OVERVIEW OF EVIDENCE OF MESSRS BOWMAN AND MCLAREN ON BEHALF OF MIPUG

2010/11 and 2011/12 Test Years

- Hydro requested 2.9%/2.9% "across the board" (except Streetlights)
- To date 2.9%/2.0% awarded on interim basis, also across the board

RATES

Key Considerations:

- Stable
- Predictable
- Fair

Long Term Rate Issues

- Key consideration in MH rate hearings
- Consistent with IFF-focussed regulation

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Financial Forecasts (section 4.0)

- -OM&A and Normal Capital Spending increasing from earlier forecasts require added controls
- Hydro should continue to seek relief from sinking fund requirements
- -Overall rate change should crystallize the already awarded 2.9%/2.0%

Cost of Service (section 5.0)

- Current PCOSS reasonable and reliable; reflects improvements from extensive and expensive efforts over last 5 years
- -PCOSS results should be reported analytically Policybased adjustments should be removed from PCOSS results

Rate Design (section 6.0)

- -No new Industrial Rate is proposed Current industrial rate design is appropriate for this proceeding
- New industrial rate designs under active discussion b/w MH and MIPUG: soon intervenors
- -Need for Demand Billing Concession arises from present rate design; MH solution was reasonable and should be confirmed
- -Rate adjustments should reflect pre-policy adjustment RCC ratios (in this proceeding, should pursue small added increase to classes below 95%, with offsetting adjustment to all other classes)

3

Risk (section 3.0)

- No "requested approval" Issue is risk in ratemaking context
- -Focus of risk assessment is impact on ratepayers
- -Risks are materially different b/w operations and new developments. In operations, largest risk (likelihood plus impact) is drought
- 1 year worst drought risk estimates of MH/ICF/KPMG/KM are similar (\$700-800M reduction in net income; net loss of \$500-600M). Per KM, one year droughts worse than this have no worse financial effect
- -5 year drought estimates of parties other than KM range from \$2.2B to as high as \$2.8B as "reduction to net income" over the 5 years. KM estimates inconsistent with KM modelled results
- -In new developments, must assess many risks along with opportunities (see PRP)
- -Models MH uses are reasonable and appropriate
- -KM recommendations to increase "water in storage" and the "minimize average cost" objective function are not advised

4

Power Resource Plan

NFAAT (section 3.4.3)

- PRP is provided, but cannot be adjudicated on information available today
- Most PRP spending is driven by reliability, MB load growth and plant retirements ("alternative plan")
- Added "Recommended Plan" notably brings new cross-border transmission this is major new opportunity and sufficiently prominent that it should continue to be protected/pursued
- Insufficient information today to perform NFAAT on individual projects; review of "plans" (as done in other jurisdictions) is not part of MB regulation
- May need to also consider "lowest cost" alternative - indications are this would be thermal option that would be fundamental shift for Manitoba for decades

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Reserves/ Debt: Equity Ratio (sections 3.0 and 4.0)

- Retained earnings are higher than ever before and 75:25 Debt to Equity Ratio has been reached
- -Reserves fully capable of addressing even the net losses of severe events:
- -5 year drought with compounding interest / -14 year drought from $\,$ 1929 to 1942 / -KM probabilities
- -Form of reserves is a topic that needs advancement propose for next GRA
- can address whether riders are appropriate in a COSS context at that time