

**Manitoba Hydro 2014/15 & 2015/16 General Rate Application
MH/MIPUG (BOWMAN)-1**

Section:	General	Page No.:	General
Topic:	Expert Qualifications		
Subtopic:			
Issue:			

PREAMBLE TO IR (IF ANY):

QUESTION:

- a) Please identify any other members of InterGroup who participated in the preparation of the pre-filed testimony. Please also provide the names of third parties (if any) retained to assist in the preparation of the pre-filed testimony.

- b) Please file the curriculum vitae for each member of InterGroup or third party identified in MH/MIPUG 1(a).

RATIONALE FOR QUESTION:

Information on Intervener expert qualifications of retaining the expert is required in assessing the evidence provided.

RESPONSE:

(a) and (b)

The Pre-Filed Testimony of Patrick Bowman has been prepared for MIPUG under the direction of Mr. Patrick Bowman at InterGroup Consultants. Mr. Bowman oversaw preparations and analysis of the Pre-Filed Testimony and his curriculum vitae should be considered for the purpose of assessing the evidence on the basis of expert qualifications, provided as Attachment A of the evidence.

Mr. Bowman expects to testify in the upcoming hearing at present; the PUB and other parties will be notified forthwith if there are any changes to this. If it becomes required, there

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are other persons at InterGroup Consultants with the expertise to testify with respect to the matters in Mr. Bowman's Pre-Filed Testimony.

RATIONALE FOR REFUSAL TO FULLY ANSWER THE QUESTION:

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Section:	Various	Page No.:	3, 8, 11, 13, 14, 19, 20, 21, 28
Topic:			
Subtopic:			
Issue:			

PREAMBLE TO IR (IF ANY):

QUESTION:

- a) Please provide the data tables for each figure presented in Mr. Bowman's evidence in Microsoft Excel format.

RATIONALE FOR QUESTION:

To confirm the data used in the evidence.

RESPONSE:

(a)

Please see the excel file provided labelled MH-MIPUG (BOWMAN)-2.

Figure 2 on page 8 of the Pre-Filed Testimony is taken from Hydro's filing, Figure 15-3 from Appendix 3.3: IFF14, page 21.

RATIONALE FOR REFUSAL TO FULLY ANSWER THE QUESTION:

Section:	1.2	Page No.:	6
Topic:	Accounting Changes		
Subtopic:			
Issue:			

PREAMBLE TO IR (IF ANY):

On page 6, line 17 of Mr. Bowman's evidence, he states the following "...the cash flow issues identified in the GRA will not be substantially addressed by rate increases in excess of inflation, but rather require further diligence in cost controls and a reconsideration of proposed accounting and depreciation changes."

QUESTION:

- a) Please demonstrate how adjusting the 'proposed accounting and depreciation changes' will result in improved cash flow for Manitoba Hydro.

RATIONALE FOR QUESTION:

Information required to understand the rationale behind the assertion.

RESPONSE:

(a)

To clarify, the referenced statement from the Pre-Filed Testimony, page 6, lines 17 -20, is intended to make two points:

1. The cash flow issues identified in the GRA will not be substantially addressed by rate increases in excess of inflation. In particular, rate increases proposed in the test year are a total of approximately \$60 million/year as proposed by Hydro, which Mr. Bowman acknowledges \$15 - \$45 million/year may be appropriate to include in rates. This compares to an estimated issuance of \$2.4 - \$3.2 billion a year in long-term debt over the next number of years. In other words, 99% of the forecast debt will

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need to be issued under either Hydro's rate increase proposal or Mr. Bowman's. To manage cash, a larger factor relates to diligence in cost controls on OM&A and sustaining capital, which far exceed the differences in rate proposals.

2. To the extent that the proposed accounting and depreciation changes are being advocated as a method needed to address these cash flow issues (i.e., proposals by Hydro to increase the degree of non-cash expenses on the income statement, or decrease the degree of capitalization, and then to use this change as support for the added \$15 - \$45 million/year in rate increases above inflation which are a source of cash), these proposed accounting and depreciation changes should be reconsidered.

The referenced statement was not intended to suggest that the proposed accounting and depreciation changes, which act to increase rates and thus cash recoveries by Manitoba Hydro without any change in actual cash expenditures, would not in fact result in some improved cash flow for Manitoba Hydro. The point is that such near-term rate changes have material and long-term adverse impacts for ratepayers without substantially addressing in any way 99% of the cash flow issues identified in the GRA.

RATIONALE FOR REFUSAL TO FULLY ANSWER THE QUESTION:

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Section:	3.0	Page No.:	10
Topic:	IFRS		
Subtopic:			
Issue:			

PREAMBLE TO IR (IF ANY):

On page 10, line 2, Mr. Bowman states that “Hydro is undergoing accounting changes in preparation for an early adoption of International Financial reporting Standards for April 1, 2015”. As indicated in Appendix 5.4, pages 8-9, in accordance with the requirements of the Accounting Standards Board of Canada, Manitoba Hydro is required to adopt IFRS effective April 1, 2015.

QUESTION:

- a) Please explain how Mr. Bowman came to the conclusion that Manitoba Hydro is early adopting IFRS.

RATIONALE FOR QUESTION:

Clarify the basis of the assertion that Manitoba Hydro is early adopting IFRS.

RESPONSE:

(a)

The statement is intended to indicate that Hydro is adopting IFRS as of April 1, 2015 (reflecting the required IFRS transition date for all years following January 1, 2015) and is including early adoption of IFRS 14 regarding Regulatory Deferral Accounts. Mr. Bowman derives this understanding from the following excerpt from Page 9 of Appendix 5.4, which states the following:

Manitoba Hydro adopted each of the optional one-year deferrals issued by the AcSB and will be transitioning to IFRS effective April 1, 2015 for its 2015/16 fiscal

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year with comparative information for the 2014/15 fiscal year. Upon transition, MH will early adopt the IFRS interim standard IFRS 14 *Regulatory Deferral Accounts* and will continue to recognize regulatory deferral accounts in its financial statements.

According to the Financial Reporting & Assurance Standards Canada the IFRS 14 standard is effective for annual periods beginning on or after January 1, 2016 with earlier application permitted.

RATIONALE FOR REFUSAL TO FULLY ANSWER THE QUESTION:

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Section:	3.0	Page No.:	12
Topic:	IFRS		
Subtopic:			
Issue:			

PREAMBLE TO IR (IF ANY):

QUESTION:

- a) Please file the evidence which supports the statement at page 12, line 6 of Mr. Bowman's evidence that "There is a risk that Hydro will not be allowed to apply for any additional interim standards past April 1, 2015 regarding Regulatory Deferral Accounts or other unresolved rate regulation matters."

RATIONALE FOR QUESTION:

Clarify the assertion contained in the evidence.

RESPONSE:

(a)

Please see response to PUB/MIPUG-10.

RATIONALE FOR REFUSAL TO FULLY ANSWER THE QUESTION:

Section:	8.0	Page No.:	29
Topic:	Demand Side Management		
Subtopic:			
Issue:			

PREAMBLE TO IR (IF ANY):

The PACT values provided in Manitoba Hydro's response to MIPUG/MH-I-2 and referenced in Mr. Bowman's evidence on page 29, lines 23 to 29, are the PACT benefit-cost ratio values using the following formula:

$$\text{PACT} = \text{PV}(\text{Utility Marginal Benefits}) / \text{PV}(\text{Utility Program Costs} + \text{Incentives})$$

QUESTION:

Based on the preamble above, please confirm that:

- a) The PACT values provided in MIPUG/MH-I-2 do not represent levelized values per kW.h.
- b) The PACT values provided in MIPUG/MH-I-2 are benefit-cost ratio values and therefore a higher PACT value indicates that the program is more economic.

RATIONALE FOR QUESTION:

To clarify the assertions made regarding PACT values.

RESPONSE:

(a) and (b)

Confirmed.

Mr. Bowman notes that the prefiled testimony reflects a misunderstanding of the calculation of the PACT test as applied by Hydro. The except on the bottom of page 29 to the top of

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page 30 of Mr. Bowman's prefiled testimony is in error, as it quotes the PACT values assuming Hydro reported the values as a cents/kW.h unit, while Mr. Bowman has now confirmed Hydro reports these values as a ratio.

Unfortunately, the Hydro PACT calculation also ignores relevant considerations that affect a Program Administrator (i.e., the utility, as the test is meant to represent) as set out in the response to PUB/MIPUG I-19.

Prior to the hearing, Mr. Bowman will provide a correction to the excerpt from the bottom of page 29 (starting line 23) to the top of page 30 (ending line 8).

RATIONALE FOR REFUSAL TO FULLY ANSWER THE QUESTION: