



“When You Talk - We Listen!”



MANITOBA PUBLIC UTILITIES BOARD

Re: MANITOBA HYDRO
GENERAL RATE APPLICATION
2012/13 AND 2013/14

Before Board Panel:

Regis Gosselin - Board Chairman
Raymond Lafond - Board Member
Larry Soldier - Board Member

HELD AT:

Public Utilities Board
400, 330 Portage Avenue
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Pages 5416 to 5688

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1 --- Upon commencing at 9:36 a.m.

2

3 THE CHAIRPERSON: Good morning. I
4 think that we're ready to commence the proceedings. I
5 believe that, before we -- we turn it over to Mr.
6 Hacault, we have at least one (1) document to enter
7 into the record.

8 MS. ODETTE FERNANDES: Yes, thank you,
9 Mr. Chairman. This is a response to Manitoba Hydro
10 Undertaking Number 57. And it was in regards to an EFT
11 equivalent reporting showing actual time that staff
12 charged to energy conservation initiatives. And that
13 would be entered as Manitoba Hydro Exhibit Number 109.

14 THE CHAIRPERSON: Thank you.

15

16 --- EXHIBIT NO. MH-109: Response to Undertaking 57

17

18 THE CHAIRPERSON: Good morning, Mr.
19 Hacault.

20 MR. ANTOINE HACAULT: Good morning, Mr.
21 Chairman, members of the Board -- Board. Good morning,
22 all. The first thing that we would propose to do is --
23 and I believe it's been circulated -- was an
24 undertaking Mr. Bowman made yesterday afternoon in
25 response to a request by the Board. And it -- I

1 propose it be filed. I believe it's Exhibit 10 now in
2 the numbering, so MIPUG Exhibit 10. It's a one (1)
3 page document entitled MI -- "MIPUG Undertaking 1," and
4 I would ask Mr. Bowman to please explain what he's done
5 in this document.

6

7 --- EXHIBIT NO. MIPUG-10: Document entitled "MIPUG
8 Undertaking 1"

9

10 MIPUG PANEL, Resumed:

11 PATRICK BOWMAN, Resumed

12

13 MR. PATRICK BOWMAN: Thank you. Good
14 morning, Mr. Chairman and members of the panel.
15 Yesterday I was asked by -- by the Chairman to comment
16 on the impact of the numbers we had provided in
17 PUB/MIPUG-11 and what they would do to Hydro's other
18 financial ratios. We had provided in there a
19 debt/equity ratio that we suggested -- or I suggested
20 was relevant for this Board to use when considering
21 rights in the near term.

22 That debt/equity ratio netted out of the
23 calculation our proposed changes, and it also netted
24 out of the calculation in -- of the debt and equity --
25 the spending to date on Conawapa and Keeyask as two (2)

1 projects that had not yet proceeded to the point of
2 commitment and -- and which would be subject to future
3 reviews.

4 And so it -- we -- my -- my submission
5 was it was distorting a calculation of debt and equity
6 if -- if the calculation is suggesting that we haven't
7 yet put aside 25 percent of the equity for -- that's
8 been spent on those projects yet.

9 So -- so that -- that debt/equity was
10 already in the interrogatory response. I was asked
11 about the other financial ratios that Manitoba Hydro
12 uses and so we prepared -- I prepared MIPUG Undertaking
13 1. And I'll -- I can go through it quickly.

14 The interest coverage portion which is
15 at the top of the page, in terms of the proposals we --
16 that I submitted, only changes by the change in net
17 income. So there is a net income for IFF12, there's a
18 change in net income arising from PUB/MIPUG-11, and
19 there's a small change in finance expense as a result
20 of a difference in cash flows, which -- each of which
21 go to adjust the -- the ratios.

22 Now the ratios for IFF12 were already
23 provided in MH Exhibit 38, which I realized I typed as
24 "68." It should read "38." And those ratios are
25 reported on this page for the five (5) years in

1 question, and the revised ratios per PUB/MIPUG-11 are
2 reported.

3 But the other ratio that Manitoba Hydro
4 works with is the capital coverage ratio. And this
5 ratio is fundamentally tied to cashflow. So I also
6 prepared there a -- a statement about the changes to
7 the overall cashflow, in terms of what was proposed.
8 And in terms of the cash receipts, there would be a
9 reduction due to the proposed change in the rate
10 levels.

11 So IFF12 has a series of cash receipts
12 of slightly over \$2 billion, and this -- this is in
13 millions. The rate change per PUB/MIPUG-11-1 is -- is
14 shown. And as a result, the revised cash receipts as
15 shown on the -- that -- that line in about the middle
16 of the page, two-o-six-seven (2.067) for 2012/'13.

17 And there's also a line for the impact
18 on cash on interest paid. So 482 million is the
19 interest paid. That would go up slightly because of
20 the change in cashflows and so it changes to 483
21 million. And there's a tot -- a total change to
22 cashflow then shown in the bold line at the bottom of
23 that section.

24 When it comes to actually calculating
25 the capital coverage ratio, one measures a ratio of the

1 -- and -- and this is again at Exhibit 38. In this
2 case, it's page 6 of Exhibit 38. I -- I don't know if
3 you need to turn there. But one is calculating a ratio
4 of the funds from operations as compared to the
5 consolidated capital expenditures, which is the -- the
6 investment in property, plant, and equipment.

7 Okay. And these are all at the
8 consolidated level, so they include Centra Gas. That's
9 the level at which these are measured. And we knew
10 that the reduction to cashflow would have a -- an
11 adverse impact on this target.

12 The one (1) detail we couldn't confirm
13 was whether the change to overheads would have no
14 effect here, because it has no effect on cash, or
15 whether it would have the effect of moving some dollars
16 from the numerator to the denominator, because would
17 the overheads now be considered a -- a change to funds
18 from operations and a change to investment in property,
19 plant, and equipment?

20 So we were trying to just confirm
21 whether the -- the -- as a result of us -- our -- our
22 suggestion that more overheads be counted, whether it
23 shows up as an investment or whether it -- it shows up
24 as an operations cashflow.

25 And you can see there that we went

1 through a few motions to try to confirm in which
2 category it arises. MIPUG -- or Manitoba Hydro Exhibit
3 38 uses a -- a statement of what the consolidated cash
4 expenditures are that are shown there. That's supposed
5 to be net of major new generation transmissions.

6 So we tried to go to CEF12 and see if we
7 could generate those same numbers and -- and we could
8 two (2) of them, the four seventy (470) for '12/'13 and
9 the six-o-seven (607) for '14/'15. We couldn't do the
10 other three (3) years. And -- and as we show there,
11 that they're -- in some cases they're positive, in some
12 cases they're negative, so it wasn't just a matter of
13 one (1) -- one (1) factor potentially being missing in
14 that calculation or, potentially, for all I know, an
15 error in Exhibit 38.

16 So we also tried to do a reconciliation
17 to IFF12 versus the CEF12. And there -- there is a
18 difference, as well, between what IFF12 reports as cash
19 invested in property, plant, and equipment versus what
20 CEF12 does.

21 So in terms of actually generating the
22 specific ratio for capital coverage, I wasn't
23 comfortable generating a ratio. It -- the -- the
24 impact of what I'm debating would be -- would be very
25 small because it's a question of whether you're

1 subtracting an amount from a numerate -- or whe --
2 whether you're moving an amount from a numerator and a
3 denominator of the same ratio. So it's -- it's making
4 almost no difference in the end result, but I wouldn't
5 want to -- I wouldn't want to put an -- an incorrect
6 number on -- on the -- the table here.

7 But in -- in short, we're -- we're
8 probably talking about a reduction as a result of these
9 proposals in the capital coverage ratio by about point
10 one (.1). But the specific calculation of it would --
11 would need to further dig into whether these -- whether
12 the numbers don't need to change because the overheads
13 are fine being reported as part of an -- an operations
14 cashflow, or whether they do need to change and move
15 from one (1) category to the other, where they --
16 they'd have a very slight but, nonetheless, they would
17 have an effect on the -- on the ratio.

18

19 QUESTIONED BY THE BOARD.

20 MR. RAYMOND LAFOND: On your schedule,
21 what is "MNGT"?

22 MS. PATRICK BOWMAN: Major new
23 generation and transmission. So the capital coverage
24 ratio is meant to say, What funds am I generating from
25 operations and how does that compare to the investment

1 I'm making in -- in normal capital, the stuff outside
2 of Conawapas and Keeyasks and Bipoles and that sort of
3 thing. So that -- that's what the ratio is designed
4 for.

5 MR. RAYMOND LAFOND: I understand the
6 concept. My only, I guess, concern is that the amount
7 of money spent as of March 31st, 2012, on Keeyask and
8 Conawapa is close to three-quarters (3/4s) of a billion
9 dollars, and over a million dollars a day's being
10 spent. And to say that this is just notional debt, to
11 me, it doesn't work. I mean, when -- when a banker or
12 a creditor looks at statements, it's the actual debt.

13 So I -- I'm wondering how you -- you
14 rationalize that?

15 MR. PATRICK BOWMAN: Well, I completely
16 agree with you, Mr. Lafond. I -- I'm just saying that
17 I was asked to update the ratios. And the way that
18 Hydro runs its ratios on -- on cashflows and capital
19 coverage is it excludes major new generation and
20 transmission. So we were -- we were trying to do the
21 same thing. What -- what I was -- so that's the reason
22 why it's excluded.

23 In terms of the spending that's going on
24 and what it's doing to the overall financial picture,
25 it is -- it is substantial. It's -- it's necessary if

1 one wants to protect an in-service date and a potential
2 to -- to proceed with these projects. And -- and I --
3 I'm happy to go into that a bit further.

4 But I wasn't suggesting in any way that
5 -- that I was advocating the capital coverage target.
6 I was just asked to calculate the -- the capital
7 coverage target that Manitoba Hydro uses, in terms of
8 what -- you know, what -- what ratios would be
9 generated by the -- the proposals we're -- we're
10 putting on the table, so.

11

12 (BRIEF PAUSE)

13

14 MR. PATRICK BOWMAN: Mi -- Mr. Hacault
15 just asked me to make sure that I -- I did note we --
16 we did ask for -- ask Manitoba Hydro, but give -- given
17 the hour yesterday at the end of the day, we -- we
18 weren't able to get these figures between Exhibit 38
19 and the IFF reconciled. So -- so it's possible, with -
20 - with a bit more -- a bit more time, we could either
21 generate that ratio or -- or find out if indeed perhaps
22 Manitoba Hydro Exhibit 38 has -- has an error in it.
23 But we weren't able to do that at the -- at the hour.

24 Now, the -- the reason I -- I was led to
25 this calculation is we were discussing the proposals

1 that we were putting forward -- or I was putting
2 forward and the impacts on cashflow and how it looks to
3 the overall organization. And the short answer is,
4 although we can't ca -- calculate the specific capital
5 coverage ratio, we could generate it pretty close. But
6 these -- the -- the -- a lower overall rate level today
7 would lead to less cash flowing into Manitoba Hydro.

8 And the question is: Does that change
9 anything in the conclusions that we would be pro --
10 providing? And -- and I'll say that it is a -- it s a
11 very difficult question. In short, no, it doesn't
12 change the -- the recommendations. And the main reason
13 is because of -- of a strong discomfort I have with the
14 corollary, which is that we need to somehow set rates
15 based on cashflows. And it's an entirely foreign
16 principle to regulatory forums for a couple of reasons.

17 One (1) is cashflows can be quite
18 unstable when you're dealing with new investment.
19 Second is the type of cashflows that you are talking
20 about, Mr. Lafond, are arising from necessary
21 expenditures to protect a project. I -- I cant say
22 that a million dollars a day is the right number. But
23 nonetheless, some very large amounts need to be spent
24 to protect a project. And whether that's Keeyask or
25 Conawapa or the Mayo B project I worked on, they --

1 they were quite large well in advance of anyone being
2 able to say, Yes, this is the plan and we have to go
3 forward.

4 And -- and further, the only way you can
5 end at that conclusion that we need to raise rates to
6 generate cashflows for the major new projects is by
7 saying that we need to violate a -- a very longstanding
8 regulatory principle that says that people pay for
9 assets when they're using them. And those assets are
10 not being used to serve ratepayers today.

11 And that's -- that's a fairly -- a
12 fairly well-developed and -- and longstanding
13 regulatory principle in all the texts, in all the --
14 the court decisions that I've seen. So there could be
15 exceptions, but I would -- I would suggest we need to
16 be really cautious about using that as a rationale for
17 saying, Let's ramp it up and get -- get current-day
18 ratepayers funnelling the cash in so that -- so we can
19 make sure that Conawapa and Keeyask go ahead in advance
20 of even having -- having those assets committed, never
21 mind in service.

22 THE CHAIRPERSON: I think what we are
23 attempting to do is to find out what the impact is on
24 two (2) key ratios. And so I hear you on the cashflow
25 issue. But we nonetheless need to know what those

1 ratios are going to look like if we were to follow
2 through with what you're recommending, Mr. Bowman,
3 because those are very real issues and important to --
4 to bond rating ag -- agencies and so on.

5 So thank you for taking -- for taking
6 the time to do this work. I realize it was done at the
7 very -- very late hours, so we appreciate that -- the
8 time and effort you've put in to generate these --
9 these data.

10 MR. PATRICK BOWMAN: I would just then
11 be clear, although we can't exactly calculate the
12 ratio, if you were to go to MH Exhibit 38, which is the
13 ratios, at particularly page 5, which is the --

14 MR. RAYMOND LAFOND: I'm sorry, is this
15 page 5 of 5 or 5 of 7? Exhibit 38 has got quite a
16 few...

17 MR. PATRICK BOWMAN: I have an Exhibit
18 38 revised based on IFF12, Manitoba Hydro/MIPUG-1-2.
19 Oh, I apologize. I'm in the -- I'm in a version that's
20 listed based on IFF12, MIPUG/Manitoba Hydro-1-11C. And
21 it says, "Please update the ratios," and page 5 of 5 is
22 entitled, "Capital Coverage Ratio."

23

24

(BRIEF PAUSE)

25

1 MR. PATRICK BOWMAN: At page 5 of 5.
2 So going back. Manitoba Hydro Exhibit 38 was a request
3 to update a series of IRs. One (1) of those IRs was
4 MIPUG/Manitoba Hydro-1-2A, which is a five (5) --
5 sorry, 1-2 -- I'm sorry. I'm confusing things. I
6 really apologize. It's... Wow, this is a confusing
7 exhibit.

8 Manitoba Hydro Exhibit 38 has a series
9 of IRs, and I was referencing you to the wrong one.
10 Starting on the second page of that exhibit, I believe,
11 is a page marked page 1 of 5, which is MIPUG/Manitoba
12 Hydro-1-11C. Now I -- I see the confusion.

13 And that was a request to update
14 financial targets, at that time -- to update them for
15 11-2, then to update them for IFF12. So my
16 understanding is that as you go forward from 1 of 5 to
17 5 of 5, you're seeing the calculation of the -- of the
18 targets that are in -- that are related to IFF12.

19 And so these are the numbers we have
20 used to generate the exhibit. And when you get to the
21 final page of that, 5 of 5, you'll see the calculation
22 of the capital coverage ratio, and you will see the --
23 the numbers that I had carried over to the -- to the
24 undertaking.

25 And as I noted, the difference in

1 cashflow that we're talking about is around the order
2 of 50 million. So as a ratio of the consolidated
3 capital expenditures, which is meant to be a ratio of -
4 - it would be a change of approximately point one (.1)
5 in the capital coverage ratio.

6

7 (BRIEF PAUSE)

8

9 MR. PATRICK BOWMAN: So as I said, to
10 carry over, you'll see on the exhibit we prepared
11 there's a row called, "Consolidated Capital
12 Expenditures Per MH-38," which is four-seven-zero
13 (470), then five-eight-one (581), then six-o-seven
14 (607), then five-six-six (566), then four-five-four
15 (454) on our schedule.

16 And you will see those same numbers on
17 Exhibit 38 under the same years, 2 -- 2013, 2014, 2015.

18 MR. ANTOINE HACAULT: And is that on
19 page 5 of 5?

20 MR. PATRICK BOWMAN: Page 5 of 5.

21 MR. ANTOINE HACAULT: Exhibit 38?

22 MR. PATRICK BOWMAN: That's correct.

23 MR. ANTOINE HACAULT: Under the
24 heading, "'B': Consolidated Capital Expenditures"?

25 MR. PATRICK BOWMAN: That's correct.

1 MR. ANTOINE HACAULT: So if we look at
2 Exhibit 38, page 5 of 5, and the year 2013, we go
3 across that line to the column B, and we see the number
4 four seventy (470)?

5 MR. PATRICK BOWMAN: That's correct.

6 MR. ANTOINE HACAULT: And that aligns
7 with the bottom of Exhibit 10, which is the document
8 you prepared this morning, and it says, "Per MH Exhibit
9 38." So we should put right beside that, so we
10 remember, "At page 5 of 5."

11 Is that correct?

12 MR. PATRICK BOWMAN: Yes. And what I
13 was showing on that is we can derive that same number,
14 four seventy (470), by going to the CEF12 and taking
15 all capital spending, less major new generation and
16 transmission, which is the approach Manitoba Hydro uses
17 to calculate the consolidated capital expenditures of
18 four sixty-nine point eight (469.8).

19 MR. ANTOINE HACAULT: And is there
20 another typo at the very bottom then, because it --
21 right under your box it says, "Difference From MH
22 Exhibit," and it says, "48." Should --

23 MR. PATRICK BOWMAN: Yes, that should
24 read, "38."

25 MR. ANTOINE HACAULT: Okay. So your

1 document needs corrections at two (2) places. One (1)
2 place it showed "68," and we corrected that to "38."
3 And at the very bottom it says, "DIF," so difference
4 from Manitoba Hydro Exhibit.

5 And again we have to cross out "48" and
6 replace it with "38"?

7 MR. PATRICK BOWMAN: Yes.

8 MR. RAYMOND LAFOND: So we have the
9 capital coverage ratio and the interest coverage ratio,
10 but you have not given us the revised debt/equity
11 ratios?

12 MR. PATRICK BOWMAN: Well, the revised
13 debt/equity ratios were already provided in -- in PUB-
14 11, as we were suggesting they be -- be reviewed.

15 MR. ANTOINE HACAULT: That was the
16 document we reviewed yesterday and it had the metric
17 for the debt/equity ratio. The document we reviewed in
18 MIPUG-11 did not have the interest coverage ratio and
19 the capital ratio?

20

21 (BRIEF PAUSE)

22

23 MR. PATRICK BOWMAN: Now just to finish
24 on this, this is all coming from the same Table 1 in
25 PUB-11, which was at page 2 of 6 of PUB/MIPUG-1-11 that

1 we were looking at yesterday. And I -- I believe I may
2 have misspoke in response to the Chairman's question.
3 So I -- if -- if it's helpful, I would not mind going
4 back to that table to -- to make sure I was not -- I
5 didn't misspeak.

6 So this was the -- the IRs that were
7 asked by the PUB of me, responded to as PUB/MIPUG 1-11.

8 MR. BYRON WILLIAMS: Mr. Bowman, just
9 to make sure I'm following you -- I'm sorry to
10 interrupt, Mr. Chair -- so that's PUB/MIPUG-1-11
11 revised, and it's page 2 of 6?

12 MR. PATRICK BOWMAN: Yes.

13

14 (BRIEF PAUSE)

15

16 MR. ANTOINE HACAULT: I believe
17 everybody has the table. Could you proceed, Mr.
18 Bowman?

19 MR. PATRICK BOWMAN: Yes. So this was
20 the table that was showing, effectively, exactly the
21 operating statement from IFF12 with the revisions that
22 -- that I had put forward. We had talked about the
23 revisions at the top that relate to the rate changes,
24 the different rate regime -- different rate schedules
25 that we had -- I had suggested.

1 But then when you get down to the
2 expenses, there was a row called "Less change in
3 capitalized overhead." And that was the row where we
4 had -- we had picked that number up through the -- the
5 detailed schedules, PUB Exhibit 55 -- or Manitoba Hydro
6 Exhibit 55 is my recollection, that show every one (1)
7 of the changes for each accounting standard.

8 And I just wanted to clarify. I believe
9 it was the Chairman who asked if that picked up the --
10 the pension adjustment. And the answer was no, we --
11 we didn't do anything with the -- the pension
12 adjustment. We didn't -- if there's a need to revalue
13 pension, it -- it's already in here and -- and so be
14 it. That's -- that's part of the -- the normal type of
15 -- of accounting changes that go on.

16 The -- we did -- also didn't deal with
17 anything related to the intangibles, which were a
18 separate, fairly small number that we didn't spend a
19 lot of time to understand. So it left them as
20 proposed. And it didn't do anything with respect to
21 the reclasses. So there's a number of reclasses going
22 on in -- in some of the accounting changes, and we
23 didn't do anything with any of the reclasses.

24 So when see the row called, "Less change
25 in capitalized overhead" that starts at 56 million,

1 under the operating and administrative costs section,
2 that is solely related to the capitalization of
3 overhead costs.

4 And -- and further down, there's a row
5 called, "Less IFRS changes: admin and general." And
6 again that's solely related to overhead costs,
7 increasing on -- increasing the -- the current
8 recognition of what were formally overhead costs. It
9 doesn't include anything for pensions and the like.

10 So that -- that -- that's one that I
11 wanted to be clear on. The other one is, Mr. Chairman,
12 you had asked me, I believe it was, about the -- the
13 net salvage. And that's shown further down in the
14 section on depreciation and amortization.

15 And we had only put it in as a credit
16 for the first two (2) years because Hydro's IFF already
17 runs it as a credit for subsequent years. I had noted
18 that this amount could be -- could be somewhat high
19 compared to what we see in Mr. Kennedy's schedules, but
20 this is the number that Hydro claims is in its IFF.

21 And I -- I don't know that I was
22 entirely clear on the fact that, unlike the other
23 changes where CGAAP is -- and -- and IFRS are
24 ultimately going in one (1) direction, and at least for
25 the test years, I'm suggesting that for rate-making

1 purposes that we ought to go in another.

2 This one is a bit of the opposite. This
3 net salvage under CGAAP, or under -- under ultimately
4 IFRS even, there's no normal expectation, even ability,
5 to record such a liability. It -- it solely exists
6 because of a rate-regulated determination, because --
7 effectively, because of this Board. It solely exists
8 as a rate-regulated -- rate-regulated item.

9 And so unlike the others, where there's
10 a certain -- certain need to say, for regulatory
11 purposes, we would swim upstream, this one, it would be
12 -- what we're suggesting is that that regulation fits
13 perfectly fine with CGAAP and -- and, as a result, the
14 -- the end result of that is -- is very easily within
15 the control of this Board, because it's -- it's
16 entirely -- it only exists based on Hydro relying on --
17 on your determinations to date that -- that it ought to
18 be there. And -- and I suspect it's more a convention
19 than a specific -- specific line item somebody could
20 point to in a -- in a Board order.

21

22 (BRIEF PAUSE)

23

24 THE CHAIRPERSON: One (1) of the -- one
25 (1) of the comments that was made, at least one (1) of

1 the testimonies we heard, is that in relation to this
2 issue of IFRS versus a different methodology for rate-
3 setting purposes.

4 Now, we heard evidence from Manitoba
5 Hydro that there is a way in which they can manage the
6 impact of IFRS changes to minimize the impact on rates
7 for ratepayers. In other words, you can -- you can
8 smooth the adoption of IFRS with the approach that
9 they're proposing.

10 Do you have any comments to offer to
11 that?

12 MR. PATRICK BOWMAN: Yes. It would --
13 it would go back to some of what I said yesterday, that
14 Hydro's -- the conclusion that Hydro can -- can adopt
15 IFRS with minimal impacts hinges entirely on -- on the
16 definitions of what you call an IFRS impact and what
17 you don't, so.

18 And on some of those definitions I would
19 take issue with the way Hydro has characterized them.
20 So one (1) of those we talked about was many of these
21 changes to overheads that are -- that are already being
22 booked or expected to be pursued that are being called
23 CGAAP changes.

24 And my understanding from the evidence
25 in this proceeding is that Hydro's old approach was --

1 was acceptable under CGAAP and would -- would continue
2 to be. That's my understanding from the auditor's
3 submission that they -- they gave. And -- and I would
4 submit that, based on my experience, outside of some
5 very few examples I've heard, it would not be that --
6 that un -- uncommon for -- for utilities to be
7 considered people who are at the extreme end, I believe
8 was the word, of -- of overhead practices.

9 And -- and it -- it relates to the
10 difference of being in a business that has 41 percent
11 of its operation working on capital. Like it's a --
12 it's a vastly different type of operation than when
13 you're -- when you're ultimately, you know, dealing
14 with things like cost of goods sold and that as being a
15 substantial part of your cost structure.

16 So they're certainly -- it's not -- I've
17 certainly seen other utilities have reference to their
18 overhead policies being -- being at the -- the extreme
19 end of what's allowed by -- by CGAAP.

20 So it -- Hydro's evidence is it can --
21 it can adopt these changes before IFRS, that it moves -
22 - helps move it in the direction of IFRS. But -- but
23 let's not call those IFRS changes. Let's call those
24 CGAAP changes. As a result of that, what -- you know,
25 almost \$16 million of changes are -- are conveniently

1 sort of taken out of that calculation of -- of balance:
2 Don't -- don't worry about those. Those are over on
3 the side. They happened before this.

4 The other part -- part of the
5 calculation that helps make the -- the IFRS impact
6 assessment balance, in Hydro's submission, is -- is the
7 DSM. And as I noted yesterday, the long-term level of
8 DSM spending is -- is leading to somewhere in the order
9 of 38 million being amortized every year, and the off -
10 - go-forward level of DSM spending is forecasted
11 somewhere around 23 million. So it's about a \$15
12 million difference.

13 And -- and that's getting considered to
14 be an IFRS implementation benefit, that we're -- we're
15 reducing our DSM spending, and so we'll co -- we'll
16 count that 15 million as -- as part of the way that --
17 that IFRS benefits us, which helps offset the cost.
18 And -- and I think we are, I would suggest, caution
19 about taking that interpretation, the definition of --
20 of DSM reductions, and -- and I'd question whether it's
21 -- whether it's justified.

22 And the third thing that is in the mix
23 that we -- I have concerns about is when Hydro
24 estimates its ELG impacts, as we noted, it's estimating
25 them only for the assets where it actually has a rate

1 able to be calculated. It hasn't yet estimated
2 properly an ELG impact for Wuskwatims or Conawapas or
3 Keeyasks or -- or the impacts of Bipoles.

4 So I would say that when they say,
5 Here's the adverse impact of going to ELG, that line is
6 still missing substantial amounts. And -- and we know
7 we've shown it for Wuskwatim. We know directionally
8 that there's a problem with Bipole, and we -- and we
9 know it exists for Conawapa and Keeyask. But, mind
10 you, those are somewhat later in the forecast.

11 And the fourth problem with the
12 definitions that Hydro's adopted is that they're
13 effectively considering elimination of net salvage to
14 be an IFRS benefit. And I guess I take some issue with
15 that, because net salvage exists because this Board has
16 said in the past, or -- or Hydro's inferred that this
17 Board has said in the past, it should be -- should
18 exist and should be set aside.

19 And any given day it wants, this Board
20 could say it no longer should be set it aside. If it
21 appre -- if it -- if it appreciated the logic in the
22 past of having net salvage, it -- it presumably, under
23 -- under the powers available to this Board, in the
24 future it can say, Rates should include that net
25 salvage.

1 So the -- the thought that an outside
2 influence is effectively leading Hydro to conclude that
3 surely this -- this Board will just change its mind on
4 what was the prop -- appropriate things to be charging
5 rates and we're going to call that an IFRS benefit is,
6 I think, questionable. I think this Board will make
7 the decision this Board need to makes at the time -- at
8 the time this Board needs to make it.

9 So when you work through these -- these
10 definitions, pretty soon, I would say, that calculation
11 that says IFRS is a very small impact on Hydro is -- is
12 -- would not be the same conclusion I would arrive at.
13 I would say, when I've worked through these, the IFRS
14 impact on Hydro is actually very large and sufficiently
15 large that -- that I think this Board should consider
16 the extent to which -- like, pretty much every
17 regulator I'm aware of in the country -- it would want
18 to use some other form of information to set its rates.
19 And on top of that, I think as a result -- or as a
20 result of that, I think there's -- it's sufficiently
21 large, that Hydro would want to seriously consider what
22 other options are available to it.

23 And -- and we know there's a limited set
24 of options. But nonetheless, there are -- there are
25 certainly other jurisdictions that have found -- found

1 those other options to be available. But it doesn't
2 hinge on Hydro being able to find other options -- none
3 of the recommendations hinge on them being able to do
4 something other than pure IFRS.

5 THE CHAIRPERSON: There was evidence
6 given by Manitoba Hydro that other jurisdictions have
7 chosen to go in a different direction in setting rates
8 than the use of IFRS because of problems unique to
9 their particular jurisdiction.

10 Now, there's also evidence given by
11 Manitoba Hydro that they were -- they were opting to go
12 in this direction and wanted to go in this direction
13 because they could, relative to other jurisdictions.

14 Could you comment on that, please?

15 MR. PATRICK BOWMAN: I guess when we
16 say there are options, starting from a regulatory
17 forum, I have seen at least three (3) options
18 identified. Each of them may have problems, but they
19 may have different types of problems.

20 One (1) of those options is something
21 like one (1) of the places I work in Newfoundland,
22 where the utility adopted IFRS in -- in full, and --
23 and that's part of its practice. But for regulatory
24 purposes, it's going to do certain needed adjustments.
25 And those adjustments to produce its regulatory

1 statements reflect what were the items that mattered in
2 -- in Newfoundland.

3 That same outcome, the -- the -- what we
4 call the "two (2) sets of books" version, is -- is used
5 heavily in -- in places such as Alberta. It's likely
6 to be -- it will be used in Northwest Territories for
7 sure. I was just involved in a hearing on that matter.
8 It's likely to be used in Yukon. So it leads to that -
9 - that outcome.

10 And in that forum, that's not to
11 discount the value of an IFRS or audited statements.
12 It's just to say that -- that, So long as we can
13 reconcile, I can get the value of transparency through
14 the statements and then do the necessary adjustments to
15 come up with fairness through a second set of books.

16 The second option that we've -- had
17 identified in -- in the materials is the direction that
18 a lot of the private sector utilities or -- or Ontario
19 Power Generation and power -- Hydro One networks, the
20 transmission companies, have gone, which is US GAAP.
21 I can't comment on whether Hydro could adopt that and,
22 if so, how. And -- and what other implications, I have
23 -- I have not heard of the hedging issue before. So I
24 surely won't go down that road. But -- but
25 nonetheless, that was one (1) of the options that

1 others have used.

2 And the third is the version that's used
3 in -- in BC, where the utility has some very
4 substantial problems with moving to IFRS that would
5 have very negative impacts on regulation and
6 ratepayers, some of which are problematic, some I don't
7 -- some -- even some of the regulatory assets and
8 liabilities there, I think they should be very
9 concerned about. But for whatever -- and some of them
10 are perfectly justified, like the DSM.

11 But the conclusion was there's an excess
12 of impact on ratepayers; it will not allow us to be
13 regulated and -- and lead to rates that -- that reflect
14 policy and reflect fairness. So -- so they went a
15 different direction, which is to say the government, by
16 way of -- I believe it's a treasury board directive.

17 It -- it's possible it's pursuant to
18 some other piece of legislation, but I believe it's the
19 treasury board directive to BC Hydro to say, You will
20 use IFRS with the exception that you could adopt this
21 one (1) other provision of US GAAP for -- for
22 regulatory accounting. And -- and my understanding is
23 that as a result of that, they'll be audited on that
24 basis and -- and reported in the consolidated books of
25 the BC government on that basis, but with -- with what

1 I'm sure is a transparent declaration that it's been
2 prepared clearly on that -- on that basis.

3 So it -- so the three (3) options are --
4 are there. There may be others. I think they're -- to
5 my knowledge, they would represent almost, if not
6 entirely, every other jurisdiction and every other
7 utility I'm aware of regulated in Canada, would be
8 under one (1) of those three (3) options.

9 I think it's consistent with the
10 arguments put forward by the utilities and the -- their
11 associations and -- and the regulators in Canada when
12 they were commenting on the IF -- problems of the IFRS
13 standards. And -- and I -- and I would say if -- if
14 impacts on ratepayers are large enough, as -- as all
15 these others concluded, that may be a road you want to
16 go down.

17 If I agreed with Hydro's calculation
18 that IFRS was of limited to no impact on ratepayers,
19 then we may be just fine here being the exception. But
20 as I noted, I -- I think there's some liberties being
21 taken with definitions that -- that lead to that
22 conclusion. And -- and absent those liberties being
23 taken, the conclusion would be IFRS is -- is leading to
24 higher rates. It will lead to -- even more so to
25 higher rates. It would lead to rates that don't meet -

1 - easily meet a test of fairness. And -- and it may be
2 sufficient to -- to spur action on behalf of Manitoba
3 Hydro or the Manitoba government to -- to seriously
4 consider options.

5 But as I said, even if they don't, then
6 the two (2) sets of books option is -- is real.

7 MR. RAYMOND LAFOND: I guess I -- I
8 understand the logic when you refer to net salvage, or
9 DSM, or whichever other adjustment. Now, what I'm
10 wrestling with is this, we say Manitoba Hydro wants, or
11 Manitoba Hydro proposes. But really the perception --
12 and I could be corrected on that; Manitoba Hydro can
13 defend themselves.

14 But the perception I have is this, that
15 in effect for most of these changes, it is not because
16 Manitoba Hydro wants them and wishes to have them; it
17 is simply because once you decide to follow Canadian
18 GAAP and IFRS, you have to and they're forced to do it.

19 And I have to tell you that in my mind,
20 sitting on many boards -- and I look at whether it's
21 the smallest not-for-profit corporation, or -- or a
22 large Win -- other Winnipeg corporations, or --
23 everybody else is having to move to IFRS. Great West
24 Life here in Winnipeg, a big company, is moving to IFRS
25 even though Canadian standards were -- were more

1 advanced than IFRS.

2 Somehow governments, Crown agencies are
3 saying: We are different. We don't need to follow
4 IFRS. It's good for everyone else, but not us.

5 I have difficulties with that. And --
6 and we've seen some major issues in other utilities,
7 whether it be Enron or others, real scandalous type of
8 -- and this is what brought this on, so that people
9 follow a common set of standards.

10 So I'm wrestling with this as to I
11 understand what you're saying; on the other hand,
12 there's this other set of rules which regulators and
13 governments and -- and everyone essentially is imposing
14 on companies, in -- in terms of their financial
15 reporting. And we're saying, We're not going to -- we
16 are going to be the exception in not following this.

17 That's -- that's what I'm wrestling
18 with. We -- we are -- not just Manitoba Hydro, but
19 other utilities in Canada.

20 MR. PATRICK BOWMAN: I guess my -- my
21 response would be that's a very -- you know, it's a
22 very thoughtful observation and -- and I -- I agree
23 with you entirely that you've got accounting standards
24 for a reason and you, I would say, ignore them at your
25 peril. That -- that's why they exist.

1 But they're designed to achieve a
2 certain objective. And probably IFRS more than others,
3 in -- in my submission as a -- as a non-accountant who
4 reads account -- financial statements, is concerned
5 with -- with transparency and consistency, all right,
6 betw -- across industries, across -- applying the same
7 principles across that.

8 And -- and surely, I'm not going to sit
9 here and say, Well, that's a problem; we don't want to
10 be transparent. Of -- of course not. That is
11 absolutely a valuable outcome of an -- of an audit-
12 related process. And if you can achieve that and you
13 can achieve a fairness in rates at the same time, then
14 we would be in a wonderful place.

15 But the conclusion you're -- you're
16 coming up against, I believe, is -- is that utility
17 regulators are not there to -- or are not there to --
18 to audit the financial position of a utility. They're
19 there to judge the fairness of the rates. And in -- in
20 dealing with the fairness of the rates, the -- the
21 financial position of the utility and how to fairly
22 report that and transparently report that is one (1)
23 consideration. And -- and it's -- and it's an
24 important one, and it's one (1) of the reasons why,
25 even if we have two (2) sets of books, both sets of

1 books will make it before the regulator, because it
2 gives -- it gives useful information.

3 I think -- you know, professionally, I
4 think IFRS misses -- misses the boat on the one (1)
5 item of regulatory assets and liabilities in some
6 circumstances. And -- and that's why I think they've -
7 - they've started to see the wisdom in that and are --
8 are initiating the -- the process. But -- but even
9 then, that -- that's pretty narrow. Beyond that, I
10 think IFRS very -- you know, is -- is very attuned to
11 ensuring transparency.

12 But I'll give you a very good example of
13 one (1) of the exceptions that came up in -- in the
14 Newfoundland hearing, where they -- or the proceeding
15 where they had a review of -- of their -- their -- of
16 moving to IFRS, where they had to go to their regulator
17 because their regulator, among other things in the Act,
18 has to set accounting standards for them.

19 But to the -- my -- that's my
20 understanding of the basis for their application. And
21 they said, And here's the -- here's the items we're
22 going to change between those two (2) sets of books.
23 And they proposed a series, and the Board imposed one
24 (1) more. And the one that the Board imposed was
25 insurance recoveries.

1 And a good example of that is if you
2 have -- and -- and they did have -- an insured asset
3 that burns down and is rebuilt, you'll be paid not --
4 not historic costs; you'll be paid a replacement cost
5 to rebuilt that asset. And if that leads to a gain,
6 you would -- you would book that gain straight through
7 into your -- your income statement.

8 But if you're a ratepayer, you've paid
9 for this insurance over the years, the asset has
10 burned, it's been replaced by a more valuable asset,
11 the utility has booked the gain, and now all of a
12 sudden my rates have to go up because my asset's more
13 expensive.

14 And so one (1) of the things that that
15 Board said is, That -- that's not fair -- that's not the
16 right outcome. That may be a useful outcome for
17 financial reporting. You don't want to hide the fact
18 that you received this insurance recovery. But when it
19 comes to regulation, we need to defer that insurance
20 recovery against the cost of that plant, because
21 ratepayers didn't do anything to change the fact
22 they're served by a \$1 million plant versus a \$10
23 million plant. And we don't want -- we don't need our
24 rate base going up and our rates going up because all
25 of a sudden we have a -- a -- you know, a bigger or a

1 newer, but no more capable, plant. The -- the old one
2 was just fine.

3 So rather than letting the -- the
4 utility book that to its net income or -- or pay that
5 out as a dividend or receive that as a -- retained
6 earnings and have rates going forward set on now, all
7 of a sudden, on a \$10 million plant, we're going --
8 we're going to defer that gain.

9 And -- and that's been used as a
10 regulatory practice in other places, just like customer
11 contributions are used. If somebody else helps pay for
12 an asset, then you credit that grant against the asset.
13 In this case, the insurance company will pay for the
14 asset, and you credit that grant against the asset.

15 And it's different -- you know, if you
16 were only to do that under all your books, I could see
17 where people who are in an accounting world or in an
18 IFRS world or an auditing world, would say: Whoa,
19 whoa. This here, you missed the point. You've got
20 this gain and the cash is received and it's in the
21 past. Book it.

22 MR. RAYMOND LAFOND: I -- I do not want
23 to dwell on this example. But really, the way I see it
24 is simply if they've booked a major gain in their
25 retained earnings, they do not have to increase their

1 assets -- their -- their rates strictly based on income
2 and revenues -- income and expenses of the following
3 year. They can take into consideration this major
4 adjustment to retained earnings and therefore not
5 increase the rates as much. So I think that can be
6 done one way or another.

7 But I want to go back to that question,
8 because if -- if a utility in Canada goes to IFRS,
9 another one goes to US GAAP, another one goes to
10 modified IFRS, et cetera, then we have a hodgepodge,
11 and we can't compare one another, one to -- to the
12 other, as opposed to other industries.

13 And is that -- is that what we want in
14 Canada? Because once we follow the same rules, well,
15 then maybe 20 percent equity is sufficient for all
16 instead of twenty-five (25).

17 So if you all follow the same rules,
18 then all of sudden you have different reference points,
19 different benchmarks, but they're comparable between
20 one another. My concern is, all of a sudden, no one
21 can compare to -- to the other because they're all
22 accounting very differently, based on different
23 principles.

24 MR. PATRICK BOWMAN: I will say it's a
25 -- it's a lively debate that you're contributing to.

1 Not in this room; it's not a lively debate, because
2 your outcome that you're suggesting is -- is actually
3 not the outcome that's arising. And it's not -- with
4 respect, it's -- it's not me or this Board who's going
5 to decide that. There are utilities in Alberta and
6 Ontario and the like doing their -- doing the thing
7 they're doing.

8 And further, I don't -- I'm not aware of
9 anything under the Manitoba framework or Act that leads
10 to -- to this Board or -- or me making recommendations
11 to this Board having -- having a real say over what
12 Hydro does for its financial statements or the
13 standards it's audited under.

14 So I think that's probably -- has to be
15 viewed as a secondary consideration. The -- the
16 primary consideration is -- is what's -- what
17 statements, what information needs to be made to make a
18 rates determination. And in light of that, others who
19 have the job they have will -- will have to make the
20 decision about how they -- how they review the utility
21 and how they compare it to other utilities and how they
22 report in their -- in their books when they consolidate
23 it as a province or -- or when they lend it money.

24 If -- I guess if your -- your basic
25 conclusion is, as a result of what's gone on, the --

1 the utility industry in Canada is -- is not comparable
2 to one another or to other industries, I would say it's
3 -- it is what it is. People have gone the direction
4 they've gone. And -- and I think in each case, I think
5 they've made a considered decision that reflects the
6 fact that -- that it's not just about -- about
7 comparison. It's also about the difference between
8 being a regulated company and -- and -- and an
9 unregulated.

10 THE CHAIRPERSON: Mr. Bowman, could you
11 just clarify something for me? I'm looking at the --
12 the document that we discussed yesterday afternoon.
13 The -- it addresses the impact of the various
14 recommendations. And I'm looking at the line that's
15 called, "MIPUG alternative additional rates," which is
16 near the top of that table.

17 Could you explain that one (1) to me?

18 MR. PATRICK BOWMAN: Yes. As we ran
19 this scenario in all -- in all components of this, we
20 kept everything the same in the IFF, other than things
21 that we were making specific recommendations on in the
22 test years. Those are the rate increases shown in the
23 IFF for the post-test years, and we haven't made any
24 recommendations on those one (1) way or another, up or
25 down.

1 But we thought it would be a -- it would
2 be important to show, when you're dealing with things
3 like debt/equity ratios, what are the impact going a
4 few years out, but without turning this into an
5 assessment of those rates.

6 THE CHAIRPERSON: Yeah.

7 MR. PATRICK BOWMAN: So we didn't make
8 any assessment of the '14/'15 rates or beyond, and --
9 and partially because it's not within the scope of the
10 test years; partially because they're not requested
11 today; and, as I noted yesterday, partially because the
12 -- the looming and vast capital program starts to
13 completely overwhelm and dominate those, and I don't
14 believe we have the information to assess that.

15 THE CHAIRPERSON: Now, the -- but the
16 line above that shows the impact per year of a rate
17 decision. Say, for example, we adopt the rate -- your
18 recommendation, basically, we're suggesting that this -
19 - this line is suggesting that there's a \$200 million
20 difference over -- over the four (4) test years and,
21 all things being equal, that 200 million is going to
22 have to come from borrowings, isn't it?

23 MR. PATRICK BOWMAN: Yes. But I'll --
24 let me go through the logic of the table, and then I
25 can comment on the cash impacts. The premise on the

1 table is we were assessing the test years and whether
2 the three and half (3 1/2) percent is required and, as
3 a result of us concluding the three and a half (3 1/2)
4 percent is not required, that the five and a half (5
5 1/2) awarded to date would be sufficient for this GRA.

6 We didn't want to just then show that in
7 '14/'15, all of a sudden, the three and a half (3 1/2)
8 would show but up on top of a three nine-five (3.95).
9 We -- we said, If your -- you're going to do without
10 it, we have to be able to show that it's -- it's not
11 just sticking your head in the sand for twelve (12)
12 months, right? So when we reduced it by three and a
13 half (3 1/2), we -- we assumed we carried that forward,
14 but we assumed we weren't affecting the future ones.

15 But, yes, there is a cumulative impact.
16 It's -- it's very much real. It's shown on that
17 schedule that I handed out this morning that -- that is
18 annual calculations. And it -- it did show that not
19 only is it the 48 or 49 million here, there is actually
20 a compounding interest effect, of course, on top of
21 that. So it ends up being a little bit -- a little bit
22 higher than the number you've shown.

23

24

(BRIEF PAUSE)

25

1 MR. LARRY SOLDIER: You had indicated
2 that the future projects should not be paid for by
3 existing customers. Where do you suggest they get the
4 money?

5 MR. PATRICK BOWMAN: Well, I'll -- I'll
6 give you two (2) parts to that answer. One (1) is the
7 question of -- of setting rates in the context of
8 projects that aren't serving ratepayers. And -- and
9 the answer to that is that there is a fairly reasonable
10 and lengthy regulatory principle about you charge
11 people for used and useful assets when they're used.

12 So the corollary to that is, once the
13 asset's in service and being used, then -- then you
14 charge the people who are using it. The -- the effect
15 of that on something like a Conawapa is that -- is that
16 it starts to be charged through to rates, or Wuskwatim
17 starts to be charged through to rates in the years
18 where it's in service.

19 And -- and I highly encourage people,
20 when that occurs, to also look to the long-term benefit
21 of that and -- and not just is it serving or not
22 serving. It's how much benefit is it bringing, so that
23 you think carefully about how much you're burdening
24 ratepayers in year 1 as opposed to ratepayers in year
25 30, for example.

1 How do you pay for it? The answer is
2 you either go out and find yourself an investor who's
3 going to bring a whole bunch of equity because --
4 because, you know, the -- the province isn't putting up
5 money. Manitoba Hydro doesn't have any -- any other
6 outside investors. It can't sell shares.

7 So either you go and find an outside
8 party who's going to bring -- bring funds, a partner.
9 Do it -- do it privately. Do it as an IPP. Bring in -
10 - bring in First Nations if they have money. You know,
11 if you're just talking about how you fund it, you
12 either go find capital or -- or you say: No, we're --
13 we're going to borrow for it, and we're going to do it
14 on the basis of our -- of our good name and our -- and
15 our debt guarantee fee -- debt guarantee, for which we
16 pay a fee. But we're going to use the -- the backing
17 of the people of Manitoba to -- to build the asset.

18 And -- and it will be a lot different
19 type of financial profile than any private firm would
20 ever do or could ever do. None of them could borrow a
21 hundred percent of the cost of a new -- a new project.
22 But when you're backed by the citizens of Manitoba, you
23 can do that. You can borrow the money. And -- and
24 then you rely on these long-term economics working to
25 your favour and -- and paying it off.

1 And you have to seriously consider
2 whether -- whether the cost of the project and the
3 long-term economics are going to be sufficient to pay
4 it off and bring benefits. And if not, you don't build
5 it. If it is, you go forward. That -- that -- and
6 that's going to be a very critical question for an
7 NFAAT.

8 MR. LARRY SOLDIER: So by your answer,
9 you're saying that the Government of Manitoba should
10 built it?

11 MR. PATRICK BOWMAN: Well, I'm saying
12 that -- that Manitoba Hydro should build it or Manitoba
13 Hydro, in conjunction with -- with partners, should
14 build them, if the cost justified, and -- and should
15 borrow the money to build it and access the capital
16 markets, and that the people who will see long-term
17 benefits from it, like the -- basically the citizens of
18 Manitoba, should -- should feel quite comfortable
19 giving that -- that debt a guarantee.

20 You know, if you're -- if you're a
21 lender and you're going to finance a project, what's --
22 what's your protection? If some -- someone comes to
23 you at the bank and says, I want to -- I want to build
24 a store and I want to borrow \$10 million, if the
25 person's not got a nickel to their name and -- and

1 they're building a \$10 million store all on your
2 borrowed money, you're -- you're not going to look on
3 them very favourably.

4 But if they're building a hundred
5 million dollar store and they're bringing 90 million
6 themselves, you -- you know they're -- they're probably
7 pretty good for it. And -- and if nothing else, it's
8 backed by this hundred million dollar, you know,
9 investment, right. It's -- it's a relatively low risk
10 for you.

11 But if it's -- if it's only a \$10
12 million store and they want to borrow \$10 million,
13 you're -- you -- you'd be very concerned about their
14 ability to repay it, just as lenders would be about
15 Manitoba Hydro if it, on its own, went to go say, I
16 want to -- I want to build in Conawapa and borrow \$10
17 billion. And that's why you have a provincial
18 government guarantee.

19 But, you know, if somebody wants to
20 borrow -- if -- if Bill Gates wants to borrow 10 bil --
21 \$10 million to build a \$10 million store, people --
22 people probably won't bat an eye. And it's -- it's the
23 same question with -- with the provincial governments
24 backing -- backing the debt.

25 If the -- if the long-term economics are

1 there and you either can't or don't want to hand over
2 the project to pick your outside firm -- ATCO or SNC-
3 Lavalin or something -- you -- you want an ownership,
4 you want the people of Manitoba to have the long-term
5 benefits, and you want those assets, you -- you do it
6 with debt and you use the -- the backing of the people
7 of the province, just like Quebec or BC or -- or any of
8 the others have done to get those projects in place.

9 MR. RAYMOND LAFOND: I hear you on
10 this, and -- and you've essentially suggested many al -
11 - many other alternatives to provide equity to Manitoba
12 Hydro. Up to date though, it is, I guess, by design,
13 ratepayers are also investors. So I totally agree with
14 the principle of -- of ratepayers, but the ratepayers
15 are also investors.

16 What if we think of the -- of the
17 ratepayers as also being investors, rather than the
18 Government of Manitoba or -- or the province? It's
19 essentially more or less the same.

20 But why should not the ratepayers take
21 the risks and get the rewards instead of the province
22 to assume the risk and take the rewards?

23 MR. PATRICK BOWMAN: Well -- well, I
24 guess, in short, my submission yesterday was they are.
25 That -- that's part of my submission, that ratepayers

1 are absolutely the ones taking the risk. The province
2 has a guarantee, but it's a -- it's a long way down the
3 list of things that's ever going to lead to the -- the
4 lenders having to have recourse to the province.

5 And I gave the example in Ontario. The
6 Ontario government guaranteed the investments in the
7 nuclear plants in On -- the old Ontario Hydro. But
8 even when those were considered stranded and -- and
9 unable to be -- to be operated in a -- in a way that
10 the markets required, that debt was bundled off and
11 charged to ratepayers.

12 Ratepayers are taking that risk, and --
13 and they're doing it here too. If -- if Wuskwatim
14 comes in higher cost, that's not -- that's not leading
15 to a -- a call on the government's finances. That --
16 ratepayers are paying that, and they're going to pay
17 that.

18 MR. RAYMOND LAFOND: I -- I will simply
19 say that guarantees are worth a lot of money, and if
20 the Manitoba government would not guarantee it, I can
21 assure you that the markets would charge much more to
22 provide that guarantee. So it is worth some -- I mean,
23 that -- it is -- there is a risk, and that is why
24 there's a guarantee fee.

25 MR. PATRICK BOWMAN: I'm -- I'm not

1 disagreeing that -- that the guarantee is worth a lot.
2 I would submit that I'd be one (1) step further than
3 you, that if the Manitoba government wasn't
4 guaranteeing it, you wouldn't get the debt. You
5 wouldn't -- I -- I don't -- I don't believe that if you
6 were 100 percent debt financing \$16 billion in -- in
7 new developments for Manitoba Hydro without the benefit
8 of a -- a government guarantee, not -- not only would
9 it be very challenging to get someone's mind around the
10 business case, but if I was a lender, I'd really be
11 asking: Wait a minute, I'm expected to lend the money
12 and the -- the province won't even stand behind it?
13 What am I supposed to take from that signal, given
14 every other province stands behind their hydro assets,
15 right?

16 So I think it's a -- I'm probably even a
17 step further than you. Absolutely, it wouldn't occur.
18 And it's valuable, and -- and we pay a debt guarantee
19 for that, which is very substantial. And -- but I
20 would say that the -- the guarantee being valuable and
21 the -- the actual risk of default or the risk to the
22 province may be entirely different -- different
23 questions just because, like I say, I -- it's -- it's
24 hard to imagine the scenario that leads to -- that
25 leads to Manitoba Hydro both being sort of fully tapped

1 as an organization and -- and there being absolutely no
2 way to try to recover further amounts from ratepayers
3 and -- and hitting a -- a debt wall that won't turn
4 around and -- and somehow the -- the whole thing
5 leading to the -- the recourse to the government
6 guarantee. I -- I certainly can't -- can't recall an
7 example with the hydro utilities in Canada that's
8 anything like that, and -- and it's -- you know, it's -
9 - it's hard to picture.

10 THE CHAIRPERSON: I think that that's
11 it for the -- for the panel. I -- I wonder, Mr.
12 Hacaault, have you got any more questions you'd like to
13 ask of your witness before we -- before we go to the
14 next step?

15

16 CONTINUED EXAMINATION-IN-CHIEF BY MR. ANTOINE HACAULT:

17 MR. ANTOINE HACAULT: I guess when we
18 discussed the options, Mr. Bowman, available to
19 Manitoba Hydro, one (1) which was also discussed was
20 that there has been deferral of the specific IFRS
21 standard for rate-regulated facilities.

22 Might that be a fourth option, is that
23 we may be pleasantly surprised that the people in
24 London agree to finalize this rate-regulated portion of
25 IFRS? That could be another option?

1 MR. PATRICK BOWMAN: Yes, I guess there
2 are four (4) outcomes. Unfortunately, that one is --
3 is still quite uncertain. I -- it's go -- it's got an
4 uncertainty associated with it.

5 MR. ANTOINE HACAULT: I don't have
6 specific questions. I mean, the Board has been asking.
7 We've been trying to be as open as possible. I -- I
8 believe it's Mr. Williams -- but Hydro is also going to
9 be distributing a book of documents, as I understand
10 it. And we would just appreciate having a copy as soon
11 as it is available, because I understand it -- it
12 includes new documents.

13 THE CHAIRPERSON: In terms of protocol,
14 I want to make sure that -- is it appropriate to ask
15 for the book of documents at this moment or...?

16 MS. ANITA SOUTHALL: Well, I think if
17 Hydro's willing and has it available, perhaps that
18 could be distributed. We could just take one (1)
19 moment to do that. And then Mr. Williams can move on
20 with his cross-examination.

21 THE CHAIRPERSON: Mr. Williams, looking
22 at the clock, would you prefer that we have a break
23 now? And then we can -- then we won't be interrupting
24 your work.

25 MR. BYRON WILLIAMS: That's fine.

1 Perhaps just to assist the panel, when I am up you may
2 want to have -- and that's fine with me, Mr. Chair; I
3 appreciate the suggestion -- the -- the response to
4 PUB/MI -- MIPUG-1-11 revised, which is that Table 2
5 that you've been looking at. That might be useful to
6 have. Also, the evidence of -- the pre-filed written
7 evidence of Mr. Bowman, tha -- we'll be flipping
8 through a bit of that.

9 And I did take the opportunity to review
10 yesterday's transcript for the -- the portion that I
11 missed. And I do have a couple follow-up questions on
12 that. So we won't be there right away, but from yester
13 -- yesterday's transcript, page 5,356 -- oh it's --
14 yeah, and page 5,357 would be where I'm starting.

15 So the break is appreciated. And that
16 might assist you, just so we move a little more quickly
17 when we get back up.

18 THE CHAIRPERSON: Okay. And so I would
19 ask perhaps during the break that Manitoba Hydro
20 distribute the book of documents. And we can
21 acknowledge that after we resume the proceedings.

22 MS. ANITA SOUTHALL: Thank you, Mr.
23 Chairman. That would work. Is -- sorry, just maybe I
24 could confirm with Ms. Ramage she's in a position to do
25 that.

1 MS. PATTI RAMAGE: And I have to admit
2 I was out of the room, working on the book of documents
3 for a minute, just checking its status. The printer is
4 running. And so I'm hoping that it will be able to be
5 filed. If we're having a break now, it should be able
6 to be filed.

7 I was listening to Mr. Bowman shooting
8 some more papers into it, just to drive Brenda, in the
9 back room, nuts, so. But it should be ready.

10 THE CHAIRPERSON: Thank you. So let's
11 recess. And we'll start up again at, say, 11:00.

12

13 --- Upon recessing at 10:41 a.m.

14 --- Upon resuming at 11:01 a.m.

15

16 THE CHAIRPERSON: I believe we're ready
17 to resume the proceedings. I -- I know we have some
18 documents to acknowledge. Could we do that now before
19 you start, Mr. Williams?

20 MS. PATTI RAMAGE: You're looking at
21 the Manitoba Hydro book of documents. Is that correct?

22 THE CHAIRPERSON: Yeah.

23 MS. PATTI RAMAGE: Yes. And I believe,
24 subject to any comments by Mr. Hacault, that would be
25 entered as Manitoba Hydro Exhibit 110.

1 --- EXHIBIT NO. MH-110: Manitoba Hydro book of
2 documents

3

4 THE CHAIRPERSON: Mr. Hacault, have you
5 got any comments?

6 MR. ANTOINE HACAULT: I'm more than
7 happy to leave the new documents in. There are new
8 documents, but I have no objection to them being in. I
9 think it's important for this Board to have all the
10 information it needs to make a decision.

11 THE CHAIRPERSON: Thank you for that.
12 Mr. Williams...?

13

14 CROSS-EXAMINATION BY MR. BYRON WILLIAMS:

15 MR. BYRON WILLIAMS: Thank you and good
16 morning officially, members of the panel. Just in
17 terms of -- so we don't have too much page flipping,
18 I'm not going to start right there, but in terms of Mr.
19 Bowman's evidence, page 2-5 will be the first page that
20 I'm turning to. So that's his written evidence of
21 November 16th, 2012.

22 I will be having reference to, as I said
23 before, MIPUG -- or PUB/MIPUG-1-11. I note that in
24 Hydro's Exhibit 110, it's actually -- the page I'm
25 referring to is page 2. So, that's -- I'm not overly

1 fond of using Hydro's exhibits, but I think I -- I can
2 make an exception in this case. And again, there may
3 be a couple of brief references to transcript. And --
4 and around page 5,356 of yesterday is where I would be
5 starting.

6 Good morning, Mr. Bowman. I'm sad to
7 say I'm not sure my questions will be as challenging as
8 the questions you've had from the panel, but I'll do my
9 best. The -- Mr -- Mr. Bowman, a couple of small
10 points to start with. On occasion yesterday, questions
11 were put to you and -- and seeking MIPUG's position or
12 MIPUG's opinion.

13 And am I correct in suggesting to you,
14 sir, that -- that the evidence you've provided in your
15 written materials as well as your oral evidence is your
16 opinion, as compared to MIPUG's pos -- opinion?

17 MR. PATRICK BOWMAN: Yes.

18 MR. BYRON WILLIAMS: Now, Mr. Bowman, a
19 -- a small point that came out of yesterday, I just
20 want to clarify it. In terms of rates in British
21 Columbia, do I have your evidence from yesterday
22 correct in saying that built into the rates in British
23 Columbia are -- is -- are both notional income tax and
24 a -- and a rate of return?

25 MR. PATRICK BOWMAN: Yes. British

1 Columbia is one (1) of the jurisdictions we monitor but
2 don't -- don't do much work on the rate side at the
3 moment. But the last time that I would have done a
4 cross-check of that, they have a framework that British
5 Columbia Hydro earns a return on its equity and,
6 pursuant to a -- a policy directive to the BCUC from
7 the government, that it's also meant to include a -- a
8 notional income tax amount.

9 MR. BYRON WILLIAMS: So, if one were
10 looking at a rate comparison between those two (2)
11 jurisdictions, those would be two (2) differences that
12 one would want to be aware of?

13 MR. PATRICK BOWMAN: Yes.

14 MR. BYRON WILLIAMS: Okay, thank you.
15 Turning you to your written evidence, page 2-5.
16 Starting at -- at the -- the passage between lines 5
17 and 17, Mr. Bowman, that's where -- where I'm going to
18 be directing you. But I do want to go back to first
19 principles for -- for just one (1) second.

20 Mr. Bowman, in the perfect world with a
21 perfectly competitive market place, economic theory
22 suggests we can rely upon the market to protect
23 consumers, agreed?

24 MR. PATRICK BOWMAN: It's a -- that's
25 one (1) of the theoretical building blocks, is that as

1 long as things are working properly, that works fine.

2 MR. BYRON WILLIAMS: And in a perfect
3 world in a perfectly competitive market place as well,
4 in terms of keeping companies and industries efficient
5 and fine tuned and both penny wise and pound wise, we
6 can also, in economic theory, rely upon the market
7 place to do that?

8 MR. PATRICK BOWMAN: The premise is
9 that when a market is working, that -- that firms that
10 are efficient will be able to survive and those that
11 are inefficient will -- will not or -- or will have to
12 become efficient. That's -- you know, this is 101.

13 MR. BYRON WILLIAMS: That's probably as
14 far as I can take you, Mr. Bowman, in terms of my
15 knowledge. But in your evidence yesterday, of course,
16 you referred to Manitoba Hydro as -- as a monopoly.

17 Whether it's a natural monopoly or a
18 legislative monopoly, in terms of the retail sale of
19 power in Manitoba, it is indeed a monopoly?

20 MR. PATRICK BOWMAN: It's both,
21 legislative and -- and natural.

22 MR. BYRON WILLIAMS: And where
23 regulatory theory enters the equation, Mr. Bowman, is
24 one (1) important aspect of regulatory theory is in --
25 in the absence of the marketplace, an efficient

1 marketplace to protect consumers, we rely upon rate
2 regulation or the regula -- regulatory intervention?

3 MR. PATRICK BOWMAN: Now we're into
4 rate regulation 101. But, yes, that's correct.

5 MR. BYRON WILLIAMS: Staying at that
6 entry-level rate regulation 101, Mr. Bowman, and in --
7 in the context of rate regulation, recognizing that the
8 marketplace is not there to discipline the efficiency
9 and the -- the management of the Corporation, to a
10 certain degree we -- we seek to use rate regulation to
11 emulate the marketplace, to the inelegant degree that
12 it is capable?

13 MR. PATRICK BOWMAN: Yes. I'll -- I'll
14 caveat that with where -- where a regulator actually
15 has tools available to it to -- to do that, and -- and
16 some of that will tie to the exact scope of regulation
17 in a -- in a particular jurisdiction. The scope here
18 is a bit different than some others.

19 MR. BYRON WILLIAMS: And I thank you
20 for that. And turning your -- your attention now to --
21 to the -- page 2-5, lines 9 through 17, and the bullets
22 that appear there, Mr. Bowman, would I be correct in
23 suggesting to you that if a regulator -- excuse me --
24 achieves a result where the price for service to
25 customers overall reflects the cost of providing that

1 service, and that those costs are measured based on
2 assets that are used and useful in the period in
3 question and at a level that reflects prudence in the
4 cost of acquiring the asset, and if these costs are
5 allocated on a principle basis to the various class of
6 customers that share and are receiving service, and if
7 the rates ultimately charged yield the appropriate
8 revenues, in those circumstances, Mr. Bowman, would we
9 have, in general terms, a just and reasonable rate?

10 MR. PATRICK BOWMAN: They would be four
11 (4) aspects. I'd note that this leads in with saying
12 they represent a number of considerations, including --
13 we -- I didn't intend this list to be exhaustive. For
14 example -- well, it has a bullet that deals with
15 capital investment and prudent in used and useful
16 capital investment. It has no comment on prudent
17 levels of operating costs, for example, which would --
18 which would similarly fit in.

19 So there would be other -- other
20 examples of a -- of a just and reasonable rate. And I
21 guess the other thing that's not here is things like,
22 say, allocation within a customer class. This just
23 gets to -- to of the customer classes. So these are
24 four (4).

25 MR. BYRON WILLIAMS: And with -- with

1 some of the important caveats that you've mentioned, we
2 have a framework here for -- for conceptualizing a just
3 and reasonable rate, agreed?

4 MR. PATRICK BOWMAN: Yes.

5 MR. BYRON WILLIAMS: Directing your
6 attention to bullet 2, in terms of -- and your use of
7 the words, "used and useful in the period," in
8 question, in your understanding of rate regulatory
9 theory, Mr. Bowman, am I correct in suggesting to you
10 that the concept in you -- of "used and useful" is --
11 is in -- in essence to ensure that today's ratepayers
12 are paying the right amount and no more, in terms of
13 the assets in -- from which they are benefiting?

14 MR. PATRICK BOWMAN: That -- that's the
15 basic test, yes.

16 MR. BYRON WILLIAMS: And without
17 wanting to -- to delve too far into your evidence at
18 this point in time, the -- the cautionary note that you
19 strike in your written evidence is the risk that we may
20 be asking today's ratepayers to -- to be paying too
21 much of the costs towards Keeyask, Bipole 3, or
22 Conawapa, when these assets are not yet in service?

23 MR. PATRICK BOWMAN: That's one (1)
24 side of the coin that you're -- on a -- on the fairness
25 test. It's a fairness of which ratepayers would

1 benefit from those investments as opposed to which are
2 expected to bear the costs. And -- and it would -- one
3 would look to align that across classes and across
4 time. So that -- that's one (1) side of -- of the
5 coin.

6 MR. BYRON WILLIAMS: And -- and, Mr. Mo
7 -- Bowman, you spoke of aligning those costs across
8 time. And of course you're -- you're referring to the
9 -- the concept of intergenerational equity?

10 MR. PATRICK BOWMAN: Yes.

11 MR. BYRON WILLIAMS: Now, I don't want
12 to dwell too much on the word "prudency" that appears
13 on line 2 of the second bullet on page 2 -- 2-5.

14 But, Mr. Bowman, when -- when you used
15 the word "prudency", if -- if an old guy like myself
16 used the words "prudent and necessary", we would still
17 be speaking the same language, sir?

18 MR. PATRICK BOWMAN: Yes.

19 MR. BYRON WILLIAMS: And the point that
20 you made to me in my initial discussion with you about
21 just and reasonable rates, it's not just the prudency
22 in terms of the acquisition of capital assets, but it's
23 also prudency and the necessity of expenditures with
24 regard to day and -- day-to-day or OM&A expenditures,
25 agreed?

1 MR. PATRICK BOWMAN: It -- it is both
2 those, plus the prudence of the expenditures on -- on
3 capital investments. So one may conclude that it is
4 entirely prudent to proceed with the project, but yet
5 still at the end conclude that the costs that were
6 spent on that project were not necessarily all prudent
7 costs towards the goal of -- of pursuing that -- that
8 prudent end.

9 MR. BYRON WILLIAMS: Okay. Thank you.
10 And -- and I think we'll leave bullet 3 relating to
11 cross -- costs of service and issues of horizontal
12 equity, Mr. Bowman, until the cost of service hearing,
13 if that's -- that's all right with you.

14 Mr. Bowman, if we could turn to Table 1
15 of MIPUG's response to PUB-1-11 as revised; so that's
16 page 2 of 6. And, Mr. Bowman, at the same time, if you
17 wouldn't mind flipping within your evidence to page 4-
18 17 of your written evidence, page 4-17.

19 And, Mr. Bowman, just focussing your
20 attention on your Table 1 as it appears in the response
21 to PUB/MIPUG-1-11 revised, in terms of your rate
22 recommendations as -- as compared to Manitoba Hydro's,
23 one (1) material difference relates to -- to the
24 treatment of -- of net salvage, agreed?

25 MR. PATRICK BOWMAN: Yes.

1 MR. BYRON WILLIAMS: And when we --
2 when we think of net salvage, sir, would I be correct
3 in suggesting to you that the current approach of
4 Manitoba Hydro is an outlier as compared to other
5 regulated, Crown-owned utilities, such as Newfoundland
6 Hydro, Hydro-Quebec, BC Hydro, and Yukon Energy?

7 MR. PATRICK BOWMAN: It's different
8 than those four (4), yes.

9 MR. BYRON WILLIAMS: And the -- the
10 thrust of your argument, in terms of net salvage, is
11 that, in essence, you're trying to bring Hydro into the
12 mainstream of other regulated, Crown-owned utilities,
13 agreed?

14 MR. PATRICK BOWMAN: That would be the
15 end result of what's proposed.

16 MR. BYRON WILLIAMS: Now, sir, you
17 don't need to -- to turn to your evidence, but just
18 directing your attention to ELG...

19 In your discussion with the Chair and
20 Board member Lafond yesterday -- and it's at page 5,356
21 and 5,357 of the transcript. I'm not sure you need to
22 turn there, but that's where the discussion takes
23 place.

24 Mr. Bowman, you'll recall you had a
25 discru -- discussion with the members of the panel, in

1 terms of which Crown-owned utilities were using some
2 version of ALS as compared to ELG.

3 Do you recall that conversation?

4 MR. PATRICK BOWMAN: Yes.

5 MR. BYRON WILLIAMS: And, of course,
6 some of that information also is in your evidence, we
7 do not need to turn there, but at pages 4-12 or
8 Appendix C-1, agreed?

9 MR. PATRICK BOWMAN: Yes.

10 MR. BYRON WILLIAMS: And, Mr. Bowman,
11 in that conversation, in terms of the regulated Crown
12 utilities who are using ASL, you identified BC Hydro,
13 Yukon Energy, the Northwest Territories, and
14 Newfoundland, agreed?

15 MR. PATRICK BOWMAN: Those are four
16 (4).

17 MR. BYRON WILLIAMS: And, Mr. Bowman,
18 the -- the one (1) major Crown that wasn't mentioned,
19 at -- at least one (1), in -- in your evidence
20 yesterday or -- or in your report, in terms of ASL
21 versus ELG, was Hydro-Quebec, correct?

22 MR. PATRICK BOWMAN: Yes.

23 MR. BYRON WILLIAMS: And, Mr. Bowman, I
24 wonder if you could advise to the extent of your
25 knowledge, and your French, the -- what -- what is

1 going on in Quebec, in terms of this issue?

2 MR. PATRICK BOWMAN: I'm aware that
3 Quebec had -- similar to Newfoundland, had previously,
4 at least in part, used a sinking fund method for
5 depreciation, which, as I noted, wasn't necessarily
6 uncommon back in the day when people were developing
7 major assets.

8 They recently changed their depreciation
9 method. Their -- their work wasn't done by -- by
10 Gannett Fleming. The method they changed to is -- is
11 described as a straight-line method and, to the best of
12 the translations to me, describe in words what would be
13 called ASL. It doesn't use the terms "ASL" or "ELG."
14 But because of the -- the unique nature of an ELG
15 method or unit summation, you would usually see that
16 actually referenced as -- as a method rather than
17 someone just saying, Straight line, straight line.
18 Although both are technically straight-line approaches,
19 in -- in common parlance, straight line usually meant
20 to be equal amounts to each year, which is an ASL
21 approach.

22 And the other piece I'm aware of is
23 that, as a result of making that change, New -- Hydro-
24 Quebec was significantly under -- un -- under
25 depreciated as a result of the methodology change,

1 ignoring anything to do with life estimates. And as a
2 result, they took a reduction to retained earnings to
3 reflect that, which was substantial, like hundreds of
4 millions of dollars, to -- to reflect that change.

5 MR. BYRON WILLIAMS: And to your
6 knowledge, that -- that hit was a reflection of a move
7 from sinking fund to a straight-line methodology, which
8 you are presuming to be ASL?

9 MR. PATRICK BOWMAN: Yes.

10 MR. BYRON WILLIAMS: Now, Mr. Bowman,
11 you're aware of evidence in this hearing suggesting
12 that while both ASL and ELG might be acc -- or would be
13 acceptable under IFRS, you're also aware of a
14 suggestion that that would require additional
15 componentization, with regar -- with regards to the ASL
16 approach, as compared to what Manitoba Hydro currently
17 -- currently undertakes?

18 MR. PATRICK BOWMAN: Yes, I'm aware of
19 that evidence.

20 MR. BYRON WILLIAMS: And -- and
21 certainly you're aware of evidence in this proceeding,
22 sir, suggesting that Manitoba Hydro has reservations
23 about going to increased componentization, agreed?

24 MR. PATRICK BOWMAN: Yes. Whe --
25 whether it's reservations or whether it's concerns

1 whether they could even do that in some cases
2 practically or -- or possibly. But -- but certainly,
3 reservations would be -- would be what I heard.

4 MR. BYRON WILLIAMS: So, sir, le --
5 let's take the -- the worst-case scenario for
6 componentization that it -- in -- in terms of ASL, that
7 in -- indeed in some cases it cannot be done.

8 Does that mean one is left with no
9 alternative but ELG?

10 MR. PATRICK BOWMAN: No. But there are
11 certainly mixed methods that are used by -- by a number
12 of the utilities that I'm aware of. I -- I gave the
13 examples of -- of Newfoundland, which used a sinking
14 fund method on -- on its hydraulic assets but it had
15 used an ASL method on -- on other ath -- assets. And
16 that was clear in its depreciation policy.

17 So I would say even if -- even if the
18 evidence was clear that for some -- some of the,
19 perhaps, older plants, say, something like Great Falls,
20 or -- or all -- also for something like purchased
21 plants like Slave Falls, where you just have a purchase
22 price, you don't have it necessarily componentized;
23 your value is assigned assets.

24 You -- you, perhaps, you're into a
25 situation where -- where you could get -- you could get

1 some benefits in dealing with your auditor by bringing
2 in the ELG approach if -- if that's where they were
3 coming from. But I -- you know, that -- I would
4 suggest, that could very easily be the exception rather
5 than the rule.

6 Certainly, on something like a Wuskwatim
7 or Bipoles or Conawapa or Keeyask, probably, I would
8 imagine on something like a Limestone, I can't see why,
9 from the outset, it wouldn't be possible to -- to fully
10 componentize whatever standard people consider
11 necessary.

12 I'd only add, I have not run into any
13 one having anywhere near this degree of focus or
14 resistance to the componentization concept. With
15 respect to ASL, certainly a number of the utilities I
16 work with use ASL and ha -- use components aligned with
17 the FERC system accounts, which is less componentized
18 on generation.

19 Certainly, utilities -- many utilities
20 use transmission accounts which are relatively similar,
21 if not identical, to the ones used by Manitoba Hydro.
22 It -- it may be -- you know, generation accounts
23 occasionally are -- are more broken out. But -- but as
24 I noted, often when they're more broken out, it breaks
25 out items of relatively trivial value.

1 So I can't say for sure that that is
2 really compelling to someone that they've achieved a
3 whole greater precision by -- by having, you know, a
4 category for -- for things that are a few thousand
5 dollars in investment or something of that nature.

6 MR. BYRON WILLIAMS: Thank -- thank
7 you, Mr. Bowman. I'm going to direct you to pages 1-3
8 and 1-4 of your written evidence. And we've probably
9 got -- I'm -- I'm certainly, Mr. Chair, planning to be
10 done before lunch. I still have a fair bit to go.

11 Mr. Bowman, I -- I do want to stay at a
12 conceptual level with you for at least a couple more
13 minutes though. Mr. Bowman, if I can direct your
14 attention, in terms of your written evidence, page 1-3
15 at the last paragraph starting at line 25, and then
16 flipping over to the top of page 1-4 through lines 1 to
17 5.

18 You see that, sir?

19 MR. PATRICK BOWMAN: Yes.

20 MR. BYRON WILLIAMS: And, Mr. Bowman,
21 I'm going to take a -- take a leap, or I may be putting
22 words in your -- in your mouth, and you'll correct me
23 if they're -- they're not words you're prepared to
24 adopt.

25 But if -- if we look at these -- this

1 paragraph, which appears to be fairly key to your
2 evidence, I'm going to suggest to you that -- that what
3 you're identifying is in effect an intergenerational
4 equity gap related to -- to what you see as what is
5 arguably the premature expensing of costs related to
6 potential assets, such as Bipole 3, Keeyask, and
7 Conawapa?

8 MR. PATRICK BOWMAN: Yes.

9 MR. BYRON WILLIAMS: And -- and if we
10 turn to the top of page 1-4, Mr. Bowman, the point I
11 take it that you're making is almost that there is an
12 analytical disconnect at a time of imminent investment
13 in one (1) of the largest capital programs in the
14 Corporation's history with what you characterize as
15 early -- aggressive early recognition of costs, either
16 early in an asset's life or even prior to its effective
17 life.

18 And you're contrasting that with the --
19 with the reality that the vast majority of benefits
20 associated with these assets will occur towards the
21 middle and later years of the asset?

22 MR. PATRICK BOWMAN: Yes. And if I can
23 just add, in the last statement you -- you referenced
24 it in terms of Conawapa and Keeyask and Bipole. And I
25 -- I would say it's those, but it's also Wuskwatim and

1 -- and Limestone and Kettle, frankly, where these are
2 still assets that have long lives to go and -- and
3 they're affected by the same pressures.

4 So, in -- in fact, we're even in a way
5 looking to -- to further advance costs of Kettle to --
6 today as opposed to where -- where they would have
7 previously been put further down the road, by way of
8 the -- the ELG/ASL factor at least. The -- the others,
9 the new project, also have the overhead feature which
10 is -- has a similar effect.

11 MR. BYRON WILLIAMS: Well, Mr. Bowman -
12 - and I appreciate that cav -- that -- that expansion
13 of my premise. I'm going to try and limit you back to
14 Bipole 3, Keeyask, and Conawapa, and -- and to
15 Wuskwatim to a -- to a certain degree.

16 And in terms of the concept of
17 mitigation and -- and maybe I'm misunderstanding it --
18 but is the concern you're identifying is that while
19 through a variety of changes, whether we call them
20 accounting changes or otherwise, we're front-loading
21 costs.

22 There isn't the revenue on the other
23 side of the equation to mitigate the impact on
24 ratepayers?

25 MR. PATRICK BOWMAN: Yes. There --

1 there is the revenue, but it's feature in time,
2 particularly with respect to the Conawapa and Keeyask.

3 THE CHAIRPERSON: Could you repeat
4 that, please? I missed that.

5 MR. PATRICK BOWMAN: Well, I -- I want
6 to be cautious that it's a -- it's a time feature.
7 It's not saying that we're spending costs that -- that
8 are not justified. We're -- we're -- spending is
9 occurring because these projects presumably have a
10 beneficial long-term return.

11 The -- the issue is that revenue isn't
12 in 2013. That revenue is in 2093 or -- or whatever
13 year you want to choose.

14

15 (BRIEF PAUSE)

16

17 CONTINUED BY MR. BYRON WILLIAMS:

18 MR. BOB PETERS: Mr. Bowman, you did
19 have a discussion with members of the panel, in terms
20 of the -- the study of BC Hydro, at pages 5,402 to
21 5,412 of the transcript. So you don't need to turn
22 there, but I do have a couple questions in terms of
23 your written evidence, in terms of the discussion of BC
24 Hydro and -- and the evaluation by the deputy ministers
25 at pages 4-6 and 4-7.

1 (BRIEF PAUSE)

2

3 MR. PATRICK BOWMAN: Yes, I'm there.

4

MR. BYRON WILLIAMS: And just going
5 back to first principles for a moment, Mr. Bowman,
6 we've agreed that in the absence of the discipline of a
7 -- of the competitive market, a challenge that rate
8 regulation theory has identified is the challenge of
9 disciplining natural or legislative monopolies to -- to
10 run their businesses efficiently?

11

MR. PATRICK BOWMAN: Yes. And I'll
12 just add, this is not just here. This has reflected
13 itself in lots of places looking to find ways to amend
14 or adjust or improve their regulatory frameworks with
15 things like something that ties to performance, so that
16 you actually put back on an organization some -- some
17 pressures that are -- are very hard to put on just by
18 way of -- of being in a room like this.

19

We don't have that framework, but -- but
20 that -- I'm saying it's not here. It's a -- it's a
21 fairly universal concern that -- that regulation is
22 very good at some things and it's not always very good
23 at -- at, you know, at others.

24

MR. BYRON WILLIAMS: And, Mr. -- Mr.
25 Bowman, I don't -- I know you had an extensive

1 discussion with the Board about this -- this yesterday.
2 But in the course of the hearing, you're aware of
3 discussions between the Board and Manitoba Hydro, in
4 terms of how Hydro reviewed the findings from British
5 Columbia and how they have responded to them.

6 You're aware of those discussions, sir?

7 MR. PATRICK BOWMAN: Yes.

8 MR. BYRON WILLIAMS: And you're aware
9 that Manitoba Hydro prepared some sort of report about
10 the BC recommendations.

11 You're -- you're aware of that, sir?

12 MR. PATRICK BOWMAN: Yes.

13 MR. BYRON WILLIAMS: And you're aware
14 of the discussion that the Chairperson had, or I
15 believe it was the Chair, with -- with Mr. Warden on
16 behalf of Manitoba Hydro, in a -- in terms of Hydro's
17 actual response in terms of the BC recommendations.

18 And is your recollection the same as
19 mine, sir, in -- in which Mr. -- it might have been
20 actually Mr. Hacault, and I apologize.

21 Is your recollection -- recollection the
22 same as mine, sir, that Mr. Warden's response was that
23 Hydro had formed a committee?

24 MR. PATRICK BOWMAN: I'm sorry, Mr.
25 Williams, I -- I don't recall that. It's -- it's

1 becoming a long hearing.

2 MR. BYRON WILLIAMS: So you're not sure
3 -- and again, you're -- let me put this a -- a
4 different way then, Mr. Bowman.

5 Are you satisfied that, in terms of --
6 based on the record of this proceeding, that -- that
7 Manitoba Hydro has -- has achieved all the efficiencies
8 that are -- that are there to achieve?

9

10 (BRIEF PAUSE)

11

12 MR. PATRICK BOWMAN: Mr. Williams, I --
13 I inserted this section into the report to note concern
14 when you review Hydro's numbers from -- from the
15 perspective of data that's made available in a
16 regulatory forum or information requests and you
17 contrast that with -- with things that you hear about:
18 initiatives and cost-control measures and the like.

19 And I added the second on the -- the BC
20 review to be -- not to be more aggressive but, if
21 anything, to be more -- more cautious in the tone that
22 this is a really, really hard forum to be able to come
23 to a conclusion that -- that they've got it right or --
24 or they've got it wrong, frankly.

25 There's certainly a lot of evidence

1 using an incremental tool, in terms of the graphs that
2 we've drawn and the like, that -- that spending has
3 grown. There are certainly some comments out of this
4 Board in the past that they're -- that they were
5 concerned about that -- that top number, the -- if you
6 remember the dotted line that not everyone had, but it
7 was in red, in colour -- has grown quickly. But that
8 doesn't mean it ought not have grown quickly or
9 wouldn't have grown faster absent a stellar effort by
10 the Utility, for example.

11 And so I -- I tried to put this in as a
12 -- as an example. In this case, it was directionally
13 the -- the other way, but -- of -- of suggesting that
14 it -- it's -- it's very difficult for this -- for me or
15 -- or, I would submit, for this Board to be able to
16 really understand if -- if the Utility's got it right.
17 And in the case of BC, the -- the review by people who
18 had a bit more access and a bit more time and -- and
19 very specific knowledge was that they didn't have it
20 right.

21 So I was caveating, if you like, the --
22 my own submission, which is based on an incremental
23 type of analysis. It does appear that some of the
24 cost-control efforts and language that Hydro has cited
25 is not being as effective as it may have been intended,

1 but -- but, at the same time caveating that -- that
2 it's only been able to be analyzed by me on -- on that
3 incremental approach. And the incremental approach
4 doesn't always get it right.

5 MR. BYRON WILLIAMS: So let me -- and I
6 thank you for that helpful and thoughtful answer, sir.
7 And I -- I want to take it two (2) ways.

8 One (1) of the points I -- I hear you
9 making is that when the -- the BC deputy ministers dug
10 deeper, they saw potential for -- for savings.

11 MR. PATRICK BOWMAN: Well, yes, that's
12 pretty clear in their report.

13 MR. BYRON WILLIAMS: So in terms of the
14 -- the evidence that you've seen in this hearing, sir,
15 are -- are you -- are you saying that some sort of
16 external eye, in terms of cost savings, should be
17 undertaken?

18 Are you suggesting a BC-type approach?

19 MR. PATRICK BOWMAN: I've tried to, as
20 much as possible, contain the recommendations to things
21 that -- that I know this Board has a practical ability
22 to either decide based on its jurisdiction or -- or
23 weigh in heavily on, in terms of things that -- that
24 affect rates in that manner.

25 So I haven't put in a recommendation one

1 (1) way or another. And I'm -- I'm not sure I fully --
2 fully turned my mind to it for that reason because I'm
3 -- you know, the -- the Board here can issue certain
4 directives to have things done, and they have issued
5 some directives for studies and reviews.

6 But -- but this -- thi -- this wasn't a
7 BCUC initiative. This wasn't the utility board saying,
8 I -- I need you to dig in. This was the -- this was
9 the BC government reacting to the fact that BC Hydro
10 had filed a very large rate increase requirement or
11 filing. And -- and before it ever got the BCUC, the BC
12 government said, Wait, we're going to do our own -- our
13 own due diligence.

14 And -- and in all honesty, this did spur
15 on in -- a very similar process in Northwest
16 Territories that was done, where before the utility
17 files its application it -- it -- the -- the government
18 initiated and completed a due diligence process on --
19 on the application before deciding to help subsidize
20 some of their -- some of the changes.

21 So it's -- I -- I'm afraid I didn't give
22 a recommendation one (1) way or another.

23 MR. BYRON WILLIAMS: I'm -- no need to
24 apologize to me, Mr. Bowman. So -- so let's take it
25 through to something that -- that would be in the

1 Board's jurisdiction.

2 And -- and, sir, in your experience,
3 over fourteen (14) years in a number of regulatory
4 jurisdictions, in terms of a finding by the Board that
5 -- that some -- that -- that -- or a tribunal that it's
6 uncomfortable with the directional drift of
7 expenditures, in your experience, have you -- have you
8 seen boards respond to that by not granting the sought
9 rate requirement in its totality?

10 MR. PATRICK BOWMAN: I have seen boards
11 not grant a rate requirement in its totality, including
12 this Board in the last proceeding. So if that -- if
13 it's question about the Board, then -- then, yes, I've
14 seen that.

15 MR. BYRON WILLIAMS: And in rate
16 regulation theory, sir, if there is -- and I'm not
17 suggesting there is -- but if there is that discomfort
18 with the directional -- directional trend of expenses,
19 one (1) way to signal that discomfort in the absence of
20 market signals is a rate signal, agreed?

21 MR. PATRICK BOWMAN: Yes.

22 MR. BYRON WILLIAMS: I want to turn,
23 sir, to the -- to the -- you had a discussion yesterday
24 in terms of risks and reserves.

25 And -- and, Mr. Bowman, when we -- when

1 we think of the risks faced by Manitoba Hydro, would it
2 be -- is it helpful to conceptualize risk in -- in two
3 (2) facets, one (1) being the magnitude of the adverse
4 consequence and the second being the probability of the
5 adverse consequence?

6 MR. PATRICK BOWMAN: Tho -- yes, both
7 of those are relevant. And the other is -- that I
8 added is the -- is the mean-reverting nature, to use
9 the technical term that the -- the independent experts
10 were using in the last hearing, that some -- some risks
11 are -- they occur. They're adverse. They're --
12 they're low or high probability. They're -- they're --
13 but when they happen, they happen once, and it's behind
14 you. Others are -- are of a nature that they do self-
15 correct over time.

16 MR. BYRON WILLIAMS: So if I understand
17 your answer correctly, sir, you've correct me -- or you
18 modified my proposition and said, in assessing the
19 risks faced by the Corporation, especially in
20 considering the adequacy of reserves, the consideration
21 should include the magnitude of the risk, the
22 probability of the risk, and also whether or not that
23 particular event is self-correcting in that, over time,
24 we can expect a return to the average or to the mean?

25 MR. PATRICK BOWMAN: Yes.

1 MR. BYRON WILLIAMS: And, Mr. Bowman,
2 you -- it wouldn't hurt to turn to page 3-3 and 3-4 of
3 your evidence, sir.

4

5 (BRIEF PAUSE)

6

7 MR. BYRON WILLIAMS: Mis -- Mr. Bowman,
8 in ter -- you dealt with financial risk in great detail
9 with Mis -- Mr. -- Board member Lafond yesterday, so
10 I'm going to revisit that.

11 But in terms of drought risk, am I
12 correct in understanding your evidence as suggesting
13 that while the probability of an adverse event related
14 to drought is unchanged, the magnitude of the risk
15 associated with drought is -- is lower today than it
16 was -- then we believed it was at the time of the
17 2010/'11 general rate application?

18 MR. PATRICK BOWMAN: Yes. But it's not
19 just my evidence; that's straight out of IFFs and the
20 like.

21 MR. BYRON WILLIAMS: And -- and -- and
22 Mr. Bowman, at the bottom of page 33 and then the top
23 of page 34, you make the point that while Manitoba
24 Hydro calculated the risk of a five (5) year drought in
25 a prior GRA as being in the range of 2.4 billion, that

1 calculation now suggests a risk of about 1.6 billion,
2 driven by the reduction in export market prices and in
3 natural gas fuel costs, agreed?

4 MR. PATRICK BOWMAN: Yes, I did write
5 that and that was the evidence that was -- six (6) and
6 three (3) of our -- of our -- of my pre-filed testimony
7 is prepared to try to summarize, from our view, the
8 relevant pieces of Hydro's application before we get
9 into then going on to analyze it.

10 So I was summarizing IFF11-2, not IFF12.
11 And I was summarizing --

12 MR. BYRON WILLIAMS: I apologize for
13 that.

14 MR. PATRICK BOWMAN: -- what Hydro had
15 -- had submitted before going in to analyze it bef --
16 out of that IFF. I think yesterday I would have gone
17 through an update to an interrogatory that we provided
18 on -- on drought risk, Manitoba Hydro IR, I believe,
19 which -- which is updated to IFF12. I'd have to -- I'd
20 have to look for it.

21 But we did go through the -- the IFF12
22 numbers, and we did go through our assessment. And an
23 example -- yeah, it's Manitoba Hydro/MIPUG-1-3, which
24 showed that in -- in Hydro's number and -- and that --
25 the references are cross-referenced in there. But in

1 Hydro's numbers there is -- you know, there's no more -
2 - there's no more droughts of the magnitude that people
3 were talking about in the past, in terms of dollars.

4 You know, the -- they -- the worst years
5 don't go above 400 million. The duration during which
6 there was net losses can be different, depending on
7 what net income you've targeted. And -- and we've
8 always had a bit of a concern with the way Hydro quotes
9 its drought impacts, because it will run an IFF on the
10 assumption that it's saving for a drought every year or
11 -- or putting aside reserves -- I'm being cheeky by
12 calling it "saving for a drought"; I apologize.

13 That -- that it has a net income every
14 year which is contributing to reserves, and then when
15 the drought hits and you have a -- a downward impact,
16 it's -- it's the difference between where you would
17 have been or would have liked to have been versus where
18 you are as a result of the drought.

19 Well, I believe I called that in the
20 last hearing, the -- that a portion of that impact is
21 really just lamenting that you weren't able to save for
22 a drought during a drought; that -- that really if you
23 want to focus on the purpose of the -- of the -- of the
24 reserve or the purpose of the -- of the financial
25 protection, it's to protect you against the net losses

1 that arise when a drought occurs.

2 So -- so what -- we used a bit of
3 different benchmark for doing that calculation.

4 MR. BYRON WILLIAMS: And that, really,
5 you've anticipated my next question, because you
6 distinguished, sir, between a -- a -- using the example
7 before us on page 3-3 and 3-4, between a -- a drop in
8 net income, you distinguished between the -- the \$1.6
9 billion figure associated with the overall calculation
10 performed by Hydro and you say, Well, except for you
11 should be -- you should be factoring out the projected
12 net income of 600 hundred million, agreed?

13 MR. PATRICK BOWMAN: Right. I -- yeah.
14 Hydro's numbers are a correct calculation to represent
15 one (1) concept. But I don't think it represents a --
16 a risk of -- of loss concept. I think it represents a
17 -- a change in the -- in the terminal retained earnings
18 of this scenario. The -- the loss is -- you have to
19 factor out the -- the .6 billion, as you noted.

20 MR. BYRON WILLIAMS: Mr. Bowman, I'm
21 going to jump around a little bit, noting the time.

22 We can agree that currently the -- the
23 debt/equity ratio is one (1) mechanism by which the
24 regulatory process measures the Corporation's ability
25 to tolerate adverse events, agreed?

1 MR. PATRICK BOWMAN: Yes.

2 MR. BYRON WILLIAMS: And I guess my
3 question to you is in the context of a -- of a
4 corporation with -- with massive planned capital
5 expenditures over the next fifteen (15) years, from a
6 regulatory perspective, is the debt/equity mechanism
7 the best mechanism to evaluate the ability of the
8 corporation to tolerate adverse events?

9 MR. PATRICK BOWMAN: No. And you can
10 go back to the evidence that I submitted with Mr.
11 McLaren in the last hearing. We had a -- a bit of a
12 discussion about that.

13 MR. BYRON WILLIAMS: And so in -- in
14 this hearing, sir, the -- what you've essentially done
15 is made some adjustments for the capital costs
16 associated with Bipole 3 or Keeyask or -- or Conawapa,
17 in terms of your calculation of the debt/equity ratio.

18 That's the only kind of measure that you
19 -- that -- that you've adver -- that you've addressed
20 in this hearing?

21 MR. PATRICK BOWMAN: Well, we kept it
22 quite simple this time for two (2) reasons. One (1) is
23 because we didn't -- I didn't -- I apologize for keep
24 saying "we." I'm usually doing this with Mr. McLaren.

25 I didn't view the submission and the --

1 the GRA that needs to be before us to be something that
2 is -- is dominated by the twenty (20) year IFF for all
3 the reasons I've notes. So I -- I didn't focus as much
4 on the -- on the long-term debt equity.

5 And the other is -- is because the last
6 proceeding we spent an -- an extraordinary amount of
7 time on -- on risk and -- and approaches to assessing
8 risk, and Monte Carlo simulations, and -- and various
9 overlapping possible scenarios and that sort of thing.
10 And the main reason I was putting in evidence about the
11 debt/equity ratio there is -- is I didn't feel that --
12 that a focus -- when you're running those simulations -
13 - when you run the simulation, you get a certain
14 output, you get data out the other end.

15 And -- and there's a tendency to look at
16 that data and say, Okay, what did it do to my
17 debt/equity? And I felt that was a very -- a very
18 incorrect metric to use as to -- as to whether you
19 started with enough debt/equity, or as to whether you
20 were sufficiently capitalized to handle those risks.

21 My submission was if you're going to run
22 those scenarios and you're going to do your -- your
23 stress testing and run your risks through the
24 corporation, then the metric you should look at, at the
25 end is, Can I survive that scenario without causing a

1 rate shock to my ratepayers and -- and of course pay my
2 bills and -- and be, you know, reasonably -- reasonably
3 financial -- able to fulfill all the obligations and be
4 financially sound.

5 But -- but the -- the debt/equity ratio
6 in and of itself is -- is a -- can be useful, but I --
7 I don't think saying it's twenty-five (25), because we
8 looked at some other utilities, or it's twenty-five
9 (25) because -- because it's a -- you know, it gives us
10 as much retained earnings as our drought used to cost
11 was a particularly compelling reason for it being
12 twenty-five (25).

13 I thought that -- that if you were going
14 to seriously look at -- at stress testing, if you're
15 stress testing a -- you know, if you're stress testing
16 a bank, you might think about whether it's going to
17 cause shock to the economy, or failure to repay its
18 bonds, or failure to repay the -- the depositors.

19 If you're going to stress test Manitoba
20 Hydro, the thing I would submit you want to stress test
21 is -- is: Is it going to lead to excessive shocks to
22 ratepayers in order to keep the utility financially
23 sound during that period?

24 So -- so we had a lot of discussion
25 about that last time. And I -- and I -- I would have -

1 - I would have said that the 75/25 was a -- was a poor
2 measure. But it remains a measure they use, and -- and
3 so this time we didn't -- I didn't spend a lot of time
4 dwelling on that same -- that same concept.

5 And -- and we just said if you're going
6 to use it for the short-term, at least -- at least make
7 sure you're not using it to -- as a tool to try to --
8 try to find a way to squirrel away equity from -- for
9 Conawapa from current ratepayers.

10 MR. BYRON WILLIAMS: I want to turn to
11 page 2-4 of your evidence, and we'll just try and cover
12 a -- another couple of issues before the -- before the
13 -- the lunch break. Ms. Southall got me on a -- a
14 tight timeline that I'm -- I'm mindful of.

15 Ms. -- Mr. Bowman, at page 2-4, line 7
16 through 15, you'll see a discussion of the load
17 forecast as they relate to the greater than 100 kV
18 customer class, agreed?

19 MR. PATRICK BOWMAN: Yes.

20 MR. BYRON WILLIAMS: And, Mr. Bowman,
21 you'll -- you'll see a narrative suggesting that back
22 in the Utility's 2007 and 2008 load forecasts, they
23 were suggesting that there would be growth of
24 industrial load from 5 terawatt hours up to 7 terawatt
25 hours by 2018, agreed?

1 MR. PATRICK BOWMAN: Yes.

2 MR. BYRON WILLIAMS: And you don't need
3 to turn there, sir, but if we were -- if we were to
4 turn to page 3.4 of your evidence, you don't need to
5 turn there, but you -- you make the statement there as
6 well that:

7 "Industrial load today -- loads today
8 are already 1.5 terawatt hours lower
9 than they had ex -- been expected to
10 be based on the 2008 load forecast."

11 MR. PATRICK BOWMAN: Yes.

12 MR. BYRON WILLIAMS: And so, sir, in
13 terms of trying to disentangle -- or to back up. And -
14 - and, sir, you describe the forecast load growth of
15 Manitoba Hydro in 2007/2008 as being extraordinary.

16 Do you see that, sir, that description,
17 line -- line 8?

18 MR. PATRICK BOWMAN: Yes. I also used
19 the word "unrealistic".

20 MR. BYRON WILLIAMS: And, sir, in -- in
21 turn -- in terms of trying to disentangle the -- the
22 projections of the indus -- lar -- greater than 100 kW
23 load forecasts back just a few years ago as compared to
24 today's reality, would you attribute that to the
25 slowdown in the economy, challenges in Hydro's

1 forecasting, or other factors, such as relative overall
2 price increases related to Hydro?

3 If we're trying to understand from your
4 perspective, sir, the difference, is it -- is it enough
5 to say, Well, the forecast was right but the US
6 downturn affected it, or is there something else in
7 play, sir?

8 MR. PATRICK BOWMAN: Well, forecasting
9 industrial load over long periods of time is -- is
10 very, very challenging because you can't use sort of
11 simple econometric methods or -- or percentage changes.
12 Industrial loads don't change the same way as
13 residential do.

14 So Hydro has to come up with some
15 methods to -- to come up with industrial load
16 forecasts, and it can -- it can do that by talking to
17 its existing customers and getting some pretty good
18 idea. Sometimes they'll be wrong. Sometimes they'll
19 be hit by a recession and -- and drop back a -- a
20 degree, the odd one will close, as one did in that
21 period.

22 But -- but the -- the tricky part is:
23 How do you forecast the loads that aren't here yet?
24 And I don't envy the people in Hydro's load forecasting
25 department who have to come up with a -- a reasonable

1 forecast for that. But I would say our -- our
2 perception as of 2007 and 2008 is it's -- it's possible
3 they were somewhat unrealistic about -- about the --
4 the potential new industrial loads. And that -- that's
5 -- that's a separate category which is the -- the
6 crystal-balling component.

7 Perhaps I'm wrong. Perhaps they were
8 perfectly realistic, but then a recession happened and
9 that's why it changed. So if I'm wrong, it could be
10 recession. I would say methods may be part of it and -
11 - and relative optimism or pessimism. But you have to
12 remember that there is an entire industry out there who
13 helps industrial customers lo -- figure out where to
14 locate their plants, and they spend a lot of time
15 looking at different locations.

16 And that industry probably has Manitoba
17 Hydro on speed dial, because they're often calling to
18 say, Now, what if this guy came and opened there? And
19 they'll prepare for whoever's board of directors
20 report, saying, Well, you could go to Georgia and
21 here's what your taxes would be and here's what your
22 labour costs would be and here's what your power costs
23 would be, or you could go to Manitoba. And they'll --
24 they'll make those calls.

25 But the question is: When you're on

1 Manitoba Hydro's end you're getting those calls, how do
2 you view them? Are these likely customers, or are
3 these unlikely customers, or what? And -- and, like I
4 said, I don't envy them the job. But I -- I do think,
5 in -- in '08, it's -- it's possible that the -- the
6 optimism was running a little high and -- and it led to
7 some -- some policy decisions.

8 MR. BYRON WILLIAMS: Mr. Bowman, just
9 the advice that you or MIPUG might have given to
10 Manitoba Hydro in 2007 or '08 was that those load
11 forecasts, as they related to greater than 100 kV
12 customers, were unrealistic?

13 MR. PATRICK BOWMAN: I can't speak for
14 the customers. The customers would have been giving
15 their own load forecasts to Manitoba Hydro. My
16 submission -- and I believe you'll find this in the EIR
17 evidence -- is -- is that for -- certainly based on
18 what Hydro is going forward with, in terms of an EIR
19 approach, they were -- they were unrealistic, that they
20 were disjointed from -- from the load forecast.

21 MR. BYRON WILLIAMS: Thank you. And wi
22 -- with some trepidation, before we go for lunch, I do
23 want to resume the discussion on Iowa curves and -- and
24 ELG, just at a -- at a high level, Mr. Bowman, to make
25 sure I understand your point.

1 Mr. Bowman, you'll recall, certainly in
2 -- in my cross-examination of Mr. Kennedy, I -- I was
3 successful in garnering admissions from him that in
4 certain -- certain significant categories Man -- he
5 could not point to a statistically significant
6 relationship between the data and the Iowa curves
7 developed?

8 MR. PATRICK BOWMAN: I will -- I'll
9 accept that. I -- I recall the discussion. I -- I
10 wouldn't want to make sure that I got every adjective
11 right.

12 MR. BYRON WILLIAMS: Mr. Bowman, you --
13 you used language yesterday to the effect that under
14 ELG there are more eggs in the basket of Iowa curves,
15 to -- to that effect.

16 You'll recall the statements to those
17 words, sir?

18 MR. PATRICK BOWMAN: Yes, you're more
19 dependent on having the right curve under ELG than you
20 are under any other method.

21 MR. BYRON WILLIAMS: And, sir, I'm not
22 quite sure I -- I grasped that point in its entirety.
23 And I would like you to assist me with the point you
24 were trying to make.

25 MR. PATRICK BOWMAN: Well, Mr. Kennedy

1 explained that he had two (2) parts to his study: part
2 1, which generated the ongoing depreciation rate proper
3 for the assets, and the second part, in which you
4 assess your calculated depreciation against your book
5 depreciation. You come up with variances on -- on
6 which you true-up against the assets, all right.

7 In simple terms, in ASL the Iowa curve
8 is only used in the second part. ELG is used in both
9 parts. And I can go into more detail if you like, but
10 I know the hour.

11 MR. BYRON WILLIAMS: And -- and the
12 point I'm inferring from -- from that discussion, sir,
13 is to the extent that there is unreliable da -- data
14 underlying the Iowa curve, its impacts upon ELG will be
15 more profound than its impacts upon ASL?

16 MR. PATRICK BOWMAN: Yes.

17

18 (BRIEF PAUSE)

19

20 MR. PATRICK BOWMAN: Let me make sure I
21 say that very clearly. Its impacts upon the
22 depreciation rate that you calculate and the
23 depreciation expense that needs to go to the income
24 statement will be more -- more dependent on the -- the
25 curve and precision in the curve under ELG than under

1 ASL.

2 MR. BYRON WILLIAMS: Thank you. And --
3 and, Mr. Chair, it's -- it's very rare that I make a
4 budget estimate. But there's a few areas that I -- I
5 probably could have gone into, but Mr. Southall, quite
6 correctly, is wielding a stern whip today. So I thank
7 Mr. Bowman for his time.

8 And -- and certainly prior to closing,
9 our clients have very much appreciated the care with
10 which this panel has -- has listened to -- to all --
11 all discussions. And we look forward to the
12 opportunity to bring it all home on February 25th.

13 THE CHAIRPERSON: Okay, we -- it's a
14 monastic streak that I have, but I'm quite prepared to
15 stay and listen to more questions, Mr. Williams, beyond
16 the -- the noon hour if you like. I don't -- we don't
17 want to -- I don't want to cut you short, so.

18 MR. BYRON WILLIAMS: I'll -- sir, I --
19 I've kind of edited based on yesterday, but I can throw
20 in just -- there's -- there are a few questions that I
21 would -- would like a bit more comfort from, from Mr.
22 Bowman. I may have to scramble back through my notes.
23 But if you'll give me one (1) sec.

24

25 (BRIEF PAUSE)

1 CONTINUED BY MR. BYRON WILLIAMS:

2 MR. BYRON WILLIAMS: Directing your
3 attention, Mr. Bowman, to page 4-4 of your written
4 evidence.

5

6 (BRIEF PAUSE)

7

8 MR. BYRON WILLIAMS: And, Mr. Bowman,
9 lines 13 through 20, you track the growth and
10 equivalent full-times from 2004 through -- through
11 2011/'12 and then 2012/'13, agreed?

12 MR. PATRICK BOWMAN: I'm sorry. Can
13 you give me the line references again?

14 MR. BYRON WILLIAMS: Yes. Mr. Bowman,
15 if you look to the -- the lines 13 to 20 of page 4-4,
16 you're -- in that discussion -- you're tracking the
17 growth of equivalent full-times from 2004 ultimately
18 through 2012/'13. Agreed?

19 MR. PATRICK BOWMAN: Yeah, well,
20 actually, the -- the indented part is the quote out of
21 a Board order. I was tracking what had happened since
22 the Board order. But -- but nonetheless, yeah, the
23 data is there, yes.

24 MR. BYRON WILLIAMS: If we put those
25 two (2) together, sir, the story that is told is that

1 if we're looking around 2004 there were around fifty-
2 seven hundred (5,700), fifty-eight hundred (5,800)
3 equivalent full-times, whereas today, or as in
4 2012/'13, Hydro's projecting around sixty-eight hundred
5 (6,800), or about a thousand (1,000) more, agreed?

6 MR. PATRICK BOWMAN: Yes.

7

8 (BRIEF PAUSE)

9

10 MR. BYRON WILLIAMS: And, Mr. Bowman,
11 at page 4-10 of your evidence, you make the -- lines 23
12 through 25, you -- you argue that:

13 "The evidence suggests that despite
14 adding over one thousand (1,000) EFTs
15 since 2004, with the large part of
16 this being justified on the basis of
17 the growing capital program, in
18 practice, Hydro is effectively
19 capitalizing none of these EFT
20 additions."

21 Do you see that statement, sir?

22 MR. PATRICK BOWMAN: Yes.

23 MR. BYRON WILLIAMS: And, Mr. Bowman,
24 is that hyperbole, or what -- what is the basis for
25 that statement, sir?

1 (BRIEF PAUSE)

2

3 MR. PATRICK BOWMAN: I'm sorry, Mr.
4 Williams, I was just finding a response to an
5 information request I was -- I was asked by the -- the
6 Public Utilities Board. And it's one (1) that we had
7 in front of us yesterday, and I -- I can make a comment
8 on it. It was PUB-15 which asked me the same -- same
9 question, without calling it hyperbole.

10 But the -- the numbers shown in that --
11 in -- in the graph on the first page --

12 MR. BYRON WILLIAMS: And this is PUB-
13 15, sir?

14 MR. PATRICK BOWMAN: We can go to PUB-
15 15, but I -- we can without having to dig it out, we
16 can --

17 MR. BYRON WILLIAMS: That's great.

18 MR. PATRICK BOWMAN: -- also do it by
19 way of PUB -- page 4-5, which is where you had taken me
20 to start.

21 MR. BYRON WILLIAMS: Fabulous.

22 MR. PATRICK BOWMAN: So, page 4-5 is
23 directly out of Hydro's numbers. And -- and I'll make
24 Mr. Hacault happy by actually going to a graph that
25 shows what portion of Hydro's number are -- employees,

1 they -- they are reporting as having been capitalized
2 versus uncapitalized. All right?

3 And you'll see that in the -- in the
4 test years in question, it -- they report at four
5 thousand (4,000) in operating and two thousand, eight
6 hundred and twenty-five (2,825) is capitalized EFTs,
7 summing to the sixty-eight forty -- (6,841), forty-two
8 (42).

9 And that is exactly 41 percent, and 41
10 percent is a number we've heard here about Hydro's
11 capitalization ratios. I'm still not perfectly clear
12 on whether that twenty-eight twenty-five (2,825) is a
13 thing that you could walk around the building and put a
14 label on who's -- who's in -- who's blue and who's red,
15 or whether it's more of an allocation process on -- on
16 labour. But the effect of the proposals on overheads
17 is instead of 41 percent being capitalized, thirty (30)
18 -- approximately 32 percent will be capitalized is the
19 numbers I've written down. And those are referenced in
20 PUB-15.

21 And if indeed 32 percent is the new
22 number, it -- it would have the same effect as -- as
23 everything that went before, but only capitalizing two
24 thousand, one hundred and eighty-nine (2,189) employees
25 rather than two thousand, eight hundred (2,800). All

1 right. We're just applying the -- the ratios.

2 So, again, I wouldn't know whether there
3 are the -- the blue people versus the red people. But
4 -- but on the same ratios and implying the same type of
5 concepts, it would be the same outcome in the future as
6 you would have seen in the -- in -- in the past
7 approach if -- if two thousand, one hundred (2,100) had
8 been capitalized rather than -- rather than two
9 thousand, eight hundred (2,800).

10 So that's why we're saying it's -- as a
11 percentage it's -- it's the same effect as -- as, you
12 know, six hundred and fifty (650) or seven hundred
13 (700) employees not -- not having been -- been
14 capitalized anymore, which is basically the -- almost
15 the entire addition since -- since 2005 or '06, not
16 quite the full number that was in that Board quote,
17 but...

18 MR. BYRON WILLIAMS: And just -- just
19 so I understand -- just so I understand your point, Mr.
20 Bowman, I could back out the numbers from twenty-eight
21 hundred (2,800) to twenty-one eighty-nine (2,189) and I
22 got six (6) or seven hundred (700) not capitalized.

23 And -- and I was just trying to -- to
24 see if I was missing the point about -- of -- of
25 effectively capital -- capitalizing none of these EFT

1 positions.

2 MR. PATRICK BOWMAN: Right, I was
3 comparing back to -- in the graph back to '07/'08,
4 although, had I had the data, I could have gone a bit
5 further back; but you'd see twenty-one hundred (2,100).
6 It's -- it's been a long time since Hydro was -- was
7 only capitalizing the -- the net effect of -- of
8 twenty-one hundred and eighty-nine (2,189) em --
9 employees or -- or capitalizing all twenty-eight
10 hundred (2,800) but -- but putting a lower loading on
11 it to lead to the same percentage result.

12 So -- and I think I've -- I've learned
13 through this hearing that it's possible that the ratios
14 we applied is not the -- the direct way that the
15 twenty-eight twenty-five (2,825) would have been
16 calculated, that Hydro would have done something much
17 more -- much more detailed. But -- but the difference
18 between 41 percent and 32 percent is -- is the same
19 outcome, so.

20 MR. BYRON WILLIAMS: Okay. Thank you.
21 I understand that -- that better, sir.

22

23 (BRIEF PAUSE)

24

25 MR. BYRON WILLIAMS: You do not need to

1 turn there, Mr. Bowman, but you'll recall in your
2 discussion with the Board at pages 5,395 and 5,396 of
3 the transcript, you -- you talked about backing out of
4 the debt/equity ratio calculation amounts associated
5 with Keeyask and -- and Conawapa.

6 Do you remember that, sir?

7 MR. PATRICK BOWMAN: Yes. Well, you
8 and I just -- just spoke of that. I said, if you're
9 going to look at a very near-term horizon, yeah.

10 MR. BYRON WILLIAMS: And this is a -- a
11 small point, Mr. Bowman, but your actual calculations,
12 in terms of that, do they appear on the record and --
13 and have I missed them?

14 MR. PATRICK BOWMAN: PUB-11.

15 MR. BYRON WILLIAMS: I thank you for
16 that. I don't need to turn there; that's -- that's
17 helpful. Mr. Chair, I appreciate the additional time.
18 It's been helpful to our client. And -- and thank you
19 again to Mr. Bowman.

20 THE CHAIRPERSON: Thank you, Mr.
21 Williams. I would suggest that we have an abbreviated
22 lunch today, if possible, to get back to work more
23 quickly. And I'm concerned about making sure that we
24 make effective use of the time that is available --
25 available to us today.

1 So could we resume the proceedings at a
2 quarter to 1:00, please, and we'll see you after lunch.

3

4 --- Upon recessing at 12:10 p.m.

5 --- Upon resuming at 12:48 p.m.

6

7 THE CHAIRPERSON: Good afternoon. I
8 believe we're ready to resume the proceedings.

9 MS. ANITA SOUTHALL: Thank you, Mr.
10 Chairman. Just for the record, to confirm, we have had
11 notice from Mr. Gange that, on behalf of Green Action
12 Centre, he has no questions of Mr. Bowman. So we'll
13 note that for the record. And I believe we're now
14 turning to Ms. Ramage for Manitoba Hydro.

15 MR. BYRON WILLIAMS: And -- and just in
16 terms of an -- I apologize. In terms of an update on
17 Mr. Dunsky's undertakings, I believe that the first
18 five (5) are done. I just have -- I and my colleagues
19 haven't had a chance to review them, so we're having
20 them sent over. And then Undertaking number 6, I
21 think, will be ready for tomorrow.

22 THE CHAIRPERSON: Tomorrow? We're not
23 meeting tomorrow, so.

24 MR. BYRON WILLIAMS: We'll make sure
25 you'll get it, Mr. Chair.

1 THE CHAIRPERSON: Ms. Ramage,
2 please...?

3

4 CROSS-EXAMINATION BY MS. PATTI RAMAGE:

5 MS. PATTI RAMAGE: Yes, thank you. And
6 good afternoon. It would be helpful through this cross
7 to have Manitoba Hydro Exhibit 110 available, as well
8 as the MIPUG book of documents at hand. And we have
9 attempted to cull our cross last night and this morning
10 as much as possible. So don't let the thickness of
11 this fairly thin book of documents intimidate you. I
12 don't think we'll be hitting it all, but we'll get
13 through what we need.

14 And -- and as I said to Ms. Southall at
15 the break, the brevity of the cross, which is certainly
16 my goal, should not be taken as agreement with the
17 concepts, but I think they've been discussed and
18 discussed and discussed. So we can deal with any
19 issues we have in final argument.

20 Mr. Bowman, I -- I think I've heard you
21 fairly clearly that BC Hydro is regulated on a rate-
22 based rate of return. Is that correct?

23 MR. PATRICK BOWMAN: Yes, Ms. Ramage,
24 last I checked, that was the case.

25 MS. PATTI RAMAGE: But for

1 clarification, I'm not sure that I heard this as
2 clearly, it would be correct that Hydro-Quebec is also
3 regulated on a rate-based rate of return, or at least
4 the regulated operations of Hydro-Quebec are regulated
5 on a rate-based rate of return?

6 MR. PATRICK BOWMAN: I'm afraid I can't
7 recall having -- having looked at that, Ms. Ramage.

8 MS. PATTI RAMAGE: Okay. Mr. Bowman,
9 have you ever participated in a credit agency review of
10 any of the utilities you act for?

11 MR. PATRICK BOWMAN: No.

12 MS. PATTI RAMAGE: If I could ask you
13 to turn to page 36 of Manitoba Hydro's book of
14 documents.

15

16 (BRIEF PAUSE)

17

18 MS. PATTI RAMAGE: I may have trouble
19 here, because to see Mr. Bowman I need the glasses; to
20 read my book I don't need the glasses, so. For the
21 record, page 36 is the response of Manitoba Hydro to
22 CAC/Manitoba Hydro First Round 6. And if I could
23 direct your attention to the second full paragraph of
24 that response. And that reads:

25 "Although Manitoba Hydro's ratings

1 are a flowthrough credit of the
2 Province of Manitoba, Manitoba Hydro
3 has a significant portion of the
4 total provincial debt. And the
5 Corporation's financial performance
6 is therefore a contributing factor
7 toward the financial strength and
8 stability of the province's credit
9 rating."

10 Mr. Bowman, first off, did I read that
11 correctly?

12 MR. PATRICK BOWMAN: Yes.

13 MS. PATTI RAMAGE: And do you agree
14 with that proposition?

15 MR. PATRICK BOWMAN: Well, I was just
16 reading further down the page, if that's where you're
17 going. I -- I agree that it's a -- a consideration.
18 The -- the self-supporting nature is -- is -- would be
19 critical in those type of assessments.

20 And I guess I would just add the --
21 although I haven't been involved in credit rating
22 discussions, I have been involved in a number of
23 discussions related to Crown utilities and their
24 borrowings and their impact on their -- their
25 government parents.

1 And so I have had the opportunity to be
2 -- to engage with people from finance officials in --
3 in some of the -- in some of the government agencies
4 we're talking about, and -- and self-supporting is
5 always a -- a key concept.

6 MS. PATTI RAMAGE: You'd agree that if
7 Manitoba Hydro was ever in a position that it had to
8 pull the trigger on that provincial guarantee, the
9 province would be downgraded?

10 MR. PATRICK BOWMAN: I -- I couldn't
11 say the province would be downgraded. I don't have
12 that evidence. But it would be an ex -- it would be a
13 fairly -- a fairly extreme event. You know, my
14 understanding of the way a guarantee works is it's not
15 Manitoba Hydro pulling the trigger; it's a -- it's a
16 protection for the -- for the -- the lender. And --
17 and I would think it would have ramifications beyond
18 just -- beyond just credit rating. I'd -- it may have
19 ramifications into how Manitoba Hydro is even able to
20 be -- financial report and be audited.

21 I know that there is one (1) example we
22 deal with where a utility was not able to be considered
23 self-supporting and, as a result, has to report as --
24 basically, as a government department.

25 MS. PATTI RAMAGE: Ultimately though,

1 Manitoba Hydro pays the guarantee fee to gain the
2 benefit of the province credit rating.

3 It's not to be less fiscally
4 responsible, correct?

5 MR. PATRICK BOWMAN: Yes.

6 MS. PATTI RAMAGE: You discussed during
7 your testimony a number of utilities who've moved to US
8 GAAP for financial reporting purposes and that they've
9 also obtained approval to use US GAAP for rate-setting
10 purposes.

11 Is that correct?

12 MR. PATRICK BOWMAN: Some. Reviewing
13 the -- including the information provided by Manitoba
14 Hydro in the -- in the response to the IR that I can't
15 put my finger on quickly, a lot of utilities have moved
16 to US GAAP. Some use that with certain modifications
17 as their regulatory statements. They -- they may still
18 have two (2) sets of books beyond that. But -- but if
19 they use US GAAP for -- for financial reporting, it
20 would -- it would be part of what makes up the
21 regulatory statements or -- or, with some adjustments,
22 makes up the regulatory statements.

23 MS. PATTI RAMAGE: Can you tell me
24 which ones, if any, use two (2) sets of books in that
25 circumstance?

1 (BRIEF PAUSE)

2

3 MR. ANTOINE HACAULT: We're trying to
4 find some information, but -- and this is not a
5 criticism at all, but we don't have the huge Manitoba
6 Hydro back row behind us to help us find it
7 efficiently, so we're doing the best we can.

8 (BRIEF PAUSE)

9

10 MR. PATRICK BOWMAN: Yes, Ms. Ramage, I
11 was -- I -- I was pulling out -- I don't think people
12 need to go there; it was just to remind myself -- the
13 response to CAC/Manitoba Hydro-1-36G, which is the
14 table that Manitoba Hydro prepared to do the comparison
15 of which standards were used for regulatory purposes
16 and which standards were used for external purposes.
17 And I was just using that to remind myself about the
18 situation with some of these utilities using US GAAP.

19 If you go to something like -- like
20 Alberta, you will have a -- a utility such as -- such
21 as Fortis Alberta who uses US GAAP. They will still
22 have a regulatory filing requirement and will prepare a
23 GRA that isn't just a matter of handing over their
24 financial reporting statements and say, There -- there
25 you go, this is the numbers to -- to regulate us on.

1 They would still have to do certain calculations for
2 their regulator, which is a -- the two (2) sets of
3 books concept, that make adjustments that are required
4 for their form of regulation that are different than
5 just what's in US GAAP.

6 Things like calculating a rate base may
7 -- may involve the ways you portray cash working
8 capital, or -- or previously disallowed assets, or --
9 or portions of your business that are not regulated.
10 You may be a utility that has your rates regulated for
11 supplying -- supplying utility service, but you may
12 also have arms of the business that do a non-regulated
13 service.

14 So those would be netted back out. So
15 tho -- that's what people commonly refer to as -- as
16 two (2) sets of books. It's -- unlike -- unlike
17 Manitoba Hydro right now, who, to portray their
18 financial position, they can just hand over their --
19 their audited statements, these -- these utilities
20 would always need a reconciling between their audited
21 statements and their -- and their regulatory
22 statements.

23

24 CONTINUED BY MS. PATTI RAMAGE:

25 MS. PATTI RAMAGE: Mr. Bowman, could

1 you give -- I -- I want to clarify the answer and --
2 and still look for examples. I think what I'm looking
3 for is an example of a utility that provides, like
4 Manitoba Hydro would be required to, two (2) complete
5 sets of financial statements in order to comply, I -- I
6 believe, with your recommendation; not rate-based
7 calculations and not removal of subs, but an actual
8 second set of books.

9 And can you give me an example of a
10 utility that does that?

11 MR. PATRICK BOWMAN: Well, the -- the
12 phrase two (2) sets of books is -- is thrown around
13 imprecisely in the -- in the regulatory world. I'm not
14 aware of any utility anywhere that actually literally
15 has two (2) sets of books or runs two (2) ledgers or
16 has two (2) accounting departments or anything of that
17 sort. There's -- they produce an -- an audited set of
18 books, and then they produce a series of reconciling
19 items.

20 That is what -- if you -- if you go to
21 any jurisdiction, or any CAMPUT conference or the like,
22 that is what people would tend to call -- call two (2)
23 sets of books. And -- and the -- the question is just
24 how far -- how far they diverge and how far you have to
25 go down the road of -- of reconciling items. But it's

1 not like -- it's not like you'd have built from the
2 ground up on -- on both sets.

3

4 (BRIEF PAUSE)

5

6 MS. PATTI RAMAGE: Mr. Bowman, if I
7 could have you turn to page 44 of Manitoba Hydro's book
8 of documents. And here I'm referring you -- referring
9 to transcript page 5,300. And this is from yesterday's
10 -- yesterday afternoon's testimony.

11 Beginning at line 13, Mr. Bowman, it
12 says:

13 "And I would, you know, if it were up
14 to my control, I would say an outcome
15 like BC went through may be very
16 practical for Manitoba, which is
17 fine, adopt IFRS. But I'm going to
18 give you two (2) or three (3) things
19 that I say -- say on these items,
20 We're going to use a different
21 standard. And as long as it's clear
22 and transparent, it doesn't seem that
23 it causes huge issues for BC getting
24 audited."

25 And first off, Mr. Bowman, have I read

1 that correctly?

2 MR. PATRICK BOWMAN: Yes.

3 MS. PATTI RAMAGE: And if I could have
4 you turn to page 45 of the -- of the book of documents.

5 MR. PATRICK BOWMAN: Yes.

6 MS. PATTI RAMAGE: And you'll see that
7 is a report of the Office of the Auditor General of
8 British Columbia.

9 Is that correct?

10 MR. PATRICK BOWMAN: Yes.

11 MS. PATTI RAMAGE: And to be clear,
12 this is not a document that was previously on the
13 record of this proceeding, correct?

14 MR. PATRICK BOWMAN: Yes.

15 MS. PATTI RAMAGE: This is a document
16 you meant, however, that you're familiar with?

17 MR. PATRICK BOWMAN: Yes.

18 MS. PATTI RAMAGE: And also just to be
19 clear, your statement regarding it's not an issue for
20 BC getting audited, that would be the onl -- the first
21 time on the record we -- that you commented in your
22 evidence regarding issues for -- for British Columbia
23 Hydro's audit purposes?

24 You hadn't previously opined in your
25 pre-filed evidence about what BC's auditor thought?

1 MR. PATRICK BOWMAN: Well, I -- I can't
2 recall, but I -- the statement I was making wasn't
3 necessarily about BC Hydro's being audited. It's about
4 whether BC Hydro adopted a different standard, somehow
5 undermined the -- the government's ability to be -- to
6 get a -- a statement that's not qualified.

7 MS. PATTI RAMAGE: Mr. Bowman, if we
8 could turn to page 8 of that report, which is page 52--

9 MR. PATRICK BOWMAN: Yes.

10 MS. PATTI RAMAGE: -- of the book of
11 documents. And there, if we look to the right-hand
12 side of the page, the middle paragraph, it say -- it
13 says in this report,

14 "In addition to undermining the
15 credibility of the financial
16 reporting of British Columbia..."

17 Or, I'm sorry, I'm going to start over.

18 "In addition to undermining the
19 credibility of the financial
20 reporting of BC Hydro, one (1) of
21 British Columbia's most essential
22 institutions, the dep -- the
23 potential departure from GAAP will be
24 of such significance that it will
25 require the auditor general to

1 consider qualifying his opinion on
2 the province's --"

3 MR. ANTOINE HACAULT: Sorry, Ms.
4 Ramage, Mr. Bowman hadn't found the page.

5 MS. PATTI RAMAGE: I'm sorry.

6 MR. PATRICK BOWMAN: I thought you said
7 page 8 and I was on page 8 in that -- in that report.

8 MS. PATTI RAMAGE: I'm sorry. It's
9 page 58 of the book of documents. And if I said 8, I
10 misspoke; it's page 14.

11 MR. PATRICK BOWMAN: Yes.

12 MS. PATTI RAMAGE: And I'm looking on
13 the right-hand side of the page, the middle paragraph.
14 And midway through that paragraph, it reads,

15 "In addition to undermining the
16 credibility of the financial
17 reporting of BC Hydro, one (1) of
18 British Columbia's most essential
19 institutions, the -- the potential
20 departure from GAAP will be of such
21 significance that it will require the
22 auditor general to consider
23 qualifying his opinion on the
24 province's summary financial
25 statements."

1 Did I read that correctly?

2 MR. PATRICK BOWMAN: Yes.

3 MS. PATTI RAMAGE: With that statement
4 in mind, sir, do you continue to believe that -- that
5 this type of change, as we've seen in BC, does not
6 cause huge issues for BC getting audited?

7 MR. PATRICK BOWMAN: Ms. Ramage, to the
8 best of my -- of my knowledge, this -- this was a bit
9 of a -- a brouhaha when the -- when this report came
10 out. The -- the BC government -- I had been flipping
11 through the document and been on the wrong page.

12 But just to help the Board, the Office
13 of the Auditor General initiated a review. It
14 expressed some serious concerns with BC Hydro, several
15 of which were merited, in my view, some of which just
16 reflected difference in view between accounting and
17 regulatory. And -- and it issued recommendations that
18 BC Hydro should -- should effectively write off about
19 \$2 billion in assets, that it was reporting as assets.

20 And -- and the government rejected that
21 advice. The government's own response is provided in
22 your book of documents at page 49 to 50 from the --
23 sorry, I did say 49 to 50. Your -- your book of
24 documents, page 52, which was the first page I went to.

25

1 And -- and said that it rejected the ice
2 -- advice of the auditor and that it -- the -- the
3 problem with the auditor's approach is that it would --
4 it would not lead to a fair result. And I'm
5 paraphrasing; I'd have to re-read this to find the
6 exact phrase they used.

7 The question is: Will this lead to BC's
8 statements being -- being qualified? And to my
9 knowledge, this has not led to BC's statements being
10 qualified. To my knowledge, this is -- and this report
11 was some time ago. But it may be that it's a -- it's
12 an issue for the future. But to my knowledge, it
13 hasn't lead to a qualification.

14 MS. PATTI RAMAGE: Mr. Bowman, would I
15 be correct that statements haven't been issued under --
16 subsequent to this yet?

17 MR. PATRICK BOWMAN: I'm afraid I can't
18 comment on that part. But -- but the -- the -- the
19 directive has been given and -- and BC Hydro has
20 certainly reflected it in their statements and in their
21 dealings with the -- with the British Columbia
22 Utilities Commission. But given this report was -- was
23 2011, I would have thought there would be a set of
24 statements since that time. It may be that...

25 MS. PATTI RAMAGE: I should clarify.

1 The audited report has not been issued. We haven't
2 seen -- seen the audited report yet.

3 Is that correct?

4 MR. PATRICK BOWMAN: I'm sorry. That's
5 the part I can't comment on. But like I said, given
6 this is 2011, which is clearly well over a year ago, I
7 would have thought there would be a statement in
8 between. But -- but I must admit, I have not looked
9 for it, and I -- I certainly have not heard that --
10 that BC Hydro would led -- lead to the BC government
11 being -- receiving a qualified statement.

12 MS. PATTI RAMAGE: But you would agree
13 that this was fair warning to BC, and we haven't seen
14 anything different, that the auditor in BC felt that --
15 that the proposal that -- or it's not the proposal --
16 what has actually happened in BC has led to a
17 distortion of -- of financial results, and they've put
18 the parties on notice.

19 And that would not be consistent with
20 the statement that it does -- it doesn't seem to cause
21 huge issues for BC getting audited?

22 MR. PATRICK BOWMAN: Well, the -- the
23 word "distortion" is used both ways. It's used in this
24 report, to my recollection, both sides. And it's --
25 it's an excellent example of -- of an accounting

1 profession coming from a perspective of transparency
2 and expressing some concerns that are -- are in -- as I
3 said, in many cases, valid -- and I -- I would really
4 like to take you to page 61 to show some of what I mean
5 -- and -- and calling that a distortion, and others who
6 work for a regulatory board and -- and say that --
7 that, in fact, writing these off would be the
8 distortion. Distortion seems to be in the eye of the
9 beholder.

10 But if you actually go to page 61, what
11 you'll find is this -- this \$2 billion that people are
12 talking about. Some of these are things like, about
13 two-thirds (2/3s) of the way down that page, 506
14 million for demand-side management programs. And I
15 think -- I don't think the argument would be treating
16 demand-side management programs as an asset is a -- is
17 a distortion. I don't think that one would have
18 necessarily caused a whole bunch of -- of problems,
19 other than it wasn't purely an IFRS reporting.

20 People can understand it, and it clearly
21 represents costs incurred for future benefits. Even if
22 IFRS gets quite concerned with the entity's ability to
23 control the DSM, they can't point to the asset. They
24 can't guarantee the customer will still be there. So
25 they get concerned with the ability to control the

1 asset. But -- but there's no doubt it's a future-
2 oriented concept.

3 All of those rows above it, which sum up
4 to some \$750 million, are a feature of the BC
5 regulatory framework which relate to past costs, supply
6 costs incurred in the past with no ongoing benefit,
7 that simply, because they weren't in BC's original
8 application, have been deferred to the future as
9 something we'll get from ratepayers someday, and we
10 have no particular plan as to when.

11 That is the kind of thing that gets an
12 auditor quite concerned, I would think. And that 750
13 million, plus some of the others here, are -- I -- I
14 don't think they would pass most tests for a -- for a
15 regulatory asset. And, you know, BC was quite -- was
16 quite broad in some of those definitions it was
17 applying.

18 So the auditor expressed concern. The
19 government came back with its view. We have debates as
20 to what "distortion" means. And -- and I would just
21 qualify that, as I said, I'm not aware of ha -- causing
22 any issues of actually getting a -- getting an audit
23 qualified. I've not heard of -- of any audit being
24 qualified. But I suppose it's possible that a future
25 audit could be -- of the government could be qualified.

1 MS. PATTI RAMAGE: Mr. Bowman, if you
2 turn to page 57 of that report, of -- of -- sorry, it's
3 57 of the book of documents, 13 of the report. On the
4 right-hand side of the page, second paragraph, the
5 Auditor General of British Columbia states:

6 "What is clear, however, is that the
7 current trend of escalating deferred
8 expenses is unsustainable.

9 Government's report recommends
10 [quote], 'That BC Hydro work with the
11 province to perform a more in-depth
12 review of the growth of regulatory
13 accounts and determine a more
14 sustainable approach to utilizing
15 them over the long-term.'
16 quote.] Better use of regulatory
17 accounts is certainly in order but is
18 not enough."

19 I've read that correctly, correct?

20 MR. PATRICK BOWMAN: Yes.

21 MS. PATTI RAMAGE: And you would agree
22 with those comments?

23 MR. PATRICK BOWMAN: With the caveat
24 that I just mentioned. When you go to Appendix A, when
25 you're talking about accounts that are past service co

1 -- costs that have no future ongoing benefit and
2 they're simply deferred because of a premise that maybe
3 we'll get someone in the future to pay for them, and
4 not linked to the service that they're receiving, I
5 would -- I would very much -- and we have no particular
6 plan as to when that's going to occur, I would very
7 much agree that -- that that is not a good use of
8 regulatory accounts and that better use is certainly in
9 order.

10 And I think the next paragraph is
11 important, too, because where they were sitting was not
12 just that there was a \$2 billion balance; it's that
13 there was a forecast that that could grow to 5 billion.

14 I -- I don't agree. And I'm not sure
15 whether the statement is meant to pe -- specifically
16 pertain to something like a DSM, where you clearly have
17 spent money not for the current period, not for the
18 kilowatt hours you're going to get tomorrow, but for
19 the kilowatt hour benefits you're going to get over
20 fifteen (15) -- or ten (10) or fifteen (15) years. And
21 -- and you've done it on the basis that a regulator
22 supports you, and you've done it on the basis that
23 you're going to be able to recover those amounts and
24 rates in the future.

25 To me, that -- outside of the very

1 narrow definitions that happen to have been in place so
2 far for IFRS, subject to what happens out of the rate-
3 regulated accounting, I don't think there would be a
4 lot of debate that there's -- there's a future related
5 economic benefit to that spending. If not, I'm not
6 sure why we're doing it.

7

8

(BRIEF PAUSE)

9

10 MS. PATTI RAMAGE: Mr. Bowman, you're
11 going to have to help me here. Are you disagreeing
12 with the auditor, or are you agreeing with the auditor?

13 MR. PATRICK BOWMAN: I'm saying the
14 auditor was looking at a long list of accounts. And
15 what you're reading here is a general statement. And
16 I'm saying that -- that an assessment would need to
17 look down the list and make its decision on each of
18 these accounts.

19 There are certainly accounts listed
20 there that, to the best of my knowledge, I would agree
21 with the auditor. There is a problem with calling
22 things that are past service costs, that have been
23 deferred solely because they didn't happen to be in the
24 GRA that they -- that BC had -- had forecast, and that
25 have no prospect or no plan for how they can recover

1 from future ratepayers, to be deferring those for some
2 particular reason.

3 I -- I think that's a problem. And in
4 those matters, I agree -- I would agree with the
5 auditor, that better use of regular accounts is -- is
6 in order.

7 MS. PATTI RAMAGE: But there are other
8 accounts on that list that you don't agree with the
9 auditor, correct?

10 MR. PATRICK BOWMAN: Yes. And I gave
11 the example of DSM. It's -- it's not the only one (1).
12 Site C is also listed here. And -- and Site C
13 expenditures is a lot like -- Site C is a major hydro
14 project there that's looking to be developed. It'd be
15 their version of a -- of a Conawapa, if you like;
16 actually, more like their version of a Keeyask. It's
17 actually being developed for domestic supply.

18 And they have spent 104 million in -- in
19 planning work for Site C. And -- and I wouldn't agree
20 that that's another item that -- that somebody has to
21 write off. Planning for a hydro project and -- and
22 moving forward to develop and build it is -- those are
23 -- those viable expenses that are rolled into the -- to
24 the capital cost of a project.

25 MS. PATTI RAMAGE: So at the end of the

1 day though, I think it's fair to state that there are
2 in fact issues with BC getting audited.

3 What was indicated to this Board
4 yesterday is -- is not accurate?

5 MR. PATRICK BOWMAN: Well, I -- I think
6 it's fair to say that -- that, to my knowledge, the
7 statements haven't been qualified. And -- and I -- as
8 I say, I'm -- I'm not aware that people are -- are
9 expecting that they will be qualified. This report
10 says what it says from 2011. And -- and if you want a
11 more recent update which would tell how it turned out,
12 you -- you won't get it from this document. We'd have
13 to look to the -- the statements issued since that
14 time.

15 MS. PATTI RAMAGE: Once again, Mr.
16 Bowman --

17 MR. PATRICK BOWMAN: I will -- I'm
18 sorry.

19 MS. PATTI RAMAGE: -- have there been -
20 - there haven't been statements issues. Can you
21 confirm that, subject to check?

22 MR. PATRICK BOWMAN: I -- I can't
23 confirm that. I can only confirm that, to the extent
24 there may have been -- may or may not have been
25 statements issued, I'm not aware that any of them were

1 qualified. And -- and I suspect that were -- were they
2 qualified, I -- I suspect I would have heard about it,
3 but I -- I'm not aware. I haven't gone looking.

4 MS. PATTI RAMAGE: But to the best of
5 your knowledge then, this is the last word from the BC
6 auditor on -- on what's -- on the -- on what has
7 transpired in BC with respect to BC government's
8 directive on dealing with IFRS accounts?

9 MR. PATRICK BOWMAN: Oh, no, this is
10 very much not the last word. And to my knowledge,
11 words continue to be exchanged. And I mean that in the
12 -- the sense of differences of opinions and debates and
13 -- and some strong views be -- being expressed by the -
14 - by the utility and the utility board for sure about -
15 - about the role of these accounts.

16 MS. PATTI RAMAGE: Okay. I think I'll
17 leave that one at that point and move on and perhaps
18 ask if the parties could turn to page 41 and 42 of the
19 book of documents. And this is -- we're going to deal
20 with interest rate risk.

21

22 (BRIEF PAUSE)

23

24 MS. PATTI RAMAGE: Here, I believe your
25 testimony was that -- and I don't have a transcript to

1 reference here. And I -- I -- this is based on notes,
2 to be clear, as opposed to fi -- locating the
3 transcript. But interest rate risk is not imme -- is
4 not immense in the base IFF.

5 Do you recall saying something to that
6 effect?

7 MR. PATRICK BOWMAN: If I said it to
8 that effect, I would have been being clear that in the
9 base case of the IFF, which is focussed on the
10 essential components of providing service to domestic
11 customers, the interest rate isn't immense. It was a -
12 - it was a bit of a confused exchange, I believe, but -
13 - and I apologize for that.

14 But what I was saying is, if you were
15 looking at the regulation of a -- of a utility for test
16 years, you would have a tendency to look at the
17 essentials of the utility and then perhaps separately,
18 to the extent it informs it, something else it of what
19 it would do about opportunities to the future.

20 And -- and I think the essence of that
21 is that the interest rate risk and the very large
22 numbers that -- that are showing up in the IFF for
23 interest rate risk in the seven (7) and -- and eleven
24 (11) year horizon are very much related to the massive
25 borrowings needed for -- for Keeyask and Conawapa, and

1 they're not necessarily an inherent feature of the --
2 of the ongoing assets and the ongoing customers.

3 And I -- I apologize for having to make
4 that clarification, but it was a -- it was a lively
5 exchange on that matter yesterday, to my recollection.

6 MS. PATTI RAMAGE: Well, if we can look
7 at page 42 of the book of documents, this wa -- table
8 was provided in response to PUB/Manitoba Hydro First
9 Round 67. And the table shows Manitoba Hydro's long-
10 term debt maturity schedule as at June 30th, 2012.

11 Do you see that, Mr. Bowman?

12 MR. PATRICK BOWMAN: Yes.

13 MS. PATTI RAMAGE: And if you look in
14 the third column from the left, showing the maturity
15 dates as well as the total Canadian amount of debt for
16 each debt series.

17 Do you see the third column?

18 MR. PATRICK BOWMAN: Yes.

19 MS. PATTI RAMAGE: And looking at debt
20 maturities in the 2013/'14 fiscal year, can you see
21 debt series C112-1?

22 MR. PATRICK BOWMAN: Yes.

23 MS. PATTI RAMAGE: And this is a debt
24 series that matures September 16th, 2013, and has a
25 volume of \$100 million?

1 MR. PATRICK BOWMAN: Yes.

2 MS. PATTI RAMAGE: And looking further
3 down the page and again identifying those debt issues
4 that are maturing in the 2013/'14 fiscal year, do you
5 see EZ-4 maturing January 21st, 2014?

6 MR. PATRICK BOWMAN: No, I see EZ-4
7 maturing either December 3rd or --

8 MS. PATTI RAMAGE: Oh.

9 MR. PATRICK BOWMAN: -- yeah, December
10 3rd, 2013.

11 MS. PATTI RAMAGE: I'm sorry, Mr.
12 Bowman, EZ, ignore the 4, just EZ.

13 MR. PATRICK BOWMAN: EZ, I see EZ.

14 MS. PATTI RAMAGE: And that matures
15 January 21st, 2014, with a volume of 101.9 million?

16 MR. PATRICK BOWMAN: Yes.

17 MS. PATTI RAMAGE: Would you agree that
18 the base existing debt portfolio have cascading debt
19 maturities that would be exposed to interest rate risk
20 upon refinancing?

21 MR. PATRICK BOWMAN: Yeah. Yes, I -- I
22 would expect that. As a matter of fact, I'd -- I would
23 -- I would encourage that portfolio to be structured in
24 that manner. I think that's exactly the way to do it.

25 MS. PATTI RAMAGE: And if you turn to

1 page 64 of the book of documents, please.

2

3

(BRIEF PAUSE)

4

5

MR. PATRICK BOWMAN: Yes.

6

MS. PATTI RAMAGE: We're there. This
7 is an excerpt from IFF12. And if we look at Figure 4-
8 1, it's the projected consolidated borrowing
9 requirements.

10

Can you see that the level of annual
11 borrow -- borrowing requirements for debt refinancing
12 and new borrow -- borrowing ranges from \$1 billion in
13 2013 to \$2 billion in 2014?

14

MR. PATRICK BOWMAN: Yes, and higher in
15 future years.

16

17

(BRIEF PAUSE)

18

19

MR. PATRICK BOWMAN: I don't think it
20 changes anything in my comments, which was that if you
21 want to understand Manitoba Hydro's exposure to
22 interest rate risk and where that needs to be thought
23 about and how to deal with it, it -- my suggestion is
24 that is an enormous matter for review at the -- at the
25 NFAAT hearing. And -- and this table is a -- is a

1 brilliant demonstration of -- of why.

2 The amount of risk -- interest rate risk
3 that comes with projects that you commit to many --
4 many years before you build can be quite large. It has
5 to be a -- a function of the decision made on -- on how
6 you manage that project and whether you go forward with
7 that project.

8 That's quite a bit different than the --
9 than the normal turnover of debt for us -- for, you
10 know, ongoing domestic ratepayers, you know, with the
11 existing system.

12 MS. PATTI RAMAGE: But, Mr. Bowman,
13 Keeyask and Conawapa aren't in service for many years
14 right now, and this is demonstrating debt in place
15 today.

16 Is that not correct?

17 MR. PATRICK BOWMAN: I would have
18 understood Figure 4.1 -- 4-1 at page 64 to be \$2
19 billion a year of borrowing primarily because of new --
20 major new generation. This morning we went through the
21 -- the capital spending that was not major new
22 generation and transmission for the purposes of
23 calculating the capital coverage ratio and -- and you
24 see those numbers sit around 4 to 500 million or
25 something of that nature, which is about consistent

1 with the -- the debt maturities that you showed on the
2 first page that I have now misplaced.

3 But, you know, that -- that the turnover
4 is a few hundred -- a few hundred million, 3 to 400
5 million a year of debts -- debt -- of maturities coming
6 due and -- and a fairly similar number of -- of ongoing
7 normal maintenance capital, which, as I said, is a --
8 is quite sensible. And I -- I think it's a sensible
9 way to structure the -- the debt portfolio.

10 It's an entirely different matter when
11 you start talking \$2 billion a year being driven by
12 major new projects that -- like -- like Keeyask or the
13 like. That may be very sensible to proceed with, but
14 they have their own separate discussion about interest
15 rate risk and -- and all other risks that need to be
16 had.

17 MS. PATTI RAMAGE: Thank you, Mr.
18 Bowman. And I'm jumping around a fair bit here, but if
19 you could turn the page just to page 65, the last page
20 in the book of documents. This is a -- a chart that
21 had been prepared as part of the BC Hydro review. And
22 I believe it was attached as part of your response to
23 MIPUG/PUB-13, First Round 13.

24 Is that correct?

25 MR. PATRICK BOWMAN: Yes.

1 MS. PATTI RAMAGE: Are you aware of the
2 EFT count -- details of the EFT count used in this
3 calculation?

4 MR. PATRICK BOWMAN: No.

5 MS. PATTI RAMAGE: I think you said no
6 yesterday.

7 MR. PATRICK BOWMAN: No, I'm -- I'm
8 not. And -- and I was pretty clear, I thought, in the
9 -- the PUB asked me to calculate the metrics of -- of
10 staff efficiency or of gigawatt hours per FTE and the
11 like. And I indicated I wasn't comfortable making that
12 calculation because I didn't have the data that I could
13 rely on from other jurisdictions. So I gave -- I gave
14 the best I had, which was a -- an excerpt from -- from
15 this other report.

16 MS. PATTI RAMAGE: Fair enough. But --
17 so you -- you aren't able to confirm whether Centra Gas
18 employees, for example, who don't contribute towards
19 producing electricity in Manitoba, would be included in
20 that number, correct?

21 MR. PATRICK BOWMAN: No, I -- I thought
22 I was pretty clear that this is not my -- not my graph.
23 I -- I put it in for -- to give a sense and information
24 only. And -- and someone would have to deal with the
25 original authors about how those numbers were

1 calculated.

2 MS. PATTI RAMAGE: But I think we can
3 agree, though, that when using this type of metric --
4 that is, gigawatt hours per FTE they call it; I think
5 that's the same or close to Manitoba Hydro's EFT.

6 But when using this metric, you would
7 expect that a utility entering a capital building phase
8 would ultimately result in the line trending downwards,
9 because that would be as a result of a greater
10 proportion of employees that are devoted to building
11 generation and not producing today's power.

12 Would that be correct?

13 MR. PATRICK BOWMAN: Ms. Ramage, you're
14 going -- you're going to run up pretty quickly here
15 against the limits of my knowledge of this graph. It
16 was -- it was only put in to -- to help the Board. But
17 let -- let me try to deal with that question.

18 The downward trend, when you're -- when
19 you're in a growth phase, would make sense to the
20 extent this is FTE or EFT for the entire organization.
21 If it's an FTE or EFT for operations, as opposed to
22 capital -- in other words, dealing with all the
23 overhead things we were talking about -- I'm not sure
24 you'd expect to see that downward trend unless, as --
25 as I submit, you're failing to sufficiently capitalize

1 all the -- all the work that's underway that's actually
2 related to that capital development.

3 So I have no idea if, in producing this
4 graph, they used Manitoba Hydro's total headcount or --
5 or reported EFTs or whether they -- they used a number
6 more akin to the adjusted values that were in my -- in
7 my submission Tab 4, where -- where Hydro reports
8 operating employees versus capital employees. I -- I'm
9 afraid I can't -- can't answer that.

10 MS. PATTI RAMAGE: Okay. Thank you for
11 that. If we could go back to, I think, page 1 of the
12 book -- or actually it's going to be page 1-1 of the
13 book of documents. And I'll just explain that the first
14 few pages, when they were numbered, we didn't realize
15 they were two (2) sided. And so for the first few
16 you're going to see on the back of each page a dash one
17 (1).

18 But if we look at 1-1, that would be PU
19 -- that would be page 2 of PUB/MIPUG-11 revised for
20 IFF12-1.

21 Is that correct?

22 MR. PATRICK BOWMAN: Yes. I was just
23 double-checking it's the same one that we were looking
24 at this morning. And, yes, that's -- that's the one.

25 MS. PATTI RAMAGE: It's headed,

1 "Electric Operations Projected Operating Statement
2 Adjusted for Initial Recommendations Based on IFF12-1."

3

4 I'm just wondering, what does the word -
5 - the significance of the word "initial recommenda" --
6 "initial" in "initial recommendations" made -- mean?

7 Are there more to come?

8 MR. PATRICK BOWMAN: No, it -- it was
9 there in the version we did on 11 -- 11-2. And it's --
10 it's -- when we did the revision, I suspect it may have
11 been an oversight. There -- there's no -- no further
12 recommendations that I would be providing than what's
13 in the -- what's in the submission to date. The MIPUG
14 argument will -- will deal with whatever other
15 submissions the -- the clients may want to make.

16 MS. PATTI RAMAGE: Okay. If we could
17 look at the lines dealing with expenses, in the year
18 2013, Manitoba Hydro is proposing operating and
19 administrative expense of for 455 million.

20 Is that correct? That's what this --
21 this tells us?

22 MR. PATRICK BOWMAN: Well, it's from
23 the IFF. But, yes.

24 MS. PATTI RAMAGE: MIPUG's pro --
25 proposal is to reduce that -- that amount down to \$399

1 million. That's correct?

2 MR. PATRICK BOWMAN: Well, it's -- it's
3 my submission, not my MIPUG's. But -- but my
4 submission is that -- that if I'm reviewing the IFF on
5 the basis of -- of full -- fair, full-cost accounting
6 type of basis that 56 million of -- of dollars' worth
7 of amounts are being -- are proposed to be put through
8 that operating and administrative line, that I say
9 most, not all of those, could remained capitalized.

10 MS. PATTI RAMAGE: So, that's 56
11 million in the 2013 year, 58 million in the 2014 year.
12 And -- and we see that on the line, "Less change in
13 capitalized overhead," correct?

14 MR. PATRICK BOWMAN: Yes, that's --
15 that's the numbers directly from Exhibit 55, is my
16 recollection.

17 MS. PATTI RAMAGE: And if we move over
18 to page 5 of the book of documents.

19

20 (BRIEF PAUSE)

21

22 MS. PATTI RAMAGE: This is page 2 of
23 PUB/Manitoba Hydro First Round 42, revised for IFF12.
24 It's identified as in the record as Exhibit 55, but
25 here it will be page 5 of the Hydro book of documents.

1 Manitoba Hydro's prepared a schedule of accounting
2 changes embedded in IFF12.

3 That's your understanding of this
4 document?

5 MR. PATRICK BOWMAN: Yes.

6 MS. PATTI RAMAGE: And if we look at
7 the left-hand side of the page, we see a heading,
8 "Overhead Capitalized," and under it a line for the
9 category, "Stores," a line for administrative -- admin
10 and general, and a third line for -- a third line for
11 the total of those items lab -- labelled, "Store and
12 admin general."

13 Do you see that?

14 MR. PATRICK BOWMAN: Yes.

15 MS. PATTI RAMAGE: And when I look at
16 that total forecasted for the year 2013 -- 2013, I see
17 the number 56 million.

18 Do you see that?

19 MR. PATRICK BOWMAN: Yes.

20 MS. PATTI RAMAGE: And that's the same
21 56 million you are referring to in -- in -- what was
22 it? PUB/MIPUG-11, correct?

23 MR. PATRICK BOWMAN: Yes.

24 MS. PATTI RAMAGE: Now, if I look over
25 to the left hand side of that column, I see under the

1 year 2009, 5 millions of stores expenses were no longer
2 being capitalized.

3 Is that correct? Is that what it means?

4 MR. PATRICK BOWMAN: My understanding
5 is that starting in 2009, \$5 million of stores expenses
6 are no longer capitalized, and Hydro's putting that
7 under the category of CGAAP changes.

8 MS. PATTI RAMAGE: And then in the
9 following year, 2010, we had the \$5 million of stores
10 were no longer being capitalized, as well as \$4 million
11 in admin in general no longer being capitalized, now
12 for a total of \$9 million no longer being capitalized.

13 Is that correct?

14 MR. PATRICK BOWMAN: Yes.

15 MS. PATTI RAMAGE: That's what that
16 means? And then if we move to the 2011 year, we see
17 that the \$5 million in stores are still no longer being
18 capitalized, but the admin in general has gone up \$20
19 million so that there's 24 million in stores, and admin
20 in general no longer being capitalized, for a total of
21 \$29 million no longer being capitalized.

22 Is that correct?

23 MR. PATRICK BOWMAN: Yes.

24 MS. PATTI RAMAGE: And then as we've
25 said -- as we've looked at before, instead of going

1 through each one, when we get to 2013, those numbers
2 add up to 56 million, correct?

3 MR. PATRICK BOWMAN: Yes.

4 MS. PATTI RAMAGE: Now, if I've -- I
5 have suggested we have the MIPUG book of documents at
6 hand, and I'd asked if you could turn to page 361 just
7 to avoid flipping back and forth between documents.

8

9 (BRIEF PAUSE)

10

11 MS. PATTI RAMAGE: Do you have that,
12 Mr. Bowman?

13 MR. PATRICK BOWMAN: Oh, yes.

14 MS. PATTI RAMAGE: Okay. This is an
15 excerpt from Board Order 5/12, the order following the
16 last GRA, correct?

17 MR. PATRICK BOWMAN: Yes.

18 MS. PATTI RAMAGE: The IFFs reviewed in
19 that process included IFF09, IFF10-01, and IFF10-02.
20 Is that correct? They're not in this chart. I'm just
21 saying for background purposes for the Board.

22 MR. PATRICK BOWMAN: You might be
23 stretching my memory as to which was delivered when for
24 review. My recollection was 10-02 was fairly late. If
25 I'm thinking of the right one, 10-02 may have been a

1 very late exhibit that may have had limited further
2 focus on it. But -- but I -- I accept, for the
3 purposes of this, that for sure 09-01 and 10-01 were
4 reviewed in some detail. And 10-02 I may have to -- I
5 may have to be a bit cautious about.

6 MS. PATTI RAMAGE: Well, good news.
7 I'm not going to 10-02, so. I was just getting for the
8 record what was there. But the forecast used in this
9 table that we'll focus on then will be 10-01. And if
10 we could look at this table and we -- if we look down
11 the left-hand side of the table, you see the heading,
12 "CICA Accounting Changes."

13 Do you see that?

14 MR. PATRICK BOWMAN: Yes.

15 MS. PATTI RAMAGE: For the record, what
16 does CICA stand for?

17 MR. PATRICK BOWMAN: It's the Institute
18 of Chartered Accountants.

19 MS. PATTI RAMAGE: And if I look across
20 the CICA accounting changes under the year 2009, I see
21 the figure of \$5 million. Do you see that?

22 MR. PATRICK BOWMAN: Yes.

23 MS. PATTI RAMAGE: And if we look at
24 the same at page 2 of Manitoba Hydro's book of
25 documents, which we just had opened. Hopefully,

1 everybody still has it at hand. The \$5 million we see
2 in PUB Order 5/12 is the same \$5 million we see as the
3 total for 2009, the store and admin total on page --
4 page 5 of Manitoba Hydro's book of documents or...

5 Is that correct?

6 MR. PATRICK BOWMAN: Yes.

7 MS. PATTI RAMAGE: Now, if we can jump
8 ahead. If I take that Exhibit 55 or the Manitoba Hydro
9 book of documents, if you could jump up to page 16 of
10 that document and keep your -- the excerpt from the
11 Board order open.

12

13 (BRIEF PAUSE)

14

15 MS. PATTI RAMAGE: Do you have that,
16 Mr. Bowman?

17 MR. PATRICK BOWMAN: Yes.

18 MS. PATTI RAMAGE: Okay. This table
19 provides a breakdown of the reduction to costs
20 capitalized beginning in the year 2009/'10.

21 Is that correct?

22 MR. PATRICK BOWMAN: Among other
23 things, yes.

24 THE CHAIRPERSON: I'm sorry, which page
25 are you on, the...?

1 MS. PATTI RAMAGE: Page 16, which is
2 page 13 of 13 of that particular exhibit.

3

4 (BRIEF PAUSE)

5

6 CONTINUED BY MS. PATTI RAMAGE:

7 MS. PATTI RAMAGE: So if we look under
8 the '09/'10 year, I see -- and -- and just to clarify
9 for the record, because this is something that always
10 confuses me when we get into these, when it says
11 '09/'10, that is the same as -- that is the same as
12 2010. It's fiscal ending -- when we look at the PUB's
13 records, that'll be fiscal what they call 2010,
14 correct?

15 So we're -- just to make sure we're on
16 the same page, it's the year ending 2010 is the same as
17 '09/'10.

18 MR. PATRICK BOWMAN: Ye -- yes. And
19 Exhibit 55 uses the same language. All -- all three
20 (3) of them shows the same \$9 million.

21 MS. PATTI RAMAGE: That was my point.
22 That's the same \$9 million. The store's overhead of
23 five thousand, one hundred (5,100), the executive cost
24 and the property taxes on facilities is the same nine
25 thousand (9,000) that the Board refers to under the

1 2010 year for CICA accounting changes, correct?

2 MR. PATRICK BOWMAN: That -- that would
3 be my understanding, yes.

4 MS. PATTI RAMAGE: I think I said nine
5 thousand (9,000). It was 9 million, Mr. Rainkie just
6 pointed out.

7 MR. ANTOINE HACAULT: I'm -- I'm not
8 the only one --

9 MS. PATTI RAMAGE: We need an
10 accountant nearby.

11 MR. ANTOINE HACAULT: -- who makes
12 mistakes.

13 MR. PATRICK BOWMAN: Yes, I believe
14 it's the same 9 million that's carried all the way
15 across the Board's table to 2012. I'm presuming that
16 that's from IFF10-01, from the Board order that that
17 was the -- the 9 million that people had expected to be
18 the sum total of -- of CGAAP changes as of that
19 hearing.

20

21 CONTINUED BY MS. PATTI RAMAGE:

22 MS. PATTI RAMAGE: But if we look to
23 the 2010/'11 year in Exhibit 55 -- that's page 16 of
24 the book of documents -- the next three (3) items
25 listed are interest on common assets, eleven (11) point

1 -- 11.165 million, general and administrative
2 department costs for 4.5 million, and interest on motor
3 vehicles for 3.78 million.

4 And those three (3) items total
5 approximately 9.4 million, correct? I said nineteen
6 point four (19.4). At least in my head I said nineteen
7 point four (19.4).

8 MR. PATRICK BOWMAN: I -- I was going
9 to be quick to accept your math; perhaps I -- I should
10 check more carefully. But, yes, it -- it appears to be
11 nineteen point four (19.4).

12 MS. PATTI RAMAGE: My husband like to
13 regularly remind me that because it's in my head does
14 not mean everybody else knows what that means. But
15 nineteen point four (19.4), yes. That represents that
16 -- that column for 2010/'11 represents the actual
17 reductions to costs capitalized for that fiscal year,
18 correct?

19 MR. PATRICK BOWMAN: That's reported as
20 an actual year.

21 MS. PATTI RAMAGE: And if we want to
22 see what that number had been forecast to be, we would
23 look at the table in Board Order 5/12, and we'll see,
24 next to "Provision for Accounting Changes," 18 million.

25 Is that correct?

1 (BRIEF PAUSE)

2

3 MR. ANTOINE HACAULT: Ms. Ramage,
4 perhaps it would be more useful for the Board and this
5 witness to actually hav -- have the IFF10-01 to know
6 exactly what that \$18 million provision related to.
7 That mi -- might assist the parties in knowing whether
8 the actuals were the same categories that the -- were
9 shown as a provision for in IFF10.

10

11 (BRIEF PAUSE)

12

13 MR. PATRICK BOWMAN: Ms. -- Ms. Ramage,
14 I'm sorry, but part of the confusion arises because as
15 I would read the Board's table and -- and the evidence
16 that I recall from that hearing and from earlier in
17 this hearing when we reviewed it with -- with Hydro's
18 panel, was that at that GRA there was a forecast or
19 estimates provided for IFRS impacts.

20 And in fact, on the very next page of --
21 of MIPUG's book of documents, there's a quote where it
22 says:

23 "MH attributed the increases in part
24 to accounting changes since 2009 to
25 comply with IFRS."

1 So your question to me is -- is the --
2 is the nineteen (19) the same as the eighteen (18)?
3 And -- and that wouldn't have been my conclusion,
4 looking at these tables, because I would have thought
5 the eighteen (18) -- I would have thought the eighteen
6 (18) would have been more related to things that were -
7 - that -- that Manitoba Hydro would have called IFRS
8 changes rather than CGAAP changes.

9 I would have understood the nineteen
10 (19) to be a -- to be extra -- extra CGAAP changes that
11 made it in -- be -- be over and above the nine (9) that
12 the Board would have expected, and -- and the eighteen
13 (18) to be more related for pre-IFRS-y type changes,
14 which -- which are now estimated in a different part of
15 the -- of -- of Exhibit 55 and -- and wouldn't have
16 shown up in that year.

17 But that -- that's the way I'm reading
18 this table. You know, the Board prepared it, not --
19 not me. But I would -- I would read it as the eighteen
20 (18) was more -- more linked to the -- the subsequent
21 set of changes further down the page in -- in Exhibit
22 55.

23

24 CONTINUED BY MS. PATTI RAMAGE:

25 MS. PATTI RAMAGE: Mr. Bowman, am I not

1 correct that in -- at the time of IFF10 and at the time
2 that this Board order was issued, IFRS was not
3 scheduled to -- to be required for Manitoba Hydro until
4 January 1st, 2012?

5 MR. PATRICK BOWMAN: That would be my --

6 MS. PATTI RAMAGE: Fiscal '12/'13?

7 MR. PATRICK BOWMAN: That -- that would
8 -- that may be correct. I -- I'm -- I'm not per --
9 perfectly clear on that. But I -- what I'm -- what I'm
10 going by is that the Board, in the same order, one (1)
11 page later, described these changes as IFRS changes.
12 And -- and I'm -- I'm sure they wouldn't have reported
13 them as CICA changes on the row as 9 million if they
14 were thinking of -- I'm sure that would have been not
15 the ones they described as IFRS changes. I'm sure the
16 provision for accounting changes would be the ones that
17 they meant when they said IFRS changes.

18 So I -- I think the -- if I'm comparing
19 this to your Exhibit 55, I think the information
20 available to the Board would have been that nine (9)
21 was the CICA ones and that the others were something
22 different.

23 MS. PATTI RAMAGE: Okay. Let's -- why
24 don't we turn to page 28 of the book of documents?

25 MR. PATRICK BOWMAN: I -- I only note

1 that I stand to be corrected on that --

2 MS. PATTI RAMAGE: Yeah.

3 MR. PATRICK BOWMAN: -- because these
4 are a little bit confusing, shuffling all the paper.

5 MS. PATTI RAMAGE: Yeah. And here we
6 have an excerpt from the same Board order; that's 5/12.
7 And in the -- that Board order, the Board states, and
8 I'll -- I'll read it to you:

9 "International Financial Reporting
10 Standards will be adopted by Canadian
11 generally accounting -- accepted
12 accounting principles, GAAP, to be
13 implemented effective January 1st,
14 2011. Canadian utilities have been
15 granted an optional one (1) year
16 deferral of the implementation of
17 IFRS to years commencing on or after
18 January 1st, 2012. This allows for a
19 transition of accounting standards
20 that do not recognize rate-regulated
21 assets and liabilities. Manitoba
22 Hydro will be required to prepared
23 IFRS-compliant financial statements
24 for its fiscal year 2012/'13 with
25 comparative financial information for

1 2011/2012."

2 Mr. Bowman, have I read that correctly?

3 MR. PATRICK BOWMAN: Yes.

4 MS. PATTI RAMAGE: So you would agree
5 that the Board was well aware that IFRS would not be
6 implemented until 2012/'13 when it reported, at page 90
7 of its order, \$18 million in accounting changes.

8 Is that correct?

9 MR. PATRICK BOWMAN: It would've been
10 aware -- yes, I -- I accept that your -- the quote
11 you've taken me to is very helpful. It -- it -- I
12 accept that the Board then would have been aware that -
13 - of the IFRS conversion date.

14 But what I can't accord is that the --
15 the numbers you're -- you're going to now are numbers
16 that Manitoba Hydro is saying are CGAAP and not IFRS,
17 and IFRS is something different. And the Board's
18 saying, No, these are -- the -- the -- that these
19 numbers are IFRS numbers. And I think that's why
20 I'm...

21 MS. PATTI RAMAGE: It might be helpful,
22 Mr. Bowman -- I'm not per -- I'm not concerned whether
23 they're CGAAP or IFRS or -- myself. They're accounting
24 changes that were contemplated for reduction of
25 capitalization, and that's what the Board's order tell

1 us. And I think that's all I'm looking for, not why
2 they were made. It was just that the Board was aware
3 of --

4 MR. PATRICK BOWMAN: Oh.

5 MS. PATTI RAMAGE: -- of a potential
6 \$18 million.

7 MR. PATRICK BOWMAN: I'm -- I'm sorry
8 then. I -- I didn't mean to -- to drag us astray. I -
9 - I would have -- like I -- the -- the 18 million is in
10 the Board's order for -- for 2011 and thirteen point
11 five (13.5) is in for 2012. And -- and if we're not
12 concerned as to whether those were CGAAP or pre-IFRS or
13 -- or early adoption, then -- then those numbers are
14 fine. I -- I'm assuming we can move on to your next
15 question, if -- if that's acceptable for the answer.

16 MR. ANTOINE HACAULT: Members of the
17 Board, I just want to make sure whether or not then
18 Hydro is changing its evidence, because Mr. Rainkie had
19 said or had pur -- purported to, I think, advance to
20 this Board that they were CGAAP changes.

21 And I had put to him at page 350 of
22 Hydro's own report -- and that's 350 of our book of
23 documents -- that Manitoba Hydro at that time was
24 purporting to represent to the PUB that they were IFRS
25 changes. That's at page 350 of our book of documents.

1 That's the IFRS status update.

2 So I don't know if Ms. Ramage is now
3 acknowledging that Mr. Rainkie's evidence was incorrect
4 in suggesting that this was a CGAAP change, when their
5 own reports prepared and presented to the Board
6 suggested it was IFRS-related issue that may only be
7 required when IFRS was going to be implemented. So I
8 just want to make sure whether they're changing their
9 evidence or suggesting --

10 MS. PATTI RAMAGE: To be clear, Mr.
11 Hacault, we're not changing our evidence. I was trying
12 to avoid the issue and just get the facts on the
13 record. I was not intending to argue. But the -- the
14 point was there was an accounting change made. The
15 Board was aware of it. And it was at a -- at a time
16 when the Board was also aware that IFRS was not being
17 implemented for -- until the year '12/'13.

18 And -- and that was the point of the
19 evidence. It doesn't change Manitoba Hydro's evidence.
20 And we'll then rely on these facts in final argument.

21

22 (BRIEF PAUSE)

23

24 MR. PATRICK BOWMAN: If -- if it helps,
25 Ms. Ramage, I -- I don't dispute the numbers you

1 provided in the -- in the -- the excerpt to the Board
2 order. And I -- I don't disagree with anything in the
3 -- in the tables that you've provided in page 16 of
4 your document. And it does seem -- and -- and we were
5 -- we're fully aware of this, that the Board had -- had
6 information before it that Hydro was -- was beginning
7 to make certain changes.

8 There's a difference as to whether
9 people call those CGAAP changes or pre-IFRS changes.
10 And -- and I don't need to be in -- I guess, in the
11 middle of that if -- in the event that that's a
12 substantive debate.

13 Our evidence was simply prepared to say
14 that looking at this package, we started from a
15 starting point that -- that 56 million in accounting
16 changes had been made in recent times as Hydro had
17 moved away from full-cost accounting. It has every
18 basis to be saying full-cost accounting is a reasonable
19 standard to be using with respect to rate making.

20 I did acknowledge, and I have
21 previously, that some -- some portions of that fifty-
22 six (56) may very well be things that -- that could
23 justifiably be expensed. And -- and it's part of the
24 reason that -- that I noted we put it in, in full. But
25 in -- even in the event it wasn't in, in full, there's

1 -- there's room in the PUB-11 scenario for -- for some
2 different numbers and still leading to the same
3 outcome, in terms of recommendations.

4 And -- and whether those happened
5 previously or not, I -- I don't think too much turns on
6 it, because I -- I -- when I read the evidence, I think
7 that it's pretty clear that -- that the scale of -- of
8 changes people are talking about today with respect to
9 IFRS is sort of well beyond what was -- what -- what
10 was here for -- for me to look at, at least, and -- and
11 perhaps for the way the Board looked at it, in terms of
12 how big an impact IFRS could be.

13 And -- and I think some decisions that
14 were made early on, saying, We're going to have to go
15 this way, so let's start easing ourselves there, may
16 have made sense in the context of IFRS being a 10 or
17 \$20 million hit. And they may not make any sense at
18 all in the context of IFRS being a hundred or a \$140
19 million hit.

20 And -- and that's the -- that's the
21 threshold I -- I submit we've crossed. And as a
22 result, that's why we -- we put in the evidence. As I
23 said, I'm just as happy to -- to have somebody say that
24 56 million, some of that's water under the bridge, some
25 of that's been crystalized in actuals so far, so take

1 out 30 or 29 million that's already been in place. And
2 the bottom-line number then would be a net income, not
3 142 million; it would be twenty-nine (29) lower. So it
4 would be 113 million, which would lead me to the same
5 conclusion in terms of rates, which is the main reason
6 this was prepared.

7

8

(BRIEF PAUSE)

9

10 MS. PATTI RAMAGE: Yeah, I -- I think
11 we're going to leave this matter. And -- and I think
12 it will go to argue -- to -- to argument on -- on how
13 we characterize that. But I would like to state for
14 the record that, again, Manitoba Hydro has not changed
15 its evidence, as suggested by Mr. Hacault. And, in
16 fact, we would disagree with the characterization of
17 Manitoba Hydro's evidence by Mr. Hacault. But that
18 will be a matter again for -- we can all read the
19 transcripts and we can all -- and we can deal with that
20 on argument.

21 If I could just look at my notes for one
22 (1) moment.

23

24

(BRIEF PAUSE)

25

1 MS. PATTI RAMAGE: Mr. Bowman, on the
2 topic of net salvage, would you agree, generally
3 speaking, there will be a cost to remove an asset from
4 service in many circumstances?

5 MR. PATRICK BOWMAN: I -- I would agree
6 with the theory.

7 MS. PATTI RAMAGE: And would you agree,
8 again as a general concept, to the extent that they are
9 a cost related to the removal of assets, the customer
10 who has received the benefit of the use of the asset
11 should be responsible for funding the removal of the
12 asset?

13 MR. PATRICK BOWMAN: Well, I would say
14 not necessarily. And the main reason I say that is
15 because the question isn't as simple as the theory
16 provides. And -- and I'm certainly not alone in -- in
17 expressing that view. I've -- I've cited some
18 examples.

19 If -- I guess, it was the example of
20 something like a -- we said, like a Bipole 1, if Bipole
21 1 had to be replaced and -- and there was a cost to --
22 to take down the wire, is it an identifiable cost as
23 opposed to a cost to string the next one if you're --
24 you're using the same towers? There is an identifiable
25 cost of doing some aspects of removing assets when

1 they're an integral part of -- of reconstructing a new
2 one. That's one (1) of the challenges.

3 And the other one (1) is, is it a -- is
4 it a cost that an existing customer would bear for the
5 purposes of taking down, or is it a cost that is -- an
6 existing customer is effectively investing in for the
7 benefit of the next generation of customers who will
8 also use many of the same valuable properties and --
9 and valuable development that's occurred?

10 And so, that's why I don't think it's as
11 black and white as -- as that very simple theory
12 provides.

13

14 (BRIEF PAUSE)

15

16 MR. PATRICK BOWMAN: I guess my other
17 comment is my understanding from -- from Mr. Kennedy's
18 evidence is that the amounts that Manitoba Hydro
19 credits as salvage right now, or accounts for as
20 salvage right now, are not actually intended to take
21 down the asset in any event. They are intended to deal
22 with interim steps, not -- not terminal.

23 MS. PATTI RAMAGE: Thank you, Mr.
24 Bowman. I believe that completes our cross-examine --
25 cross-examination of Mr. Bowman. Subject to if

1 anything comes up -- as the Board extended to us with
2 respect to the other witnesses, if anything comes up
3 during Ms. Southall's cross that -- that the Manitoba
4 Hydro staff tell me is of significance, I'd appreciate
5 a chance or the opportunity to ask an additional
6 question if necessary. But haven't exercised that yet
7 and hope not to in the future. But, otherwise, thank
8 you, Mr. Bowman.

9 THE CHAIRPERSON: Thank you, Ms.
10 Ramage. I just noticed that Mr. Gange is here. And I
11 know that we were notified you weren't going to be
12 asking any questions, but perhaps the discussion you
13 just heard is --

14 MR. WILLIAM GANGE: No, I'll confirm
15 that there are no questions on behalf of Green Action
16 Centre. Mr. Chair, I -- I do and I don't think it's
17 necessarily now, although, Ms. Southall's trying to
18 read my mind, hopefully she won't be successful.

19 I -- I do have a couple of -- of
20 undertakings to respond to that -- that were made by
21 Mr. Chernick. And if I could put those on the record
22 right now and interrupt Ms. Southall's cross-
23 examination, I'd be very appreciative of that.

24 THE CHAIRPERSON: Let's do that. Thank
25 you.

1 MR. WILLIAM GANGE: Undertaking number
2 83 was that -- that Green Action Centre was to provide
3 the spreadsheet that was underlying Green Action Centre
4 Exhibit number 6. I can advise you, Mr. Chair, that
5 that material -- or that spreadsheet was sent out last
6 night in an Excel format to all of the participants in
7 the -- in the hearing so -- including the -- the PUB,
8 so that that undertaking has been complied with at this
9 point.

10 Undertaking number 84, I -- I will --
11 was that Green Action Centre was to confirm that an
12 email was sent with the live spreadsheets and that it
13 was received. And I will provide to Mr. Singh a
14 physical document, Green Action Centre Exhibit 7, which
15 does confirm that the live spreadsheet was received by
16 email on September 21st, 2012.

17 Then there were two (2) substantive
18 undertakings. Undertaking number 85 was that the Green
19 Action Centre was to provide two (2) or three (3)
20 samples of proof of revenue described in other
21 jurisdictions. And as Green Action Centre Exhibit
22 Number 8, I will be filing Undertaking Number 85, which
23 complies with that. That material has also been sent
24 out by email, because a fair bit of that is in Excel
25 spreadsheet format. And so all of the parties received

1 that last night, late at night.

2

3 --- EXHIBIT NO. GAC-8: Response to Undertaking 85

4

5 MR. WILLIAM GANGE: Then Undertaking
6 number 86 was that Green Action Centre was to provide
7 details on the energy conservation programs and
8 indicate any better approaches. And I will be filing
9 with Mr. Singh, as Green Action Centre Exhibit Number
10 9, the response to Undertaking Number 86. That
11 material was sent out by email this morning, and it
12 attaches four (4) articles from various journals that
13 Mr. Chernick was able to get access to and has
14 provided. It's a rather thick bundle of documents, but
15 those will be -- that will entered as Green Action
16 Centre Exhibit Number 9.

17

18 --- EXHIBIT NO. GAC-9: Response to Undertaking 86

19

20 MR. WILLIAM GANGE: Thank you, Mr.
21 Chair. That -- I believe that that concludes all of
22 the Green Action Centre undertakings and outstanding
23 matters.

24 THE CHAIRPERSON: Thank you. Thank you
25 very much, Mr. Gange. I believe that I will turn over

1 the microphone to Ms. Southall.

2 MS. ANITA SOUTHALL: I'm just going to
3 clean up my desk for a moment, Mr. Chairman. Thank
4 you.

5

6 (BRIEF PAUSE)

7

8 MS. ANITA SOUTHALL: And perhaps while
9 I'm doing that, we'll circulate what you'll all be
10 pleased to hear is Volume V of the Board's reference
11 book of documents, a much reduced use of it, I believe,
12 based on the shortening of our cross-examination
13 arising from, of course, the materials that have
14 already been covered. So we'll attend to that right --
15 right now.

16

17 (BRIEF PAUSE)

18

19 MS. ANITA SOUTHALL: Also, while that's
20 being distributed, if parties following and, of course,
21 Board members, if you could have available in front of
22 you, which I think you probably already do, the MIPUG
23 direct evidence of Mr. Bowman. And I'm not sure at
24 this point if you'll need it, but you might, the
25 rebuttal evidence of Manitoba Hydro, which was Manitoba

1 Hydro Exhibit 8.

2

3

(BRIEF PAUSE)

4

5

MS. ANITA SOUTHALL: I'm ready to

6

proceed, Mr. Chairman. Thank you.

7

8

CROSS-EXAMINATION BY MS. ANITA SOUTHALL:

9

MS. ANITA SOUTHALL: Mr. Bowman, I'm,

10 in some respects, just circling back and summarizing a

11 few things in your testimony so far, sir, so. But if

12 you wish to have reference to it -- I'm not sure you

13 will, but if you wish to, it's at Tab 63 of Volume V of

14 the Board's book of documents, and this includes

15 MIPUG's response to PUB IR 1-6.

16

And -- do you see that?

17

MR. ANTOINE HACAULT: Sorry, Ms.

18 Southall. I had just left the room very briefly, but I

19 don't have a copy of your book of documents.

20

MS. ANITA SOUTHALL: Well, you're out

21 of luck. No, I'm joking. I think we have another copy

22 floating around, Mr. Hacault. This part's going to be

23 rivetting, so.

24

25

(BRIEF PAUSE)

1 MS. ANITA SOUTHALL: All joking aside,
2 Mr. Hacault, you now have that available to you.

3 MR. ANTOINE HACAULT: Thank you very
4 much. This is what happens when you don't stick
5 around.

6

7 CONTINUED BY MS. ANITA SOUTHALL:

8 MS. ANITA SOUTHALL: So, Mr. Bowman,
9 one (1) of the principles that you've spoken to in your
10 evidence is that there is a need to look for longer-
11 term rate stability and not focus too much on short-run
12 costs, correct?

13 MR. PATRICK BOWMAN: Yes.

14 MS. ANITA SOUTHALL: You set out that
15 one (1) of the cautions for rate making that you noted
16 from the literature warns against assigning rate --
17 designing, pardon me, rates that are excessively
18 focussed on short-run costs and not sufficiently
19 attentive to longer-term rate term stability, correct?

20 MR. PATRICK BOWMAN: Yes.

21 MS. ANITA SOUTHALL: And it's your view
22 that Manitoba Hydro's current Rate Application has an
23 over-focus on short-run costs.

24 Is that correct?

25 MR. PATRICK BOWMAN: Yes, or -- or --

1 yes, plus near-term recognition of costs or booking of
2 costs that -- that have a longer-term benefit and --
3 and would lead to improved long-term rate stability by
4 recognizing them in a -- in a different period.

5 MS. ANITA SOUTHALL: And that last
6 concept goes to what I believe you defined as the
7 fairness issue in rate setting.

8 Is that -- I -- I know it's not just
9 that, but that's one (1) of the concepts within that
10 idea of fairness that you've already addressed,
11 correct?

12 MR. PATRICK BOWMAN: Yes.

13 MS. ANITA SOUTHALL: And the very last
14 point you've addressed with My Friend, Mr. Williams, on
15 the intergenerational equity issue, in terms of trying
16 to match costs to the relevant periods?

17 MR. PATRICK BOWMAN: Yes. And I also
18 addressed with the Board the -- the risk that a failure
19 to appropriately match those, particularly costs such
20 as depreciation costs, which are in a -- in a constant
21 dollar, can lead to in -- incorrect -- uneconomic
22 decision making and -- and a dead-weight loss.

23 MS. ANITA SOUTHALL: Sir, just -- just
24 jumping topics here. And -- and because of where I
25 appear in the cross-examination list, this -- this is

1 going to happen a little bit, so if you would bear with
2 me. With respect to IFRS changes leading to accounting
3 changes, Manitoba Hydro has indicated it will bring
4 those further changes to the Board at a future rate
5 application.

6 Are you aware of that?

7 MR. PATRICK BOWMAN: Yes.

8 MS. ANITA SOUTHALL: And so let's speak
9 just with respect to the ELG versus ASL decision.

10 Should a decision on whether to adopt ELG versus ASL be
11 deferred to some future application?

12 Do you have view on that?

13 MR. PATRICK BOWMAN: I do. And my view
14 would be I don't see how that's practically possible,
15 based on the schedules we now know are available to us.
16 Manitoba Hydro's conversion date for reporting under
17 IFRS would be the first test year of the next GRA,
18 assuming we do these back to back.

19 And under some normal schedules, the --
20 the likelihood that the Board will be through and have
21 its review and issue its order in time that Hydro can
22 implement it before it has to be issuing things such as
23 Quarter 1 quarterly statements seems highly unlikely.
24 Perhaps, as Mr. Warden noted, we get back on a regular
25 schedule. I can't recall there being a hearing on what

1 -- what I think he called the regular schedule for some
2 time, although I do encourage it.

3 But the other reason is because
4 regardless as to the date you have to report that way,
5 as of the date you're reporting that way you have to be
6 providing comparators for the previous year. And that
7 previous year is '13/'14.

8 And so I think it's -- it'd be very
9 difficult for Hydro to go back to the office at the end
10 of this hearing and say, Don't worry, we can park this
11 matter about whi -- which matter we're using for
12 depreciation and which matter we're using for some of
13 these other decisions. And -- and we can -- we -- we
14 can let the '13/'14 year unfold, knowing that someday
15 we're going to have to come back and account for this
16 year somehow and -- and not have been ahead of the game
17 as -- as the year was unfolding as to which -- what --
18 what precise standards and methods it might be
19 applying.

20 So -- so, technically, it may be
21 possible to -- to defer. But I think practically it's
22 -- it -- in fairness to Hydro, I think it would be very
23 difficult.

24 MS. ANITA SOUTHALL: The Rate
25 Application before the Board now, based on IFF12, does

1 not have any IFRS adjustments included in it. And
2 here, I'm speaking of course of Manitoba Hydro's
3 proposal.

4 Is that true?

5 MR. PATRICK BOWMAN: Under Manitoba
6 Hydro's definitions, it does not have any IFRS changes
7 in it. I would submit that as I look through even --
8 even that Board order we were just looking at, 5/12,
9 there would be a strong implication that -- that some
10 of the changes that Hydro is choosing not to call IFRS
11 changes are still changes that are aimed at -- at pre-
12 IFRS transition or -- or moving in that direction.
13 Even if they're allowed under CGAAP, they're not
14 required under CGAAP. But they're being done to -- to
15 move Hydro in a direction that -- that is -- is IFRS
16 aimed.

17 MS. ANITA SOUTHALL: So just let me
18 make clear, I suppose, what I'm trying to identify for
19 the record. There are no IFRS-required adjustments in
20 the test years that are before the Board currently.

21 Is that correct?

22 MR. PATRICK BOWMAN: I -- I apologize.
23 In the two (2) years that are before the Board, there
24 are no IFRS-required adjustments. Ultimately, the
25 second test year that we're reviewing, '13 and '14,

1 under the schedule that's now available for IFRS
2 transition will -- would have to be reported under an
3 IFRS framework. It just does not need to be reported
4 that way the first time it's reported.

5 MS. ANITA SOUTHALL: But -- and -- and
6 as a result of the fact that there's no requirement to
7 implement those IFRS changes in these test years that
8 are currently before the Board, they're not included in
9 the Rate Application currently?

10 It's not in rates for this test -- these
11 two (2) test years, correct?

12 MR. PATRICK BOWMAN: Well, I guess our
13 -- my -- my submission is it comes down to definitions.
14 And -- and I would submit that a number of the matters
15 we just looked at, which are being called CGAAP
16 changes, are reasonably linked to a movement towards
17 IFRS.

18 And -- and I think -- I think in
19 fairness, they're not changes that are required if you
20 don't go to IFRS. They're perfectly reasonable to
21 retain the existing approaches under -- under CGAAP,
22 especially the ones that haven't yet been -- been
23 applied to a past year of actuals and -- and I'd be
24 inclined to say a -- a proper definition of the impacts
25 of IFRS would include those changes, and that's some

1 twenty-seven (27) or so million dollars, to my
2 recollection.

3

4 (BRIEF PAUSE)

5

6 MS. ANITA SOUTHALL: Sir, I'm -- I'm
7 not going to ask you to turn to it, but I've noted in
8 your evidence in Section 1, page 6, that you make the
9 recommendation -- it's item number 2 in that section of
10 recommendations -- that:

11 "The Board must continue to recognize
12 and address Manitoba Hydro's
13 escalation costs -- escalation of
14 costs year over year, particularly if
15 any increasing share of those costs
16 is proposed to be charged to
17 ratepayers in the year incurred."

18 Do you recall that --

19 MR. PATRICK BOWMAN: Yes.

20 MS. ANITA SOUTHALL: -- proposition?

21 MR. PATRICK BOWMAN: Yes.

22 MS. ANITA SOUTHALL: Do you have any
23 specific proposals for the Board as to how Hydro should
24 address the cost escalation?

25

1 (BRIEF PAUSE)

2

3 MR. PATRICK BOWMAN: Well, that's a big
4 question. This goes back to the graph that -- that I
5 had been at a couple of times on the -- the lines that
6 the Board didn't have in colour but that were dashed as
7 the top line of overall costs growing at, you know, in
8 -- around 5 percent a year for -- for well over a
9 decade now and on the long-term levels.

10 And I think the -- the tools available
11 to this Board to help Hydro contain its costs are --
12 are fairly coarse. The Board can give recommendations
13 or directions to Hydro, but it's -- it's very difficult
14 to make those directives go -- go to efficiency or --
15 or ultimately show up in O&M costs.

16 The Board can grant Hydro less rate
17 increases than it asked for, and that is one (1) of the
18 things that I would recommend out of this. And a third
19 tool available to the Board that we haven't discussed
20 at all yet, I don't believe, is that the Board
21 specifically has the opportunity to make
22 recommendations to government. And I don't think it's
23 a tool that's used often. I can only recall once in a
24 -- in a Board decision where the Board specifically
25 made a recommendation to government. And -- and to my

1 recollection, it wasn't acted upon.

2 But -- but that tool remains available
3 to the Board. And I'm not going so far as to saying
4 it's -- it's absolutely clear that the Board should use
5 it at this point. But I think the Board may want to
6 consider whether -- whether the Board's level of
7 concern over -- over Hydro's cost growth gets it to a
8 point where it may want to consider a recommendation to
9 government to have a review done of Manitoba Hydro,
10 perhaps akin to those that led to -- led to the recent
11 directives and recommendations to both BC Hydro and
12 Hydro-Quebec.

13 Or -- or the type of review that I was
14 in involved in the Northwest Territories, where a due
15 diligence review was done by the -- some skilled
16 reviewers on behalf of the government, it's -- it's an
17 option. It's -- it's a major undertaking for the
18 utility. It can be a -- a distraction, and -- and the
19 benefits have to weight against the cost.

20 But -- and I'm sorry I'm on the fence on
21 it. But I think it's -- it's something this Board may
22 want to consider if its -- if its level of concern is
23 as -- is -- is as high as it may be, given the -- the
24 past series of orders on Hydro to control its costs,
25 and perhaps the -- the performance to date.

1 MS. ANITA SOUTHALL: Sir, one (1) of
2 the adjustments that you've identified in response to
3 the IR response to PUB/MIPUG number 11 -- and -- and
4 this is, I believe, no different from the original
5 versus the revised version for examination of IFF12 --
6 is that long-term debt linked to major capital projects
7 be excluded from the debt/equity calculations. And --
8 and again, I don't -- I don't know that there's a need
9 to go there but -- but you've done the calculations in
10 one (1) of the tables in that IR.

11 Is that fair?

12 MR. PATRICK BOWMAN: Yes. And -- and
13 in that calculation we actually -- well, we didn't --
14 we didn't even remove Bipole 3. We only took out the -
15 - the new projects which are -- which are still a ways
16 away from having the order in council requirement for
17 the government to go ahead.

18 MS. ANITA SOUTHALL: And, sir, you just
19 referred to Bipole 3. And I think -- I think maybe if
20 -- if just for the record, if you could clarify. It
21 sounds like you were giving the explanation for why
22 Bipole 3 was -- was not removed.

23 But could you maybe just state that
24 affirmatively?

25 MR. PATRICK BOWMAN: Bipole 3 was not

1 removed in the calculation we did. It -- it could have
2 been on a simple used-and-useful test. But I think the
3 rationale for Bipole 3 is a little bit different than
4 the others, for three (3) reasons.

5 One (1) is to this point we have
6 accepted Hydro's rationale that Bipole 3 is required
7 for domestic service; it's not just a -- a part of a --
8 an export-oriented development plan.

9 The second reason is Bipole 3 is
10 actively under review. It's been proposed; it's
11 actively under review by the -- the Clean Environment
12 Commission. It's -- it's moving forward. So it's --
13 it's got a degree of -- of certainty or realness that's
14 stepped beyond that for Conawapa or even Keeyask.

15 And the third is that -- is that it's --
16 it's nearer in -- in service.

17 So I'll just maybe just touch back on
18 when I did review with Mr. Williams, I'm not strongly
19 in favour of the debt/equity being a -- a dominant
20 determinant in rates. But to the extent it's going to
21 be used in -- in this coming period, having Conawapa
22 and Keeyask out of -- out of the calculation for now is
23 probably appropriate, mainly so that someone doesn't
24 get really excited about the fact that we haven't yet
25 put aside 25 percent equity for -- for what's been

1 spent on -- on Conawapa. It's -- it's just -- the
2 metric is simply doing that type of calculation.

3 MS. ANITA SOUTHALL: And so, just
4 picking up on your last comment, sir, I -- I take it
5 that your recommendation is that the exclusion of the
6 debt for major capital projects from the debt-to-equity
7 calculations are recommended for rate-setting purposes
8 and -- and not for Manitoba Hydro's general reporting
9 on its financial position?

10 MR. PATRICK BOWMAN: It -- it -- it's -
11 - if you're going to use the debt/equity tool to assess
12 the level of rates and to assess the level of -- of
13 investment, if you like, that ratepayers have made in
14 the existing assets and -- and have paid for and put
15 aside. I -- I don't think it's appropriate to include
16 in the -- in the denominator of that calculation major
17 new generation that won't be serving ratepayers for a
18 long period of time and which is still well -- well
19 removed from a commitment to -- to put a shovel in the
20 ground.

21 MS. ANITA SOUTHALL: So just back to my
22 question: It should be used for rate-setting purposes
23 but not for general --

24 MR. PATRICK BOWMAN: Yes.

25 MS. ANITA SOUTHALL: -- financial

1 reporting?

2 MR. PATRICK BOWMAN: Yes.

3 MS. ANITA SOUTHALL: Sir, when -- when
4 are those major capital expenditures included for the
5 purpose of the debt-to-equity ratio? When they come
6 online?

7 MR. PATRICK BOWMAN: I don't have a
8 firm view as to a specific date. I would think, once
9 the project is -- has received some commitments to
10 proceed and it's got a clear path to -- to being used
11 for domestic service and being required for domestic
12 service, and in -- in relation to the size of the
13 project, then -- then I think you'd want to be bringing
14 them into the -- the calculation when you're looking at
15 that debt/equity tool. Again, for the limited purposes
16 that I suggest, it's -- it's useful for -- for rate
17 making.

18 But the main thing is, when -- is -- for
19 a very large project that's very well in advance of it,
20 it's -- it's probably appropriate to keep it out, but I
21 -- I would think you're a few years away from -- from
22 including a Keeyask in that calculation if you were
23 going to do it for a GRA, and -- and probably even
24 longer from a Conawapa.

25 MS. ANITA SOUTHALL: The adjustment,

1 sir, that you recommend and that are -- that is found
2 in one (1) of the tables you provided in response to
3 the PUB/MIPUG Question 11 results in the debt/equity
4 ratio being higher, and therefore there is less need
5 for rate increase to maintain the target.

6 Is that fair?

7 MR. PATRICK BOWMAN: It results in the
8 debt/equity ratio being higher, which serves in support
9 of the -- of the comment you made. It's not -- of
10 course, not the only determinant. But -- but it
11 results in the -- the debt/equity ratio not making
12 people so excited that -- that we haven't yet put aside
13 very much equity for -- for these projects.

14

15 (BRIEF PAUSE)

16

17 MS. ANITA SOUTHALL: So, sir, in -- if
18 -- if I could ask you -- and here, I apologize. This
19 isn't in our reference book of documents because we
20 received the MIPUG responses too -- too late to include
21 them. So I am going to ask parties to refer to
22 PUB/MIPUG-1-24, an IR response received January 17,
23 2013. And we're just going to, I think, have to pause
24 and make sure our Board members have a copy.

25

1 (BRIEF PAUSE)

2

3 MS. ANITA SOUTHALL: Mr. Bowman, do you
4 have that available to you?

5 MR. PATRICK BOWMAN: Yes.

6 MS. ANITA SOUTHALL: So it's actually
7 page 8 of 10 that I would like you to look at, and it's
8 the -- it's the table that you've included for Figure
9 B.1-1.

10 MR. PATRICK BOWMAN: Yes.

11 MS. ANITA SOUTHALL: Do you see that?
12 So I understand that the debt-to-equity ratio is 90/10
13 in 2021/'22 as reflected on a consolidated basis.

14 Do you see that figure, sir?

15 MR. PATRICK BOWMAN: Yes.

16 MS. ANITA SOUTHALL: And does it
17 necessarily follow from your recommendations that the
18 Board ignore that debt-to-equity ratio if it intends on
19 excluding the major capital projects from rate-setting
20 purposes?

21 MR. PATRICK BOWMAN: No. That is a
22 different point in time and -- in relation to the --
23 the projects in -- that are being proposed. But I
24 would -- I'd emphasize that these -- the IFF that
25 drives this result has significant and -- and, at this

1 point, difficult to fully understand proposals in it,
2 given not all the details have been made available.

3 So it's a little bit hard to say what
4 would 2021/'22 look like if you were to sit -- having a
5 GRA in the room right now for that -- that point in
6 time. If you had Keeyask under construction or -- or,
7 you know, approaching in service, and if you needed it
8 for domestic load and Bipole was in service, and you
9 were at that point in time, you would look at that
10 ratio and say that -- that it's lower than the target.

11 But you wouldn't stop there. If you
12 look down the table, you would see that at that point
13 in time, the -- the reserves, retained earnings, are
14 sitting about two (2) point -- 2.4 billion. That's
15 after you write off DSM of -- of 300 million or so. So
16 -- so two point seven (2.7) if you accept other
17 recommendations. And you'd have to be assessing
18 whether two point seven (2.7) made a lot of sense as a
19 -- as a retained earnings level.

20 It's -- it's low. As a private company,
21 it would be very difficult to finance on that basis.
22 But your only other alternative is to say, We've
23 brought in these projects, and now -- now we got to get
24 the rates up to pay for them real quickly.

25 And I think -- I think that's exactly

1 the conclusion that I -- that -- that we want to be
2 careful to weigh and -- and perhaps avoid, because
3 getting the rates up quickly to -- for projects that
4 are being built perhaps in advance of when they're
5 needed or perhaps much larger than when they're needed
6 than when they're built, is the kind of thing that --
7 that can lead to killing projects. And it's also the
8 kind of thing that can lead to overburdening current
9 ratepayers at the -- at the expense of future ones.

10 So, you know, wa -- if we're sitting --
11 if we were sitting in that room, we had drought
12 exposure like we do now, we had, you know, prices that
13 are assumed in IFF -- IFF12, we had a 90 percent
14 debt/equity ratio and 2.5 billion in reserves, we'd
15 still be well -- well ahead of where we were even --
16 even a few years ago, where we had, you know, 90/10 and
17 -- or -- or 85/15 debt/equity and -- but our reserves
18 were way down, about a billion or \$1.2 billion.

19 So I think -- I think you'd have to look
20 carefully. And you'd probably say it's time to start
21 tres -- transitioning rates. But it's not a reason to
22 start hammering people with 4 percent rate increases.
23 Maybe we can still stick to a relatively predictable,
24 you know, 2 percent a year or something of that nature
25 and -- and move our way towards -- towards getting

1 these new costs reflected in rates.

2 MS. ANITA SOUTHALL: Sir, I take from
3 your submission, I believe, that the Board should not
4 look this far out into the future because the forecast
5 is not reliable this far out. There are just too many
6 contingencies.

7 Is that fair?

8 MR. PATRICK BOWMAN: That's one (1)
9 reason. It's not -- it's not reliable in the context
10 of knowing that that's a future path. The Board should
11 also not look this far out because it doesn't have the
12 information to be able to -- to understand it, is my
13 submission; or at least I don't have the information to
14 be able to understand it. And I can't imagine the
15 Board's in any different position.

16 So I think those are -- those are both
17 reasons why -- why I explained this GRA is challenging
18 and why our evidence focussed on five (5) years.

19 MS. ANITA SOUTHALL: I -- I believe I
20 heard you say -- and please correct me if I'm wrong --
21 that when you look at tab -- the table for Figure B1-1
22 and you look at the retained earnings, if at that time
23 the Board considered the retained earnings to be low,
24 the alternative may be to adjust rates at that point in
25 time, correct?

1 MR. PATRICK BOWMAN: Yeah, that's
2 correct. And -- and remember that we also have a lot
3 of decision points between here and there. So it may
4 be that there are some further decision points in the
5 interim.

6 MS. ANITA SOUTHALL: Is it possible,
7 sir, that Manitoba Hydro's plan to increase rates on a
8 ongoing basis, including in these test years, is part
9 of the plan to get to a point where it will achieve
10 what it now states is it's preferred development plan?

11 MR. PATRICK BOWMAN: Yes, that's --
12 it's -- to make -- to make sure I understood the
13 question, it's possible that what Hydro set out as a
14 scenario that increases rates on what it considers to
15 be a -- a stable and predictable basis to that point in
16 time to enable it to undertake its preferred
17 development plan.

18 As a matter of fact, I think that's very
19 likely as to what's being proposed, and I don't think
20 Hydro would object to that -- that characterization: a
21 stable, predictable -- in their language -- series of
22 transitions that -- that achieves their goals in the
23 IFF.

24 The only thing I differ with them on is
25 -- is the degree to which we can accept that preferred

1 development plan today as the -- as the given. And I
2 also differ with them as to -- as to the extent to
3 which you really need to do that quite as aggressively
4 if the assets you're building are as long-lived and as
5 beneficial over their life as -- as we're all going to
6 -- going to hear they are, I'm sure, when we get to an
7 NFAAT.

8

9

(BRIEF PAUSE)

10

11

MS. ANITA SOUTHALL: Sir, would you be
12 able to speak to what other regulated utilities exclude
13 debt related to major capital projects for debt/equity
14 calculations? For rate setting, sorry.

15

MR. PATRICK BOWMAN: Well, not a lot of
16 utilities are regulated the same way as Manitoba Hydro.
17 So debt/equity calculations, while they're part of the
18 assessment, they're not -- they're not used for the
19 purposes of saying: How much equity should we build up
20 in the company? They're used to say: Is the company
21 reasonably capitalized for the purposes of estimating
22 how much its cost of capital is?

23

And -- and there are some utilities that
24 use their actual debt/equity ratio at each instance for
25 setting rates, and there are others where the utility

1 board says: I don't accept your actual debt/equity
2 ratio. I'm going to stipulate a debt/equity ratio to
3 use for your -- for your situation. And -- and if you
4 don't like the way mine's different than yours, then go
5 out and borrow some money or pay some dividends or
6 raise some equity or do whatever you need to, to get --
7 to get to the level I like.

8 And -- and that -- that tends to go to
9 the fact that -- and -- and it may help with the
10 discussion I had with Mr. Lafond earlier -- most of the
11 utilities we're talking about are regulated on a -- a
12 rate-based rate of return basis, which is what Ms.
13 Ramage and I talked about for BC Hydro, which means if
14 the utility has debt, the portion of that debt that's
15 funding real assets and service is put in rates. And
16 if they have equity, a portion of that equity is
17 considered to be funding assets in service, and they're
18 allowed to earn a return on that equity. And if you
19 have something like an insurance gain, it goes into
20 equity. It would go to helping the shareholder earn a
21 bigger return on equity. It wouldn't go to helping
22 keep rates down, because most people aren't regulated
23 this way.

24 But there's -- it is -- it would be
25 almost universal practice to say that when you go to

1 look at the -- the rate base or the assets in service
2 or the capital structure, you would be looking to
3 remove projects that are not yet in service. It's a --
4 it's a -- a -- well, I can give you many, many examples
5 of -- of that, that projects that are not in service
6 are not included for the calculation for the -- for the
7 determination of rates.

8 MS. ANITA SOUTHALL: So any on a cost-
9 of-service basis, Mr. Bowman?

10 MR. PATRICK BOWMAN: Well, there aren't
11 many, if -- if any, left on this basis. But I will say
12 that, in a lot of cases where a utility develops a -- a
13 fairly significant asset, they will undertake that
14 asset and -- and maybe even finance that asset with
15 some project-specific debt, or they'll do it as an
16 entity separate and apart from the core utility. And,
17 as a result, that would be separated out quite easily
18 and -- and often is.

19 And -- and I've -- I've been involved in
20 that type of -- that type of calculation a number of
21 times, including both of the major projects in the
22 North I was talking about and -- and also looking to
23 the -- the upcoming project in Newfoundland that people
24 hear about, the major hydro project. Those would be
25 sort of carved out of regulated service while they're

1 under construction.

2 MS. ANITA SOUTHALL: Sir, just back to
3 the IFRS issue for a moment. Assuming that IFRS is in
4 effect and it does not allow for the capitalization of
5 general and administrative overheads, are you -- I take
6 it you are suggesting that this adjustment form part of
7 rate-regulated accounts.

8 Is that correct?

9 MR. PATRICK BOWMAN: Yes.

10

11 (BRIEF PAUSE)

12

13 MS. ANITA SOUTHALL: Sir, so, again,
14 I'm not inviting anyone to -- necessarily to turn to,
15 now famous, Table 1 from the revised IFF12 PUB Question
16 11. But based on all the proposed adjustments, you're
17 suggesting Manitoba Hydro does not require a rate
18 increase in 2014, as they are seeking. And let me just
19 add to that, that the interim rate increases currently
20 granted, however, should be approved as final.

21 Is that your recommendation, sir?

22 MR. PATRICK BOWMAN: Yes. And that
23 includes rolling back the -- the 1 percent that was
24 still in from -- from the previous Board Order 5/12.
25 So rates should effectively crystalized at the level

1 they are to date.

2 And I just -- when you say 2014, you
3 mean the 2013/'14 test year?

4 MS. ANITA SOUTHALL: Yes, I did, sir.

5 Now, I will ask you to and -- and others to turn to
6 that table for just a moment. So this is Table 1, page
7 2 of 6, revised for IFF12-1, PUB/MIPUG-1-11. That was
8 a mouthful, but hopefully it makes sense.

9 And, sir, do you have that in front of
10 you?

11 MR. PATRICK BOWMAN: Yes.

12 MS. ANITA SOUTHALL: I -- I want to now
13 just look at the bottom two (2) lines in the table, the
14 Manitoba Hydro proposed equity ratio and MIPUG adjusted
15 equity ratio.

16 Sir, in 2013, based on your adjustments,
17 you depict that the equity ratio remains at 25 percent
18 for both Hydro and MIPUG, agreed?

19 MR. PATRICK BOWMAN: Yes. There's very
20 little effects in one (1) year. These -- these effects
21 compound.

22 MS. ANITA SOUTHALL: And for 2013/'14
23 though, your adjusted equity ratio reports at 24
24 percent, whereas Hydro's reporting an equity ratio at
25 22 percent, correct?

1 MR. PATRICK BOWMAN: Yes.

2 MS. ANITA SOUTHALL: Should the Board
3 adjust the rates in the second test year to assist in
4 moving it closer to the 75/25 debt/equity ratio?

5 How -- how does the Board deal with that
6 -- the outcome with respect to the equity ratios in
7 year 2 of these test years?

8 MR. PATRICK BOWMAN: Well, I -- I don't
9 believe these equity ratios in this hearing or in any
10 other tell you the one (1) year trend or the one (1)
11 year adjustment that's needed. I think that the -- the
12 pattern shown there, in terms of percentages, are --
13 are not terribly troubling, in terms of a -- the
14 direction. And -- and the more important point of that
15 is in the very next page, page 3, where it shows the
16 pattern in terms of retained earnings.

17 And this is without any adjustment to
18 any -- anything else. You have a retained earnings
19 that's growing from -- under the -- the numbers we
20 prepared, from twenty-five eighty-four (2.584), up to -
21 - up to 3 billion by the end of 2017.

22 And again, that's without any of the
23 other possible adjustments like Hydro reigning in O&M
24 or adjusting its vacancy rate or something of that
25 nature. It is inclusive of adjustments for things like

1 the -- the twenty-nine (29) or so million, twenty-seven
2 (27) or so million of -- of coming changes which have
3 happened to date that people may -- may agree to put in
4 the past.

5 So there are some numbers that could
6 affect this. But -- but nonetheless, it's growing from
7 a two point five (2.5) to three (3). I had earlier
8 commented that even that, I was thinking, needed a bit
9 of an asterisks, because the true picture's somewhat
10 higher, given the accumulated depreciation surplus.
11 And I think, sitting -- sitting here today, 3 billion
12 is a -- is a number that shouldn't cause a lot of -- a
13 lot of grief or concern even though it is a 22 percent
14 ratio.

15 So you look forward and -- and try to
16 judge the balance of dollars between Hydro and -- and
17 ratepayers and -- and would it make sense to have
18 ratepayers contributing and -- and ratepayers putting
19 into Hydro's system in order to have them there when
20 they need to protect themselves. And -- and I don't
21 think -- despite a 22 percent ratio, I don't think page
22 3 indicates a basis for -- for a whole bunch of -- a
23 bunch of concern that ratepayers are -- are getting
24 away with an unsustainably low rate or -- or exposing
25 themselves to rate shock.

1 MS. ANITA SOUTHALL: Sir, I'd like to
2 ask you to turn to Tab 67 in Volume V of the Board's
3 reference documents. This is MIPUG's response to
4 PUB/MIPUG-1-7. And the question posed:

5 "Has Manitoba Hydro developed
6 Wuskwatim with no near-term adverse
7 impacts?"

8 On page 1 of 7, the short answer to your
9 question is, "No." And then you share, sir, a further
10 narrative. But I want to take you to, please, page 6
11 of 7 at that tab and at that response and Table 1,
12 which is entitled, "Estimated Wuskwatim Operating
13 Statement."

14 Do you have that, sir?

15 MR. PATRICK BOWMAN: Yes.

16 MS. ANITA SOUTHALL: And I understand
17 this to be, sir, your estimated impact on both the test
18 years and beyond of Wuskwatim, up to 2021/'22?

19 MR. PATRICK BOWMAN: Yes, as best we
20 could it based on IFF11 -- 11-2. As best we could do
21 it based on IFF11-2.

22 MS. ANITA SOUTHALL: And the -- you
23 calculate the losses to total approximately \$400
24 million during the first decade, based on IFF11-2.

25 Is that -- is that fair, sir?

1 MR. PATRICK BOWMAN: I probably add
2 that up somewhere. It does look like approximately
3 four hundred (400). But I would -- I just note it was
4 IFF11-2. And we now have some -- I think we've learned
5 some things since we prepared this table. But -- but
6 that was -- that would add to about 400 million.

7 MS. ANITA SOUTHALL: And this reflects
8 no economic benefit to current ratepayers during the
9 first decade?

10 Do you agree?

11 MR. PATRICK BOWMAN: Thi -- this
12 reflects a net negative impact on Hydro's financials
13 and -- and financial position during the first decade
14 of Wuskwatim being in service, yes.

15 MS. ANITA SOUTHALL: What about the
16 bene -- the -- pardon me, the effect on ratepayers?

17 MR. PATRICK BOWMAN: Well, the question
18 is how you reflect this through rates, which is --
19 which is a different question than what it does to
20 Hydro's financials. So if -- I -- I've still got the
21 old table back, but we don't necessarily need it. But
22 you'll notice, we were just talking about whether Hydro
23 maintains a 25 percent debt/equity ratio, for example.
24 We were talking about whether Hydro maintains a net
25 income to keep up with ongoing spending and those

1 matters.

2 What we're showing in this table -- and
3 -- and as I noted, I -- I could talk about some of the
4 adjustments we've learned. But what we're showing on
5 this table is that -- is that Wuskwatim is a -- is a
6 net cost to Hydro's financials.

7 So if you now flip over to PUB-11, you'd
8 see the fact that we're able to put forward a scenario
9 that has positive net income for Hydro in every year
10 and manages to keep a debt/equity 22 percent and -- and
11 manages to grow retained earnings to \$3 billion. The
12 question is: Is that rate paying for Wuskwatim?

13 And -- and, in essence, if you're
14 growing retained earnings and you're keeping a
15 debt/equity ratio in -- in a range that -- that isn't -
16 - isn't horrifying and -- and you're keeping the net
17 income positive, then -- then I would say, yes,
18 effectively, ratepayers in those scenarios are paying
19 for Wuskwatim and every other Hydro asset that is --
20 that is currently operating, despite the -- whe --
21 whether Wuskwatim is supplying -- needed for domestic
22 service or not, which is its own lively debate.

23 MS. ANITA SOUTHALL: And you mentioned
24 -- and so I -- I want to move on and provide just this
25 bit of clarification. I believe, sir, you mentioned

1 that more information has become available, and I did
2 have a note that Manitoba Hydro Exhibit 34 includes a -
3 - an update to this table, or at least the information
4 which you have presented in this table from IFF12.

5 The -- the loss, when you isolate
6 Wuskwatim, I believe is now reported at \$341 million
7 over the ten (10) year period. Does -- does that
8 number ring a bell with you?

9 Are you aware of that difference?

10 MR. PATRICK BOWMAN: Did you say
11 Exhibit 34?

12 MS. ANITA SOUTHALL: I did, sir.

13

14 (BRIEF PAUSE)

15

16 MR. PATRICK BOWMAN: Well, we're going
17 to have to be a little bit careful, because Exhibit 34,
18 as I understand it, is a statement of the Wuskwatim
19 partnership -- Wuskwatim Project Limited Partnership,
20 right, which is the -- the separate entity.

21 And when we go ahead and look at
22 Wuskwatim in this picture, we're looking at it more
23 akin to -- more akin but not quite the same as Manitoba
24 Hydro did in -- in fact in Exhibit 108, where it was
25 asked the -- the full impact on Wuskwatim on

1 ratepayers. And -- and I'll give you a really good
2 example of why those are different.

3 The limited partnership picture is based
4 on a net -- you're -- you're focussing to a -- I
5 presume, to a net income shown there. But that -- that
6 is only a net income that arises when you've got the
7 partnership capitalized the way that the -- the
8 partners have agreed to do it. It's effectively
9 showing that as a net income on -- on Hydro's equity in
10 the partnership, if you like. But on the other side of
11 the equation, what Hydro's done in Exhibit 108 is to
12 show what is the impact on -- on Hydro overall.

13 And it's somewhat different, because now
14 you go back and you say, I don't consider that equity
15 necessarily free. That -- that net income you're
16 showing is -- is a -- is a return on that equity or a
17 loss on that equity. But -- but because that equity is
18 effectively borrowed by Hydro, it also has a cost, and
19 that cost is missing from the WPLP statements. That --
20 that would only show up on the -- the investor's
21 statements, if you like.

22 So what Manitoba Hydro did in Exhibit
23 108, to my understanding -- and it's basically the same
24 type of approach we were doing -- is to say let's look
25 at Wuskwatim overall. How is this project overall

1 functioning? And -- and if some portion of it we have
2 to carve off, that's fine. And it up -- also it's
3 based on IFF12. It updated some values.

4 For example, the table you took me to
5 was reporting capital tax at 5 to 6 million. Hydro is
6 now reporting it more like nine (9) to eleven (11). I
7 don't know the reason, but -- but I accept their
8 numbers. The depreciation in the table you took me to
9 shows it at 25 million. We've now learned that there's
10 ELG impact that will be there of at least another 4
11 million -- or -- or 3 to 4 million. That -- that was
12 missing from this.

13 And the other thing that's -- that's
14 interesting is how you look at the overall financing
15 expense. And if you go to WPLP statements, it's only
16 going to do financing expense on 75 percent of
17 Wuskwatim. If you go to Manitoba Hydro's Exhibit 108,
18 it's going to look at the full value of Wuskwatim, but
19 then they do this adjustment to take 29 percent of the
20 cost out for internally generated funds, which is an
21 adjustment that I found curious, because Wuskwatim
22 hasn't generated any funds. And so those are
23 effectively internally generated funds by the entire
24 organization and -- and, absent Wuskwatim, they would
25 have been used to -- to maintain a -- a different ratio

1 overall in the -- the capital and probably led to lower
2 -- lower debt overall.

3 So do we call that 526 million a -- a
4 savings attributable to Wuskwatim, an avoided debt of
5 Wuskwatim? Or do we call it a avoided debt of the rest
6 of the system and Wuskwatim is all incremental debt?
7 That can make quite a bit of difference as the way you
8 -- you look at this.

9 We've done our statements assuming that
10 Wuskwatim is 100 percent incremental debt, which is I -
11 - I -- in my view, probably the only fair way to -- to
12 run it. We -- we've also estimated revenue as an -- as
13 an export-oriented incremental project, not as a system
14 -- system resource, which is what Exhibit 108 does.

15 So -- so there are some different
16 presentations. But -- but I -- but you can't equate
17 the 400 million shown here with the WPLP statements
18 that -- that you had gone to, because they're missing
19 that -- that extra cost item of the cost of equity or
20 the cost of participating in that partnership.

21 MS. ANITA SOUTHALL: With the
22 adjustments arising out of IFF12, you hadn't been asked
23 to do it in the past, but does that bring the Wuskwatim
24 losses closer to the 400 hundred million? In other
25 words, I was using reference points of 341 million.

1 I'm trying to get an understanding of
2 whether or not you believe that if you applied IFF12,
3 it would bring it closer to the \$400 million. Let --
4 let's just ignore the distinctions with the limited
5 partnership reporting for a moment.

6 MR. PATRICK BOWMAN: So we're looking
7 at the full impact of Wuskwatim on ratepayers, is the
8 question. Not -- not how does it look to a partner,
9 but how does it look to a ratepayer?

10 MS. ANITA SOUTHALL: Yes, sir, please.

11 MR. PATRICK BOWMAN: So -- so the full
12 impact of Wuskwatim on ratepayers would be effectively
13 the calculation that we set out here. Updated for
14 IFF12, to my knowledge, IFF12 would -- would only serve
15 to -- as well as corrections we know since IFF12, like
16 the depreciation. It would only service to increase
17 costs shown here and -- and possibly further reduce --
18 reduce revenue.

19 So it -- it -- the net impact -- the
20 negative impact would go up over that decade. I don't
21 know how high.

22

23 (BRIEF PAUSE)

24

25

1 MS. ANITA SOUTHALL: Sir, I'm now going
2 to move to a few questions associated with --

3 THE CHAIRPERSON: Before you leave
4 that, I do --

5 MS. ANITA SOUTHALL: Oh, yes.

6 THE CHAIRPERSON: -- want to challenge
7 to -- "challenge" is not the right word, but I do want
8 to question in relation to Wuskwatim.

9 I guess, you know, the reality is that
10 plant is -- is now up and running, or will be
11 completely running shortly. And the reality is export
12 prices are not where they should be. So the plant has
13 got to be paid for, and it's going to have to come from
14 somewhere. Based on your previous commentary, you
15 indicated that you felt that asking ratepayers now to
16 pay for future projects is unfair. But this is really
17 about asking ratepayers today for paying for a project
18 today.

19 And the reality is the cost of that
20 plant has to be borne by -- by the current revenues of
21 the organization. And I guess, I'm trying to square
22 your recommendations with the reality that the plant
23 has to be paid for and -- and, specifically, has to be
24 paid for by ratepayers if the revenues aren't -- export
25 revenues are there to -- to cover the cost of that

1 plant.

2 So I'm -- I'm having some difficulty
3 understanding your recommendation that we punt some of
4 those -- you know, that Manitoba Hydro is focussed on
5 addressing the cost of Wuskwatim today.

6 The reality is that the plant's there
7 today, and it's -- it's got to be paid for today.

8 MR. PATRICK BOWMAN: Yes, Mr. Chairman,
9 I completely agree. And -- and you'll note that's -- I
10 probably haven't presented this way, but that's exactly
11 why we wouldn't have netted Wuskwatim out of any of the
12 other analysis that we did. All of our calculations of
13 net income or debt/equity ratios or the like has
14 Wuskwatim in its full glory, included.

15 And it has significant adverse impacts,
16 to use my environmental assessment side of the term.
17 It is -- it is having an -- an adverse impact on -- on
18 rates today, on Manitoba Hydro's financial performance
19 today. and that -- that economic profile shouldn't be
20 surprising, that it would have adverse impacts in the
21 year it comes into service.

22 The magnitude is a little higher -- a
23 lot higher than had been anticipated, but that -- that
24 economic profile is -- is perfectly expected. So,
25 certainly, PUB-11 -- PUB/MIPUG-11 makes no attempt to

1 say, Forget it, cut -- throw it, toss Wuskwatim
2 somewhere else and let someone else pick up the losses;
3 ratepayers aren't doing it. It's got it in, in its
4 full glory to Wuskwatim.

5 And -- and frankly, those debt/equity
6 calculations, you showed twenty-five (25), twenty-four
7 (24), twenty-two (22), those include Wuskwatim in the
8 denominator. That's the equity on the overall system
9 including Wuskwatim. And those net income
10 calculations, those include Wuskwatim in its -- in its
11 full cost as represented in IFF12.

12 If I understand the evidence correctly,
13 it might yet get a bit worse for -- for the annual
14 impacts if the First Nation agreement is changed but --
15 which is -- which is not represented here. But -- but
16 it's got it in -- in its -- in its full impact, and it
17 -- and it has ratepayers picking up the tab.

18 The thing I think we have to be cautious
19 about, and particularly where we're talking about these
20 as policy decisions more so than -- than simple
21 accounting standards or the like, is we've got
22 Wuskwatim built. It's -- it's probably -- if -- if
23 past history is any guide, it's probably going to turn
24 out to be a -- a good project in the long term. It's
25 probably going to be -- going to be an asset future

1 generations can count on. It's going to be needed for
2 domestic service in a relatively short period of time.
3 It's debatable whether it is today. But we're not
4 talking decades away; we're talking years away.

5 And -- and I -- I'm -- I'm not sitting
6 here even saying it was a bad decision to proceed with
7 it. I -- I think, given the information at the time,
8 people had a -- a sensible reasoning that led them to
9 make the decision. And -- and actually, in hindsight I
10 think you'd have to do some very different analysis
11 than has been done to -- to come to any other
12 conclusion. And -- and I'll give you some examples of
13 why I think that.

14 But -- but the end result is we have a
15 project that is having a -- a net negative impact on --
16 on revenues and -- and costs and -- and rates, and --
17 and that's part of the load that -- that we all need to
18 bear. So I'm not suggesting for any -- for a minute
19 that we put our head in the sand, in terms of Wuskwatim
20 and its impacts.

21 I -- I am suggesting that in light of
22 all of that, suggestions that say to keep thing easier
23 on our componentization, we're going to choose to use a
24 depreciation method that further increases Wuskwatim by
25 \$4 million a year, just because we don't want to

1 componentize it further; or -- or that says based on a
2 policy of this Board, in year 1 and year 2, when
3 ratepayers are -- are bearing these impacts, let's also
4 make sure we -- we're starting to put away that
5 salvage, because -- because it does have to come down
6 someday. So let's start making sure that that's in
7 current rate.

8 Those are the pieces where I'm saying be
9 very, very careful, because you've already got a
10 project that's got a heck of a hurdle to try to get
11 over, one (1) that -- that is -- this is -- is a lot
12 bigger than people had anticipated.

13 But I -- just to go back to where I was
14 suggesting, that doesn't mean Wuskwatim was a bad
15 decision to proceed with, because it -- it has provided
16 some other benefits even to date that -- that can't be
17 ignored and that -- that would need to be considered if
18 you were to seriously do it with -- without analysis.

19

20 (BRIEF PAUSE)

21

22 MS. ANITA SOUTHALL: Thank you. I'm --
23 I'm now going to turn to a few questions associated
24 with the discussion, Mr. Bowman, in your -- in your
25 written evidence on the depreciation concepts, the

1 Equal Life Group versus the Average Service Life.

2 And just referring you to page 4-12 of
3 your evidence, lines 12 to 16; page 4-12, Mr. Bowman,
4 in your written evidence. And you'll be familiar, of
5 course, with what you wrote. I'm -- I'm referencing
6 you though to that section on the concept of the
7 economic benefit as a concept of utility.

8 Do you see that?

9 MR. PATRICK BOWMAN: Yes.

10 MS. ANITA SOUTHALL: In terms of the --
11 just -- just focussing on that concept of utility, we
12 also have at -- and I'm -- just as a reference for you
13 and for those following, at tab 68 in our reference
14 volume of materials, Volume V, we also have Manitoba
15 Hydro's response to CAC/MH-1-47.

16 MR. PATRICK BOWMAN: Yes.

17 MS. ANITA SOUTHALL: And with respect
18 to the answer provided by Hydro, the acronym used is
19 IAS number 16, IFRS Section IAS 16 for property, plant,
20 and equipment, section -- or subparagraph 57:

21 "The useful life of an asset is
22 defined in terms of the asset's
23 expected utility to the entity."

24 Do you see that excerpt, sir?

25 MR. PATRICK BOWMAN: Yes.

1 MS. ANITA SOUTHALL: And here just --

2 MR. PATRICK BOWMAN: Yes.

3 MS. ANITA SOUTHALL: -- so I'm not
4 confusing you, yes, I'm still at tab 68.

5 MR. PATRICK BOWMAN: Ye -- yes, I have
6 that.

7 MS. ANITA SOUTHALL: Would you agree
8 that the focus is on the expected utility of the assets
9 in question for Manitoba Hydro expected utility to the
10 entity - in other words, Manitoba Hydro?

11 MR. PATRICK BOWMAN: Yes, that's very
12 much the -- the wording that's there.

13 MS. ANITA SOUTHALL: And Manitoba
14 Hydro's objective with respect, at least to the
15 jurisdiction of this Board, is for setting just and
16 reasonable rates for domestic ratepayers, correct?

17 MR. PATRICK BOWMAN: Yes.

18 MS. ANITA SOUTHALL: Is ut -- can you
19 address the concept of whether utility for a ratepayer
20 is really much the same year after year - in other
21 words, in terms of the service it's obtaining from
22 Manitoba Hydro for the supply of electricity, that
23 concept of utility?

24 MR. PATRICK BOWMAN: I think year over
25 year it is. I think perhaps decade over decade or very

1 long term, it may be different. But -- but year over
2 year it probably is.

3 MS. ANITA SOUTHALL: So getting back to
4 the concept of utility as economic benefit, I
5 understand you to be saying that the economic benefit
6 of Hydro assets specifically provide the largest part
7 of their economic benefit late in life?

8 MR. PATRICK BOWMAN: Yes.

9 MS. ANITA SOUTHALL: And just as an
10 example, sir, once a plant is built, its generating
11 cost per kilowatt hour remains fairly constant over its
12 life.

13 Would you agree with that?

14 MR. PATRICK BOWMAN: Yes, there would
15 be some bumps as -- as different pieces are replaced
16 and the like; but, ye -- yes.

17 MS. ANITA SOUTHALL: So if we said
18 Wuskwatim electricity costs -- and I'm -- just as a
19 hypothetical; I'm not trying to -- to pin this down to
20 an exact number. But -- but for the sake of argument,
21 if Wuskwatim electricity costs thirteen (13) cents a
22 kilowatt hour now, that would be about twice the
23 current residential rate. But just for my example,
24 fifty (50) years from now, thirteen (13) cents a
25 kilowatt hour could be much cheaper by comparison to

1 the -- the rate at that point in time.

2 Is that fair?

3 MR. PATRICK BOWMAN: Yes.

4 MS. ANITA SOUTHALL: And I take it
5 that, in your view, the -- and -- and here I'm trying
6 to -- here I'm trying to juxtapose those two (2)
7 concepts, the -- the constant quantity of power for a
8 ratepayer for utility purposes and the late-life
9 economic benefits as utility in your report, I take it
10 that you're of the view that the economic benefit
11 concept best captures the IFRS concept of utility?

12 MR. PATRICK BOWMAN: I -- I want to be
13 careful, I'm not trying to put an economic definition
14 on -- on words written for an accounting standard. But
15 as an economist reads the IFRS definitions, it would
16 lead to a somewhat different premise for the way one
17 thinks about depreciation than -- than the words that
18 are used, for example, by Mr. Kennedy, which is far
19 more of a bricks and mortar type of language that you -
20 - the -- the wear and tear or the wear-out of the
21 asset.

22 Thi -- this is far more framed, in terms
23 of the economic benefits. In fact, it's in -- it's in
24 bullet 60.

25

1 (BRIEF PAUSE)

2

3 MS. ANITA SOUTHALL: Do you have a view
4 as to how bullet 57 and bullet 60 are supposed to work
5 together, sir? I'm -- I'm looking at -- I think you're
6 referencing bullet 60, which is still at Tab 68, part
7 of the IR response?

8 MR. PATRICK BOWMAN: That -- that's
9 right. I am referencing it. And -- and it would be --
10 it would be outside my area of expertise to interpret
11 them how they were supposed to work together for -- for
12 an accounting standard. I would only read them much
13 like -- I'm not a lawyer, but I still would read the
14 Act to understand the framework of what people are
15 trying to achieve.

16 And -- and I would read them to say, you
17 know, don't -- don't link your depreciation to the
18 revenue generated or to -- or to the -- the kilowatt
19 hours produced, but -- but you should be considering
20 your -- in -- in your depreciation, not just a
21 reduction in -- in the thickness of the bricks. You
22 should be thinking about something that's actually got
23 an economic concept associated with it.

24 MS. ANITA SOUTHALL: Mr. Chairman, I
25 have approximately a half an hour to conclude. Should

1 I just carry on?

2 Okay. The home stretch. Sir, if you
3 wish, I'll refer you to yesterday's transcript, page
4 5334, and here you may remember speaking to the
5 estimates of differences and costs between the
6 application of the ELG depreciation policy versus ASL
7 and the impact on costs for various capital projects.

8 Do you remember that?

9 MR. PATRICK BOWMAN: I don't have the
10 transcript in front of me, but I -- I'm prepared to
11 proceed if it doesn't require me to have the words.

12 MR. ANTOINE HACAULT: I think you can
13 just proceed, Ms. Southall. It's just he won't
14 remember his exact words. If the exact words are
15 important, then it -- it would be preferable to have
16 the transcript, but if it's just to put a discussion
17 into context, please proceed and Mr. Bowman will do his
18 best to answer the questions.

19 MS. ANITA SOUTHALL: Yes, it is an
20 exact-word question, so, Mr. Hacaault, I appreciate
21 that, and thank you, Mr. Bowman.

22

23 CONTINUED BY MS. ANITA SOUTHALL:

24 MS. ANITA SOUTHALL: What I wanted to
25 put back to you, sir, are the estimates of the

1 differences in costs between the two (2) depreciation
2 methods. For, for example, Wuskwatim, the estimate of
3 difference was, I believe, \$4 million currently.

4 MR. PATRICK BOWMAN: For Wuskwatim, we
5 were quoting four (4), but I -- we have to be a little
6 bit careful because there's actually about three (3) or
7 four (4) different figures on the record as to just
8 what -- what the requirements of depreciation would be
9 under different methods, though the -- the two (2) that
10 we have that we have some confidence with at this point
11 is -- that -- that I'm referencing in there is what's
12 in the IFF.

13 And -- and when I say Wuskwatim, I mean
14 Wuskwatim generation only, I'm not even touching
15 transmission, but we know what's in the IFF because we
16 have that in one exhibit that I would have to look up,
17 but I -- I'm happy to do that, and the other one we
18 have is -- is what the go-forward ELG rate would be.
19 And so comparing those two (2), the difference is -- is
20 3.6 million, and -- and so when you talk about what's
21 the IFF missing, it -- it's missing, you know, that
22 amount per year.

23 MS. ANITA SOUTHALL: So I will round it
24 to four (4) for this discussion, Mr. Bowman. And if --
25 if you take that out twenty (20) years, that's --

1 that's an \$80 million impact for Wuskwatim.

2 Is that fair?

3 MR. PATRICK BOWMAN: Yes.

4 MS. ANITA SOUTHALL: Bipole 3, \$5
5 million, taking it out for fifteen (15) years, \$75
6 million --

7 MR. PATRICK BOWMAN: Yeah.

8 MS. ANITA SOUTHALL: -- with that
9 simple math?

10 MR. PATRICK BOWMAN: Yes, I said that,
11 and the 5 million was -- was a quick estimate that we
12 did simply by saying, Look at the Bipole value, the
13 cost of the project, and -- and look at the -- the
14 amount of true-up that would be credited against it in
15 the IFF so far that is probably not -- not an
16 appropriate treatment of true-up. So that -- that's
17 where you get the 5 million. And five (5) times
18 fifteen (15) is the 75 million, yes.

19 MS. ANITA SOUTHALL: Thank you. And
20 then Keeyask, it was estimated -- and now we're talk --
21 we are definitely talking rough numbers, but about four
22 (4) times the size of Wuskwatim, led to \$16 million for
23 twelve (12) years. Again, the math is \$192 million
24 over that period?

25 MR. PATRICK BOWMAN: Yes, and again,

1 that's based on four (4). If you use three point six
2 (3.6), it -- it starts to matter at this, but -- but
3 that -- in that order.

4 MS. ANITA SOUTHALL: And finally,
5 Conawapa, and I agree it -- and I acknowledge your
6 point that three point six (3.6) versus four (4)
7 continues to -- to grow, but Conawapa, if we use seven
8 (7) times Wuskwatim, \$28 million for seven (7) years at
9 \$196 million?

10 MR. PATRICK BOWMAN: Yes.

11 MS. ANITA SOUTHALL: So the total of
12 those amounts, \$543 million?

13 MR. PATRICK BOWMAN: Yes, excluding any
14 other overlapping impacts on -- on other aspects. But,
15 yes, that -- that's the number. I believe five fifty
16 (550) was the number I quoted.

17 MS. ANITA SOUTHALL: And that's the
18 difference in cost to ratepayers solely from this
19 particular depreciation change, best -- based on what I
20 have put to you as -- as estimated values, correct?

21 MR. PATRICK BOWMAN: Yes, for those
22 four (4) projects and -- and noting that Bipole may be
23 underestimated. It's the impact solely due to the ELG
24 method as compared to what's in the IFF. I -- as I
25 noted, what's in the IFF may not exactly be with ASL,

1 but -- but that's what it was intended to be, and --
2 and certainly this is a cost of the ELG that's not yet
3 reflected in -- in the IFF.

4 MR. RAYMOND LAFOND: Can I ask -- can I
5 ask a question? Would you accept, however, that this
6 is looking just at these projects very specifically,
7 but if you took the whole group of assets of Manitoba
8 Hydro, it could be that by the time Conawapa comes in
9 some other existing assets or that have existed for
10 twenty (20) years and forty (40) years and more, they
11 would have a lower depreciation rate under ELG than
12 under ASL, and that would offset some of the cost?

13 I mean, in other words, you really have
14 to look at the whole package, correct?

15 MR. PATRICK BOWMAN: Oh, absolutely,
16 you have to look at the whole package. My only comment
17 would be, as we saw this morning, we saw capital
18 spending that's going on outside of major new
19 generation transmission being on the order of half a
20 billion dollars a year, and that would tend to replace
21 the -- the elderliness factor of the -- of the -- the --
22 - of the assets that are aging.

23 And the other thing is this is solely
24 four (4) of the projects in the major new generation
25 transmission. We're not talking Pointe du Bois

1 spillway. We're not talking some of the other major
2 transmission projects that are built into that. So --
3 so I think once that's taken into account I would -- I
4 would have considered this possibly an underestimate.
5 And -- and I'd only say it goes to -- it goes to a
6 point. I'm -- I'm not sure if I did get it in on the
7 transcript yesterday, but there is a very important
8 depreciation text that -- that Mr. Hacault and Mr.
9 Kennedy talked about that the NARUC produced the
10 regulator utility commissioners, and it has a pretty
11 important quote in it, that applying ELG to a group of
12 assets will lead to -- on a consistent basis, on a
13 declining ba -- basis, will lead to higher depreciation
14 in the early years and lower in the later years. But
15 applying depre -- ELG to a utility that's got a growing
16 asset base can lead to higher annual depreciation
17 expense forever.

18 So the -- the promised land, if you
19 like, by the time it arises, it's -- it's been inflated
20 or deflated down to -- down to nothing, and the next
21 asset is the one that's now dominating. So -- so
22 pretty quickly, this whole concept of intergenerational
23 equity, it's would you rather pay higher depreciation
24 expense forever or lower depreciation expense forever.
25 You know, it's -- it's almost that simple.

1 CONTINUED BY MS. ANITA SOUTHALL:

2 MS. ANITA SOUTHALL: Sir, I just want
3 to ask a couple of quick questions on depreciation
4 treatment of past variances. I believe you commented
5 in your report that Manitoba Hydro intends to refund
6 any accumulated depreciation surplus over the remainder
7 of the service life of each asset.

8 Do you remember addressing that?

9 MR. PATRICK BOWMAN: Yeah, the phrase
10 is the probable remaining life of each. And it's not
11 each asset, it's each asset class or each asset
12 account, yes.

13 MS. ANITA SOUTHALL: Okay. Thank you
14 for that clarification. I understand from your report
15 that this is not uncommon in the utility industry, this
16 treatment?

17 MR. PATRICK BOWMAN: Yes.

18 MS. ANITA SOUTHALL: Do you agree with
19 that approach?

20 MR. PATRICK BOWMAN: I -- I agree with
21 the approach in normal circumstances. I know, not
22 hearings that I've been involved in, but certainly some
23 places, people will make a distinction between
24 variances that arise due to change in lives and
25 variances arise due to change in -- in approach or

1 change in -- in method, and -- and they'll make a
2 distinction between the two (2).

3 Variances that arise due to change in
4 life they may do this way because it's -- it's just a
5 matter of updating estimates. Variances that arise due
6 to change in policy or approach they may -- may treat a
7 different way, either -- either accelerate or -- or do
8 one (1) time adjustments or -- or one (1) test period
9 adjustments.

10 But -- but, no, I ha -- I have -- in --
11 in the case where Manitoba -- we're dealing with
12 Manitoba Hydro where -- where there are long-lived
13 assets, where there are some very surprising -- not
14 surprising, but fairly -- fairly severe changes in life
15 estimates in certain asset classes that have not been
16 approached with moderation the way they may normally
17 be, and -- and where you have a utility that's in
18 fairly severe need of -- of cash constraints for the
19 other things we've looked at. I -- I wouldn't think
20 you'd want to go to a more aggressive refunding
21 approach at -- at this point in time.

22 But -- but I would say that the -- the
23 asterisk beside the retained earnings is merited for
24 this -- for this extra calculated protection that
25 exists in the system.

1 MS. ANITA SOUTHALL: Sir, if I could
2 just explore with you some information that came
3 forward in the MIPUG 2012 GRA presentation. I
4 understand that MIPUG members had indicated the need
5 for other demand response programs which may be
6 available in other jurisdictions.

7 Is -- do you know if that's correct?

8 MR. PATRICK BOWMAN: They've mentioned
9 it to me a few times and I know they've mentioned it to
10 Hydro that this concept that they call Demand Response
11 is -- is available other places and that they would
12 like to see it here.

13 MS. ANITA SOUTHALL: There are special
14 programs for Canexus from a -- an enterprise called
15 Entergy in Louisiana as I understand it from
16 information received by the Board in this hearing.

17 Are you aware of that?

18 MR. PATRICK BOWMAN: I am only aware of
19 it to the extent that I've been sent a copy of the rate
20 schedule. Canexus was -- they -- I've seen the rate
21 schedule. I have it available if its helpful. It's a
22 -- it's a special rate that's in place for electro-
23 chemical companies and -- and to the best of my
24 knowledge it may actually be closed to new members at
25 this point but it still has a rate that is -- that is

1 being charged to -- to others in their field in -- in
2 Louisiana.

3 I believe it may be the only example
4 that I know of that's a special industry specific rate
5 in -- in the -- in the information that -- that they
6 made available.

7 MS. ANITA SOUTHALL: If you're in a
8 position to provide the details of that program, we'd
9 like to request that to file --

10 MR. PATRICK BOWMAN: Sure, I have a
11 package. I did make sure that I got a hold of a
12 package of the -- the rates to the ext -- all the
13 public available information to back that up because I
14 thought the question might arise. So I do have that
15 available for -- for most of the jurisdictions they --
16 they sited in that presentation.

17 And so I will undertake to provide those
18 --

19 MS. ANITA SOUTHALL: Yes, please.

20 MR. PATRICK BOWMAN: -- that package of
21 information to you.

22 MS. ANITA SOUTHALL: And yes, that's an
23 undertaking. And thank you, Mr. Bowman.

24

25 --- UNDERTAKING NO. 96: Mr. Bowman to provide

1 details of the Entergy
2 program of special rates

3

4 MR. PATRICK BOWMAN: If -- if it's okay
5 for the record, I would just clarify these are
6 calculations done by Canexus and by Mr. Yan not -- not
7 by me personally but -- but it's the information they
8 rely on for decision making.

9

10 CONTINUED BY MS. ANITA SOUTHALL:

11 MS. ANITA SOUTHALL: Understood sir.
12 Could you briefly discuss the merits -- the possible
13 merits of revival of the demand concessions program to
14 augment the Curtailable Rate Program as a demand
15 response offering?

16 MR. PATRICK BOWMAN: I wouldn't think at
17 this particular point in time there is a, there is a
18 strong need for a demand concession type of program.
19 That was a, an offering -- just to give some
20 background, Mr. Chairman, that was an offering that
21 Manitoba Hydro and some of its customers worked out
22 that had an opportunity for customers who were
23 experiencing severe downturns and as a result were
24 scaling back their plants to be able to avoid some of
25 the -- of the very surprising demand charge effects

1 that can arise when your -- your load drops back.

2 And -- and there had been some
3 conversation earlier about -- about ratchets, that
4 ratchets affected that to some extent. The ratchets
5 are now gone but they were in place at that time. So
6 that would be one (1) of the reasons I'd say it's less
7 needed.

8 And the other is that, is that the
9 demand charges particularly for the greater -- general
10 service greater than a hundred (100) are -- are -- are,
11 right now, at a level of north of five dollars (\$5)
12 that are such that if the customer drops its load back
13 to respond to a -- an industry event or a downturn, it
14 can get very onerous demand charges that make its
15 average cost of energy go through the roof. So that --
16 that program was meant to -- to relieve some of those
17 demand charges. It was -- it was -- never affected
18 their cost of energy, they still paid full cost of
19 energy for every kilowatt hour.

20 What the members have had the
21 opportunity to do and -- and I am encouraged by what
22 Hydro's been able to do to bring forward this time of
23 use proposal, it'll be subject of the -- the latter
24 hearing but -- but -- and -- and we may have some
25 comments at that time and it may not be perfect, but

1 one (1) of the things it does is it materially reduces
2 the demand charge, like cuts it basically in half. So
3 -- and it picks up that amount through varying time of
4 -- of -- of varying energy charges through different
5 times of day, so it shifts much of the costs over to
6 energy.

7 And as a result, if a customer does set
8 new demand charge peaks or is operating at a certain
9 level and they have to drop back they're not going to
10 see nearly the same demand cost penalty that would have
11 arisen under the -- under the existing or the rate
12 schedule, the one (1) that was in place particularly
13 before the ratchets existed.

14 So -- so that program I think was a
15 fairly unique offering. It was a one (1) time thing.
16 It was responding to a very specific downturn and it --
17 and it reflected the rate schedule in place at that
18 time and probably had we had the -- the time of use
19 rate akin to what's being proposed for the next hearing
20 it probably wouldn't even have been needed, but -- but
21 that's -- that was then.

22 MS. ANITA SOUTHALL: Now, sir, I just
23 want to talk with you for a few moments about the --
24 the drought scenario for Manitoba Hydro and the net
25 revenue reductions that they project based on their

1 estimates of five (5) and seven (7) year droughts.

2 And I -- I don't intend to refer
3 everyone to the two (2) exhibits, but our reference
4 information is found in Manitoba Hydro Exhibit 38 and
5 Manitoba Hydro Exhibit 40, for the record.

6

7 (BRIEF PAUSE)

8

9 MS. ANITA SOUTHALL: I will, for the
10 sake of -- of people attempting to locate it though,
11 indicate that, pardon me, Manitoba Hydro Exhibit number
12 38, it is...

13

14 (BRIEF PAUSE)

15

16 MS. ANITA SOUTHALL: Okay. It's
17 specifically a reference to MIPUG/MH Round 1 36R. Oh,
18 sorry, revised. I thought that was subsection (r). I
19 was shocked by the number of sub-questions. Okay. It
20 was revised. MIPUG/MH-1-36 revised. And on there it
21 would be page 2 of 2.

22

23 And then on Manitoba Hydro Exhibit
24 number 40, it would be PUB/MH Round 2 Question 91
25 revised, and there you'd be looking at page 2 of 14.

25

1 (BRIEF PAUSE)

2

3 MS. ANITA SOUTHALL: Okay. Having said
4 that, I don't need you to turn there. I've given you
5 some specific information. So first of all, sir, if
6 you're able to confirm that Manitoba Hydro has
7 identified drought scenario net revenue reductions, not
8 including finance costs as follow: First, for a
9 drought starting in 2014/'15, a five (5) year drought,
10 net revenue reduction of \$1.341 billion and just
11 staying on that for a moment, a seven (7) year drought
12 starting in 2014/'15, \$1.945 billion of net revenue
13 reductions.

14 Can you confirm that, sir?

15 MR. PATRICK BOWMAN: I -- I see those
16 numbers at Exhibit 38. I would have to double check,
17 because we were just in our pre-filed testimony where
18 we quoted them as saying a five (5) year drought was
19 1.6 billion. And so it may be the different is IFF.
20 This is IFF12 and that was IFF11-2. The numbers we
21 were working with were a little higher than that
22 actually, one point six (1.6), but this has one point
23 (1.) -- one point three five (1.35), but -- but I see
24 those numbers, yes.

25 MS. ANITA SOUTHALL: And then in

1 Exhibit 40' a drought starting in 2021/'22, a five (5)
2 year drought, \$2.473 billion of net revenue reductions,
3 a seven (7) year drought of \$3.130 billion of net
4 revenue reductions, correct?

5 MR. PATRICK BOWMAN: Yes.

6 MS. ANITA SOUTHALL: Can you confirm
7 that these drought revenue reductions with the addition
8 of finance costs could be at least 25 percent higher?

9

10 (BRIEF PAUSE)

11

12 MR. ANTOINE HACAULT: Just for
13 clarification, we've had a discussion on the record
14 that some of these numbers and -- and I'm not sure I
15 understand the question with respect to that part --
16 some of these numbers are the expected revenue of
17 Manitoba Hydro and don't -- aren't net losses.

18 So are you putting to this witness that
19 these numbers are net losses, or a change in what the
20 expected revenue is, because we had looked at some of
21 those charts and if the expected revenue is \$125
22 million per year, there may be a difference between the
23 expected revenues and what is actually generated as
24 revenues, but it may not, in fact, in a particular year
25 generate any losses. There may still be positive

1 revenue. But I just want to --

2 MS. ANITA SOUTHALL: Mr. Hacault, if I
3 could just stop you there and tell you that I was
4 referring to net revenue reductions from these
5 exhibits, so I use precise language, and that's really
6 what I'm asking. So, first of all, we have an answer
7 already to that question.

8

9 CONTINUED BY MS. ANITA SOUTHALL:

10 MS. ANITA SOUTHALL: Mr. Bowman, are
11 you able to comment on what the cost of financing --
12 what additional cost on an estimated basis would have
13 to be added to the revenue reductions based on Hydro's
14 identified drought scenarios?

15 MR. PATRICK BOWMAN: I haven't
16 estimated it. And -- and I'm not sure it would be as
17 simple as 1 percentage because it -- it depends on the
18 particular timing of those -- of those reductions, but
19 I don't think it would be very difficult for one to do
20 it. I just -- I -- I haven't done that. But, you
21 know, the first year negative impact would then be
22 multiplied by four (4) years of what the -- the
23 borrowing rate in that -- in that year was, and the
24 second year impact, we'd have to multiply by three (3)
25 years if you're trying to target what the fifth -- the

1 final value into the fifth year was.

2 But I haven't -- no, I haven't tried to
3 do that calculation. I'd be surprised it's as high as
4 25 percent, but I -- I suppose it's possible.

5 MS. ANITA SOUTHALL: And should the
6 finance expense in that case be considered an impact of
7 the drought, in your view?

8 MR. PATRICK BOWMAN: Yes. But I think
9 you have to be careful about considering the reduction
10 in net income being impact to the drought. These net -
11 - net revenue reductions are -- are not net income
12 reductions. And -- but finance -- absolutely finance
13 expense related to droughts is one (1) of the concerns
14 that we've expressed in past -- past proceedings, that
15 -- that if -- if a drought were to happen, one (1) of
16 the things that could end up impacting ratepayers is
17 simply paying for the interest on a drought.

18 That -- that can be a rate shock in and
19 of itself and it's one (1) of the reasons why I've en -
20 - encouraged that rather than look at something like
21 does retained earnings greater than drought cost, that
22 we look at something that says, no, run some scenarios
23 for me and show me where this drought could arise and
24 what you'd have to do to rates in order to withstand --
25 to -- in order to maintain a financially healthy

1 utility and tell me whether we get rate increases that
2 -- that are at a level that -- that would -- would
3 shock the system.

4 So that would include interest cost
5 impacts. And -- and I would strongly encourage that to
6 be part of -- of an overall assessment that's properly
7 -- properly looking to the rate impacts of a -- of
8 these future scenarios.

9 MS. ANITA SOUTHALL: Sir, in here I --
10 I simply want you to be able to refer to your evidence.
11 I -- I'm not intending to make any specific reference
12 to it, but it's your Section 4.3 starting on page 4-17.
13 There is some discussion at that part of your report on
14 drought risk.

15 So just in the event that you want to
16 have reference to that section or take us there. I
17 just wanted you to -- to comment on whether you see a
18 need for reserves additional to drought reserves to
19 cover infrastructure failure and reliability issues.

20 I did hear, by the way, and noted your
21 evidence yesterday that, for example, infrastructure
22 fail may pale in comparison to the general cost it
23 might be to Manitobans. But now I'm asking you the
24 specific issue associated with what reserve may need to
25 be met, if any additional reserve for such failure.

1 MR. PATRICK BOWMAN: All right. I'm --
2 I'm happy to go there. I would just note before I
3 move, I have -- since I have my finger in the book and
4 I'm running out of fingers, you had asked about five
5 (5) and seven (7) year droughts and -- and occurring at
6 different times.

7 And -- and there -- there was an IR
8 asked of us, PUB-8, which goes through that at part --
9 part C. And it -- it asks about later droughts and --
10 and we did some estimates there. So if it's -- if it's
11 helpful to you later, PUB-8.

12 Now flipping back to the question on --
13 on reserves, my general comment on risk and reserves
14 which was made in the previous hearing, as well, is the
15 -- the approach that's been taken to date has been to
16 say Hydro should work to get to a 20 -- 75/25
17 debt/equity ratio. As much as I may have had
18 skepticism about trying to target something as a ratio,
19 we didn't -- we didn't necessarily find that it -- it
20 was de-linking for other concepts, like 25 percent
21 equity was also pretty close to the cost of a five (5)
22 year drought. Those used to be around \$2 1/2 billion.

23 So as long as they're heading in that
24 direction and we're doing it with rate transitions,
25 we've -- I've generally been supportive of that, and --

1 and think that that's a -- that that was a reasonable
2 direction to go.

3 When we get to where we are now and
4 droughts are somewhat less costly and -- and reserves
5 are -- are getting up there and -- and, in fact, will
6 continue to grow even if the percentage shrinks, I
7 think that we start to get into a point where a simple
8 ratio like debt/equity starts to -- starts to drop
9 down.

10 So if -- if the debt/equity ratio is
11 meant to say we need reserves for a drought, well,
12 that's 2 billion, plus we need reserves for an
13 infrastructure failure, that's two point five (2.5),
14 plus we need reserves for interest rates, and that's --
15 and you do some sort of simple addition, you could come
16 up with some very large numbers that are -- that
17 probably aren't merited on a reasonable risk scenario.

18 The -- the proper way to get that
19 assessed would be something more akin to a stress
20 testing, setting up some form of model for Hydro that
21 can actually assess its ability in future to charge --
22 charge rates that -- that aren't shocked or that aren't
23 driven to unstable levels, and then throw some of the
24 scenarios at it, be it infrastructure failure or -- or
25 drought along with its attendant interest cost risks

1 and that sort of thing, and -- and see whether our
2 level of rates today is sufficient to provide for a --
3 a robust system.

4 If not, then I think we would conclude
5 that ratepayers today are -- are paying a rate that --
6 that isn't enough, isn't high enough to -- to give
7 themselves their own protection, which they -- they
8 probably ought have into the future.

9 So, yes, infrastructure risks should be
10 part of an assessment, yes, drought risk along with its
11 interest costs should be part of an assessment, but we
12 need to be very careful of thinking that it's an
13 arithmetic addition calculation.

14 If -- if you're going to go to something
15 more sophisticated, tools like that, I think -- I think
16 you need to start to use -- use some of the -- the type
17 of -- of modelling and thinking that -- that people who
18 have a -- a more sophisticated risk assessment, whether
19 that be an insurance company type of thinking or the
20 like, that could bring to it. And -- and I would
21 highly encourage it to be based on a -- a metric of,
22 Can we maintain stable rates in the future?

23 MS. ANITA SOUTHALL: So just my last
24 question in this area is that the reserves are used by
25 the utility for more than just risk exposure. They're

1 also necessary to allow the utility to obtain
2 financing, and in particular, in the near future, with
3 Hydro's preferred plan, they're going to need to be
4 available to acquire billions of additional dollars in
5 financing, correct?

6 MR. PATRICK BOWMAN: Yes.

7 MS. ANITA SOUTHALL: So the retained
8 earnings play more than just a part in terms of
9 buffering any kind of exposure to drought risk or
10 infrastructure risk. They actually need to be there
11 beyond that for other purposes, and that would need to
12 factor into the equation in terms of what the
13 reasonable retained earnings are, correct?

14 MR. PATRICK BOWMAN: Well, it -- it --
15 if so, then we might have a -- a bit of a problem
16 because if -- if the only way Hydro's going to be able
17 to carry out its capital plan and do the borrowing
18 needed is -- is that it's got 2.5 billion in reserves,
19 then somebody's really rolling the dice on going
20 forward with a capital plan that can -- that can get
21 them halfway through it and then a drought happens and
22 all of a sudden the retained earnings are low and they
23 can't even borrow to finish the projects.

24 So I think we have to be careful about
25 assuming that -- that these -- these retained earnings

1 are -- have a sort of sancosanct -- sacrosanct nature
2 in order to allow Hydro to borrow. If we don't -- if
3 we don't have them, they would be unable to borrow.
4 Otherwise, there -- there is a -- a serious need to
5 reconsider Hydro's ability to go forward with the plans
6 that it -- it wants to put forward.

7 But I'm not of that view. I'm -- I'm of
8 the view, as -- as you will have heard, that Hydro's
9 borrowing with the benefit of the provincial
10 government's debt guarantee that's similar to other
11 places where utilities are borrowing with the benefit
12 of a guarantee.

13 The key test on -- on the utility is --
14 is whether it's -- or the entity is whether it's self-
15 sustaining. That test is applied by -- by people who
16 are in markets doing lending, and it's also applied by
17 people who are -- who are auditing whether Hydro can
18 continue to be called a government business enterprise
19 or whether it's going to have to go under a PSAB type
20 of -- of test.

21 So if Hydro's self-sustaining and it can
22 continue to meet those tests, all the evidence I've
23 seen is that it would manage to be able to still be
24 able to borrow with the provincial government
25 guarantee, it would still be able to carry its

1 development plan.

2 If I'm wrong and it's not able to be
3 self-sustaining and it's going to start to seriously
4 undermine its ability to borrow by not having reserves,
5 then -- then I don't know how in good conscience anyone
6 can say, Go ahead and put a shovel in the ground in
7 Conawapa.

8 But -- but by gosh and by golly, if we
9 happen to get a drought we're all in a pickle 'cause
10 we're never going to be able to borrow the money to
11 finish it. That's -- that's -- be a very severe
12 outcome. And -- and it would go to suggest that this
13 utility can't handle that plan.

14

15 (BRIEF PAUSE)

16

17 MS. ANITA SOUTHALL: Just one (1) last
18 question, sir. Mr. Williams asked you a question
19 associated with the evidence you've given to the Board.
20 It being your opinion as opposed to MIPUG's position.
21 I'm trying to achieve some clarity on that, sir.

22 If -- if you could just explain, I want
23 to go back and have you just confirm to the Board, I
24 understood you to say that the guiding principles that
25 you used were informed by the instructions you receive

1 by your client which is MIPUG. Is that correct?

2 MR. PATRICK BOWMAN: The -- not quite.
3 The guiding principles that are set out in chapter 2 in
4 terms of what we look at will be guided by -- by the
5 client and what we understand of the client. And I
6 wanted to make sure that was in black and white. It'll
7 help us decide what to look at. It'll -- it's the
8 reason I'm not commenting on DSM programs for
9 residential customers. It's not -- not something
10 they're all that interested in spending my time or
11 paying to -- to have reviewed.

12 It also will dominate their concerns in
13 terms of priority of -- of the principles. So, as I
14 noted for -- for industrial customers, stability and
15 predictability is -- is actually more important than
16 rates being low, especially in something that -- that
17 could serve to operate as a closed system like Manitoba
18 Hydro.

19 So, having unsustainably low rates that
20 fail the shock test so that some day Manitoba Hydro's
21 going to be coming in saying, It stopped raining or --
22 or Dorsey got hit by a tornado or -- or whichever
23 outcome you want to pick, and as result, we need 20
24 percent rate increases for the next three (3) years is
25 not going to help industrial customers and it's not

1 going to be that beneficial that they got low rates for
2 a couple years when their -- their plant is basically
3 stranded because they -- they made investment on a
4 particular premise. So --

5 MS. ANITA SOUTHALL: Can I just
6 interrupt you, sir. I'm sorry, I've lost track
7 actually -- what you were attempting to address.

8 I was trying to simply identify, you've
9 been retained by MIPUG, that much is clear. And I
10 followed the -- in fact, I was over here nodding my
11 head, I followed the points that you'd identified that
12 have been long standing principles that MIPUG
13 identified with. And I think that's maybe what you
14 were just commenting on. But really, I just wanted to
15 capture that -- that narrow point.

16 So -- so that's valid. The items you've
17 stated as MIPUG's long-standing positions are -- remain
18 accurate.

19 MR. PATRICK BOWMAN: I have to let the
20 members and the group speak for themselves as to what
21 they think is important. I've put in here my
22 understanding of what they think is important and how
23 it's shaped our review.

24 MS. ANITA SOUTHALL: And this -- I'm
25 not sure who this question's properly for, Mr. Hacault

1 or Mr. Bowman, but is there anything that you're --
2 that you're recommending to the Board that somehow
3 differs from how MIPUG see's these issues? I think the
4 panel members just need to understand that clearly,
5 sir.

6 MR. PATRICK BOWMAN: I -- I guess I'm
7 the one who's supposed to answer the questions but I
8 can't fully answer that. The key reason why I'm -- I'm
9 careful to make sure I make that statement is that the
10 group will get together on matters of common interest.
11 Occasionally, they'll have matters of individual
12 interest that are different than the group's common
13 interest and some of those will -- will pursued
14 individually outside of it. So -- so it's possible
15 that members in group differ to some extent on some
16 issues. I -- I can confirm to the best of my knowledge
17 that they don't materially differ on any major issue
18 but -- but surely, they differ on -- on some issues.

19 And the other is, once I'm retained I
20 provide them my summary of -- of what I've learned and
21 they say, Yes, go ahead, please provide that summary to
22 the Board. So, you've received the same type of
23 information I would have given to the members. Their
24 specific positions and recommendations as I understand
25 the way these processes are meant to work are -- are

1 Mr. Hacault's area and I understand in February he'll -
2 - he'll deliver that. I'm not aware of any on which we
3 will differ, but I could be surprised.

4 MS. ANITA SOUTHALL: Those are my
5 questions of this witness, Mr. Chairman.

6 MR. RAYMOND LAFOND: I guess I have
7 basically two (2) or three (3) questions. The first
8 one (1) is simply to state assuming -- I mean, this
9 panel will have to reflect on the level of overhead
10 maintenance and administrative expenses; will have to -
11 - to reflect on the whole issue of -- of accounting
12 principles for the future, knowing that CGAAP is -- or
13 -- or Canadian Generally -- Generally Accepted
14 Accounting Principles are -- are committed to become
15 IFRS principles. We'll have to reflect on the issue of
16 depreciation, yes, and it is the NFAAT that's going to
17 be looking at Keeyask or Conawapa.

18 That being said, you have indicated that
19 we should not be including in today's rates costs, for
20 instance, for Keeyask and Conawapa, but however, Bipole
21 3 is not part of the NFAAT and that's coming on for
22 other reasons and mainly reliability reasons, we hold -
23 - we -- we found out about the -- the question of
24 imports and Dorsey, et cetera.

25 So have you attempted to -- to calculate

1 the -- the impact on rates of Bipole 3 coming on stream
2 without Keeyask and Conawapa, without Keeyask and/or
3 Conawapa?

4 MR. PATRICK BOWMAN: No, not -- not
5 individually and -- and of itself. I -- I haven't
6 tried to calculate it. I think that evidence may be --
7 one moment. I think I may have -- have Hydro's version
8 of it in -- in my book, but I haven't tried to -- to
9 calculate it.

10 MR. RAYMOND LAFOND: Okay. Well, that
11 -- that is fine. I -- I think we can reflect on that
12 and look at that later on as a Board.

13 The other question I want to lead to is
14 this: From my understanding currently, Manitoba Hydro
15 is essentially proposing, and that's in rough -- in the
16 rough summary -- summarized statement, increases over
17 the twenty (20) -- next twenty (20) years of about 2
18 percent over and above inflation.

19 And -- and forgetting, for the time
20 being, levels of depreciation, et cetera, so maybe that
21 rate should be 1 1/2 over and above depreciation, over
22 and above inflation over the next twenty (20) years or
23 -- or so.

24 Now assuming we -- or this Board looked
25 at the principle of only including in -- in the rates

1 costs, or -- or debt/equity ratios, whatever they
2 required, for Keeyask and Conawapa, like not
3 considering that and -- and bringing in them --
4 bringing them in rates later on, what that would mean
5 is that, yes, it may be today the increased cost would
6 be more like 1/2 a percent or 1 percent over and above
7 inflation, or zero above inflation, but when these came
8 in there'd be a fairly major shock, like rates could
9 increase by 7, 8, 10 percent, because like for Conawapa
10 for instance in ten (10) years, or Keeyask in what --
11 whichever number of years.

12 So would you -- in terms of stability
13 and reliability, is it your opinion that ratepayers
14 would prefer, for instance as an example, a 4 percent
15 increase or -- or clo -- or approximately a 4 percent
16 increase over twenty (20) years, or rather maybe 2
17 percent for the next three (3) years and then Bipole 3
18 comes in and then it goes up 5 or 6 percent for two (2)
19 years, then -- and then it levels at the -- the rate of
20 inflation and then when another project comes in it
21 increases substantially?

22 So in other words, in steps rather than
23 being smooth and consistent over twenty (20) years.
24 What would you -- what would you recommend to a board?

25 MR. PATRICK BOWMAN: Mr. Lafond, I

1 would -- I would suggest that in Manitoba, where we
2 have this luxury, regular and -- and predictable rate
3 increases should be used and implemented where they can
4 be justified.

5 I think your -- I did find that
6 response, it's -- it's quite -- response to PUB-197 --
7 PUB Round 1 Question 197, and it has the incremental
8 impact of Keeyask in the year it comes into service of
9 a -- a sum total of 89 million and an incremental
10 impact of Conawapa in the year it comes into service is
11 a sum total of 27 million.

12 So we're not talking, you know, 10 or --
13 a 10 percent rate increase, those are -- those are 4 or
14 5 and -- and they'd come to service over a couple of
15 years. So -- so long as they bring the benefits that
16 are assumed here, those are -- those would be entirely
17 manageable rate changes. Bipole is larger. But bi --
18 but Bipole's one (1) of the factors we said we didn't
19 net out of any of our calculations. Matter of fact,
20 the rate increases being -- being put into place and --
21 and recommended in PUB-11 are designed to -- to move
22 the way towards rates that are inclusive of Bipole, and
23 -- and they ought because the next -- that's the next
24 component of the system that needs to be put into
25 place, and it's real and it -- and it's required.

1 MR. RAYMOND LAFOND: Okay. I'm sorry,
2 Mr. Bowman, I should not have quoted examples of rates,
3 like when I said --

4 MR. PATRICK BOWMAN: No, no.

5 MR. RAYMOND LAFOND: -- 10 percent or 7
6 percent. What -- I should have simply said higher
7 levels. My question basically is:

8 Do we prefer smoothing the rates, for
9 instance, having an increase of 2 percent over and
10 above inflation or whatever that would be over the next
11 twenty (20) years or do we prefer rates to go up in
12 steps but at higher rates at a point in time?

13 MR. PATRICK BOWMAN: I -- I think
14 you're -- I -- I think, in general, measured and
15 predictable rate increases at a smooth pace is -- is
16 preferable. And -- and that's part of the reason why
17 I'd be saying adopt all of the 5 1/2 percent rate
18 increases that have already been put into place out of
19 this hearing.

20 The only part I would be saying is --
21 doesn't hold up on the evidence yet is the -- is the
22 subsequent 3 1/2 that would be for next April 1. And,
23 you know, given that there's been a series of changes,
24 I think that -- I -- I wouldn't be saying scale back.
25 I'm not saying the GRA should be zero. It's -- it's

1 still a fairly substantial rate increase over that
2 period.

3 MR. RAYMOND LAFOND: I guess my last
4 question is: Following the principle, again, that same
5 principle where you indicated that rates should not be
6 increasing in advance for projects that have yet to
7 come on stream, for ratepayers, if more money is conve
8 -- is collected in advance for the purposes of
9 smoothing rates over a period of twenty (20) years or
10 so, what it does to the ratepayer, it does not go to a
11 third-party investor.

12 What it does, it simply assures a lower
13 rate in the future because there will have been less
14 debt accumulated at a rate of 6 percent. And whether
15 you're poor or rich, 6 percent nowadays is a very good
16 return on investment.

17 So it is the same ratepayers that would
18 benefit from that, correct?

19 MR. PATRICK BOWMAN: That was my
20 comment about a closed system where I agree with you.
21 The -- the closed system we have with Manitoba Hydro,
22 assuming that nobody's coming along to say I have a
23 reason to want to take a dividend now, you know, it
24 didn't happen one time, it's not -- not in the cards
25 today, to the best of my knowledge, that in that closed

1 system it's -- there's a degree of pay -- pay me now or
2 pay me later, right.

3 That -- that is --

4 MR. RAYMOND LAFOND: Precisely.

5 MR. PATRICK BOWMAN: That is -- that is
6 built into the system. And it's also part of the
7 reason why I'm saying if you're al -- if you're going
8 to have to pay it eventually, and eventually, I'm
9 saying over a horizon of say, you know, ten (10) years
10 or fifteen (15) years or something, then -- then why
11 not get rates to a level where they can be maintained
12 relatively stable and predictably and you're not
13 exposing yourself to a major sho -- shock risk because
14 a -- because a drought happens or an infrastructure
15 happens.

16 But at the same time, you're not making
17 a decision that's on behalf of -- on behalf of
18 ratepayers, I guess, that would suggest that the
19 dollars are -- are better in Hydro to -- to save them
20 for their benefit than -- than they are in -- in other
21 possible uses.

22 By the same token, you know, people can
23 come up with rationales for tax increases to pay down
24 debt or they could come up with -- with lots of other
25 type of forced saving, if you like. I think -- I think

1 my clients would have a comment about -- about forced
2 saving over and above a level that -- that is needed to
3 provide themselves with stability, and I suspect Mr.
4 Williams may, as well, only because those dollars do
5 play a different role when they're out in the economy,
6 and -- and it's not just paying down Hydro's debt.

7 So if you can justify it, if you're
8 putting away your dollars for yourse -- for your
9 benefit of over a ten (10) or fifteen (15) year horizon
10 and it gives stability benefits, then -- then move
11 forward with rate increases.

12 If you -- if all you're doing is saving
13 your -- your grandchildren money, then that may be a
14 different consideration. And -- and certainly if it's
15 -- if it's none of the above, if it's just giving you
16 pay a bit more to pay a bit less later because you're -
17 - you're effectively doing a form of forced savings, I
18 -- I would think -- I would think that couldn't be
19 justified on normal regulatory principles or on test of
20 fair rates. And it -- it may -- it probably isn't --
21 isn't the best outcome for -- for the public interest
22 or for Manitoba.

23 MR. RAYMOND LAFOND: Yes, I -- I
24 totally agree with this principle. I was just -- it
25 was just in terms of for the purposes of smoothing rate

1 increases which are, essentially, either collecting an
2 advance in the short term or not collecting enough in
3 the short term. That's all I was referring to.

4 MR. PATRICK BOWMAN: I agree, and I
5 guess my only comment -- and I -- I -- just to finish
6 the day, I want to be very careful that I wasn't
7 understood to be saying stick our head in the sand
8 about the fact that a new gen -- new generation of
9 resources is going to be acquired, or a new tier of
10 resources.

11 There's no doubt the load's growing,
12 there's no doubt that Manitoba has to be responsive to
13 the load growth and -- and has to have the right
14 attitude to it. There was a period they didn't. Now I
15 -- I don't see that, and -- and we have to seize those
16 opportunities. And as a result of the load growing,
17 higher-cost resources will need to be brought on and --
18 and rate increases will be an entirely appropriate
19 component of that.

20 The only thing that -- my only comment
21 about that is -- is pulling your head out of the sand -
22 - or pulling my head out of the sand. It doesn't mean
23 I've got a clearer picture of -- of the future scenario
24 where you have an IFF that -- that --

25 MR. RAYMOND LAFOND: No, I -- I think -

1 -

2 MR. PATRICK BOWMAN: -- 70 percent of
3 the dollars or --

4 MR. RAYMOND LAFOND: I think I want to
5 rephrase my question --

6 MR. PATRICK BOWMAN: Certainly.

7 MR. RAYMOND LAFOND: -- differently,
8 and I want to -- I'd really like to be clear on that.
9 The question is not in terms of forced savings or --
10 the question is just in terms of smoothing rate
11 increases or decreases.

12 If -- if there's a major incident
13 tomorrow that cost a million and a half dollars,
14 whether it be a drought or whatever, we would not
15 expect to increase rates the following day because all
16 of a sudden we just -- we've got to incur these costs.
17 We'd smooth it over a certain period of time.

18 But that works in terms of deferral, but
19 that also works in terms of -- of advancing the rate
20 collection but again in terms of short-term purposes
21 for the purposes of having -- of smoothing out rates.
22 So one way or the other, and -- and I'm just wondering
23 whether or not you agree with that principle.

24 MR. PATRICK BOWMAN: I -- I agree with
25 the principle, and I was only commenting that moving

1 from principle to theory in this case is -- is a little
2 bit more tricky because -- because we already have had
3 the rate increases, and the question is: Have we --
4 you know, the degrees. Have -- have we had the 4 1/2
5 or 5 1/2 percent that's -- that's doing exactly what we
6 talked about, or does it need to be the full nine (9)?

7 And the other is -- is: Do we really
8 know where we're headed? Because the IFF becomes a
9 very murky, complicated document to understand without
10 an NFAAT as we go forward. So I think I -- I wouldn't
11 want the theory there to be dealing from the -- the
12 practical.

13 MS. ANITA SOUTHALL: Mr. Chairman, I'm
14 not sure if the panel members have any further
15 questions of this witness. No?

16 Ms. Ramage, I think, is indicating she
17 may have something.

18 MS. PATTI RAMAGE: I have good news and
19 bad news. The good news is no reply; the bad news, I
20 just have a few short questions for Mr. Bowman, so --

21 MS. ANITA SOUTHALL: So just to
22 clarify, Ms. Ramage, Manitoba Hydro will have no reply
23 evidence?

24 MS. PATTI RAMAGE: No, we won't --

25 MS. ANITA SOUTHALL: Thank you.

1 MS. PATTI RAMAGE: -- unless Mr. Bowman
2 says something shocking.

3

4 RE-CROSS-EXAMINATION BY MS. PATTI RAMAGE:

5 MS. PATTI RAMAGE: Mr. Bowman, just as
6 a point of clarification, do you acknowledge that
7 Manitoba Hydro will need to report its actual
8 debt/equity ratio on its audited financial statements?

9 MR. PATRICK BOWMAN: Yes.

10 MS. PATTI RAMAGE: Perfect. And would
11 you also acknowledge that your proposed adjusted equity
12 ratio is a notional calculation that does not reflect
13 the actual total amount of issued debt by Manitoba
14 Hydro?

15 MR. PATRICK BOWMAN: Yes.

16 MS. PATTI RAMAGE: We're going two (2)
17 for two (2). Let's go for three (3). Do you think
18 that credit rating agencies will use your nominal debt-
19 to-equity ratio, which subtracts actual debt, or the
20 actual debt/equity ratio as reported on the audited
21 financial statements?

22 MR. PATRICK BOWMAN: I think they will
23 use the actual on the financial statements, and I think
24 they will add to that probably more so the -- the
25 question of -- of whether that debt is self-supporting

1 more so than -- than what its ratio is.

2 MS. PATTI RAMAGE: If only it was
3 always that easy.

4 Mr. Chairman, that concludes Manitoba
5 Hydro's questions.

6 MS. ANITA SOUTHALL: Mr. Chairman,
7 sorry. One (1) other thing is that Mr. Hacault will
8 have the opportunity of redirecting his witness now
9 that all of the cross-examination is finished.

10 THE CHAIRPERSON: Mr. Hacault...?

11

12 RE-DIRECT EXAMINATION BY MR. ANTOINE HACAULT:

13 MR. ANTOINE HACAULT: I have a couple
14 of questions that arose from some of the questions
15 asked by the parties. The first area was there had
16 been put to you, Mr. Bowman, a report from the BC
17 auditor and I believe that was found in Manitoba
18 Hydro's book of documents marked as Exhibit 110. Ms.
19 Ramage was asking you some questions as to whether you
20 were aware of what the province was going to be doing
21 in reaction to the auditor's reports. So that's
22 Exhibit 110.

23 And in that exhibit at page 52, could I
24 direct your attention to the heading that indicated,
25 'The Ministry of Energy and Mines' and appreciating

1 that you didn't have this document and the key parts
2 until today. You had reviewed it in the past.

3 Would you be able to comment further on
4 what Ms. Ramage had asked you with respect to what, if
5 anything, the government indicated it would do after
6 having received the auditor's report.

7 MR. PATRICK BOWMAN: Yes, the -- Mr.
8 Chairman, I -- I do think this is a useful discussion.
9 The -- and -- and it was one (1) of many points that I
10 was relaying at that point in the testimony and -- and
11 certainly I -- I apologize if there was any
12 misunderstanding. There were -- it seems that a lot of
13 times, one (1) statement has a lot of history behind it
14 and there's not always the time to go through all the
15 detail to help the Board understand what -- what all is
16 -- underlies each of these points.

17 But, my understanding having read this
18 document and the structure of the document is that the
19 Auditor General undertook a review that the report is a
20 -- is a excerpted here but it's available publicly.
21 And as -- as Ms. Ramage quoted, the Auditor General
22 said, This is a -- this is a problem and that they --
23 that if this potential could require qualification.

24 The way this report is structured is
25 that -- is that after the auditor had completed their

1 review, there's a response included in the same
2 document, although, I -- in -- in tone it's surely a
3 subsequent piece from the Ministry of Energy and Mines.
4 And that's the document that Mr. Hacault just pointed
5 us to at page 52 of -- of Manitoba Hydro's book of
6 documents.

7 MR. ANTOINE HACAULT: So, we're looking
8 at the heading "Response," that's the very heading of
9 that particular page, "Response from the Ministry of
10 Energy and Mines."

11 MR. PATRICK BOWMAN: And, in this
12 document you'll see the government's response. So, is
13 it -- is it a subsequent newer bit of information than
14 that that Ms. Ramage and I reviewed. It was published
15 at the same time but I think in -- in sequence it's
16 surely newer.

17 And the last paragraph in that is -- is
18 very helpful where the Ministry notes -- and "Ministry"
19 means unsigned, I don't know this means, Minister or
20 whether it means staff means -- it says:

21 "The retention of rate-regulated
22 accounting in British Columbia is a
23 policy decision that the government
24 has made to maintain rate stability
25 and one that is being made in other

1 jurisdictions."

2 It gives some examples and then it goes
3 on to say:

4 "The implications of rate regulation
5 will continue to be transparently
6 disclosed in the audited financial
7 statements of both BC Hydro and the
8 province."

9 And they give a reference to a note.

10 So, I was -- I guess, part of my understanding that --
11 that the auditor's comments weren't -- weren't the last
12 word on this is that the government's had every
13 intention of -- of disclosing any -- any impacts of
14 this and -- and I guess it would -- would fall back to
15 the auditor to determine if the disclosure is
16 sufficient or whether they would need to -- would need
17 to qualify the statements and -- and as I said, to the
18 best of my knowledge, this report was produced in -- in
19 2011. It's been a year and a half and I certainly have
20 not heard of and, as I said, I suspect I would have if
21 the statements had been qualified.

22 It's possible there were no statements
23 but I just wanted to make sure that the Board
24 understood the context of -- of my comments. That I --
25 I would not have understood this report given the

1 response from the -- the Ministry to be -- to be
2 indicating in a substantial ongoing expectation of --
3 of qualified statements.

4 MR. ANTOINE HACAULT: Thank you. Ms.
5 Ramage had also referred you to Manitoba Hydro's long-
6 term debt maturity schedule that was at page 42 of
7 Exhibit 110. And she had referenced certain debt
8 instruments which had interest in the range of -- the
9 first one was C12-1 with the coupon rate of 5.485
10 percent, and that was a hundred million dollars
11 Canadian.

12 And I understood her point to be that
13 those would have to be renegotiated and that this might
14 have an impact on increasing the interest expense.

15 Sir, would -- if we just went right
16 above the C112-1 to a debt instrument that is described
17 as DE in US dollars, can you identify what the coupon
18 rate is and the amount of that particular debt?

19 MR. PATRICK BOWMAN: I'm just reading
20 off the schedule. The coupon rate is 8.12 percent.
21 And the amount is one hundred and eighty-eight point
22 four (188.4) US dollars or -- which is referenced at
23 \$192 million Canadian dollars.

24 MR. ANTOINE HACAULT: So that renewal
25 which is coming up in a couple months, based on

1 Manitoba Hydro's estimates of what it can refinance at,
2 they could refinance that \$192 million at substantially
3 below this coupon rate based on what they've indicated
4 the current rates are and projected to be during this
5 year, correct?

6 MR. PATRICK BOWMAN: Yes. I understand
7 that the IFF12 rates are below that. And I would
8 understand the IFF12 forecasts are -- are presuming the
9 ability to do exactly that.

10 MR. ANTOINE HACAULT: So we have to
11 take not only the bad -- bad ones, but there's some
12 good ones coming up, too, and that's all part of their
13 portfolio?

14 MR. PATRICK BOWMAN: Yes. I -- I think
15 I would have understood Mr. Ramage's cross-examination
16 to be suggesting that there is turnover in the debt and
17 that the IFF assumes the ability to refinance these at
18 a lower price.

19 But in the event one couldn't because
20 interest rates change, the IFF numbers would not arise,
21 and -- and something different would arise. And so
22 that -- that would be the concept of interest rate
23 risk. But again, as I look down this, you'll find,
24 doing quickly the mathematics on it, each year that
25 I've been able to quickly calculate out to about 2018

1 has a relatively consistent turnover of -- of data
2 between 300 and 600 million.

3 Two thousand -- 2018 seems to be
4 abnormally large year of -- of debt turnover. And I'd
5 be curious about the rationale that led to that. But -
6 - but besides that, it -- I wouldn't -- I wouldn't view
7 this -- you know, this -- this is the normal ongoing
8 aspect of debt. This is the -- the turnover and the --
9 the way one manages their exposure to interest rates.

10 This doesn't in any way portray the --
11 the bigger risk, which is all the new stuff that's not
12 coming due to refinancing, it's coming due to financing
13 the -- the big new project.

14 MR. RAYMOND LAFOND: I -- I would
15 suggest that the answer is on page 3 of Exhibit 15 --
16 sorry, Exhibit ni -- Exhibit 9, integrated financial
17 forecast, which are the projected interest rates as
18 built in the IFF?

19 MR. PATRICK BOWMAN: Right. The IFF
20 will show what interest rates are assumed for each year
21 for these refinancing, so. And -- and they're --
22 they're lower than what's here and that's a benefit.
23 And I'm sure that benefit is modelled in the IFF.

24 If they don't end up being as low as the
25 IFF says, then that's a risk. And -- and I think that

1 -- that's part of what's represented. I think that
2 risk though, if you go to the IFF, you'll find the --
3 the risk of these refinancings pales in comparison to
4 the risk of -- of the new financings for the new
5 projects. And that's why -- why this -- this IFF has a
6 seven (7) year horizon which picks up a lot of that
7 front end of that really big spending that's much, much
8 more sensitive to interest rate than the previous IFF.

9

10 CONTINUED BY MR. ANTOINE HACAULT:

11 MR. ANTOINE HACAULT: Mr. Bowman, you
12 had a discussion with some of the Board members with
13 respect to when to start including some of the costs
14 and putting equity into projects. If I take Conawapa
15 by way of example, which was supposed to be put in-
16 service in 1990s. And now, is only projected - and
17 it's not confirmed - that it might be put into service
18 in the year 2026.

19 How does the thought process work?

20 If a Board was doing the rate review in
21 1989 and 1990 with respect to Conawapa and required all
22 ratepayers to put 25 percent down on Conawapa for its
23 in service in the 1990's, what do we do with that 25
24 percent that people put in the project some twenty-two
25 (22) years ago and with a project that now is only

1 going to be put in service perhaps in fourteen (14)
2 years for a total of about over thirty (30) years of
3 keeping equity in a project that somebody thought was
4 going to go in 1990 and somebody now thinks it's going
5 to go in 2026.

6 How does that collection of 25 percent
7 in advance that might have been ordered in 1989, how
8 does that work in the used and useful and rate-
9 regulating principles?

10 MR. PATRICK BOWMAN: Mr. Hacault, I'm -
11 - it's an unusual example. I guess, one (1) layer I'm
12 -- my comment would be you -- you'd want to be careful
13 about thinking about equity or retained earnings or
14 reserves being this one's for this project and this
15 one's for that project. So -- so that'd be my first
16 comment.

17 But, you know, if you set yourself up
18 for a development plan, I don't think you get anywhere
19 near the point where you'd be seeing the -- I say this
20 a bit out of the definitions we're working with here,
21 where you get really -- near the really big spending
22 until long after you know that the project is going
23 ahead. It's only in the early years that you'd have
24 the spending that is -- that is necessary and -- and
25 early and speculative and I mean that in a good way,

1 not in a gambling way, that you would have those type
2 of pressures.

3 But, you know, if your ratepayers of the
4 day cash flow a fairly major development and it -- and
5 it doesn't go ahead, the ratepayers are the only ones
6 who can do that. They're going to have to find a way
7 to -- to have that come out of the utility and I would
8 think that -- that you'd, in this -- in this situation,
9 the main thing is to be cautious that you're not -- not
10 overburdening that system and that you're recording
11 those costs when you can -- you know, as best you can
12 when the benefits arise.

13 And if the benefits don't arise, that
14 becomes a really difficult question. Sort of like the
15 Pointe du Bois spillway we talked about earlier. If --
16 if you have an asset that's not revenue generating but
17 is a large value in your books, it becomes a really
18 difficult question about how Hydro and its ratepayers
19 could -- could deal with that.

20 But I -- I'm not sure I can extend that
21 entirely to the Conawapa example.

22 MR. ANTOINE HACAULT: Just to
23 understand that reasoning a bit more and the whole
24 concept -- I mean, the Act talks about reserves but
25 we've been talking about equity.

1 What happens to, for example, Pine
2 Falls, a major consumer of energy who over a number of
3 years was putting equity so to speak as a ratepayer and
4 then ceases to operate? Can a company like Pine Falls
5 say to Manitoba Hydro, Well, listen, I put in \$3
6 million or \$5 million of equity through my rates, I'd
7 like to get that back.

8 MR. RAYMOND LAFOND: That was not in my
9 father's Will either.

10 MR. PATRICK BOWMAN: Not -- not as a --
11 not as a company, not as a class. There was a time the
12 cost of service study used to run Hydro's calculation
13 of contribution and reserves by class and it showed
14 which classes were contributing and which weren't and I
15 -- I noticed that cal -- column no longer makes it into
16 the cost of service study and probably for good reason,
17 because there really just is one (1) layer of
18 protection available to the group of ratepayers, but
19 it's part of the reason why I would suggest an inter-
20 generational equity isn't just -- isn't just, you know,
21 Pine Falls Paper operating and then not operating.

22 It's -- it's true for -- for residential
23 customers and -- and it's even true for -- for people
24 who stick around, paying in one (1) era versus a
25 different era, but it's why you try to set your rates

1 at a level that reflects the costs that are in -- that
2 are being used.

3 You try to set them at a level that's
4 high enough that it -- it builds up reserves when you
5 need them so that they don't have to be shocked when --
6 when the event arises and if some sort of a sustained
7 change occurs to your costs, either your load grows and
8 you have to bring on Conawapa, or your interest rates
9 change and go up, you -- you work, you flow through
10 some changes to rates at that time and you establish a
11 new sustained level.

12 That's -- and -- and no one -- no one
13 gets an entitlement to -- to the equity they put into
14 Hydro.

15 MR. RAYMOND LAFOND: Can I suggest that
16 this -- this principle applies also for the new
17 industrial customer that comes in, he -- he shares --
18 or this new industrial customer shares in the equity,
19 but doesn't pay for it?

20 So it's -- I mean, it's -- it's a
21 question of how it works and we can't apply that in
22 practice.

23 MR. PATRICK BOWMAN: Right, and it --
24 and it applies not just for the -- the new industrial
25 customer, absolutely. And -- and one (1) of the major

1 debates here at one (1) point was something called like
2 vintaging, like do we -- do we want to take some cheap
3 power from the early plants and assign them to certain
4 classes and then think about other classes getting the
5 new ones and -- and it's -- it doesn't work under a
6 regulatory framework. We're -- we're all in it
7 together.

8 And it doesn't -- it especially doesn't
9 work under an economic framework, which sort of has a
10 phrase of, you know, every kilowatt hour is a new
11 kilowatt hour. Everyone makes their choice as to
12 whether they're going to -- they're going turn on
13 lights tomorrow.

14 So -- so the thought that my grandmother
15 gets -- gets Grand Rapids power and -- and my daughter
16 is going to have to pay for all -- all Conawapa power
17 is -- isn't the way the system works.

18

19 CONTINUED BY MR. ANTOINE HACAULT:

20 MR. ANTOINE HACAULT: This is my
21 second-last question. Ms. Southall had put to you part
22 of Manitoba Hydro Exhibit 38. And Ms. Southall had
23 indicated that this table was a question with respect
24 to net revenue.

25 And I had just wanted to know whether

1 you had been able to verify whether the numbers shown
2 on this table were a change in expected revenue or net
3 losses?

4 MR. PATRICK BOWMAN: I haven't reviewed
5 this table specifically, but I've seen many like it
6 before and my understanding is -- and all of them that
7 I've seen before have been a -- a change in expected
8 net revenue, they are not net losses. There would be -
9 - the net losses would be considerably lower.

10 MR. ANTOINE HACAULT: So that your
11 previous calculation, for example, under IFF11-2, a
12 similar table showed a total cumulative difference
13 between the expected revenue of about \$1.6 billion, but
14 for that particular IFF the net loss was \$600 million
15 less, or about \$1 million according to your evidence.

16 Is that correct?

17 MR. PATRICK BOWMAN: Yes, that's in --
18 that's in our summary at, I believe, it's Section 3 of
19 our -- of the submissions.

20

21 (BRIEF PAUSE)

22

23 MR. ANTOINE HACAULT: So you haven't
24 had the opportunity to do a calculation of what the net
25 loss would be over the five (5) year drought period.

1 It was a difference between 1.6 billion and 1 billion,
2 1 billion being the net losses, but you're unable to
3 tell this Board right now whether the net loss might be
4 in the order of 7 or 800 million as opposed to the
5 number that's shown there.

6 MR. PATRICK BOWMAN: No, we did the
7 calculation two (2) different ways. One was done for a
8 response to a Manitoba Hydro Information Request, I
9 believe, Manitoba Hydro 3, which I -- I think I went
10 through briefly yesterday, but -- but that document
11 showed the bars up and down for -- for water flow
12 variations and it showed the -- the impact of the
13 drought, and it -- it calculated it both ways based on
14 -- I believe this one's been updated to IFF12. I just
15 have to remember which ones we did.

16 IFF -- no, it's 11-2, so it's still
17 based on 11-2, but it -- it does show that what the --
18 what the -- the adverse impact would be, and just
19 checking there. I think this is the one that
20 calculates the -- the 1 billion, the -- the newer one.
21 That was the one that starts at one-six (1-6), but --
22 but it's only 1 billion net losses. The newer one
23 starts only at one point three five (1.35), and it
24 would come to lower net losses, but I -- I would have
25 to calculate that. I don't have that number.

1 MR. ANTOINE HACAULT: I don't know
2 whether it would be of any interest to the Board to
3 know what the net losses are as opposed to the
4 difference between expected revenue, and if -- if
5 that's not of interest, we'll just leave it. That --
6 these numbers do not represent net losses; they're just
7 a variance between the expected revenue and actual.

8 THE CHAIRPERSON: No, I think that we
9 have a good sense of the scale of the impact of -- of a
10 major drought and the -- the difference in numbers with
11 the new environment that we're dealing with, so I think
12 we have a good sense of that, so I don't think we need
13 to go through the step of calculating the impact on net
14 income. Thank you.

15

16 CONTINUED BY MR. ANTOINE HACAULT:

17 MR. ANTOINE HACAULT: Mr. Bowman, there
18 were some comments put to you with respect to the Board
19 documents at page 535. That was at Tab 67 of the last
20 book of documents that Ms. Southall graciously
21 distributed to everybody.

22 Do you have some comments with respect
23 to the discussion that occurred with respect to that
24 page 535?

25 MR. PATRICK BOWMAN: Yes. This is with

1 regard to Wuskwatim, and we had some discussion about
2 the adverse financial impacts that Wuskwatim is having
3 on the test years and beyond. And I made the comment
4 that Wuskwa -- that you have to -- to seriously assess
5 whether Wuskwatim was a good decision or not, this
6 table can't give you the entire answer, and -- and I
7 want to focus on at least three (3) things that -- that
8 tell why it's important to look beyond this.

9 One is Wuskwatim isn't easily thought of
10 as a project that you could do with or without. The
11 IR, I do some assessment and I say at this very moment
12 in time we could be without Wuskwatim, so you can
13 assess it on an incremental approach, which I do here,
14 but -- but I do take quite a while to go through and --
15 and say that there is a -- it -- it isn't -- it isn't
16 the easiest assessment.

17 It's not like choosing, you know,
18 something that's clearly only serving exports and is
19 only ever meant to serve exports, or is only -- only
20 ever have been thought of as serving exports. So -- so
21 I think we have to be a little bit careful about over-
22 reading this table as to the adverse impacts of
23 Wuskwatim. These are clear financial impacts, but
24 there's more to the story.

25 You'd have to look at a credible

1 alternative scenario of what the world would have
2 looked like had people in 2002 or 2003 said, No, we're
3 not going to proceed, and one (1) really good example
4 of that is the load forecasts that occur in 2006 and
5 '07 and '08.

6 In that period, whether I agree with
7 them or disagree with them, Hydro projected some really
8 big load growth, and it projected it happening quite
9 quickly, and that is terrifying to a utility that
10 largely builds hydraulic generation because it's really
11 hard to get hydro on line quickly.

12 As a result of having had Wuskwatim
13 underway, they were a lot more able to deal with that
14 situation than they would have had -- had people said
15 no to Wuskwatim in 2002 or 2003, and you probably would
16 have seen a -- a whole different scurrying reaction to
17 -- to that forecast, right or wrong, at that point in
18 time that could have led to all sorts of different
19 outcomes that could have been considerably more costly
20 than Wuskwatim. So that -- that would be one (1)
21 comment.

22 Wuskwatim -- and that was made all the
23 way back at the CEC hearing. It wasn't just the
24 financial impact of Wuskwatim. It was that Wuskwatim -
25 - Wuskwatim brought the utility certain -- certain

1 gains of protection even during the ten (10) years
2 before it was put into service because it meant you
3 were already advancing onto a plan.

4 And the second thing I'll say is
5 Wuskwatim was the first plant Hydro built in many
6 years, right, since Limestone. And even Limestone was
7 started well before it was ultimately completed because
8 it had been paused in between. And -- and much like
9 some other utilities, it's -- it's very hard to learn
10 and to know how to bring one (1) of these projects
11 online. It is -- it is -- the number of variables and
12 the number of -- of considerations that go into it and
13 the number of skills required and analytical -- and
14 analytics is -- is mind boggling.

15 And as Manitoba Hydro said, we can sit
16 here today and say Wuskwatim's a \$1.6 billion project,
17 which sounds pretty big, but it's only 200 megawatts.
18 And I would not fault Manitoba Hydro for saying before
19 we get to the big stuff, having not done one (1) of
20 these for -- for almost twenty (20) years or not set
21 off on building a project for twenty (20) years and the
22 environment is changing, let's take on one (1) that's
23 got a lot lower risk because it's a much smaller one
24 and let's learn our way to do big projects.

25 And -- and I -- I take with some

1 sincerity there their -- their comments about having
2 learned a lot from Wuskwatim that will be very
3 beneficial for a Conawapa and a Keeyask. I think had
4 you had some of the same problems arise on a Conawapa
5 or Keeyask, it would have been orders of magnitude
6 larger.

7 And of course, the third thing that
8 Wuskwatim did was I think it probably played an
9 important role in changing how -- how Hydro deals with
10 the -- the First Nation partners and the opportunities
11 for investment that again I think you -- you probably
12 have to learn on a small one before you get onto to
13 some big ones.

14 And -- and I'll just say this is -- this
15 goes right back to the -- the Mayo B example you had in
16 Yukon. And -- and I was dealing with a project there
17 that was, you know, in -- in comparison, it was about
18 the size of -- Mayo B in the Yukon is about the same as
19 Keeyask is to Manitoba, not -- not the sum of the two
20 (2). But it's -- it's a much smaller project with many
21 less moving parts and many less variables and it was
22 still mind boggling to figure out how to make
23 everything from -- from fish regulators to -- to water
24 flow implications to erosion studies to ec -- you know,
25 to -- to markets to -- to timelines come together.

1 And -- and I think we'd be in a lot
2 worse position right now if Hydro hadn't proceeded on
3 Wuskwatim and we're all sitting here trying to judge
4 their -- their capabilities and credibility to build --
5 to -- to develop Conawapa and Keeyask.

6 So -- so I think there's some
7 qualitative aspects to Wuskwatim that are -- that are
8 quite important. And they're -- they're part of the
9 reason it's -- it's really hard today to -- to just let
10 the numbers speak for themselves.

11 MR. ANTOINE HACAULT: Thank you, Mr.
12 Bowman. The last thing -- and I don't know whether
13 I've been clarified or more confused by the questions
14 on whether Mr. Bowman was providing an opinion by
15 himself or MIPUG -- but I just want to make it clear
16 for the record, Mr. Bowman, when you provide your
17 opinion, you provide your opinion not influenced by any
18 way as to what the MIPUG members might be saying?

19 MR. PATRICK BOWMAN: That's correct.
20 The members will shape what we look at. And they will
21 have certain priorities that I'm happy to relay, such
22 as stability. But those are exactly the same as
23 regulatory principles I -- I would argue for regardless
24 as to the place I -- and regards to the clients I'm
25 working for, whether it's utilities or -- or clients.

1 So, no, I'm not. In any given issue, my
2 -- my role is to -- to look at it and -- and weigh in
3 based on my opinion.

4 MR. ANTOINE HACAULT: With that, I'd
5 like also to take this opportunity to thank all
6 parties, Manitoba Hydro, Intervenors, their lawyers,
7 and Board counsel and advisors, and finally the Board
8 for having a very good hearing, a very good exchange of
9 information. And we look forward to being able to make
10 some submissions later in February.

11

12 (WITNESS STANDS DOWN)

13

14 THE CHAIRPERSON: Thank you, M.
15 Hacault. Mr. Bowman, thank you very much for your
16 contribution to this hearing. You know, it was a very
17 thorough and well written report, and you patiently
18 answered all of the questions that were addressed to
19 you. And frankly, those questions that were addressed
20 by the panel itself, who as you note -- probably noted,
21 they were -- we were deeply interested in what you have
22 to say.

23 So, your -- your responses and the
24 evidence you provided, as well as your testimony will
25 help us in our deliberations and so thank you very much

1 for -- for that.

2 I have some closing comments for today
3 which, please bear with me while I go through them.

4 On the understanding that Interveners
5 and Manitoba Hydro desire some time following the end
6 of this oral evidence to prepare the closing
7 submissions and on the understanding that Interveners
8 and Manitoba Hydro may want to gather documents and
9 written comments for closing submissions, the Board
10 will sit on Monday, February 25th, at 9:00 a.m. to hear
11 closing submissions from the Interveners and the Board
12 will also sit on Wednesday, February 27th at 9:00 a.m.
13 to hear the closing submissions from Manitoba Hydro.

14 We should alert Manitoba Hydro that if
15 following our further review of the transcripts, the
16 undertakings and the exhibits in response to
17 undertakings, we have further questions of Manitoba
18 Hydro, we will notify the parties through legal
19 counsel.

20 While the dates for closing submissions
21 may be further out than what -- what I would have
22 preferred, those dates are set based on availability.
23 So, the Board will expect written outlines, documents
24 in support of your comments and transcript references
25 that will augment the oral submissions. It would

1 assist the Board very much if you would provide us, not
2 only with your issues but both sides of the issue with
3 pros and cons of each side of the issue, together with
4 your recommendations on the issues.

5 On my -- on a more personal note, I want
6 to thank you all for your contribution to this hearing.
7 It's been a marathon and I -- I and the other panel
8 members are deeply appreciative of the -- the work
9 that's gone into preparing the responses to the IRs,
10 the many undertakings, so, thank you very much for all
11 of your work and I hope that you will have some time to
12 take some rest before we meet again at the end of
13 February and I want to wish a good trip -- because both
14 my wingers here are going on a trip south and I enjoin
15 them to take some time off 'cause I know they'll be
16 working even on their holiday. So all the best to both
17 of you and we'll see all of you again on the 25th of
18 February. Thank you very much.

19

20 --- Upon adjourning at 4:24 p.m.

21

22 Certified Correct,

23

24 _____

25 Cheryl Lavigne, Ms.

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