Days to Remit/Refund-QST	31.0	30.0	31.0	
6a.	Revenue Lag Days-GST	25.5	24.5	24.5	
6b.	Revenue Lag Days-QST	25.5	24.5	24.5	
10.1	Revenue Dollar Days-GST	(5,625.2)	(2,302.3)	(4,495.4)	(87,875.5)
11.1	Revenue Dollar Days-QST	(6,448.9)	(2,639.4)	(5,153.6)	(100,743.0)
12.1	Composite Lag Days-GST	25.5	24.5	24.5	24.2
13.1	Composite Lag Days-QST	25.5	24.5	24.5	24.2

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the lag, resulting in a negative 5.6 days (31.0 days – 36.6 days). That is, it takes on average until the 5th of August to collect the taxes.

The application of the revenue lag of Item 6a. to the GST, Item 3.1, produces the weighted dollar days of Item 10.1 in Figure 8.

The sum of the Dollar Days divided by the total taxes arising from revenues results in the average lag days for the year in Item 12.1 Column 13, which is 24.2 days. The same reasoning applies to QST.

Figure 10 is a summary of the results found in the Appendix F1 for the GST. Column 1 is the annual level of GST estimated for each item. The monthly breakdown of these amounts was used in the model for the lag determination. Column 2 is the lag days. The average daily amount, which is Column 1 divided by 365, is carried for the number of days found in column 2. This level of funding is found in Column 3. The total of Column 3, \$(235.7) thousand is the working cash requirement for fiscal 2004.

FIGURE 10  
SUMMARY OF GST AMOUNTS  
FOR WORKING CASH REQUIREMENT  
FISCAL 2004

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Item No.	Col. 1 <u>Rev/Exp</u> (\$000)	Col. 2 <u>Lag Days</u>	Col. 3 <u>Working Cash Requirement</u> (\$000)
1.1 Revenue	(3,626.6)	24.2	(240.1)
1.2 O & M	148.3	13.1	5.3
1.3 Capital	200.9	(1.7)	(0.9)
1. Total			<u>(235.7)</u>

a/ Col. 1 divided by 366 days times Col. 2

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Figure 11 is a summary of the results found in Appendix F1 for the QST. The presentation is the same as in Figure 10. The total of Column 3, \$(270.2) thousand is the working cash requirement for QST for fiscal 2004.

FIGURE 11

**SUMMARY OF QST AMOUNTS  
FOR WORKING CASH REQUIREMENT  
FISCAL 2004**

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Item No.	Col. 1 <u>Rev/Exp</u> (\$000)	Col. 2 <u>Lag Days</u>	Col. 3 <u>Working Cash Requirement</u> (\$000)
1.1 Revenue	(4,157.6)	24.2	(275.3) a/
1.2 O & M	170.0	13.1	6.1 a/
1.3 Capital	230.3	(1.7)	<u>(1.1) a/</u>
1. Total			<u><u>(270.2)</u></u>

a/ Col. 1 divided by 366 days times Col. 2

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## 6. CONCLUSIONS

The determination of the working cash requirement should be based on:

- revenue lag of 40.9 days,
- gas cost lag of 35.8 days,
- O&M lag of 19.9 days,
- tax lag of (52.3) days,
- income tax lag of 15.2 days,
- a working cash requirement of \$(235,700) for GST , and
- a working cash requirement of \$(270,200) for QST.

The working cash requirement arising from the application of the net lag days to the forecasted level of expenses for the Test Year and the inclusion of the GST, QST and the uncollectibles, results in a \$253,600 debit in rate base, as outlined in Exhibit GI-13, Document 2.

These results from the foregoing study are reasonable estimates for the 2004 Test Year.

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