



“When You Talk - We Listen!”



MANITOBA PUBLIC UTILITIES BOARD

re:

MANITOBA HYDRO

2019/20

ELECTRIC RATE APPLICATION

Before Board Panel:

Robert Gabor	- Board Chairperson
Marilyn Kapitany	- Board Vice Chair
Larry Ring, QC	- Board Member
Shawn McCutcheon	- Board Member
Hugh Grant	- Board Member

HELD AT:

Public Utilities Board  
400, 330 Portage Avenue

Winnipeg, Manitoba

April 25, 2019

Pages 520 to 692

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1 --- Upon commencing at 9:02 a.m.

2

3 THE CHAIRPERSON: Good morning,  
4 everyone. We'll resume with Mr. Luk. Before you  
5 start, I just indicate the time constraints we have  
6 today. We have a member of the panel who needs to be  
7 away at a meeting, so we're going to adjourn for the  
8 lunch break from 11:30 to 1:30, so I'll just advise  
9 everybody.

10 And we need to complete by 5:00 p.m.  
11 today. So, welcome, Mr. Luk.

12

13 MANITOBA HYDRO PANEL, Resumed

14 SHAWNA PACHAL, Previously Sworn

15 LIZ CARRIERE, Previously Sworn

16 SANDY BAUERLEIN, Previously Sworn

17 GREG EPP, Previously Sworn

18 SUSAN STEPHEN, Previously Sworn

19 LOIS MORRISON, Previously Sworn

20 DAVID CORMIE, Previously Sworn

21

22 CROSS-EXAMINATION BY MR. SENWUNG LUK:

23 MR. SENWUNG LUK: Thank you very much,  
24 Chair Gabor. I thank you for -- the note about the  
25 timing. I -- I do hope that will be short.

1                   We have -- we're here on behalf of the  
2 Assembly of Manitoba Chiefs, which represents sixty-  
3 one (61) out of the sixty-three (63) First Nations of  
4 Manitoba. We -- this is our first physical presence  
5 in this hearing, but we have been monitoring and  
6 joining by video conference. And so we -- we have  
7 noted that a lot of the topics that we are interested  
8 in have already been covered by my Learned Friend, so  
9 we won't -- we'll endeavour to -- to not repeat what  
10 has been said, so we do hope to be brief.

11                   So I would just like to begin by  
12 thanking the panel for answering the questions that  
13 I'm about to pose to you. So I -- I'd just like to  
14 begin by a little bit of context.

15                   So at the at the -- at the -- the last  
16 GRA, AMC asked some questions of the CEO at the time,  
17 Mr. Kelvin Shepherd. And in -- in particular, AMC  
18 asked about bill affordabil -- bill affordability  
19 programming, especially as it relates to customers who  
20 are located on first Nations reserves. And I -- I  
21 believe Mr. Shepherd's answer -- and I -- I have his  
22 quote here, it's from page 96 of the transcript from  
23 the previous GRA.

24                   Mr. Shepherd said -- with respect to  
25 bill affordability programming on reserve, he said,

1 "I don't have a solution today, but  
2 I believe we do need to find one."

3 Could I just ask at whoever -- whatever  
4 member of this panel is most appropriate to answer  
5 this question, is that -- is that still Hydro's belief  
6 today, that there still needs to be a solution to the  
7 issue of affordability on reserve?

8 MS. SHAWNA PACHAL: I would say that  
9 that would still be Manitoba Hydro's view.

10 MR. SENWUNG LUK: And in the year and  
11 a half since Mr. Shepherd said those words, what --  
12 what are the steps that Manitoba Hydro has taken  
13 towards finding a solution?

14

15 (BRIEF PAUSE)

16

17 MS. LOIS MORRISON: In terms of bill  
18 affordability programming, we have continued our  
19 initiatives, not specifically -- sorry, we continued  
20 our initiatives for supporting energy efficiency  
21 programming, as we discussed yesterday.

22 And then in terms of, although not  
23 specifically implementing in the last eighteen (18)  
24 months, a program for First Nation customers or  
25 customers on First Nation communities, we have been

1 piloting a program to assist customers with arrears  
2 management.

3                   We introduced that in -- I think it was  
4 in November 2018 to assist customers with outstanding  
5 arrears in managing those arrears going forward,  
6 helping them create more of a budget plan long-term  
7 and allowing them to pay off arrears with no late  
8 payment charges, or, basically, no late payment  
9 charges occurring on those arrears over up to thirty-  
10 six (36) month period.

11                   MR. SENWUNG LUK: Thank you. And I  
12 believe we heard from Mr. Shepherd at the last hearing  
13 that he had endeavoured to visit every First Nation  
14 and had succeeded in visiting most or almost all of  
15 the communities that are the membership of AMC.

16                   And I -- I do understand that there is  
17 a new CEO for Manitoba Hydro. Has new CEO been able  
18 to do the same, of visiting First Nations in this  
19 province?

20                   MS. SHAWNA PACHAL: Our -- our new CEO  
21 has only been at the Corporation for, I think, nine  
22 (9) weeks now. I think she's into her third month.  
23 And I believe she has been to Gillam, but I would have  
24 to -- subject to check, we'd have to check that -- if  
25 she has made any visits yet.

1 MR. SENWUNG LUK: Is there a goal of  
2 seeking to visit more communities?

3 MS. SHAWNA PACHAL: I would have to  
4 check on that, as well.

5 MR. SENWUNG LUK: Thank you. So I  
6 just -- I'd like to move on to the specific  
7 application before the board today. And I understand  
8 that Manitoba Hydro is applying to this board to  
9 approve a 3.5 percent rate increase for the First  
10 Nations on reserve customer class. Is that correct?

11 MS. LIZ CARRIERE: Yes, the  
12 application requests on an across-the-board basis,  
13 which would include First Nation on reserve.

14 MR. SENWUNG LUK: And is it correct  
15 that Manitoba Hydro's financial forecast predicts,  
16 based on the 3.5 percent increase across the board,  
17 that it will have a net revenue -- net income, I'm  
18 sorry, of \$150 million for 2019 and 2020?

19 MS. LIZ CARRIERE: That's correct.

20 MR. SENWUNG LUK: And, Ms. Schubert,  
21 if I could asked to pull up the IR AMC-MH Round 1  
22 number 3B. I'd just like to confirm that the proposed  
23 3.5 percent rate increase for the First Nations on  
24 reserve customer class represents \$1.4 million of  
25 revenue for Manitoba Hydro?

1 MS. LIZ CARRIERE: That's correct.

2 MR. SENWUNG LUK: And that equates --  
3 according to the -- the IR, that equates to .08  
4 percent of the total domestic revenue of Manitoba  
5 Hydro?

6 MS. LIZ CARRIERE: That's correct.

7 MR. SENWUNG LUK: And if I could ask  
8 Ms. Schubert to pull up the IR MH-AMC-1-3. So  
9 Manitoba Hydro posed this question to Mr. Raphals, the  
10 expert retained by AMC. And Mr. Raphals responded  
11 that, with respect to the -- the figure of the 1.4  
12 million, that:

13 "1.4 million in revenue referred to  
14 in the response represents the  
15 anticipated additional revenues from  
16 the residential on-reserve class  
17 that MH would expect to receive the  
18 3.5 percent rate increase were  
19 approved."

20 Is there any -- does Hydro take issue  
21 with this statement at all? Is this statement  
22 correct?

23

24 (BRIEF PAUSE)

25

1 MS. LIZ CARRIERE: It seems  
2 straightforward, yeah.

3 MR. SENWUNG LUK: Okay. Thank you.  
4 Now, even if the 3.5 percent rate increase was not  
5 granted for the FNOR, what I'll call the FNOR class,  
6 the First Nations on reserve class, if -- if it was  
7 not granted to that class, as long as that -- the  
8 burden of that 1.4 million was shared by other  
9 ratepayers, Manitoba Hydro would be kept whole.

10 Is that fair?

11 MS. LIZ CARRIERE: Yes. But in order  
12 to get the full \$50 million revenue require -- or  
13 additional revenue requirement, we would have to  
14 recover those from other rate classes, yes.

15 MR. SENWUNG LUK: And on that  
16 eventuality, Hydro's net income would still be \$115  
17 million for 2019 and 2020?

18 MS. LIZ CARRIERE: That's correct.

19 MR. SENWUNG LUK: Thank you. So I'd  
20 like to move on to the residential end user's survey -  
21 - or energy use survey, I'm sorry, which is Attachment  
22 1 to AMC-MH Round 1 Question 7.

23 Now, I understand that this is a survey  
24 that Manitoba Hydro puts out to its customer base in  
25 order to find out more about its customers. Is that a

1 fair assessment of -- of what this study consists of?

2 MS. LIZ CARRIERE: That is correct.

3 MR. SENWUNG LUK: And if I could asked

4 Ms. Schubert to pull up page 10 of this attachment.

5 And just scroll down to Sample 2.02. So I understand

6 that from -- from this REUS, what I'll -- the -- the

7 acronym I'll use for the residential energy use

8 survey, the reuse describes that:

9 "Fifteen thousand three hundred and  
10 seventy-five (15,375) surveys were  
11 mailed to residential customers  
12 reser -- residing on First Nation  
13 reserve land in order to increase  
14 the representation of this customer  
15 segment within the -- within the  
16 analysis."

17 So is that -- is that more or less the  
18 entirety of the customer base that Manitoba Hydro has  
19 residing on reserve?

20 MS. LOIS MORRISON: Yes.

21 MR. SENWUNG LUK: Thank you. And is  
22 it accurate that, in previous years, a random sample  
23 of that set of customers was sent this REUS survey?

24 MS. LOIS MORRISON: That is correct.

25 In previous years, we would pull a random sample

1 across the entire province, and which would include  
2 customers residing on reserve lands.

3 MR. SENWUNG LUK: And is it fair to  
4 say that the results from the previous REUS studies  
5 did not yield as many responses as REUS 2017?

6 MS. LOIS MORRISON: Yes. There -- we  
7 what we saw is, when we were starting to do subsector  
8 analysis, we were not getting -- we didn't have enough  
9 respondents within that group of customers to provide  
10 infor -- responses that we felt were more  
11 representative.

12 MR. SENWUNG LUK: So is it fair to say  
13 that Manitoba night -- Hydro, based on the 2017 REUS,  
14 has better data on its First Nations on reserve  
15 customers than it ever has had before?

16 MS. LOIS MORRISON: I would say, in  
17 terms this survey, we are much more -- we feel the  
18 responses more appropriately reflect -- are more  
19 representative of that subsector.

20 MR. SENWUNG LUK: Thank you. Ms.  
21 Schubert, could I ask you to pull up AMC Exhibit 3,  
22 please? Now, this Exhibit 3 is a report by Mr. Philip  
23 Raphals which was commissioned by the Assembly of  
24 Manitoba Chiefs, and it reviewed data generated in the  
25 2017 REUS.

1                   It has been tendered as an expert  
2 report by AMC and is an exhibit in this proceeding.  
3 May ask the panel, have you had a chance to review  
4 this report?

5                   MS. LOIS MORRISON:    Yes.

6                   MR. SENWUNG LUK:     And, Ms. Schubert,  
7 could we go to page 6, please?

8                   Mr. Raphals, at page 6 of the report,  
9 reaches the conclusion that the average annual  
10 consumption of an -- just, yeah, the chart is where  
11 I'd like to be, Ms. Schubert. Thank you -- that the  
12 average annual consumption of an on-reserve customer  
13 is about three (3) times that of the Winnipeg city  
14 customer and about 33 to 55 percent higher than the  
15 Winnipeg City LICO-125 values.

16                   Has -- since Hydro has that had this  
17 REUS 2017 data, has Hydro done similar work analyzing  
18 the numbers as you -- as Mr. Raphals has done here?

19                   MS. LOIS MORRISON:    I'm not sure if I  
20 understand the question. We've prepared the survey  
21 results. All of the data that Ms. -- is presented  
22 here is from our survey outcome, so I'm not sure what  
23 you mean by "analysis".

24                   MR. SENWUNG LUK:     Well, the -- the  
25 survey tabulates certain numbers. But to aggregate --

1 I think what Mr. Raphals has done here is to aggregate  
2 those numbers into -- to observe the patterns and the  
3 data to -- to arrive at certain inferences from that  
4 date.

5 My question is whether Hydro has done  
6 the similar kind of work of aggregating that data  
7 making those inferences to arrive at these kinds of  
8 conclusions?

9 MS. LOIS MORRISON: So in terms of the  
10 conclusions that are -- that I would draw from the  
11 chart presented here -- and I think we've testified  
12 before the board previously that customers residing on  
13 reserve heat with electricity, the vast majority,  
14 except for the four (4) identified sites or  
15 communities that are supported to diesel generation.

16 And the information that's being  
17 presented here is -- has to be taken into  
18 consideration of the fact that the Winnipeg city data  
19 is for all of the city of Winnipeg, which includes all  
20 heating types and all housing types.

21 So you will have everything from single  
22 detached houses to apartment style housing which has  
23 maybe only lights and plug load on their electricity  
24 bill. And you also have people who heat with other  
25 sources.

1                   So it's difficult in this situation to  
2 do a direct comparison. And in this case, it's  
3 probably showing a more wider range than if you were  
4 to compare the average annual energy consumption for  
5 an electrically heated single detached home in  
6 Winnipeg or in -- in rural Manitoba to a First Nation  
7 home or at home on First Nation community.

8                   So although I will say that the data  
9 presented here is from our report, as with any survey  
10 rate re -- results you get, you always have to look at  
11 what you're comparing to and try to, as best possible,  
12 use like to like when you're making comparisons.

13                   MR. SENWUNG LUK: Thank you. Ms.  
14 Schubert, can we go to page 7 of this exhibit?

15                   Now, Mr. Raphals did do this analysis  
16 and compared electricity consumption for single  
17 detached dwellings on and off reserve. And he reached  
18 the conclusion that on-reserve single detached house -  
19 - houses consume about 9.8 to -- around 9.8 percent  
20 more electricity than the off re -- their off reserve  
21 comparators.

22                   Is this a conclusion that Hydro's  
23 internal work has arrived at, as well?

24                   MS. LOIS MORRISON: Yes. This is from  
25 our survey. And this information is information

1 that's similar to what we've presented in the past.  
2 There are a number of factors that come into energy-  
3 use patterns.

4                   One (1) of them that also influences  
5 the amount of energy used in the home is the number of  
6 people per home. And we've also looked at the fact  
7 that there is a higher number of people per home in  
8 homes that are on First Nation on-reserve housing  
9 versus housing outside of -- that is off reserve, so.

10                   But I am very confident that these  
11 numbers are very -- that are a representative of these  
12 customer groups.

13                   MR. SENWUNG LUK: Now, when Manitoba  
14 Hydro decided to apply for a 3.5 percent rate increase  
15 to the First Nations on reserve class, did -- did  
16 these numbers factor into that decision?

17

18                   (BRIEF PAUSE)

19

20                   MS. LIZ CARRIERE: The application was  
21 made on the basis of an across-the-board rate  
22 increase, so we didn't look at any differentiation  
23 between any of the customer classes.

24                   MR. SENWUNG LUK: Thank you. And  
25 just, Ms. Schubert, can we go to the bottom of the

1 same page? And I'll -- I'll note that Mr. Raphals  
2 concludes that, based on the REUS 2017 data, the  
3 dwelling square footage of an on-reserve house is  
4 about 78 percent of that of an off reserve single  
5 detached house and that, based on the average annual  
6 kilowatt hour per square foot data, that per -- on a  
7 per square footage basis, an on-reserve house uses  
8 about 40 percent more electricity than an off-reserve  
9 house.

10 Was this date also -- I -- I take it  
11 from your previous answer that you didn't consider any  
12 differences between the characteristics of different  
13 customer classes in the applying for that 3.5 percent  
14 across-the-board rate increase.

15 So I'll take from your answer that this  
16 data was also not considered when Manitoba Hydro  
17 decided to seek this increase of 3.5 percent to the  
18 First Nations on reserve class?

19

20 (BRIEF PAUSE)

21

22 MS. LIZ CARRIERE: When we made the  
23 application on the basis of an across-the-board basis,  
24 we didn't take into consideration consumption  
25 patterns. You know, we haven't -- we are -- we still

1 have to do the work to do a cost of service update  
2 and -- and further rate looking -- looking at rate  
3 design and revenue cost coverage ratios. So no, we  
4 didn't take that into consideration.

5 MR. SENWUNG LUK: Thank you. And  
6 Ms. Schubert, can we go to page 10 of the same  
7 exhibit, please, at the bottom of the page 10.

8 And I'll note that Mr. Raphals  
9 concludes that, based on the 2017 REUS, that around 72  
10 percent of on-reserve First Nations customers spend 6  
11 percent or more of their total annual income on  
12 electricity bills, and about 49 percent of those same  
13 on-reserve First Nations customers spend 10 percent or  
14 more of their total annual income on electricity  
15 bills.

16 So based on your previous answer,  
17 I'll -- I'll take it that this data was also not in  
18 contemplation when Hydro decided to apply for a  
19 3.5 percent across-the-board rate increase.

20 MS. LIZ CARRIERE: Sorry. I'm having  
21 difficulty concentrating this morning. But it was --  
22 we had apply -- made an application for the  
23 3 1/2 percent, and in determining that, we didn't --  
24 did not consider any differentiation in the rates.

25 MR. SENWUNG LUK: Okay. And I'll just

1 take you to one last part of this exhibit on page 11,  
2 the chart in the middle of the page.

3 And this is also from the 2017 REUS,  
4 and Mr. Rafoles concludes in his report that the -- in  
5 the -- the proportion of people living on reserve who  
6 had reduced spending on food in order to pay Manitoba  
7 Hydro bills in the past two years is much, much higher  
8 than for off-reserve residents, as well as for  
9 off-reserve low income people.

10 So I'll take it from your previous  
11 answers that this also was not a factor in that  
12 Manitoba Hydro considered in applying for the  
13 across-the-board rate increase.

14 MS. LIZ CARRIERE: You're correct.

15 MR. SENWUNG LUK: Thank you.

16 Ms. Schubert, can we go to the IR AMC-MH Round 1,  
17 number 4, page 5 of 6. Of course. That's AMC-MH  
18 Round 1, question 4, page 5 of 6.

19 Now this -- this answer that Manitoba  
20 Hydro gives is about the dedicated indigenous energy  
21 advisor. Can -- can you just tell us a bit -- give us  
22 a bit of a refresher on what this role was.

23 MS. LOIS MORRISON: So under the  
24 Indigenous Energy Efficiency Program, Manitoba Hydro  
25 works with -- directly with the communities to

1 identify where the communities have identified housing  
2 that needs additional insulation upgrades and works  
3 with communities where we have opportunities to  
4 install low-cost, no-cost measures.

5                   Now, under the design of the program,  
6 we had had an individual with the indigenous energy  
7 advisor who would work directly with the  
8 representatives within those council areas -- sorry --  
9 within those communities.

10                   And as Ms. Bauerlein mentioned in her  
11 direct evidence, we did go through a voluntary  
12 departure program as part of -- and a significant  
13 staffing reduction. And that staffing reduction hit  
14 all areas of the Corporation, including the energy  
15 efficiency programming area.

16                   And as a result of that, we have  
17 reallocated work, not just within the energy  
18 efficiency -- the Indigenous Energy Efficiency Program  
19 but within other areas within other programming. We  
20 have done work to consolidate different programs under  
21 different people in order to maintain our offering.

22                   And so the individual did retire.  
23 However, what we have done is we have taken those  
24 responsibilities and consolidated them under the area  
25 that serves other First Nation-focused programming,

1 such as our community geothermal program and some of  
2 our community energy-planned efforts.

3 MR. SENWUNG LUK: And so based on  
4 this -- the IR answer we have in front of us -- it  
5 appears that the responsibility for the portfolio of  
6 work that was undertaken by the indigenous energy  
7 advisor is now assigned to the residential program  
8 supervisor within the energy efficiency programs  
9 department.

10 MS. LOIS MORRISON: The -- the overall  
11 work actually -- and even since then, as Ms. Bauerlein  
12 mentioned -- were in a period of transition, whereas  
13 we are moving work around to see how it best fits.

14 Originally we were moving that in under  
15 the residential energy program supervisor, but we've  
16 since taken the part that focuses on serving our  
17 indigenous communities and moved it into work with, as  
18 I mentioned, our staff person who are specialists who  
19 works with -- on the community geothermal program  
20 because saw we -- an alignment because that individual  
21 works very closely with communities in order to  
22 increase the penetration of geothermal heating systems  
23 in -- in First Nation communities.

24 And so this allowed us to -- to have a  
25 better connection with the communities, talk to them

1 about more than one thing at a time. And so as we are  
2 going to this period of transition, we are shifting  
3 work.

4                   And although originally we were putting  
5 this position -- this responsibility under the  
6 residential sector, we've actually moved it to work  
7 under our -- in our emerging technologies group, which  
8 also has -- which has the geothermal programming group  
9 and has the -- so now we're focused on First Nation  
10 communities in that area.

11                   MR. SENWUNG LUK:    So were any of the  
12 following people -- the indigenous energy advisor or  
13 the residential program supervisor or any of the other  
14 people that took over that portfolio of work -- were  
15 any of those people consulted or -- as part of Hydro's  
16 decision to apply for the 3.5 percent rate increase to  
17 the FNOR class?

18

19   (BRIEF PAUSE)

20

21                   MS. LOIS MORRISON:    So no, there was  
22 not a direct consultation with staff in the area that  
23 support our First Nation initiatives about the  
24 3.5 percent and how that should be applied.

25                   MR. SENWUNG LUK:    Is -- does Manitoba

1 Hydro intend to hire another indigenous energy  
2 advisor?

3 MS. LOIS MORRISON: So at this time  
4 because we're not only in a -- so we're in a period of  
5 transition also because of the DSM function moving  
6 over to Efficiency, Manitoba.

7 And one of the things that we have  
8 looked at as a result of some of these changes is this  
9 program has run for ten (10) years. It's a very  
10 effective program. We seen a significant number of  
11 houses insulated under this program.

12 However, as with all programs, there  
13 does come a point in time were you may want to revisit  
14 and -- and look at a different delivery mechanism.  
15 And so with this work moving over to Efficiency  
16 Manitoba, what we -- at this time we don't intend to  
17 hire an indigenous energy advisor because we are not  
18 certain as to what type of evolution this program will  
19 take when it goes to Efficiency Manitoba.

20 What we have been using in the interim  
21 for houses that have been identified as being --  
22 needing insulation upgrades, our staff person is still  
23 working with them. And then for any verifications, we  
24 are working -- we use a contract service that we use  
25 for our home and insulation program to do

1 verifications on the insulation when they're -- after  
2 they're in place or any technical review that needs to  
3 be done. We have that contract in place to utilize  
4 those resources, and that's what we've been using in  
5 the communities

6 MR. SENWUNG LUK: And you mentioned  
7 the transition over to Efficiency Manitoba. Is there  
8 a plan in place for how these functions that -- that  
9 used to reside with the indigenous energy advisor, how  
10 those functions will be transitioned over to  
11 Efficiency Manitoba?

12 MS. LOIS MORRISON: As I discussed  
13 yesterday, we are working to support Efficiency  
14 Manitoba as they set up and start running. At this  
15 point in time, they are focused on developing their  
16 three-year plan and getting their operations up and  
17 running. In the interim, we are providing the ongoing  
18 support for the legacy programs or what we are deeming  
19 to be the legacy programs.

20 We expect that they will come up with a  
21 decision on -- or recommendations on how they will  
22 serve the different markets. We'll continue to  
23 support them as they did so.

24 I do not at this point in time have any  
25 information on how the programs will transition over,

1 what programs will transition over, and what they will  
2 look like as they transition over. We're still in the  
3 process of doing that, but we are working together to  
4 make sure that what they do decide to bring forward is  
5 supported.

6 MR. SENWUNG LUK: Thank you. I'd just  
7 like to move on to a slightly different topic within  
8 the -- the REUS 2017. And if I could ask Ms. Schubert  
9 to put up attachment 1 to AMC MH round 1, number 7,  
10 page 18.

11 So I'd -- I'd just like to ask the  
12 panel about the data in this survey under the rubric  
13 of building code construction era. And that's --  
14 that's the heading to this table. And in the dark  
15 green, there is a -- a set of years, and my -- my  
16 interpretation of this chart is that, for instance,  
17 for the row labeled "overall", that 7.8 percent of  
18 houses are in the building code construction era of  
19 2010 and 2017 and eighteen point four (18.4) is from  
20 1990 to 2009.

21 And if, Ms. Schubert, we could scroll  
22 down just to the bottom part of the page to the First  
23 Nation on-reserve, that row. And I know we -- we  
24 can't -- we probably can't see both the heading and  
25 the -- and the numbers at the same time, or if zoom

1 out far enough, the numbers will be so small that we  
2 may not be able to see, but maybe that's worth a try  
3 anyway.

4 Well, I -- I'm a partisan of the -- the  
5 portrait orientation for screens which would solve  
6 this problem, but alas, we are where we are.

7 So I -- I see that -- I sort of see  
8 that the building code era for the First Nation  
9 on-reserve respondents has 10.7 percent as 2010 to  
10 2017 and 56.7 percent as to that -- whatever that  
11 second column was. I think 2000 -- or 1990 to 2009.

12 So just to -- I'd like to ask a  
13 question about where this data comes from. If I -- if  
14 we could go to page 191 of the same document.

15 Now, I understand that the REUS 2017  
16 data comes from surveys filled out by individual  
17 customers. Is that fair?

18 MS. LOIS MORRISON: That is correct.

19 MR. SENWUNG LUK: And so this -- what  
20 we see here is the survey itself that was presented to  
21 the customers that they filled out and from which the  
22 data that we saw in the previous chart was built.

23 MS. LOIS MORRISON: That is correct.

24 MR. SENWUNG LUK: So Question 4 on  
25 page 191 asks: When was this residence originally

1 built? And we have the same categories, 2010 to the  
2 present, and I presume that's 2017 because it's the  
3 2017 REUS. And the second checkbox is 2000 and 2009.

4 So is it -- is it accurate that -- to  
5 say that the data that we saw in the previous chart  
6 came from this question?

7 MS. LOIS MORRISON: Yes. We would  
8 take the data as provided by the customers and then  
9 group it, based on what we understand -- what we know  
10 to be the timing for when different energy code  
11 requirements were brought in.

12 MR. SENWUNG LUK: Now, the question  
13 itself doesn't actually ask about building code. It  
14 asks about when the residence was built.

15 MS. LOIS MORRISON: That is correct.  
16 Most customers would not know if we were to ask them  
17 whether or not their housing was built during a  
18 certain building code period.

19 MR. SENWUNG LUK: So the building code  
20 era data that we saw on page 18, that's Hydro's gloss  
21 on this response about when the house was built.

22 MS. LOIS MORRISON: As I mentioned,  
23 the building codes are public record, and so we would  
24 layer or -- or overlay customer's responses when their  
25 houses were built to when those code requirements were

1 brought in.

2 MR. SENWUNG LUK: And, Ms. Schubert,  
3 can we go to page 11 of this document. And if we  
4 scroll down, I think, all the way to the bottom.

5 The building code era, this -- the  
6 report itself describes the building code era category  
7 of data as referring to:

8 "The periods when significant  
9 dwelling construction codes were  
10 introduced, available tax assessment  
11 data was used to verify responses  
12 and to fill in any missing responses  
13 pertaining to year built."

14 Is it fair to say that that's -- based  
15 on the response to the survey about when the residence  
16 was built that Hydro verified that, based on tax  
17 assessment data to arrive at the building code era  
18 data that is in that chart that we saw before?

19 MS. LOIS MORRISON: So we use the  
20 customer's response, and if there were missing pieces  
21 of information, then -- and if we -- there was tax  
22 assessment data available, then we would validate  
23 that --

24 MR. SENWUNG LUK: So --

25 MS. LOIS MORRISON: -- or find -- fill

1 in the blanks that were missing. So we rely on the  
2 customer's response, and then if there is missing  
3 data, we would look to the tax assessment data to see  
4 if we could fill in the blanks.

5 MR. SENWUNG LUK: So is it fair to say  
6 that because there is no property tax on reserve, that  
7 tax assessment data was not available for Hydro to  
8 verify the responses given by people who -- people  
9 in -- living on First Nations who responded to the  
10 survey?

11 MS. LOIS MORRISON: Yes. But as I  
12 mentioned, we didn't verify every response. We only  
13 verified responses where there was missing data and  
14 tax available -- tax information. So for the -- the  
15 most part, we're using customer's reported  
16 information.

17 MR. SENWUNG LUK: Okay. Thank you. I  
18 just have a -- a couple of topics left, so I hope to  
19 be done soon, and I'm sure you'll be glad to hear of  
20 that.

21 So my next questions relate to Charter  
22 values and the role that those values had in the  
23 Manitoba Hydro-Electric Board's decision to make this  
24 application that's before this Public Utilities Board.

25 Now, the -- the idea that substance --

1 substance of equality is a Charter value has been  
2 recognized by the Courts. Did the Manitoba Hydro-  
3 Electric Board consider equality as a Charter value  
4 when deciding to apply for a 3.5 percent rate increase  
5 on the First Nations on-reserve class?

6 MS. MARLA BOYD: I don't think this is  
7 the appropriate forum for a Charter argument. I don't  
8 think this is an appropriate forum for a Charter  
9 argument.

10 THE CHAIRPERSON: This isn't a Charter  
11 argument. He asked the question. The panel can say  
12 they don't know what the Board considered. We've had  
13 to -- we had the discussion of Charter values last  
14 time. It's not a Charter argument.

15 So if -- if the panel knows if the  
16 Board considered it, they can answer. If they don't  
17 know, they can answer that they don't know.

18 MS. SHAWNA PACHAL: I had the  
19 opportunity to be at the Board meetings where it was  
20 discussed in regards to the 3.5 percent rate increase.  
21 And to my recollection, there was no discussion.

22 MR. SENWUNG LUK: Okay. Thank you.  
23 And I -- I think it'll come as no surprise to -- to  
24 this body that reconciliation has been an important  
25 value that Canadian society has embraced with respect

1 to the relationship between indigenous peoples and  
2 non-indigenous communities and that it has been  
3 recognized as a goal of the provincial government in  
4 the Path to Reconciliation Act, which is a statute of  
5 Manitoba.

6 Did the Manitoba Hydro-Electric Board  
7 consider reconciliation between indigenous peoples and  
8 the Crown in making the application for a 3.5 percent  
9 rate increase to the First Nations on-reserve class?

10 MS. SHAWNA PACHAL: Again, that's --  
11 it is my recollection that that was not part of the  
12 discussion.

13 MR. SENWUNG LUK: Thank you. Those --  
14 those are all of my questions. I thank you very much  
15 for taking the time to answer them.

16 THE CHAIRPERSON: Thank you, Mr. Luk.  
17 Ms. Boyd, is there -- sorry. Ms. Boyd,  
18 is there any redirect?

19 MS. MARLA BOYD: There's not, Mr.  
20 Chair. Thank you.

21

22 (PANEL STANDS DOWN)

23

24 THE CHAIRPERSON: Mr. Hacault, I guess  
25 we will proceed with Mr. Bowman?

1 MR. ANTOINE HACAULT: Yes,  
2 Mr. Chairman. I don't know what the desire of the  
3 panel is with respect to how we set up.

4 THE CHAIRPERSON: I -- I think we can  
5 proceed on this on the basis where you're sitting  
6 right now.

7 MR. ANTOINE HACAULT: Okay.

8 THE CHAIRPERSON: I don't think  
9 there's a problem. Yeah. Why don't we -- why don't  
10 we just proceed in that way. Mr. Simonsen can swear  
11 in the -- the witness.

12 Sorry. I guess at this point I should  
13 ask if that concludes the -- the case for Manitoba  
14 Hydro.

15 MS. MARLA BOYD: It does. Thank you.

16 THE CHAIRPERSON: You know what? I  
17 guess this isn't going to work very well because we've  
18 got cross-examination. We need to be able to have the  
19 other parties cross-examine.

20 You know, let's take a ten (10) minute  
21 break, and we'll -- we'll just move people around.  
22 We'll take the morning break now. Thank you.

23

24 --- Upon recessing at 9:46 a.m.

25 --- Upon resuming at 9:59 a.m.

1

2

THE CHAIRPERSON: Ms. Hacault?

3

MR. ANTOINE HACAULT: Yes. Good

4

morning, Mr. Chairman, members of the panel. Bon

5

jour. On behalf of the Manitoba industrial Power

6

Users Group, we thank you for the opportunity to make

7

this presentation.

8

I believe the presentation and slide

9

decks have been circulated, and that the next MIPUG

10

exhibit for that slide deck would be number 7.

11

12

--- EXHIBIT NO. MIPUG-7: Presentation and slide

13

decks

14

15

MR. ANTOINE HACAULT: If that's the

16

case, I'm not too sure whether Mr. Simonsen had the

17

opportunity to swear the Witness in before I start

18

presenting Mr. Bowman.

19

And behind me, for the information of

20

the panel, is Melissa Davies, also from InterGroup.

21

22

PATRICK BOWMAN, Sworn

23

24

EXAMINATION-IN-CHIEF BY MR. ANTOINE HACAULT:

25

MR. ANTOINE HACAULT: Now, Mr. Bowman

1 before you start your presentation, I have a couple  
2 quick introductory questions. Firstly, was the  
3 evidence of InterGroup, including the report and  
4 responses to IRs and this PowerPoint prepared by you  
5 or under your direction, sir?

6 MR. PATRICK BOWMAN: Yes.

7 MR. ANTOINE HACAULT: And do adopt  
8 that evidence, sir?

9 MR. PATRICK BOWMAN: Yes.

10 MR. ANTOINE HACAULT: And can you  
11 confirm that you, firstly, acknowledge that it is your  
12 duty to provide evidence in relation to this  
13 proceeding as follows:

14 a) To provide opinion evidence that is  
15 fair, objective, and nonpartisan, and

16 b) to provide such additional  
17 assistance as the Public Utilities Board may  
18 reasonably require to determine matters in issue.

19 MR. PATRICK BOWMAN: Yes.

20 MR. ANTOINE HACAULT: And can also  
21 confirm that you acknowledge that this duty to the  
22 Public Utilities Board prevails over any obligation  
23 which you may owe to any party by whom or on whose  
24 behalf you are engaged, sir?

25 MR. PATRICK BOWMAN: Yes.

1 MR. ANTOINE HACAULT: Your CV which has  
2 been filed in evidence indicates that you're engaged  
3 both by utilities and by consumers in utility  
4 regulatory matters. Am I correct that this regulatory  
5 work spans across various provinces and recently  
6 internationally?

7 MR. PATRICK BOWMAN: Yes. And we also  
8 -- or I also work with regulators and -- and  
9 governments in respect of the utility policy.

10 MR. ANTOINE HACAULT: By the way, I'm  
11 jealous that you go -- get to go to places like  
12 Jamaica do this work. Finally, for approximately how  
13 many years have you been providing evidence at -- at  
14 Public Utility Board hearings with respect to Manitoba  
15 Hydro rate hearings?

16 MR. PATRICK BOWMAN: The first hearing  
17 I appeared as an expert was the status update hearing  
18 in -- hearing that occurred in 2002.

19 MR. ANTOINE HACAULT: Thank you, sir.  
20 With those introductory questions, I would ask you to  
21 please that proceed with your presentation this  
22 morning.

23 MR. PATRICK BOWMAN: Yes, good  
24 morning, Mr. Chair, members of the panel. The exhibit  
25 MH -- or MIPUG-7, sorry, before you was prepared to

1 walk you through the -- the submission that was filed  
2 -- pre-filed testimony March 29th.

3                   Yeah. We can go ahead and go to slide  
4 2 now. Today, I don't intend to take a lot of time to  
5 go through this. If there's any questions, please let  
6 me know. The outline of the presentation is as set  
7 out there.

8                   The -- as noted in the -- in the  
9 Information Request responses, fundamentally, this  
10 leads to one (1) -- one (1) essential recommendation  
11 to the Board, which is that -- that Hydro be granted  
12 an across -- rate increase in the range of -- or a  
13 rate change in the range of zero to 1.5 percent, not  
14 higher than 1.5 percent, that it be done on an across-  
15 the-board basis and that it's justifiable based on  
16 reasonable customer expectations of annual rate  
17 increases, no evidence that rate increases above  
18 inflation is needed this year, and to achieve the  
19 benefit of a smoother transition to higher rates that  
20 will be needed to address Keeyask in-service and to  
21 the eventual end of the Bipole III deferral  
22 amortization and that consideration be given to  
23 ensuring the rate increase is -- is differed for  
24 Keeyask similar to Bipole III to help ensure the  
25 purpose is clear.

1                   Page 3 of -- of MIPUG-7 is simply a  
2 summary of key introductory points. The evidence I'll  
3 be testifying today real -- is my MIPUG-5, which is  
4 the pre-filed testimony. And there were responses to  
5 Information Requests from Consumers Coalition, the --  
6 the Board and from Manitoba Hydro.

7                   There's a few comments on new issues  
8 arising from the process that I'll go over, ver --  
9 very few, actually, in -- in this situation. And I  
10 noted that the review was similar with the long-  
11 standing MIPUG assignment we've done since the  
12 beginning of the group and as long as I've been  
13 testifying, which is to review Hydro's proposals and  
14 plans in light of regular principles appropriate for  
15 Crown Hydro utility and with a long-term perspective  
16 and working from the fundamental view that the  
17 interest of customers and Hydro should not seem to be  
18 odds.

19                   Cust -- as much as -- as in some  
20 jurisdictions, the regulatory model is based on the  
21 idea that a utility would look -- would seek higher  
22 rates and higher net income and customers would seek  
23 lower rates. That is not the -- quite the same  
24 perspective.

25                   When you're dealing Manitoba Hydro

1 here, consume -- customers need a financially  
2 sufficient hydro as much as Hydro requires its  
3 finances to be sound and Hydro needs the -- the  
4 customer loads and competitive rates and to be able to  
5 provide the reliable service customers need in order  
6 to have the revenue base it requires. They're --  
7 they're in this together.

8

9

(BRIEF PAUSE)

10

11

MR. PATRICK BOWMAN: I will say that,  
12 in terms of the Hydro proceedings that I've been in,  
13 this one presented a unique intellectual challenge to  
14 us in that Hydro is the -- the form of regulation of  
15 Manitoba Hydro has always taken a long-term  
16 perspective.

17

And I -- I want to note that this isn't  
18 -- isn't and meant as a -- necessarily a complaint or  
19 the like of the situation Hydro is in. We -- we know  
20 that Hydro does not currently have a financial plan  
21 that they are prepared to -- to sign off on. That is  
22 a reality.

23

From one (1) sense, that is encouraging  
24 because there was obviously concerns with the previous  
25 financial plan that were noted by myself and -- and

1 Mr. Osler and Forrest who testified with me the last  
2 hearing and noted by this Board.

3           And it's -- it's encouraging that --  
4 that Hydro is doing reconsideration, but it leads us  
5 in an -- in and intellectually challenging position  
6 given that we need to make decisions about this year  
7 in the absence of that plan.

8           So it -- as I said, it led to certain  
9 challenges and -- and more time spent than usual on  
10 talking about what the -- what the approach would be  
11 for doing the assessment.

12           I will say that part of the reality of  
13 dealing with Manitoba Hydro is that there are some  
14 unique characteristics compared to many of the  
15 utilities and the hydrology variability is certainly  
16 one (1) of them. And it's one (1) of the reasons why  
17 it's really important to look at -- at the long-term  
18 and look across multiple possible future scenarios.

19           That's not always the case when we're  
20 dealing with -- with other utilities. And I -- I will  
21 set out the claim that for -- looking solely at one  
22 (1) of finances.

23           And putting on blinders to everything  
24 that happens after that is not sufficient information  
25 on its own to draw conclusions about the sufficiency

1 or necessity of a rate increase. And for that reason,  
2 there -- there wa -- there is some information here  
3 beyond the -- the drop-dead date, if you like, of --  
4 of March 31, 2020.

5 I -- I hope it remains within the scope  
6 that this Board had set out. I -- I certainly would  
7 say, based on cross-examination over the last two (2)  
8 days, that -- that all parties are in the same  
9 situation, that -- that there is a need to understand  
10 more than what happens in the one (1) test year.

11 We can go to page 5.

12 So, as a result in terms of the  
13 approach, there was an interest in looking at both the  
14 one (1) your perspective as well as a longer-term  
15 path.

16 For the purposes of selecting the path  
17 to look at as -- as someone of a benchmark, Exhibit  
18 MH-93 from the previous hearing was used. I -- I  
19 think that's defensible on -- for three (3) reasons.  
20 One (1) is because it was used by Hydro as a benchmark  
21 of their own application. The second is because the  
22 Board found that with minor adjustments the scenarios  
23 directionally consistent with the Board's decision in  
24 the -- in Order 59/18. And the third is because, in -  
25 - in my -- my own opinion, that scenario reflected a

1 defensible path, not a perfect path, but defensible  
2 path forward for -- for Manitoba Hydro.

3           Just to remind people, we previously  
4 reviewed the MH-93 did show -- have a scenario that  
5 showed six (6) years of net losses over the -- the  
6 horizon. That is not surprising.

7           Each IFF that we've looked at going  
8 back many years now, many hearings, has had a period  
9 of net losses after major capital comes in. Hy --  
10 Hydro is -- is undergoing what's been called the  
11 unprecedented scale of -- of development.

12           The NFAT scenarios for Keeyask had  
13 eight (8) years of losses, totaling 638 million. NFAT  
14 scenarios for Conawapa had -- had even more impact in  
15 -- in some of the scenarios.

16           IFF-14, which had the -- the NFAT  
17 conclusions in it, similarly had Keeyask in it, that  
18 had moved to eight (8) years of losses, totaling 977  
19 million.

20           IFF-15 it had dro -- dropped to three  
21 (3) years of losses, totaling 58 million. And by --  
22 at Exhibit MH-93, which is based on IFF-16, it was six  
23 (6) years of losses, totaling four hundred and  
24 eighteen (418).

25           And I think this underlines Hydro's

1 point which I don't disagree with, that the long-term  
2 forecasts are never going to be precise. There always  
3 can it be informative that give you an idea of where  
4 you're going and -- and they're -- they're useful from  
5 that perspective, but they're not something to -- to  
6 assume is locked in. There's -- there's simply no way  
7 that anyone could -- could produce such a forecast.

8           The other comment about that sequence  
9 of IFFs and what we've seen evolve is that in each of  
10 the subsequent IFFs, the starting period of the net  
11 losses remained in the same fiscal year or moved  
12 later.

13           And what that means is, by the time you  
14 enter that period of net losses, you've had more years  
15 to build up your retained earnings before you go into  
16 the period. So even if the same that losses are  
17 occurring in -- they're starting later with a stronger  
18 base of -- of retained earnings going in.

19           And from that perspective, I'd say --  
20 overall, I'd make the comment that -- that for -- for  
21 people who -- who I think were -- sat here through --  
22 through the -- the pre-NFAT hearings where there was  
23 great concern over what this -- this development plan  
24 would look like, what the risk would look like and  
25 through the NFAT hearings where we saw what -- what

1 adding these plans did to Hydro's long-term finances  
2 and each of the subsequent IFFs, I would say that the  
3 expense here is unfolding very well.

4           And I think that there were some very  
5 serious risk scenarios that -- that people had to  
6 think their way through managing, and -- and those  
7 have not unfolded and -- and that, overall, unbalanced  
8 -- that we are in a pretty good place.

9           We're in a pretty good place, also,  
10 given that with -- with respect to Keeyask and Bipole,  
11 you know, where we are at, I'm not sure eleventh hour,  
12 but certainly tenth hour of -- of these projects  
13 coming into service, risk being resolved, debt being  
14 locked in, all the other things that get resolved as  
15 you go through a capital project.

16           On slide 6, just to -- to underline  
17 this point, I put in a copy a slide that I had -- had  
18 used in the 2015 hearing which was commenting IFF-14.  
19 And IFF-14 was -- was the worst of the -- of the IFFs,  
20 if you like, looking at the scenario.

21           And I -- I only put this in to  
22 emphasize the scale of the -- of the hurdle that we're  
23 trying to get over and we're -- we're mostly over,  
24 that even in IFF14, the -- the scenario that Hy --  
25 Hydro having nine (9) years with -- or say eight (8)

1 years \$977 million in losses, that had to be  
2 understood that that was a scenario where Hydro is  
3 absorbing five (5) massive hits, each of which, on its  
4 own, was -- was large compared to the -- the size of  
5 the Corporation and its -- and its revenues and its  
6 customer base.

7                   One (1) was Keeyask, one (1) Bipole,  
8 one (1) was the extent of reinvestment that Hydro was  
9 bringing forward in existing assets, one (1) was the  
10 scale of DSM that Hydro was undertaking and absorbing  
11 lost revenue it was causing, and one (1) was the major  
12 accounting changes that Hydro was -- was facing and  
13 proposing at the time, most of which were put into --  
14 put into rates, some of which this Board has elected  
15 to treat differently.

16                   But that -- in that IFF, we were trying  
17 to get over those five (5) major hills, major  
18 achievements, and it was all being achieved with no  
19 government support of the projects, which is unusual  
20 in Canada when you're doing large renewable projects.  
21 In fact the -- the government was adding charges  
22 related rather than -- rather than support. We went  
23 through some of that evidence at that time, and we did  
24 some at the last hearing.

25                   At that time, we were saying we were

1 able to finance all of Hydro's ongoing operations over  
2 the ten (10) years with operating cash flow, including  
3 absorbing Keeyask and Bipole, plus all sustaining  
4 capital. That was being assessed over the ten (10)  
5 year horizon of the IFF.

6                   Thinking about where we are now, we're  
7 debating whether we can achieve that each year. At  
8 that point, it was being achieved over a ten (10) year  
9 horizon. It wasn't even a test as to whether it was  
10 being achieved each year.

11                   And it was being done keeping retained  
12 earning levels near or above any estimate at that time  
13 a five (5) year drought. We're -- now got retained  
14 earning levels way beyond a five (5) year drought  
15 level.

16                   Fo -- so in -- in context, when I say  
17 we're doing very well as this NFAT plan is un --  
18 unfolding and in context of the history, I'm -- I'm  
19 saying that, in light of the fact that even in IFF-14,  
20 when all of these conditions were there, we were doing  
21 -- we were already doing quite well for absorbing a  
22 very, very challenging environment.

23                   To slide 7. Hydro's original  
24 application has -- has been covered, so I don't intend  
25 to dwell on it, had a 3.5 percent rate increase needed

1 to avoid net losses.

2                   The update no longer needed the 3.5  
3 percent increase to avoid the net losses and, instead,  
4 it set out what -- what I would summarize as three (3)  
5 claims in support, and they're from Hydro's February  
6 14th filing at page 3.

7                   I discuss these in page 6 to 7 of  
8 MIPUG-5. I didn't intend to dwell on them today. But  
9 taken in -- in balance, there are three (3) things  
10 were highlighted. One (1) is that we could have low  
11 flows. The second is that Keeyask and Bipole's cost  
12 increases are coming online.

13                   And the third is that the -- providing  
14 a rate increase now will reduce as a likelihood of  
15 future rate shock. I try to deal with each of those  
16 individually but, in combination, I have a concern  
17 that none of those analytically support a 3.5 percent  
18 rate increase in the year in question.

19                   They are -- they're reflective of -- of  
20 the idea that that -- that a rate increase is needed  
21 to build net income to deal with all of these things.  
22 And -- and we've been -- we've been going through year  
23 after year and hearing after hearing where we've  
24 talked about how these things are being managed in  
25 multiple ways.

1                   They're being managed through retained  
2 earnings. They're being managed through -- through  
3 timing. They're being managed through regulator --  
4 certain regulatory deferrals, like the Bipole account.  
5 They're being managed through -- including appropriate  
6 contingencies in the projects.

7                   And all of that was already in place  
8 and MH-93. So say things like, well, Keeyask and  
9 Bipole cost increases could exacerbate the losses, in  
10 fact, today were sitting with Keeyask and Bipole cost  
11 decrease and Keeyask -- or Bipole's in-service lower  
12 cost.

13                   So to me, that's not a justification  
14 for why the -- the MH-93 level of net income was  
15 insufficient, similar to the drought. It's always  
16 true that higher rates could increase your net income  
17 so that you have less likelihood of a loss in a  
18 drought, but that always has to be put into context of  
19 long-term perspective, what is the likelihood, what is  
20 the probabilities, and whe -- whether that would  
21 indeed cause rate shock if that was -- if -- if  
22 something was to occur.

23                   Those type of assessments can't be done  
24 on the one (1) year basis. And -- and trying to apply  
25 them to a one (1) year basis simply leads you to

1 coming up with -- with sort of perpetual large rate  
2 increases because I -- I can always try to fund the  
3 theory of drought next year with net income,  
4 especially if I ignore that last I made a net income  
5 which helped build up reserves for that very purpose.

6                   So slide 8. Moving on from -- from  
7 testing -- or from the comments and on -- on the  
8 rationale used by Hydro, slide 8 starts to move into  
9 the assessment that -- that we completed looking at  
10 the one (1) year picture, the one (1) test year, and  
11 the data that is updated quantitatively.

12                   And this is -- this is -- covers pages  
13 -- about pages 9 to 12 of MIPUG-5. The key -- the key  
14 con -- conclusion we had comparing MH-93 '19/'20 to --  
15 to the updated '19/'20 year is that long-term debt is  
16 lower by about .58 billion. The biggest contributor  
17 of that is capital investment. Cost control shows  
18 improvement, so plant in-service is down by .543  
19 billion, which are both positive developments.

20                   Retained earnings is lower, which is  
21 not a positive development; .127 billion if there's no  
22 rate increase for -- for '19/'20. However, retained  
23 earnings ends lower, but the -- the sort of key  
24 linkage to retained earnings is the -- is the risk  
25 that Hydro faces, particularly drought. And the

1 drought risk in that -- in that one (1) year, '19/'20,  
2 is also significantly reduced because of known water  
3 and storage.

4                   So looking at this one (1) year  
5 picture, it's -- retained earnings being -- building  
6 re -- up retained earnings for -- for water within  
7 that one (1) year isn't the same test because the  
8 water's already in storage for that one (1) year.

9                   It's basically the same net income  
10 being achieved. It was 64 million even without the  
11 annual rate increase. And so, overall, the assessment  
12 was basically on track before even considering a  
13 '19/'20 rate increase.

14                   Moving to page 9. There's been --  
15 there was a comment in our evidence about the one (1)  
16 year assessment in respect of cash and capitalized  
17 interest. There's been a bit more discussion of this  
18 in terms of -- of Hydro's rebuttal, so I -- I think  
19 it's worth commenting on the -- the cash flow a bit  
20 more.

21                   I will say before I get into this that  
22 you'll note in -- in evidence and in IRs I had that  
23 cash flow is an -- is an interesting topic, but it is  
24 not generally the primary topic one applies when  
25 considering the sufficiency of rates, particularly a

1 utility that has hydraulic variability.

2           That's why we would normally use income  
3 statement type -- type measures. But if you're solely  
4 looking at the cash flows, under every assessment that  
5 has been done no matter how you treat various aspects,  
6 cash from operations is positive.

7           In the assessment, the way that it was  
8 presented in the -- the case that we used, not only is  
9 it positive, but it exceeds normal capital spending.  
10 And I want to emphasize that when we say cash flow  
11 from operations is positive, this -- this means that  
12 certain types of claims don't bear out, meaning under  
13 none of the assessments can you not pay all of your  
14 current bills, all of your O&M and all of your -- all  
15 of your interest costs from -- from cash flow in the  
16 year. We're not borrowing to pay interest. We're not  
17 borrowing to pay -- to pay current O&M.

18           Under certain types of assessments,  
19 when you look at interest during construction being  
20 included in a cash draw in the year as if it's not an  
21 investing activity, you do end up with borrowing to  
22 build current -- current sustaining capital, but  
23 you're borrowing for something you're building that  
24 has hard assets even in that situation.

25           Now, there is what seems like a --

1 being portrayed as a substantive debate about how  
2 interest during construction is portrayed. I -- I  
3 address that a bit here, but I'll first say it's a bit  
4 of a surprising topic for me to receive as much focus  
5 as -- as we're talking about because this is a very  
6 transitory issue.

7                   It's -- it applies to the one (1) you  
8 were talking about next -- next year. And then  
9 interest during construction is not typically this  
10 large, so it's not like it's a fundamental issue  
11 that's going to -- going to sort of need to be  
12 resolved or needs -- will dominate discussion over the  
13 next number of -- of hearings.

14                   And -- and I do agree with Hydro when  
15 they say it's -- it's basically presentation issue.  
16 But as a presentation issue, we present things to  
17 convey certain -- certain messages.

18                   And I'd note there that there have -- I  
19 have four (4) reasons I would take issue with Manitoba  
20 Hydro's approach.

21                   One (1) is that it's not consistent  
22 with the use -- useful principles normally applied to  
23 regulating utilities.

24                   The second, it's not consistent with  
25 PUB'S conclusion in 59/18, which I agreed with.

1                   The third is it -- it is purporting to  
2 show what happens when Keeyask comes online or -- or  
3 this type of enduring obligation that won't go away  
4 when Keeyask construction ends, but yet it doesn't  
5 show the enduring benefit that occurs when Keeyask  
6 comes online, which is the fact that we're going to  
7 start getting export revenues, 360 million per PUB  
8 book page 76.

9                   And the fourth is that there -- there's  
10 no principle reason to treat interest different than  
11 other construction costs. And that's -- that's pretty  
12 much universally recognized when you're considering  
13 the capital cost of a project. Borrowing to fund a  
14 project is no different than -- than the rebar to --  
15 to build the project.

16                   But more importantly to me is that,  
17 even re -- regardless as to the presentation on the  
18 right-hand side -- and this is copied from Hydro's  
19 rebuttal, this is cut and pasted into here, is that  
20 Hydro's approach shouldn't be viewed as -- as bad  
21 news.

22                   Hydro's approach is basically saying  
23 that we -- if you -- it -- it's basically putting in  
24 all of the -- of the -- the Keeyask interest as it now  
25 exists. That will go up a little bit as -- as Keeyask

1 final -- the final spinning on Keeyask occurs, it'll  
2 go up by about 37 million.

3           And when Keeyask comes online we'll  
4 start paying some water rentals and we'll start paying  
5 some O&M costs; combined are about 30 million.

6           So in Hydro numbers that show this  
7 supposed conveying, the post-Keeyask world, you would  
8 take that deficit at the bottom of 197 million. You'd  
9 say, well, there's another 67 million in cash that's  
10 also going to come out because of extra interest for  
11 the ongoing borrowing and the O&M to end with about  
12 264 million negative cash before we add Keeyask export  
13 revenues.

14           Well, Keeyask export revenues are about  
15 360 million. So what that's telling me is that 2019's  
16 cash flows and 2019's rates are already sufficient to  
17 meet this cash test, meet this cash positiveness once  
18 Keeyask comes online.

19           It only can't -- it -- it only fails to  
20 meet it in the years where you put in all of the worst  
21 parts of Keeyask, the cash outflows for interest, and  
22 none of the revenues that Keeyask will generate.

23           And this is where it's -- without  
24 trying to lament the point, this is where the -- the  
25 lack of a long-term financial plan, I think, provides

1 danger to -- to everyone in over focusing on what is a  
2 -- a temporary situation in the next few years, as  
3 were finally getting the projects online, and it  
4 doesn't show what happens when turned the corner.

5                   And I think that's possible to have  
6 significant misinterpretation of the facts,  
7 significant failure to recognize what twenty-four (24)  
8 months from now looks like, whether you're -- whether  
9 you're -- you're in Hydro's finance department or  
10 whether you're in -- a lender or whether you're credit  
11 rating agency or whether you're a Public Utilities  
12 Board; that picture that says this is -- is temporary  
13 is missing.

14                   And I -- I think we we're -- we're all  
15 challenged by -- by not having that picture. For that  
16 reason, we also tried to look at the longer-term  
17 directional assessment, which goes to page 10 of the  
18 presentation.

19                   And I spent a bit of time on some of  
20 the -- the key aspects of MH-93 and -- and what we  
21 know has been updated directionally. Of course, we  
22 don't have this some -- a lot of this, we don't have  
23 quantitatively, and we certainly don't have it  
24 integrated quantitatively. But we do know the Bipole  
25 III has come in at a lower cost than MH-93 assumed;

1 that's material.

2                   We do know that Keeyask is headed for  
3 an earlier in-service date. It may not meet that in-  
4 service date. There is some -- some risk, of course,  
5 associated with it, but an earlier in-service rate  
6 means sooner revenues. And it means ongoing --  
7 ongoing savings from not having some of the -- of the  
8 construction cost we talked about.

9                   I find it hard to reconcile some of the  
10 comments that when we sat here last time, Keeyask was  
11 going to be later in service, about 8.7 billion, and  
12 now we're talking about being earlier in service.

13                   But, also 8.7 billion, when we also  
14 hear that it costs a million dollars a day to run the  
15 camp and we know that interest during construction is  
16 accruing at about \$25 million a month to the project,  
17 if those things are stopping sooner, it is clearly a  
18 benefit.

19                   Now, maybe we're still on track for  
20 eight point seven (8.7) and last time we were here we  
21 never were on track for eight point seven (8.7). I --  
22 I don't -- I don't know the answer to that, but I -- I  
23 find it hard to reconcile.

24                   For the purpose of this evidence, I've  
25 accepted the -- the conclusion that there is no net

1 cost reduction from Keeyask coming in sooner, nor a  
2 capital cost con -- reduction.

3 We also know that Keeyask's risks are  
4 increasingly getting resolved compared to what was in  
5 the MH 93. And the example was given of -- of  
6 geotechnical work. And that was at transcript 238.

7 The ground condition risk is -- is  
8 primarily behind us. That was always cited as among  
9 the number one risk. We know that there's added  
10 export contracts compared to MH-93, when the SaskPower  
11 215 megawatt was highlighted, the potential renewals  
12 of Xcel Energy, MSP agreements, or -- or renewals of  
13 aspects of them, at least. The diversity aspects was  
14 discussed.

15 Note that this is different than the  
16 last hearing when there was evidence given by Hydro's  
17 CFO that no new contracts could arise or -- or be  
18 assumed within the five (5), six (6), seven (7) year  
19 period was the -- the quote. Its ability in the next  
20 five (5), six (6), seven (7) years to -- to secure  
21 those contracts was pretty low.

22 This has financial impacts within the  
23 important early years of Keeyask, meaning 2025/2026.  
24 When you're talking about a hundred and twenty-five  
25 (125) year plant, that's the -- that's the -- when I'm

1 talking about his early years.

2                   We know that there's an interest rate  
3 benefit which we've seen drafts of, so I didn't intend  
4 to dwell on. The average interest rate is slightly  
5 higher in -- in the '19/'20. PUB-38 updated response  
6 shows that it's about .18 percent based on the  
7 assumptions at that time. That's before the latest  
8 debt was issued.

9                   But the thing we need to understand is  
10 that, with the longer maturity, it means this debt has  
11 been locked in for much longer period. So MH-93,  
12 which would have had refinancing risk and refinancing  
13 costs associated with -- with more five (5) year debt  
14 coming due in the period, that won't happen anymore  
15 because that five (5) year debt won't come due. And  
16 so, directionally, that would be significant positive.

17                   Moving to page 11. Continuing down the  
18 list of -- of directional conclusions compared to MH-  
19 93. We know that the -- the DSM future is unknown.  
20 My -- my assessment is it's hard to see that there  
21 will be a case for more upward rate pressure arising  
22 from DSM than was assumed in MH-93.

23                   We know that there are things that were  
24 in MH 93 that are now not likely to occur, the fuel  
25 choice being the -- the key example. Fuel choice

1 would have been a program that would have been  
2 considered by Manitoba Hydro within the mandate they  
3 had for -- four DSM but would not be within energy --  
4 or would -- would likely not be the efficiency of  
5 Manitoba's mandate, because that was a program that  
6 would have led to increased shifting to natural gas.

7           And understanding the scale of DSM  
8 changes that occur even when, you know, comments are  
9 made that it's largely status quo, these are -- these  
10 are big impacts even within a year.

11           And I -- I gave the example from MIPUG-  
12 2B there that just the change from the November  
13 application to the February update, which was -- both  
14 of which were effectively considered status quo DSM,  
15 added \$30 million in extra domestic revenue in the  
16 year, reduced export revenues by eighteen (18), so \$18  
17 million benefit, and it had reduced program spending  
18 of 33 million in 2019/'20. And you can reference  
19 MIPUG-2B for that -- those -- those values.

20           And all of these directional  
21 improvements on top of the assessments are already  
22 noted by the Board about why MH-93 was conservative.  
23 And I gave you some examples there. MH-93 did not  
24 consider export price benefits or import price  
25 reductions. Two to five percent was cited as due to

1 the -- the Minnesota transmission, and you didn't  
2 consider the dependability premium for uncontracted  
3 dependable export energy.

4                   And, of course, MH-93 still had 7.9  
5 percent price elasticities in the domestic load  
6 forecast, so it would've assumed a dampening effect in  
7 the load forecast compared to what -- what happens  
8 when you don't approve those 7.9 percent.

9                   And as best I can tell, there is no  
10 apparent material or sustained negative developments  
11 compared to MH-93. Now that's not to confuse this  
12 accounting detail about Keeyask earlier in-service  
13 with bad news.

14                   Keeyask earlier in-service helps  
15 control the cost of the project. Keeyask earlier in-  
16 service leads to export revenue sooner. It does lead  
17 to certain costs being recognized on the income  
18 statement rather than capitalized, which will have a  
19 downward impact on the IFF of numbers; I acknowledge  
20 that.

21                   But overall, if you're -- if you're  
22 somebody who's -- who's managing a project, that's not  
23 something you would consider it in the -- in the bad  
24 news column. That's, overall, in the long-term, we're  
25 talking about benefits to -- to being able to achieve

1 project on time. And that's exactly why Hydro was  
2 appropriately trying to do that.

3                   And I just wanted to get through this  
4 list to emphasize that this is not -- none of these  
5 are -- are designed on hope. These are designed on  
6 the less than best and latest forecasts available to  
7 us about the directionally impacts compared to MH 93.

8                   As a result of looking at that, the end  
9 conclusion was that the 3.5 percent rate increase was  
10 -- was effectively assumed in MH-93 should not be  
11 automatically assumed to be required.

12                   What rate increase should be assumed to  
13 be required, well, I went back to the standards that  
14 we've applied consistently over time and that were  
15 discussed by Mr. Osler and -- and Mr. Forrest at the -  
16 - at the last GRA, which is that there should be a  
17 substantial hurdle before people impose rate increases  
18 above inflation.

19                   We have a utility that's largely  
20 invested in capital, largely inflation protected.  
21 Increased net inflation should be considered to be --  
22 to be, you know, a practical maximum target, maximum  
23 barrier absent clear evidence that -- that something  
24 beyond that is required.

25                   And I think the -- the clear evidence

1 in this -- in this hearing is missing that that is  
2 required.

3                   Now, no -- on other issues. Some of  
4 these are -- were addressed in my IR. Some of it is -  
5 - is just commenting on the -- the rebuttal pieces.  
6 There was -- there was a comment, is negative net  
7 income okay is the way was portrayed, that I was -- I  
8 was concluding that negative net income is okay. I  
9 don't think it's a fair summary of -- of what was in  
10 the evidence I prepared in MIPUG-5.

11                   Negative net income is a necessary part  
12 of each IFF as part of managing the rate increases.  
13 It's part of transitioning in the unprecedented scale  
14 of capital. It was part of transitioning in the  
15 previous unprecedented scale of capital in 1992.

16                   And, in fact, the last time Hydro  
17 brought on major plant, limestone, they came to the  
18 Board with a forecast of net losses and the Board  
19 reduce the rate increase request.

20                   It -- it became a -- that was 1992,  
21 Order 25/92. It's a -- it's a reality when you're  
22 dealing with this type of situation. It's also  
23 obviously part of the 2004 drought. That's all in our  
24 DNA now, if you like, and it'll be part of any other  
25 droughts or risks reliant on reserves.

1                   As a matter of fact, there's no meaning  
2 to having reserves if there isn't an ability to have  
3 the negative income to effectively draw them so long  
4 as you're reserves are retained earnings.

5                   And I will say that, if in -- in the  
6 debate over this there was some very useful testimony  
7 from Mr. Colaiacovo at the -- at the previous GRA  
8 where I que -- questioning of him as to whether  
9 negative net income was -- was advisable or possible.

10                  And then if -- if this were to be a  
11 substantive debate on first principles, I think that  
12 that type information would need to be before the  
13 Board.

14                  And I just want -- I just want to  
15 coclude -- conclude and say that the -- the pre -- the  
16 assertion of what is said in the evidence is -- is not  
17 correct. And if that was a reason that Hydro's need  
18 to rebut, I -- I wanted to allay any concerns that --  
19 that anybody would suggest that we should stop paying  
20 attention to -- to comments from those out -- outside.

21                  But obviously, positive net income is  
22 better than negative, all other things being equal,  
23 but the -- as long as it's not the primary purpose of  
24 otherwise unneeded rate increases.

25                  And I also want to emphasize that the

1 tests that might be applied, I think there's a concern  
2 that we -- that we not abdicate to -- to other bodies  
3 with other purposes, the tests that need to -- applied  
4 when considering the fair and reasonable level of  
5 rates, including credit rating agencies who have an  
6 entirely different purpose and an entirely different  
7 objective.

8                   Would -- would a lender or credit  
9 rating agency prefer that Manitoba Hydro never draws  
10 down it's reserves? Sure they would, but that's not  
11 the framework we've put in place for rates. We've put  
12 in place a framework for rates that -- that we will  
13 intend to draw on those reserves at times when we need  
14 to.

15                   And if -- if that offends someone at a  
16 credit rating agency, well, I think that's better than  
17 -- than offending the -- the purpose for which we've  
18 set up -- set up Manitoba Hydro the way we have.

19                   On the comment about are we running out  
20 of time, which was made in the transcript on April  
21 24th, I -- I want to be clear that we're only running  
22 out of time if the intent is that rate increases now  
23 will save Hydro from all net losses from Keeyask and  
24 Bipole coming into service in each year, and that's  
25 that's not a reasonable standard.

1                   As I -- I already commented on the  
2 capitalized interest, that we're -- we're only running  
3 out of time for people who are concerned about --  
4 about the interest hitting the books and -- and  
5 ignoring the totality of the picture of what's hitting  
6 the books over time.

7                   And to that audience, we've already  
8 shown that picture by putting the capitalized interest  
9 in that cash flow test. And I just wanted to also  
10 address there that the -- this also applies to the  
11 Mood's and -- and noting that the Moody's EBIT that  
12 was -- was the focus of some discussion was -- seemed  
13 to be largely focused in ignoring Moody's EBIT test  
14 which is also cited in Hydro's presentation, but it  
15 wasn't the focus of their calculations, which is  
16 currently one point two (1.2), per Moody's.

17                   That's in the -- the same presentation  
18 and in the Moody's report. And EBIT is much more the  
19 cash ratio. And -- and that -- that evidence came  
20 from Hydro yesterday, one point two (1.2), meaning --  
21 meaning interest being -- being covered.

22                   And the other thing is that the Bipole  
23 III deferral amortization, we know that will end. We  
24 know that there is a rate transition needed to help  
25 address that over the period of the -- the five (5)

1 years in which the deferral is occurring.

2 I comment on that as part of the reason  
3 for being able to -- to see a need to transition rates  
4 to a higher level even if we don't have all of the --  
5 the quantitative information we're used to.

6 When that happens, that will also be  
7 positive to cash because the Bipole III deferral is a  
8 non-cash source of revenue at this time.

9 And I wanted to emphasize that, if we  
10 are -- if we're running out of time on anything, it's  
11 how to start using Hydro's uncertainty analysis to  
12 determine the appropriate reserve levels post-Keeyask,  
13 the minimum retained earnings type of process, and to  
14 work on ensuring we find the right way to communicate  
15 this to stakeholders so that people understand what  
16 Hydro's finances are intended doing and what this  
17 Board is prepared to do to handle risk so that we  
18 don't run into this -- the -- the type of short-term  
19 focus that we're -- we're seeing.

20 The final side is on the cost of  
21 service. I noted I'm recommending across-the-board  
22 adjustments for the major rate classes. I didn't do  
23 any -- I will say I didn't do any assessment or  
24 analysis of anything to do with -- with specific  
25 issues on First Nation reserve or the like.

1                   But the recommendation to use across-  
2 the-board adjustments to the rate increase is  
3 reflective in the fact that I don't believe the PCOSS  
4 information available to the Board is robust. It's  
5 based on PCOSS-18 with only Bipole layered in. We  
6 know that directionally Bipole will have a greater  
7 percentage increase on those classes that rely on  
8 generation or transmission assets, as opposed to those  
9 that also pay a rate for distribution assets.

10                   But that -- that reflects the  
11 limitation of doing that type of approach is that  
12 it -- it focuses on what is driving rates in the  
13 generation class -- or in the generation of  
14 transmission functions. It does not reflect what's  
15 driving rates in the other functions.

16                   And that is a -- a material omission,  
17 particularly in light of how much reinvestment is  
18 going into the distribution system. And I -- I'm  
19 worried that this point might not be -- might not be  
20 noted but in the CEF that is in -- that's been filed  
21 outside of major generation transmission, generation  
22 in the next -- or in the five (5) years covered is  
23 about -- is about \$500 million of reinvestment or  
24 about a hundred million a year. And that's on a  
25 system. The generation has a very large asset base:

1 7.4 billion.

2                   So at -- the reinvestment of the  
3 generation system beyond -- beyond Keeyask is -- is  
4 quite low. So the thing you're not seeing that PCOSS  
5 on top of -- on top of the Bipole is -- is relatively  
6 small.

7                   Transmission is similar. It's about  
8 250 million over five (5) years or about 50 million a  
9 year on an asset base of about 2.2 billion. So again,  
10 the transmission system, by ignoring what -- what else  
11 is going on, you're not missing much.

12                   On the distribution system, however,  
13 the reinvestment right now is very large, and it's  
14 averaging about \$225 million a year on an asset base  
15 of about 2.7 billion.

16                   So as a -- as a scale of impact, those  
17 compounding effects in -- in the future PCOSSs are --  
18 are not being picked up by the -- the course estimate  
19 that we have today, and that -- I would emphasize that  
20 the distribution impact is -- is magnified by the fact  
21 that it's just a subset of customers who actually pay  
22 them. And it's also magnified by the fact that those  
23 investments tend to be depreciated over a somewhat  
24 shorter period than some of the -- the lease  
25 generation-type investments.

1                   So that -- I -- think that is a -- a  
2 fairly major story that -- that is missing from that  
3 that PCOSS update. I -- I look forward to seeing  
4 future PCOSS updates that -- that fully analyze it  
5 and -- and as a result, even though the classes  
6 that -- that I'm retained to -- to represent tend to  
7 be above a hundred, I don't think there's a basis to  
8 be talking about further across-the-board rate  
9 increases. I don't think the evidence is sufficiently  
10 robust to -- to recommend that coming out this  
11 proceeding.

12                   And that's the end of the -- the  
13 direct.

14                   MR. ANTOINE HACAULT: Thank you very  
15 much, Mr. Bowman.

16                   Ms. Fernandez? Oh, sorry. Yeah.  
17 Sorry. Ms. Kapitany, please.

18                   VICE CHAIR KAPITANY: Mr. Bowman,  
19 could you just go back to page 2 of your deck? You  
20 say across-the-board increase of zero to 1.5 percent,  
21 and then you give your justifications, one of which is  
22 inflation.

23                   Could you just tell me the measure you  
24 used and the time frame you used?

25                   MR. PATRICK BOWMAN: There is an IR

1 that was asked on this, I think, by the Board if I'm  
2 not mistaken. So if you give me a moment, I'll...

3

4 (BRIEF PAUSE)

5

6 MR. PATRICK BOWMAN: Yes. It was a --  
7 a Board PB MIPUG 1-4, and the question is: What was  
8 used? How did I get to one point five (1.5)?

9 And I noted that at the time it was  
10 prepared, February 2019, total CPI for the Bank of  
11 Canada was one point five (1.5). The CPI for Manitoba  
12 at that point was one point four (1.4), although it  
13 was then updated to -- to two point-o (2.0).

14 I wasn't necessarily trying to pick  
15 between a Canada and the Manitoba measure. As I note  
16 in that response, the intent of the principle is to  
17 give an idea of a -- of a bound, if you like, and --  
18 and to work within that generally. So that was how I  
19 came up to one point five (1.5).

20 THE CHAIRPERSON: Ms. Fernandes, my  
21 apology. I just -- I -- apparently, I have the wrong  
22 copy. So I've been told by counsel who -- who gave me  
23 the staredown that it's actually Mr. Williams who's  
24 going first.

25 DR. BYRON WILLIAMS: My Chair, I'm

1 rarely in the position to ask questions of the Board,  
2 but you'll confirm that the staredown was not from the  
3 Consumers Coalition.

4 THE CHAIRPERSON: I would confirm the  
5 staredown was from counsel --

6 DR. BYRON WILLIAMS: Okay.

7 THE CHAIRPERSON: -- who gave me a  
8 look I've seen before from other people.

9 DR. BYRON WILLIAMS: I've seen one of  
10 those looks as well.

11

12 CROSS-EXAMINATION BY DR. BYRON WILLIAMS:

13 DR. BYRON WILLIAMS: Just for the --  
14 just for the benefit of the panel, as well as the  
15 MIPUG witness, the primary focus of our discussion  
16 here is -- will be two areas where our experts do not  
17 take the same approach as the MIPUG witnesses, and  
18 then one issue of clarification where our experts do  
19 not comment, and then one quick question in terms of  
20 the very last words out of Mr. Bowman's mouth, which I  
21 may have been inadvertently misspoken.

22 So perhaps we could start by turning to  
23 PUB-Coalition-8, the third page just for a second.  
24 And Mr. Bowman, the second full paragraph on this, the  
25 last lengthy sentence. You would just see that the

1 Consumer Coalition experts are not recommending a  
2 Keeyask deferral account. That's consistent with your  
3 understanding, sir?

4 MR. PATRICK BOWMAN: Yes.

5 DR. BYRON WILLIAMS: And, sir, you  
6 spoke today in your -- in your PowerPoint and in your  
7 oral evidence in terms of -- without asking you to  
8 elaborate, I would just ask you to confirm -- of  
9 implementing a Keeyask deferral account similar to the  
10 Bipole III account. Do you recall that, sir?

11 MR. PATRICK BOWMAN: Yes.

12 DR. BYRON WILLIAMS: And we're not  
13 going to get into transition funds at this point in  
14 time, but you'll recall in your written evidence, sir,  
15 you referred to any such revenue being targeted to a  
16 deferral account or transition fund. Do You remember  
17 that, sir?

18 MR. PATRICK BOWMAN: Yeah. I was -- I  
19 wasn't trying to draw a significant distinction  
20 between the -- it was --

21 DR. BYRON WILLIAMS: Okay.

22 MR. PATRICK BOWMAN: -- conceptual.  
23 It was descriptive. It wasn't meant to be technically  
24 describing two (2) different things.

25 DR. BYRON WILLIAMS: Okay. So just

1 for clarification purposes, the reference in your  
2 written evidence to a transition fund is really  
3 intended to be analogous to a deferral account.

4 MR. PATRICK BOWMAN: Yes. It was  
5 meant to be more -- more descriptive than when -- then  
6 the -- the named deferral account, which I'm not sure  
7 is as clear to non-accounting folks.

8 DR. BYRON WILLIAMS: And if we could  
9 turn to appendix 3, the Hydro annual report, at  
10 page 91 and 92, and down to note 27, relating to  
11 deferred revenue.

12 Mr. Bowman, recognizing that your  
13 approach is to a deferral account similar to the  
14 Bipole III approach, without asking for a lengthy  
15 accounting discussion which neither I and perhaps you  
16 are capable of, your understanding would be that the  
17 Bipole III contribution is currently treated as  
18 deferred revenue?

19 MR. PATRICK BOWMAN: Yes.

20 DR. BYRON WILLIAMS: And if we can go  
21 to the top of the next page. Mr. Bowman, you'll see  
22 that the Manitoba Hydro has helpfully presented a  
23 history of the development of the deferred revenue  
24 within the -- in -- within the Bipole III deferral  
25 account, agreed?

1 MR. PATRICK BOWMAN: Yes.

2 DR. BYRON WILLIAMS: And just for a  
3 second, I'll remind everyone -- we're going to come  
4 right back to that -- but I'll remind everyone that --  
5 or Mr. Bowman, I'll get you to remind everyone --  
6 you're currently understanding is that -- Keeyask is  
7 currently targeted to come online on October of 2020,  
8 the first unit?

9 MR. PATRICK BOWMAN: Yes.

10 DR. BYRON WILLIAMS: And as you've  
11 indicated today when it comes online, there will be  
12 significant costs for the income statement?

13 MR. PATRICK BOWMAN: For the income  
14 statement, yes.

15 DR. BYRON WILLIAMS: And as well, sir,  
16 there will also be significant new revenues for the --  
17 associated with this project.

18 MR. PATRICK BOWMAN: In each case,  
19 sort of phased in with the units, but -- but yes. You  
20 will be starting the revenues.

21 DR. BYRON WILLIAMS: Now --

22 MR. PATRICK BOWMAN: I don't want to  
23 split hairs about the month that it would be  
24 recognized or about, you know, at what point  
25 contractual obligation kick in versus just added power

1 transactions.

2 But, you know, beyond '19/'20, that --  
3 an earlier date would mean that those things start to  
4 hit the income -- both components of that would start  
5 to start to hit the income statement.

6 DR. BYRON WILLIAMS: Okay. Thank you.  
7 Sir, I get your understanding would be that Bipole III  
8 came online on or about July 4th, 2018?

9 MR. PATRICK BOWMAN: That was the  
10 evidence I heard.

11 DR. BYRON WILLIAMS: So in terms of  
12 the development of the Bipole III deferral account,  
13 you'll agree that it was initiated in Order 43/13?  
14 Would that be fair, sir?

15 MR. PATRICK BOWMAN: Yes.

16 DR. BYRON WILLIAMS: And you see  
17 incremental additions over, I'll suggest to you,  
18 five (5) consecutive Board orders over five (5)  
19 consecutive years, sir?

20 MR. PATRICK BOWMAN: Yes.

21 DR. BYRON WILLIAMS: And if we could  
22 turn to PUB-1-11 to Manitoba Hydro and scroll down.

23 Mr. Bowman, you'll recognize here a  
24 continuity schedule of the Bipole III deferral  
25 account, sir?

1 MR. PATRICK BOWMAN: Yes.

2 DR. BYRON WILLIAMS: And what that  
3 shows to us, I'll suggest to you, is contributions to  
4 the deferral account over six (6) separate years,  
5 starting with the 2013/14 year with a total of  
6 19 million and concluding in the 2018/19 year with the  
7 44 million?

8 MR. PATRICK BOWMAN: Yes.

9 DR. BYRON WILLIAMS: And presumably,  
10 that last year, being 2018/2019, would be the couple  
11 of months of that fiscal year before Bipole III came  
12 online, agreed? That 44 million?

13 MR. PATRICK BOWMAN: My understanding  
14 is that that's when the switch occurs.

15 DR. BYRON WILLIAMS: Directing your  
16 attention, sir, to the balance on the right-hand side  
17 of this continuity schedule, as of the end of '17/'18,  
18 this suggests that the deferral account was  
19 \$348 million?

20 MR. PATRICK BOWMAN: Yes.

21 DR. BYRON WILLIAMS: And if we were to  
22 add in the \$44 million in contributions in '18/'19,  
23 you'll accept, subject to check, roughly 392 million,  
24 sir?

25 MR. PATRICK BOWMAN: Yes.

1 DR. BYRON WILLIAMS: And that would be  
2 over the course of parts of six (6) years.

3 MR. PATRICK BOWMAN: Yes.

4 DR. BYRON WILLIAMS: And, sir,  
5 Mr. Bowman, would you agree in terms of when  
6 Bipole III came online, there wouldn't be a  
7 significant revenue bump for Manitoba Hydro associated  
8 with that project coming online?

9 MR. PATRICK BOWMAN: Yes.

10 DR. BYRON WILLIAMS: So, with  
11 reference to the BiPole III deferral account, would it  
12 be fair to suggest to you, sir, that that total of  
13 roughly \$390 million was accrued or -- sorry, was  
14 generated over the course of four (4) full years and  
15 parts of two others?

16 MR. PATRICK BOWMAN: Yeah. At varying  
17 rates throughout them, but yes.

18 DR. BYRON WILLIAMS: And as -- since  
19 it was built up over somewhere between forty-eight  
20 (48) months and sixty (60) months.

21 Would that be fair?

22 MR. PATRICK BOWMAN: I -- it's  
23 actually a little bit longer than that. But if we --

24 DR. BYRON WILLIAMS: And even longer  
25 period. And when we look at the amortization, which

1 is the middle column, sir, we see, as well, that it --  
2 the intent or the -- it will be amortized over  
3 six (6) years, beginning in 2018/'19 at 58 million and  
4 concluding in 2023/'24 at 20 million.

5 Is that correct?

6 MR. PATRICK BOWMAN: Yes.

7 DR. BYRON WILLIAMS: Assuming Keeyask  
8 comes in on October 2020, at least first in units,  
9 would it be fair to suggest, Mr. Bowman, that you're  
10 talking about the buildup of a deferral account over a  
11 16-month period between June 1st, 2019 and  
12 October 2020?

13 MR. PATRICK BOWMAN: Right. That --  
14 and that's -- that's the key factor why I'm -- I was  
15 emphasizing that, you know, you -- the Board might  
16 consider ordering a mechanism as part of -- of  
17 communicating the -- the purpose of any rate increase  
18 granted.

19 I don't think the -- the numerical  
20 values would obviously be -- be much different and  
21 they'd be much smaller on a -- on a much larger  
22 project. And as a result, you know, the mechanism may  
23 not be worth the trouble.

24 So I'm not sort of thumping the table  
25 and saying this is -- this the necessary component. I

1 was just emphasizing that -- that I think when it  
2 first came in the Bipole III deferral account, it  
3 communicated something of importance. It communicated  
4 that the Board was saying this isn't for today. This  
5 isn't for -- for compensating Hydro for -- for places  
6 where it might -- might, you know, relieve a pressure  
7 for cost control or something else.

8                   It was just saying this is -- this is  
9 for -- this for the benefit of helping transition the  
10 impact on ratepayers and for the benefit of helping  
11 question the impact by starting a little sooner and  
12 ending -- and ending the impact a lot later in giving  
13 about ten (10) years to face the project in rather  
14 than one.

15                   I -- I don't think that six (6) is the  
16 magic. I think when you look at this -- at this --  
17 this page, the ten (10) was what -- was what they  
18 achieved. And in function, it served a useful  
19 purpose. In message it also suited the use for  
20 purpose, what I'm saying here, for Keeyask 'cause you  
21 wouldn't have anywhere near the same function. You --  
22 you may want to make it the same message.

23                   DR. BYRON WILLIAMS:   And you wouldn't  
24 have the same function, sir, because a buildup of --  
25 of at least three (3) times as long as what we're

1 looking at for Keeyask; you wouldn't have the  
2 magnitude of the balance in the deferral account,  
3 agreed?

4 MR. PATRICK BOWMAN: Yeah, right. But  
5 when this -- when this started, this wasn't aiming for  
6 the magnitude either. I don't think anyone dreamed  
7 that it was going to be almost \$400 million.

8 It was -- in each case, the Board  
9 looked at -- and I think your earlier slide emphasized  
10 it -- in each case many -- over many orders, the Board  
11 looked to the facts and said I can identify current  
12 cost pressures in Hydro that may merit a rate  
13 increase, or I may identify no current cost pressures  
14 in Hydro that merit a rate increase, but I can  
15 identify a long-term need to transition rates.

16 And so something I think that people  
17 had been in a way encouraging this Board to do over  
18 time, which is develop more than one (1) lever of  
19 control, the Board found a way to do, which give  
20 itself two (2). It could always say what is the flow  
21 rate increase and how much of it does Hydro actually  
22 get to book?

23 And -- and I think that was -- I'm  
24 thinking back to probably 2005 for something you and I  
25 going over these -- these topics, Mr. Williams, and

1 saying that the -- the regulator's dilemma and the  
2 Board was limiting the tools available to it 'cause it  
3 can only increase rates and -- and -- or decrease  
4 rates. And -- and this -- the Bipole to a transition  
5 debt from -- from one message -- being able to  
6 communicate one message to being able to communicate  
7 two.

8 DR. BYRON WILLIAMS: Thank you. And  
9 in terms of the Bipole tool, sir, at a high level,  
10 without asking you to elaborate, your point is that it  
11 had both a functional outcome, as well as a messaging  
12 outcome, agreed?

13 MR. PATRICK BOWMAN: Yes.

14 DR. BYRON WILLIAMS: And in terms of  
15 the Keeyask tool, given the limitations in terms of  
16 function, it -- it is -- you see it at least as a  
17 messaging tool.

18 MR. PATRICK BOWMAN: I -- I offer it  
19 as a messaging tool, given that I think the Board is  
20 in this, you know -- I think the Board is probably  
21 facing the same type of an intellectually challenging  
22 set of facts that we were, which is how -- how does  
23 one make an assessment of what is fundamentally in --  
24 in a massive volume of evidence coming out of the  
25 previous hearing, the previous few hearings, that we

1 should be transitioning somewhere.

2 But the facts of this case, related to  
3 the scope of this case, don't support that.

4 DR. BYRON WILLIAMS: And, sir, in  
5 terms of the practical question of amortization, do  
6 you have a recommendation over how many years it would  
7 be amortized?

8 MR. PATRICK BOWMAN: No

9 DR. BYRON WILLIAMS: And part of that,  
10 sir, is a practical or functional result of -- that  
11 the sum of money that we're talking about is -- is  
12 obviously much lower than what was developed with the  
13 Bipole III deferral account.

14 MR. PATRICK BOWMAN: Yes.

15 DR. BYRON WILLIAMS: Mr. Bowman again,  
16 recognizing that neither of us have the CPA  
17 designation, would it be your understanding that for  
18 financial reporting purposes, a deferral account, such  
19 as Bipole III or notionally Keeyask, are treated as  
20 deferred revenue, and then once the project becomes --  
21 comes online, they're drawn into revenue?

22 MR. PATRICK BOWMAN: I know that  
23 they're treated as deferred revenue. Beyond that, I  
24 would -- I would leave it to the accountants to -- to  
25 comment on how that is presented.

1 DR. BYRON WILLIAMS: Perhaps you can  
2 assist me with this to the extent you're able.  
3 Conceptually -- and for our clients to understand the  
4 deferral account -- is that money stocked away in a  
5 secret drawer only to be spent when Keeyask comes  
6 online? Or would it be your expects -- expectation  
7 that the money from the deferral account would be  
8 available to be used at Hydro's discretion, so long as  
9 it is -- it is treated as deferred revenues on the  
10 financial statement?

11 MR. PATRICK BOWMAN: Deferred revenues  
12 is a -- it's a balance sheet item, Mr. Williams, so it  
13 would show up as an -- as an obligation of the  
14 Corporation. But it -- but it's not treated as  
15 sequestered cash or anything of that nature to the --  
16 to the best of my knowledge, and I've certainly never  
17 seen any reporting to suggest it is. It's not a trust  
18 account. It's not -- nothing of that nature.

19 DR. BYRON WILLIAMS: Moving to another  
20 topic, which will -- I'll only have a couple questions  
21 on, Mr. Bowman.

22 At a high level, and without asking you  
23 to elaborate, you're aware that in terms of the  
24 methodological approach to this application, the focus  
25 of the consumer coalition witnesses has been on the

1 test year basis and -- and line on findings from  
2 PUB Order 59/18?

3 MR. PATRICK BOWMAN: Yes.

4 DR. BYRON WILLIAMS: And, sir, you  
5 take somewhat of a different approach in -- in your  
6 direct evidence, and I'll suggest you -- you say that  
7 there is no sensible way to determine a rate increase  
8 for Manitoba Hydro, based on a one (1) year test year  
9 and in the absence of an IFF. Do you recall  
10 statements to that effect, sir?

11 MR. PATRICK BOWMAN: Yes. I -- I  
12 would -- I might just add, I don't make those comments  
13 in -- to suggest that the -- the approach that  
14 Mr. Rainkie took is -- is problematic. I think we --  
15 we each came at this and -- and dealt with this unique  
16 set of facts by sort of boiling down our assignment to  
17 a different question.

18 I boiled down the question to say, is  
19 64 million enough? He'd boiled down the question to  
20 say -- and -- well, I'll let him speak for himself --  
21 but -- but -- and I understand his evidence. He  
22 boiled down the question to say, if you really want a  
23 hundred and eleven million, there are other ways you  
24 could get it.

25 DR. BYRON WILLIAMS: Thank you.

1 And -- and just to the extent that there is a -- a  
2 methodological difference between the two of you, you  
3 will recall from our client's cross-examination of  
4 Manitoba Hydro yesterday, we drew the attention of  
5 Manitoba Hydro to Board Order 59/18, specifically  
6 page 65 and the discussion of drought risk export  
7 price risk and interest rate risk. Do you recall that  
8 discussion, sir?

9 MR. PATRICK BOWMAN: Yes.

10 DR. BYRON WILLIAMS: And while you  
11 and -- and the Consumer Coalition witnesses may  
12 disagree on the question to be asked -- do you agree  
13 that the findings of the PUB in Order 59/18 with  
14 regard to the treatment of risk are still relevant to  
15 the deliberations in this rate application?

16 MR. PATRICK BOWMAN: Yes, as long as  
17 we understand that inherently talking about something  
18 like drought risk is not about just 2019/20. That we  
19 fundamentally have to look beyond the -- the single  
20 test year, and we can't sort of stop with that -- that  
21 set of blinders. And I only emphasize that to sort of  
22 ensure that -- that if someone is sort of suggest or  
23 dismiss it -- well, that's offside; that's out of the  
24 scope. I don't think you can make sense of things  
25 if -- if you're limited to that scope.

1 DR. BYRON WILLIAMS: Our clients have  
2 one question of -- or one area -- a small area of  
3 clarification, and it relates to your evidence in --  
4 on the bottom at page 7 in -- and it might be page --  
5 let's let's see what we've got here. Yes. On this  
6 and -- just one (1) second.

7 Yes, this is the page. Now,  
8 Mr. Bowman, on this page you're talking about the --  
9 without asking you to elaborate -- you're talking  
10 about the appropriate level of reserves for  
11 rate-setting purposes?

12 MR. PATRICK BOWMAN: Yes.

13 DR. BYRON WILLIAMS: And if we can  
14 just scroll to the top of the page and just keep those  
15 first three paragraphs. And for context -- oh, we may  
16 be on the wrong page here. My apologies.

17 It's actually the next page, as well.  
18 In terms of the appropriate level of reserves on this  
19 page, being page 8 at the bottom of your prefilled  
20 evidence, Mr. Bowman, you're asking the question of  
21 whether reserves have reached a sufficiently high  
22 level, agreed? That's at the very bottom of this  
23 page.

24 MR. PATRICK BOWMAN: Yes.

25 DR. BYRON WILLIAMS: And in addressing

1 this question, you're looking at the top at three (3)  
2 different time periods, being the two-o-three (203)  
3 period, the two-o-nine (209) period, and the last  
4 generate application?

5 MR. PATRICK BOWMAN: Yes. And there's  
6 no magic to the selection of those or -- just to give  
7 an -- weight points.

8 DR. BYRON WILLIAMS: But the four  
9 factors, sir, that you consider in this discussion --  
10 perhaps, Ms. Schubert, you can show the -- scroll up  
11 towards the top of the page just so we have a bit --  
12 for all three time periods, sir, you're looking at,  
13 I'll suggest to you, four factors: domestic revenues,  
14 export revenues, the drought reserve, and the level --  
15 sorry -- the estimated cost of a five (5) year drought  
16 and the actual level of reserves.

17 Would that be fair?

18 MR. PATRICK BOWMAN: Yes.

19 DR. BYRON WILLIAMS: Let's assume for  
20 a moment that our client understands your point about  
21 reserves being significantly higher than the cost of a  
22 five (5) year drought. From the perspective of an  
23 appropriate level of reserves, what is the relevance,  
24 if any, of the relative level of domestic revenues  
25 versus export revenues? Why does that matter for your

1 evidence, sir?

2 MR. PATRICK BOWMAN: I guess,  
3 Mr. Williams, I've been trying to find a way to convey  
4 a -- a picture that's been evolving over twenty (20)  
5 years of doing this that Hydro has gone through  
6 different phases in -- in respect of how we come into  
7 these -- these rate hearings and the things that we  
8 need to address and talk about.

9 One of those is, you know -- even when  
10 we start -- I started in 2002. It was in the early  
11 years of figuring out how one was moving from this --  
12 this bolder minimum retained earnings target to  
13 something where it was a bit more long-term  
14 aspirational targets of -- of moving away from  
15 ninety-five five (955) and -- and building up some --  
16 some equity ratio, eight-five fifteen (8515) at the  
17 time, in the -- the first targets.

18 And so there -- there was a series of  
19 hearings where it was always a question. Of course  
20 we're -- we're working at building these reserves. Of  
21 course we're working at building these retained  
22 earnings. It's just a -- a question of how fast we  
23 get there, and what do we do when hit a bump in the  
24 road, like the 2004 drought.

25 But -- but that path that was put in

1 place starting in, you know, in the early 90s in --  
2 that Mr. Forrest talked about last time, we knew -- we  
3 knew that this -- these targets set us somewhere to  
4 go, and we always knew that building the reserves and  
5 growing was part of the ultimate plan. And -- and  
6 there was a lot of different ways to look at -- at the  
7 pace in which one did it and how you dealt with these  
8 different events.

9                   In the midst of that, something else we  
10 saw changing was the extent to which Hydro was relying  
11 on export markets in a way it hadn't before. And as a  
12 result, the -- the -- in the two (2), three (3), and  
13 for quite a few years after -- the percentage of  
14 exports that made up their base was high. And as a  
15 result, the -- the exposure to export market  
16 variability was -- was quite high.

17                   And so -- and -- and I'll guess relay  
18 from -- from my perspective looking back on it, the  
19 prices in the export market were also quite high.  
20 That led to questions about whether we should even be  
21 trying to serve Manitoba load or whether we should,  
22 you know, scare away some industrials 'cause we'd  
23 rather sell power on the export market, as -- as I  
24 would summarize the -- the energy intensive rate era  
25 in late 2007-ish.

1                   So you had a utility that was trying to  
2 build up reserves, trying to -- trying to deal with  
3 the fact that it could have long-term droughts, that  
4 it -- it didn't have enough from retained earnings to  
5 even handle. And that was reliant on, to some extent,  
6 a bit of a home run in the export markets at the high  
7 prices that were there to do it.

8                   In that situation, I -- I don't think  
9 there was any serious debate about whether we should  
10 be aiming higher on -- on reserves and -- and building  
11 up retained earnings.

12                   Starting the last hearing -- and I -- I  
13 think -- I think we are in a major transition period  
14 now -- the facts have changed. The export markets  
15 aren't as lucrative as they were. I -- we're not  
16 seeing the same degree of even -- I put the ratio  
17 of -- export to domestic here.

18                   I -- I think if I had had more -- more  
19 tools available, I'd deal with the -- the variability  
20 that could rise in Hydro's revenues, due to changing  
21 export prices, like how exposed are we to the  
22 assumptions we make about the export market?

23                   But, you know, nowadays, no one's  
24 sitting here saying the export market's going to be  
25 this -- this, you know, brilliantly high prices that

1 are going to -- going to pay for everything that we --  
2 we want to do.

3                   That's not built into the IFFs anymore.  
4 Those -- the drop in export prices in the shale gas  
5 and all the other pieces. It is already built in. We  
6 don't have that risk to the same extent as we did  
7 when -- when you and I sat here in -- in some of those  
8 periods: 2006, 2007.

9                   And we've built up, and we've got the  
10 retained earnings much higher. And as a result, the --  
11 I think the picture looks very different, so that when  
12 you run the uncertainty tool that Hydro's now  
13 developed, which is the third new development, you can  
14 start to look at the future and say, you know, it's  
15 not a case where we're inevitably adding to reserves  
16 for timing immemorial. It's -- it's a case where we  
17 have to think about when we've -- when we've reached  
18 enough. And we have tools that can help us assess  
19 that.

20                   I don't think we'd ever been able to be  
21 in a position where we'd talk about: What does enough  
22 look like? What does, as the Board latched onto, a  
23 minimum retained earnings concept in this modern era  
24 look like? And I think that's what we're going to be  
25 facing in the next few years.

1                   So as much as this -- this hearing's  
2 talked about the immediate cash flow, you know,  
3 18 months from Keeyask coming into service, and the  
4 problems right now, I think the opportunity for us is  
5 to say: Given the tools we have available, given  
6 the -- the retained earnings that exist, given the  
7 risks that we face and -- and a desire to sort of  
8 better understand those risks and how they should be  
9 addressed -- like drought risk through reserves and --  
10 and interest rate risks through rate changes, which  
11 the Board dove into in the last piece -- I think all  
12 of that could come together and say, how do we turn  
13 that corner?

14                   And that -- that's what I was trying to  
15 address in the -- is it -- are we running out of time?  
16 I think we're running out of time to determine that  
17 message and convey what does the world look like after  
18 Keeyask comes online, rather than just sort of  
19 panicking about the -- the eighteen (18) month period  
20 where cash is short because Keeyask is coming online.

21                   Somehow out of this page, I was  
22 trying -- trying to find a way to convey some of that  
23 without -- without dragging into that 'cause it  
24 clearly gets pretty far beyond the scope of: What do  
25 we need to do in one year?

1 DR. BYRON WILLIAMS: My last question,  
2 sir, is our notes of the -- your last statement to the  
3 panel is that you may have inadvertently said there's  
4 no basis for an across-the-board rate increase. Would  
5 I be correct in suggesting to you that your  
6 recommendation is to the extent that there is a rate  
7 increase, you would recommend using across-the-board  
8 adjustments, sir?

9 MR. PATRICK BOWMAN: It -- it should  
10 have been there is no basis for anything other than an  
11 across-the-board increase at this point in my -- in my  
12 assessment of the cost-of-service information  
13 available.

14 DR. BYRON WILLIAMS: Okay. And that's  
15 in light, without asking you to elaborate, of the fact  
16 that we only have a PCOSS-18 -- Cost of Service  
17 Study 18 -- and that there have been material changes  
18 of late, whether Bipole III or -- or what you see on  
19 the distribution side.

20 MR. PATRICK BOWMAN: Yeah. And, of  
21 course, Keeyask.

22 DR. BYRON WILLIAMS: Yes.

23 MR. PATRICK BOWMAN: So I -- I think  
24 just like I would suggest that, you know, steering  
25 Hydro's finances is a bit like steering the

1 supertanker. I think probably steering the  
2 differential rate increases here is -- is similar. I  
3 think you want to look down the road, and do you want  
4 to -- you want to do that over time. You're not  
5 trying to do something harsh or reactive to -- to one  
6 piece.

7                   So I think it's helping see where  
8 things are going in that it would be helpful, and --  
9 and it's not to be critical of -- of Hydro for that.  
10 I just don't think that information is available.

11                   And I'm -- and I wouldn't think it was  
12 a first priority for a -- a one (1) year rate change  
13 where we've limited the scope and tried to keep the  
14 hearing to a -- to a manageable length.

15                   DR. BYRON WILLIAMS:    Okay. Thank you,  
16 Mr. Bowman, for your assistance. I have no further  
17 questions, Mr. Chair.

18                   THE CHAIRPERSON:    Thank you,  
19 Mr. Williams.

20                   Let me just ask Ms. Fernandes and  
21 Mr. Peters how long you think you'll be into cross. I  
22 don't like starting it and interrupting you, and if  
23 we're going to finish this afternoon, I'd prefer to  
24 break earlier. But I just want to make sure that we  
25 finish this afternoon, so.

1 MS. ODETTE FERNANDES: Yes. Thank  
2 you, Mr. Chairman. I believe if I can have the break  
3 to look through my notes, I think I can get rid of  
4 some of my questions. So I anticipate I would be  
5 maybe about half an hour, forty (40) minutes.

6 MR. BOB PETERS: I won't be any longer  
7 than Ms. Fernandes.

8 THE CHAIRPERSON: Okay. Then, you  
9 know, I just -- I just have one question of  
10 Mr. Bowman, and then we'll break for lunch.

11 Mr. Bowman, right at the outset of your  
12 testimony, you made the comment that, I believe, to  
13 the effect: We need to look at it in the longer  
14 term -- or Hydro needs to look at a longer term, not  
15 the same as other utilities. Can you comment on that  
16 part, what you meant by that?

17 MR. PATRICK BOWMAN: Yes. What I  
18 meant in that is in the context of rate-setting, and I  
19 say that -- that we are often retained to go into  
20 different jurisdictions and -- and help either  
21 utilities or -- or help interveners and the customers,  
22 sometimes regulators, determine what -- what they need  
23 to do with rate levels; what would be the appropriate  
24 rate changes?

25 And in each case, one has to have a

1 certain understanding of the -- of the ground rules of  
2 the jurisdiction and the -- whether that's the  
3 legislation, whether that's the regulatory history,  
4 and -- and an understanding of the -- the sort of cost  
5 tendencies within the utility.

6                   And on each of those fronts, Manitoba  
7 Hydro is a bit unique because what's going on in one  
8 particular year is not -- is not sufficiently  
9 informative to make sense of it. And we're not  
10 required -- for example, compared to something like --  
11 like Alberta where I'm doing work -- we're not  
12 required to ensure that the utility necessarily has  
13 the -- the exact nickels lined up for exactly every  
14 one of its costs it's going to recover plus a fair  
15 return on equity to which it's entitled by law in each  
16 and every year in which it -- it comes in and -- and  
17 asked for rates.

18                   If -- if someone says what is the --  
19 what is the -- the appropriate rate increase for --  
20 for some of the utilities we're dealing with in  
21 Alberta, you're not going to sit down and say, well,  
22 it, you know, one and a half (1 1/2) seems -- seems to  
23 be a sensible trend.

24                   You'd come -- you'd do a whole bunch of  
25 math and come down to a remedy requirements to the --

1 to the dollar almost and -- and determine the rates  
2 that are needed to fund that because they're  
3 restricted to this -- this one (1) year picture.

4                   So that's the -- that's the framework.  
5 And also they don't always have that sort of hydrology  
6 risk where'd you say I need to solve this problem this  
7 year. It's a drought. I got to fund it this year.

8                   A lot -- a lot of the utilities do have  
9 an ability to -- to look over the longer term. Like,  
10 you know, BC Hydro has some deferral accounts that  
11 help it balance its hydrology risk. The Hydro --  
12 Hydro balances it through -- through retained  
13 earnings. And so they have somewhat of a -- of a  
14 longer-term picture.

15                   But -- but in Manitoba Hydro's case,  
16 it's -- it's very different in terms of both that --  
17 that physical nature of the system and the -- and the  
18 method in which it's regulated in terms of how  
19 important the long-term is.

20                   THE CHAIRPERSON: Mr. Bowman, what --  
21 what impact is it because it's a cost-of-service model  
22 in Manitoba and -- and not in other jurisdictions?

23                   MR. PATRICK BOWMAN: Partially it's  
24 because it's cost-of-service model in Manitoba. And  
25 by "cost of service," we mean Hydro should recover its

1 cost of service like the -- the strict cost-of-service  
2 analysis is done in other places.

3                   But -- but that -- that's because Hydro  
4 needs to recover its -- its costs with -- with sort of  
5 this transfer to reserves over time, we have the  
6 opportunity to -- to look over the longer term and set  
7 rates as -- as I sort of described this as steering  
8 the supertanker. It's not quite the same as -- as  
9 doing a -- a sort of precise running requirement  
10 calculation in each and every year.

11                   THE CHAIRPERSON: Are there are any  
12 questions? Any other?

13                   Thank you very much, Mr. Bowman. We  
14 will resume at 1:30. Thank you

15

16 --- Upon recessing at 11:19 a.m.

17 --- Upon resuming at 1:31 p.m.

18

19                   THE CHAIRPERSON: If we could resume.  
20 Before, Ms. Fernandes -- before we start, I understand  
21 Mr. Hacault had something he wanted to put on the  
22 record.

23                   MR. ANTOINE HACAULT: Sorry, yes, I  
24 just wanted to close the loop on that cross-  
25 examination question I had asked with respect to

1 capital tax and the guarantee fee related to Bipole  
2 III. And the Chair had indicated when I had been  
3 asking that question, that it might appropriate if it  
4 was a Manitoba Hydro-generated document, and I can  
5 advise that it is a Manitoba Hydro-generated document.  
6 It was an IR response. The reference is PUB First  
7 Round 21, in the last proceeding.

8 THE CHAIRPERSON: Thank you.

9 MS. MARLA BOYD: Sorry, Mr. Chair. I  
10 was just looking at the -- Mr. Hacault just caught me  
11 in the way in the door and gave me that number, but I  
12 understood he was asking us to update the yearly  
13 calculation of the payment of the \$900 million, and as  
14 I look at PUB Manitoba Hydro 21, it doesn't make that  
15 kind of calculation, so I'm -- I'm struggling with  
16 what it is that we're being asked to update.

17 THE CHAIRPERSON: I think we're talking  
18 two (2) different things. I think I -- I had asked  
19 where the numbers had come from in relation to the  
20 payments to the government.

21 MS. LOIS MORRISON: Okay.

22 THE CHAIRPERSON: What the -- the  
23 origin was. And I think his comment is in relation to  
24 that, not in relation to -- not in relation to the --  
25 the discussion on updating the \$900 million. Because

1 I don't know where we're going. I didn't understand  
2 that there was an undertaking on the \$900 million.

3 MS. LOIS MORRISON: Sorry. No, I  
4 didn't take it as one.

5 THE CHAIRPERSON: Yeah.

6 MS. LOIS MORRISON: But I understood  
7 that was why this is been raised, but perhaps --

8 THE CHAIRPERSON: No, I think -- I  
9 think it was raised simply as to what was the origin  
10 of the document, and it was a response to a question  
11 that I had.

12 MS. MARLA BOYD: Thank you.

13 THE CHAIRPERSON: Ms. Fernandes?

14

15 CROSS-EXAMINATION BY MS. ODETTE FERNANDES:

16 MS. ODETTE FERNANDES: Thank you, Mr.  
17 Chairman, panel.

18 Good afternoon, Mr. Bowman. I'd like  
19 to start off by taking you to your response to PUB  
20 MIPUG-1.

21 If we go down -- yes, right there. The  
22 last paragraph.

23 You have stated that in the short-term,  
24 current rates and forecasts other revenues are  
25 projected to fully cover, amongst other things, all of

1 Manitoba Hydro's interest costs and payments to  
2 government related to current assets and service. Do  
3 you see that?

4 MR. PATRICK BOWMAN: Yes

5 MS. ODETTE FERNANDES: And in  
6 specifying that revenues will cover interest costs  
7 related to current assets and service, you are  
8 excluding the interest payments related to Keeyask,  
9 correct?

10 MR. PATRICK BOWMAN: In that comment,  
11 yes.

12 MS. ODETTE FERNANDES: Okay. And once  
13 Keeyask comes into service, you'd agree that interest  
14 related to its construction will no longer be  
15 capitalized?

16 MR. PATRICK BOWMAN: Yes.

17 MS. ODETTE FERNANDES: And those  
18 interest costs will hit the finance expense on the  
19 income statement. You'd agree with that?

20 MR. PATRICK BOWMAN: Yes.

21 MS. ODETTE FERNANDES: And, I don't  
22 know if we to go there, but would you agree that  
23 Manitoba Hydro's approved budget for '19/'20 has a net  
24 finance expense of \$741 million? It's on page 8 of  
25 Manitoba Hydro's supplement.

1 MR. PATRICK BOWMAN: Yeah, I can  
2 accept it, subject to check. I printed those out  
3 but...

4 MS. ODETTE FERNANDES: And then if  
5 pull up Manitoba Hydro Exhibit number 93. I believe  
6 it's page 3. If we look at, in this Exhibit, Keeyask  
7 is coming into service in the '20 -- '22/'23 fiscal  
8 year. And if we go along the finance expense line,  
9 you'll agree that it shows a one point billion dollar  
10 of finance expense?

11 MR. PATRICK BOWMAN: Did you say  
12 '20/'23?

13 MS. ODETTE FERNANDES: Sorry. Yeah,  
14 '22/'23.

15 MR. PATRICK BOWMAN: So, the Exhibit,  
16 it -- that has been pulled up in front of me has one  
17 one five nine (1159)?

18 MS. ODETTE FERNANDES: Yes.

19 MR. PATRICK BOWMAN: Thank you.

20 MS. ODETTE FERNANDES: \$1.1 billion,  
21 correct. That's right --

22 MR. PATRICK BOWMAN: Yes. Yes, one  
23 one five nine (1159).

24 MS. ODETTE FERNANDES: And if Keeyask  
25 comes into service earlier, you would agree that the

1 increase to finance expense would also be seen earlier  
2 in Manitoba Hydro's operating statement?

3 MR. PATRICK BOWMAN: Yes.

4 MS. ODETTE FERNANDES: If we can now  
5 turn to PUB-MIPUG-5 -- sorry, PUB-MIPUG-3A. You can  
6 go down. You have provided some evidence on interest  
7 rates at the end of March. I believe, the -- the  
8 figure starts at the end of March 2017. Do you see  
9 that there?

10 MR. PATRICK BOWMAN: Yes.

11 MS. ODETTE FERNANDES: And you've  
12 shown actual monthly interest rates for March 2017 to  
13 March 2019, correct?

14 MR. PATRICK BOWMAN: Yes.

15 MS. ODETTE FERNANDES: And when you  
16 look at those actual interest rates, the rates are  
17 variable. You'd agree with that?

18 MR. PATRICK BOWMAN: They're variable.  
19 I just wanted to correct one (1) small detail. I've  
20 shown -- these are actual rates that add in a -- a  
21 Manitoba Government spread. The -- the values being  
22 reported that are the actuals are off of the -- the  
23 Bank of Canada -- off of the Bank of Canada data  
24 sources, so. But, yes, they're variable.

25 MS. ODETTE FERNANDES: And you'll

1 agree that when Manitoba Hydro goes to the market for  
2 debt issuances, Manitoba Hydro has no guarantee of  
3 where the interest rates will be in the market?

4 MR. PATRICK BOWMAN: Yes.

5 MS. ODETTE FERNANDES: Because the  
6 rates don't stay the same over twelve (12) -- a twelve  
7 (12) month period, correct?

8 MR. PATRICK BOWMAN: Correct.

9 MS. ODETTE FERNANDES: And in your  
10 evidence you suggested that interest rate risk for  
11 Keeyask is declining as interest during construction  
12 is less likely to change than direct project  
13 expenditures. Do you recall that?

14 MR. PATRICK BOWMAN: Yes. In any  
15 given month interest during construction is primarily  
16 driven by what has happened before that point in time.

17 MS. ODETTE FERNANDES: And you'll  
18 agree that in order to finish the project, Manitoba  
19 Hydro will need to borrow additional funds?

20 MR. PATRICK BOWMAN: Yes.

21 MS. ODETTE FERNANDES: And borrowing  
22 those additional funds, Manitoba Hydro will incur  
23 further interest charges?

24 MR. PATRICK BOWMAN: Yes.

25 MS. ODETTE FERNANDES: And you would

1 agree that even if the debt is locked in, Manitoba  
2 Hydro will still have to make interest payments on  
3 that debt?

4 MR. PATRICK BOWMAN: Yes.

5 MS. ODETTE FERNANDES: And you would  
6 also agree that at some point, whatever borrowings  
7 Manitoba Hydro has made will come due and they must  
8 either be repaid or refinanced?

9 MR. PATRICK BOWMAN: Yes.

10 MS. ODETTE FERNANDES: And at the time  
11 of refinancing, the interest rates will likely be  
12 different than whatever the current rate is today?

13 MR. PATRICK BOWMAN: Yes.

14 MS. ODETTE FERNANDES: Now on slide 14  
15 of your presentation this morning, you make a couple  
16 of references to the EBIT and the EBITDA calculation.  
17 And you would agree with me that in an EBIT  
18 calculation is earnings before interest and taxes  
19 only?

20 MR. PATRICK BOWMAN: That is what the  
21 acronym stands for.

22 MS. ODETTE FERNANDES: And it assumes  
23 you have already recovered your depreciation?

24 MR. PATRICK BOWMAN: It is -- it is  
25 meant to be after you take off your depreciation,

1 correct.

2 MS. ODETTE FERNANDES: And then the  
3 EBITDA calculation is earnings before interest, taxes,  
4 depreciation, and amortization.

5 MR. PATRICK BOWMAN: Correct.

6 MS. ODETTE FERNANDES: And you agree  
7 that earnings in a EBITDA calculation must be higher  
8 than earnings under an EBIT calculation?

9

10 (BRIEF PAUSE)

11

12 THE CHAIRPERSON: Sorry, I'm -- I'm  
13 not sure you've got a good mic, because you're --  
14 you're speaking the same and it's drifting. So, I  
15 think, let's just try and switch mics.

16

17 (BRIEF PAUSE)

18

19 MS. ODETTE FERNANDES: Can you hear me  
20 on this one a little better? Okay.

21

22 (BRIEF PAUSE)

23

24 CONTINUED BY MS. ODETTE FERNANDES:

25 MS. ODETTE FERNANDES: Did you catch

1 my previous questions or? The last question, okay.

2 So, Mr. Bowman, you would agree that  
3 earnings in an EBITDA calculation must be higher than  
4 earnings under an EBIT calculation?

5 MR. PATRICK BOWMAN: The -- the only  
6 thing I'm caught up on is -- is the -- you're using  
7 the word "earnings must be higher." EBITDA is just a  
8 -- is just a measure that is applied to a set of  
9 facts. So if -- if earnings is a -- is a fact to  
10 which one applies a calculation, they're going to be  
11 the same. EBITDA though will have more things added  
12 back and so it will lead to a higher value than EBIT,  
13 given the depreciation and amortization will be --  
14 will be positive values, generally.

15 MS. ODETTE FERNANDES: And I just want  
16 to take you through a very simple example. If you are  
17 paying one thousand dollars (\$1,000) for interest and  
18 five hundred dollars (\$500) for depreciation, you  
19 would need fifteen hundred (\$1,500) to cover both  
20 interest and appreciation.

21 MR. PATRICK BOWMAN: In -- in your  
22 income statement, to have a -- a zero net income, you  
23 would need fifteen hundred dollars (\$1,500) to cover  
24 those two (2).

25 MS. ODETTE FERNANDES: Right. And if

1 you're looking at an EBIT calculation of one (1)  
2 times, and your interest is one thousand dollars  
3 (\$1,000), your earnings are one thousand dollars  
4 (\$1,000). You'd agree with that?

5 MR. PATRICK BOWMAN: No, I -- I take  
6 it that we're -- we're saying that whatever this --  
7 this entity is, is we're only talking about the  
8 interest component, not the tax component, for  
9 example. So we're saying it's just interest?

10 MS. ODETTE FERNANDES: Yeah.

11 MR. PATRICK BOWMAN: Yeah. So you --  
12 an EBIT of -- of -- of a -- an EBIT ratio would -- of  
13 one (1), would be the -- the EBIT is equal to the --  
14 to the interest.

15 MS. ODETTE FERNANDES: Right. So your  
16 one thousand dollars (\$1,000) would be interest on  
17 your earnings for one thousand dollars (\$1,000).

18 MR. PATRICK BOWMAN: That's what a  
19 ratio 1 is, yes.

20 MS. ODETTE FERNANDES: Okay. And if  
21 you have an EBITDA calculation of one point two (1.2)  
22 times, your interest is one thousand dollars (\$1,000),  
23 your earnings are twelve hundred dollars (\$1,200)?

24 MR. PATRICK BOWMAN: Your EBITDA is --  
25 is twelve hundred dollars (\$1,200), your interest is

1 one thousand (1,000), is at one point two (1.2).  
2 That's -- yeah, EBITDA is the numerator, and the  
3 interest is the denominator in the -- in an interest  
4 coverage.

5 MS. ODETTE FERNANDES: And then you  
6 would agree then that the twelve hundred dollars  
7 (\$1,200) is insufficient to cover both interest and  
8 depreciation of fifteen hundred dollars (\$1,500)?

9 MR. PATRICK BOWMAN: The twelve  
10 hundred dollars (\$1,200) is insufficient to cover it  
11 if -- it depends what you mean by "cover". Because if  
12 you applying this as a cash test, depreciation is non-  
13 cash. If you have twelve hundred dollars (\$1,200)  
14 revenue in the door and a thousand dollars (\$1,000)  
15 cash out the door, you have a -- you have a positive  
16 cash situation.

17 You may have a negative net income.  
18 EBITDA doesn't necessarily tell you what your net  
19 income is 'cause it's ignoring depreciation. It would  
20 be very different if your depreciation is very large  
21 or is very small in that case.

22

23 (BRIEF PAUSE)

24

25 MS. ODETTE FERNANDES: Okay. Thank

1 you, Mr. Bowman. On Slide 8 of your presentation...

2 MR. PATRICK BOWMAN: Yes?

3 MS. ODETTE FERNANDES: You make a  
4 comment in the third bullet that a one (1) year  
5 drought risk for 2019/20 is reduced due to known water  
6 in storage. And you would agree with me that the  
7 water in storage it's -- is just a starting point,  
8 and that the precipitation from now until the end of  
9 October has a significant impact on water flow  
10 conditions for the year?

11 MR. PATRICK BOWMAN: Oh yes,  
12 absolutely. And that's particularly true for -- for  
13 Manitoba Hydro. It, you know -- as -- as we deal with  
14 different hydro utilities, Manitoba Hydro has -- has  
15 relatively less storage than -- than some others.

16 So water and storage we talk about in,  
17 you know, single digits of terawatt hours, but overall  
18 generation on the year will be -- might be 30 terawatt  
19 hours. So a lot of it is -- is not in storage at the  
20 beginning of the year; it's -- it's in flows to come.

21 MS. ODETTE FERNANDES: So you'd agree  
22 that while you indicate that the drought risk may be  
23 reduced, it's not eliminated?

24 MR. PATRICK BOWMAN: Well, \$347  
25 million is a long from eliminated. And the -- the

1 reduced four thirty-two (432) to three forty-seven  
2 (347), but that's -- that's the -- the difference  
3 between what's in storage and -- and what's the come  
4 in future flows throughout the next twelve (12)  
5 months.

6 MS. ODETTE FERNANDES: If we turn now  
7 to your response to Coalition-MIPUG-1B. In part --  
8 your response to Part B of this response, in  
9 parentheses, you indicate that it would be  
10 inconceivable to recover from a drought by way of a  
11 single-rate increase.

12 MR. PATRICK BOWMAN: Yes.

13 MS. ODETTE FERNANDES: And you're  
14 aware that Manitoba Hydro's retained earnings are not  
15 a pool of cash waiting to be called on to fund a  
16 drought or other circumstances?

17 MR. PATRICK BOWMAN: Yes.

18 MS. ODETTE FERNANDES: So in order to  
19 supply electricity during a drought, Hydro would have  
20 borrow funds in addition to potentially any rate  
21 increases that is granted by the Public Utilities  
22 Board.

23 MR. PATRICK BOWMAN: Well, when you're  
24 tracking the drought through in the cash side, that's  
25 exactly what happened, yes.

1 MS. ODETTE FERNANDES: And if we look  
2 at Manitoba Hydro's response to MIPUG-MH-4, if we go  
3 down to page 2, down to, I guess, nineteen forty  
4 (1940), right there, the cost of a worst drought on  
5 record is nearly \$350 million. Do you see that?

6 MR. PATRICK BOWMAN: Yes. And we  
7 actually provided a -- a graphical representation of  
8 this in -- in the -- in this submission, MIPUG-5, at  
9 page 11 and at page 12.

10 At page 11 shows the -- this -- this  
11 series of flows, and something that's a bit -- a bit  
12 easier to make sense of, given the water in storage.  
13 And that \$350 million you see, it's that -- that one  
14 (1) big downward spike in nineteen forty (1940),  
15 there.

16 If you go to the next page, you'll see  
17 what happens. That -- that was a picture from before  
18 whe -- before you know what the water in storage is.  
19 And you can see all those -- all those downwards  
20 values can -- can change. A matter of fact, the  
21 biggest year becomes 2003, but -- due to the timing of  
22 the flows. But that's where that three hundred and  
23 fifty (350) plays into things.

24 MS. ODETTE FERNANDES: Right. So if I  
25 focus on -- on that three hundred and fifty (350);

1 during a drought, Manitoba Hydro's reserves would go  
2 down \$350 million and its debt would go up \$350  
3 million, correct?

4 MR. PATRICK BOWMAN: Well, dur -- con  
5 -- during that worst year, compared to what would've  
6 been the case, that's what would happen.

7 MS. ODETTE FERNANDES: Yes. And as  
8 we've seen in the course of this process, an  
9 additional \$50 million in revenue requires  
10 approximately a 3 1/2 percent rate increase?

11 MR. PATRICK BOWMAN: Yes.

12 MS. ODETTE FERNANDES: And so if we  
13 were looking at rates alone to recover the costs of a  
14 \$350 million drought, rates would require over 20  
15 percent increase?

16 MR. PATRICK BOWMAN: I -- I think  
17 that's the -- that's my definition of "inconceivable"  
18 in the IR response you first took me to. Especially  
19 because it would be a one (1) year feature. Raising  
20 rates twenty (20) -- over 20 percent for one (1) year  
21 and then dropping them back down because of recovering  
22 from a drought wouldn't make any sense at all. It's  
23 why we use a long-term picture and we use reserves,  
24 and why we use averages in running the IFF.

25 You would -- you also wouldn't need to

1 recover from that drought with a 20 percent rate  
2 increase, unless in the years of flood you're giving  
3 people ten (10) or -- 10 percent rate decreases or  
4 whatever, because the water's higher. We designed an  
5 IFF for a long-term to show average conditions;  
6 average includes the bad year and the good year.

7 MS. ODETTE FERNANDES: And so to the  
8 extent that the cost of the drought is not recovered  
9 fully by way of a one (1) year rate increase, Manitoba  
10 Hydro's retained earnings would decline. You'd agree  
11 with that?

12 MR. PATRICK BOWMAN: Correct. Yes.

13 MS. ODETTE FERNANDES: And the debt  
14 would increase by \$350 million?

15 MR. PATRICK BOWMAN: Yes.

16 MS. ODETTE FERNANDES: And there would  
17 be associated interest cost with that debt?

18 MR. PATRICK BOWMAN: Yes.

19 MS. ODETTE FERNANDES: And that  
20 therefore, Manitoba Hydro's finan -- finance expense  
21 would increase as a result of the borrowings, and that  
22 would translate into an increase in revenue  
23 requirement?

24 MR. PATRICK BOWMAN: I guess the -- I  
25 -- I was with you right up to the "increase in revenue

1 requirement," because when we talk about increase in  
2 revenue requirement, it's comp -- compared to what?

3           If we -- the reason we set rates based  
4 on the averages, and you look at things like a  
5 uncertainty scenario, you say -- and assuming that  
6 revenue requirement here is -- is talking about this  
7 long-term picture -- is you -- you look at the fact  
8 that in some years you're going to have better-than-  
9 average results, in some years you can have worse-  
10 than-average results. And to really make sense of  
11 that and whether -- how it plays into the rate  
12 scenario, you need to run that through some -- some --  
13 a proper financial forecast with -- including with  
14 some uncertainty analysis, like the tools that we  
15 talked about at the last application, to know whether  
16 you're collecting the revenue requirement in -- and  
17 have sufficient rates.

18           What exists -- I'd be really troubled  
19 if -- if the existence of a one (1) year drought is  
20 somehow comes across as -- as something that -- that  
21 people come in here and say, Well, we never thought of  
22 this. Like, I think it was -- we've talked about  
23 every time, and we've always built it in and we've  
24 always assumed that the IFF is being designed to help  
25 take care of that situation. It's the very basis of

1 the financial targets that we've worked to -- to get  
2 to

3 MS. ODETTE FERNANDES: But you'd  
4 agree, Mr. Bowman, that Manitoba Hydro's finance  
5 expense would increase as a result of the borrowings  
6 because we have interest to pay?

7 MR. PATRICK BOWMAN: It would. The --  
8 the issue is whether that necessarily means that you  
9 have higher revenues and need higher rates. If the  
10 entire rate system was based on the idea that  
11 sometimes that will happen and sometimes the other  
12 will happen, and over the long-term they're going to  
13 be managed within a -- with -- with -- within an  
14 average and within a bound, and with the reserves of -  
15 - collecting or -- or being drawn down to reflect that  
16 variation.

17 MS. ODETTE FERNANDES: Mr. Bowman,  
18 this morning you suggested that Keeyask coming into  
19 service early was a good news story from a project  
20 management perspective?

21 MR. PATRICK BOWMAN: Yes.

22 MS. ODETTE FERNANDES: And you would  
23 agree with me that a project management perspective is  
24 different from a financial perspective?

25 MR. PATRICK BOWMAN: Yes. But, in

1 general, I would say Keeyask coming into service early  
2 is good from a financial perspective too.

3 MS. ODETTE FERNANDES: You'd agree  
4 though that costs -- that Keeyask will be a used and  
5 useful asset and its costs, including interest, will  
6 be recoverable in rates?

7 MR. PATRICK BOWMAN: Yes.

8 MS. ODETTE FERNANDES: Mr. Bowman, you  
9 would also agree that, based on the evidence of this  
10 proceeding, Bipole III has come in at a cost of  
11 approximately \$4.77 billion?

12 MR. PATRICK BOWMAN: That is the  
13 evidence that I heard.

14 MS. ODETTE FERNANDES: And the Bipole  
15 III deferral account that was established by the PUB,  
16 set aside 11.6 percent of that project?

17

18 (BRIEF PAUSE)

19

20 MR. PATRICK BOWMAN: I -- Which eleven  
21 point six (11.6) are you referring to, just to make  
22 sure I've been following?

23 MS. ODETTE FERNANDES: The cumulative  
24 rate increases were eleven point six (11.6).

25 MR. PATRICK BOWMAN: I thought I heard

1 you say it set aside 11.6 percent of the project, and  
2 I was trying to --

3 MS. ODETTE FERNANDES: Oh, I did. I  
4 misspoke. Sorry.

5 MR. PATRICK BOWMAN: -- do the math of  
6 four seven seven (477) and eleven (11) with -- no, the  
7 -- 11.6 percent rate increases have been -- had been  
8 imposed over the years, as shown in the -- the MIPUG  
9 Exhibit 6, for -- over the years to -- to fund the Bi  
10 -- the Bipole III account, and that amount -- those  
11 amounts are now flowing into rates -- flowing into  
12 revenues.

13 MS. ODETTE FERNANDES: And you would  
14 agree that Keeyask is approximately twice the cost of  
15 Bipole III; 4.77 billion to eight point seven (8.7)?

16 MR. PATRICK BOWMAN: Yeah. I guess  
17 what's a few hundred million between friends.

18 MS. ODETTE FERNANDES: And you would  
19 therefore agree that the revenue requirement impacts  
20 of Keeyask coming in-service are much larger than  
21 Bipole III coming into service?

22 MR. PATRICK BOWMAN: Bipole III, we  
23 were talking about wer -- the impacts on the cost  
24 side, but it has nothing going on -- on the revenue  
25 side. Keeyask has a fairly large effect on the -- on

1 the revenue side as well.

2 MS. ODETTE FERNANDES: But you would  
3 agree that even though Keeyask may be revenue  
4 generating, all of the costs of Keeyask will not be  
5 offset?

6 MR. PATRICK BOWMAN: Well, that's --  
7 that's -- that's definitely true. All the costs will  
8 not be offset in the first year. And if you could  
9 show me a hydro project that would, I think whoever  
10 could build it would be jumping for joy.

11 The -- we went through numbers though  
12 that I was here for, where, depending on what revenues  
13 you ascribe to Keeyask, it's somewhere between --  
14 yeah, it's -- it's, you know, 9 percent and maybe as  
15 high as 18 percent. But I think, based on the revenue  
16 numbers that were -- were recorded in the Board's book  
17 of documents, about 360 million, it ends up being  
18 about 9 percent on rates. So -- so somewhat lower  
19 than Bipole, that's why I was...

20 MS. ODETTE FERNANDES: And you'll  
21 agree that currently there has been nothing set aside  
22 to smooth the impacts of Keeyask coming in-service?

23 MR. PATRICK BOWMAN: Correct. But to  
24 -- pardon, there's nothing been set aside specifically  
25 as -- as it for revenue to -- to fund Keeyask coming

1 into service. I think all of the past rate increases  
2 that we've had discussions of before this Board have  
3 been set based on a long-term trend looking in an IFF  
4 that the a Keeyask in it.

5 So, I don't think this -- that someone  
6 would say all these rate increases approved by the  
7 Board did not have any -- any eye to the fact that  
8 there was a Keeyask coming.

9 MS. ODETTE FERNANDES: But there's  
10 nothing been set aside in a deferral account, you'd  
11 agree with --

12 MR. PATRICK BOWMAN: That's correct.

13 MS. ODETTE FERNANDES: And you would  
14 also agree, Mr. Bowman, that having additional money,  
15 either in revenue or in a deferral account, will  
16 assist in smoothing the transition to higher rates  
17 when Keeyask comes into service?

18 MR. PATRICK BOWMAN: I -- can -- get  
19 you to repeat the question, if that's okay?

20 MS. ODETTE FERNANDES: Sure. You  
21 would agree that having additional money, either in  
22 revenue or in a deferral account, will assist in  
23 smoothing the transition to higher rates when Keeyask  
24 comes into service?

25 MR. PATRICK BOWMAN: We spent a lot of

1 time talking about income statements and cash  
2 statements and the difference between the two. I  
3 would agree that either of those two (2) would have  
4 the effect of -- of smoothing in the income statement  
5 effects of Keeyask.

6 I actually think that the -- that if it  
7 was -- if it was deferred revenues, it's not  
8 addressing a cash impact of -- of Keeyask coming into  
9 service, because the -- just like the Bipole III  
10 deferral account, Manitoba Hydro's amortizing into  
11 revenue \$78 million from the Bipole III deferral  
12 account, but that's not new cash, that's cash that was  
13 collected a while ago. So this year's cash-flow  
14 statement won't show that coming in.

15 So they have different effects on the  
16 cash statement, but -- but both rates or a deferral  
17 account will have a beneficial effect on the income  
18 statement.

19 MS. ODETTE FERNANDES: But, Mr.  
20 Bowman, at -- in your evidence, you do you say that  
21 there is likely -- there is a likely need to  
22 transition rates to higher levels as Keeyask comes  
23 into service, and the preferred approach to increasing  
24 customer rates is on a stable and predictable basis?

25 MR. PATRICK BOWMAN: Yes. I think

1 you'll probably find that in each piece of evidence we  
2 filed going back before NFAT too.

3 MS. ODETTE FERNANDES: And, Mr.  
4 Bowman, you have suggested in your evidence that,  
5 based on the updated cash-flow information, Hydro is  
6 able to internally finance all normal capital spending  
7 from operating activities?

8 MR. PATRICK BOWMAN: Yes.

9 MS. ODETTE FERNANDES: That's page 13  
10 of your evidence.

11 MR. PATRICK BOWMAN: Yes. And I -- I  
12 -- I think there's been a bit more ink spilled on this  
13 since that time, and page 9 of the -- of the -- no, we  
14 don't have go there, but page 9 of the presentation  
15 addresses that in a bit more detail.

16 But the cash -- the cash-flow  
17 statement, as it would be prepared, consistent with  
18 normal utility practice and consistent with what this  
19 Board has ordered, would show cash provided by  
20 operating activities of north of 500 million and  
21 business operating capital at four seventy-eight (478)  
22 for the -- for the year in question.

23 MS. ODETTE FERNANDES: And if we --  
24 before we turn to your slide 9, if we pull up your  
25 response to PUB-MIPUG-2. We're looking at page 4.

1 Oh, sorry, yeah, right down. I'm trying to find it  
2 now.

3

4

(BRIEF PAUSE)

5

6 MS. ODETTE FERNANDES: Oh, in that, I  
7 guess, middle paragraph, you indicate that on a  
8 forecast basis, it should be viewed as a positive  
9 characteristic for Hydro, if the operating cash flows  
10 exceeds the level of spending on sustaining capital in  
11 forecast years?

12 MR. PATRICK BOWMAN: Yes. A matter of  
13 fact, that's the same basis as the -- as the  
14 traditional capital coverage target that Hydro had in  
15 place for -- for many years as well. The -- the idea  
16 being that if -- if we're in sort of normal times,  
17 it's -- it's good if you can keep your capital budget  
18 below the level of cash flow you're generating from  
19 operations. We're -- we're of course we're not in  
20 normal times for another year and a half or two (2)  
21 years here, but...

22 MS. ODETTE FERNANDES: And if we go on  
23 further in that paragraph, you indicate that if this  
24 occurs, this means that internally generated cash is  
25 fully covering the cost of sustaining the system, and

1 to the extent this value is positive, further con --  
2 contributing to cash, financing, either debt reduction  
3 or investment in new growth assets?

4 MR. PATRICK BOWMAN: Yes.

5 MS. ODETTE FERNANDES: And then you  
6 also say that if operating cash flow did not exceed  
7 the level of sustaining capital, it means that some  
8 debt is being secured to fund sustainment of this  
9 system which is less than ideal?

10 MR. PATRICK BOWMAN: Yes. That's the  
11 basis of the capital coverage target that Hydro's had  
12 in place.

13 MS. ODETTE FERNANDES: And if we then  
14 go to slide -- your slide 9, this was taken from  
15 Manitoba Hydro's rebuttal evidence?

16 MR. PATRICK BOWMAN: Yes.

17 MS. ODETTE FERNANDES: And what  
18 Manitoba Hydro did in this figure was that we held  
19 cash flows constant at 2019/'20 levels, including the  
20 requested three and a half (3 1/2) rate increase?

21 MR. PATRICK BOWMAN: Yes.

22 MS. ODETTE FERNANDES: And the total  
23 interest paid in both nin -- both lines is \$1.029  
24 billion?

25 MR. PATRICK BOWMAN: Yes.

1 MS. ODETTE FERNANDES: And on the  
2 right-hand side, we show the total capitalized  
3 interest of approximately 312 million, correct?

4 MR. PATRICK BOWMAN: Yes.

5 MS. ODETTE FERNANDES: And this 312  
6 million includes the capitalized interest associated  
7 with Keeyask?

8 MR. PATRICK BOWMAN: Yes.

9 MS. ODETTE FERNANDES: And then once  
10 Keeyask comes into service, the interest will no  
11 longer be capitalized. You'd agree with that?

12 MR. PATRICK BOWMAN: Correct.

13 MS. ODETTE FERNANDES: And then if we  
14 go to the column on the left, it removes the  
15 capitalized interest from Keeyask and only \$20 million  
16 of interest on -- is being capitalized on business  
17 operations capital?

18 MR. PATRICK BOWMAN: Right. That's a  
19 -- I think that's a -- a -- related to projects that  
20 carry over the year. It's a more -- it's a more  
21 typical picture, and a more typical level, and it's --  
22 it's part of the reason I say it's a bit of a  
23 transitory issue.

24 MS. ODETTE FERNANDES: And we see at  
25 the bottom, when you do the calculation, once Keeyask

1 is in-service and the interest on Keeyask is no longer  
2 being capitalized, there's a cash flow deficit of  
3 approximately \$197 million?

4 MR. PATRICK BOWMAN: Yes. Under  
5 Manitoba Hydro's calculation, that's exactly what it  
6 shows.

7 And I -- I guess one could say whether  
8 you're -- consider that to be a -- a deficit, meaning  
9 that the -- that the -- the entire interest of Keeyask  
10 isn't being paid from current cash, or if it's a  
11 deficit, saying the entire capital program isn't being  
12 paid from current cash, I -- I don't think it makes a  
13 difference. I think it's exact reason that every time  
14 Hydro has set a financial target, and we sat here and  
15 listened to generations of people from the finance  
16 department, they always say, But of course, these  
17 won't be met when we're building major new capital.

18 MS. ODETTE FERNANDES: And, Mr.  
19 Bowman, when we look at this \$1 billion in interest  
20 paid, you'd agree that that amount would also  
21 increase?

22 MR. PATRICK BOWMAN: It -- increase  
23 between now and when Keeyask is completed?

24 MS. ODETTE FERNANDES: Yes.

25 MR. PATRICK BOWMAN: Yes, I quoted

1 this morning that it go -- it's about \$37 million of  
2 increase yet to come based on the PUB-8 updated.

3 MS. ODETTE FERNANDES: Well, if I take  
4 you, Mr. Bowman, to Exhibit 93, page 5, if we scroll  
5 right down to the bottom, we see the net debt line?

6 MR. PATRICK BOWMAN: Yes.

7 MS. ODETTE FERNANDES: And if we're  
8 looking at a net debt of about \$20 billion, and in  
9 this exhibit, if Keeyask comes into service in 2022 --  
10 fully into service, sorry, 2022/23, you're looking at  
11 \$24 billion of net debt?

12 MR. PATRICK BOWMAN: I -- I take it  
13 you're comparing 2020 to 2023. Is that --

14 MS. ODETTE FERNANDES: We're at the  
15 end of '18/'19, so that's 20 billion?

16 MR. PATRICK BOWMAN: At the end of  
17 '18/'19 in this picture is -- is twenty point eight  
18 (20.8) in -- in the -- average, ninety-three (93), if  
19 that's -- you're talking about, like, what -- what  
20 would be the case today, not the case at the end of  
21 the -- of the fiscal year we're talking about for  
22 rates?

23 MS. ODETTE FERNANDES: Yeah. All I'm  
24 saying is that between the 2018/19 fiscal year, and in  
25 this exhibit, when Keeyask comes into service in

1 2022/23, there's a \$4 billion increase in net debt?

2 MR. PATRICK BOWMAN: In that exhibit,  
3 there is an increase to -- to -- for -- for '24.

4 MS. ODETTE FERNANDES: Yes, and if we  
5 were to finance that \$4 billion, if you're taking  
6 today's interest rates at two point nine (2.9), and  
7 you add the provincial guarantee fee at 1 percent,  
8 that would get you close to 4 percent. That's \$160  
9 million.

10 You'd agree with that?

11 MR. PATRICK BOWMAN: It -- I'd -- I'd  
12 agree with your calculation. I don't agree that  
13 that's the way that one would look at the picture with  
14 a Keeyask capitalized interest, or how much is coming  
15 into service.

16 What was coming into service here, if  
17 you look at your row called capitalized interest on  
18 the -- we -- we were referring to page 9 of the  
19 exhibit, that adds up to \$292 million that was  
20 excluded. So it's already taking into account two  
21 ninety-two (292), going to -- going -- of -- of cash  
22 paid in interest going to Keeyask, and the eventual  
23 number that Keeyask will -- will drive according to --  
24 I believe it's PUB-MH-8 updated is three twenty-nine  
25 (329), so it's an increase of 37 million of -- of

1 Keeyask interest.

2 MS. ODETTE FERNANDES: Mr. Bowman,  
3 this figure here holds everything constant at 2019/20.  
4 It does not include the \$4 billion in additional net  
5 debt that will be incurred when Keeyask comes fully  
6 into service?

7 MR. PATRICK BOWMAN: No, but the --  
8 give me a moment, I'll get the IR, because I'm pretty  
9 sure it is PUB-MH-8 updated.

10

11 (BRIEF PAUSE)

12

13 MR. PATRICK BOWMAN: Not -- sorry, the  
14 -- number 9 updated. And it's page 4 -- there we are,  
15 Keeyask.

16 So that has the number that shows  
17 Keeyask at three twenty-nine (329), top row of the --  
18 of the column shown.

19

20 (BRIEF PAUSE)

21

22 MR. PATRICK BOWMAN: So the -- the  
23 exhibit of page 9 of the presentation is excluding 292  
24 million related to Keeyask, but the number on this  
25 page shows three twenty-nine (329) related to Keeyask.

1 (BRIEF PAUSE)

2

3 MR. PATRICK BOWMAN: Now, Ms. -- Ms.  
4 Fernandes, because you were referring to the -- the  
5 full picture, it may be that it's also related to the  
6 MMTP and -- and GNT, the other projects that are also  
7 coming into service.

8

9 (BRIEF PAUSE)

10

11 MS. ODETTE FERNANDES: If you can just  
12 give me a moment, Mr. Bowman?

13 MR. PATRICK BOWMAN: Sure.

14

15 (BRIEF PAUSE)

16

17 MS. ODETTE FERNANDES: Mr. Bowman,  
18 would you accept that if Manitoba Hydro is borrowing  
19 \$4 billion, it would be 160 million additional dollars  
20 in interest that would need to be recovered?

21 MR. PATRICK BOWMAN: The -- the math  
22 you present is -- is straightforward enough. If I can  
23 just make sure I'm understanding the question, and I -  
24 - I do hope this -- this helps, Ms. Fernandes, if I  
25 understand the assertion, it's that the -- the numbers

1 here are missing 160 million in further interest that  
2 will show up because of all the borrowing between now  
3 and 2024/25. Is that the simple point? Is -- is that  
4 -- if -- if that's -- if that's the --

5 MS. ODETTE FERNANDES: So it's on --  
6 on slide 9.

7 MR. PATRICK BOWMAN: So -- so you're -  
8 - you're -- we're starting with one-o-two-nine (1029),  
9 which is the '19/'20 interest, and you're saying that  
10 if we had an IFF that went as far forward as 2024/'25  
11 now, what that number would have in an interest row  
12 wouldn't be one-o-two-nine (1029), it would be, like,  
13 a hundred and sixty (160) higher. It would be one one  
14 nine-o (1190), or something like that, is that --

15 MS. ODETTE FERNANDES: Correct.

16 MR. PATRICK BOWMAN: Okay. And I'm --  
17 I'm glad we can be helpful with that part. So if --  
18 if I -- if -- if you put that to me, that -- that -- I  
19 can accept that there will be more interest. I accept  
20 that there would be, for that additional borrowing, an  
21 interest expense.

22 But if we take that scenario with  
23 what's here, we start with a deficit of around 200  
24 million, if we can call one ninety-seven (197) and two  
25 hundred (200) close enough between friends, add

1 another 160 million of -- of interest, so that gets us  
2 up to three hundred and sixty (360) deficit, add 30  
3 million in O&M and water rental costs for Keeyask;  
4 we're up to \$390 million deficit, and then add on the  
5 360 million in revenues that Keeyask will bring, and  
6 we're down to a \$30 million cash deficit based on  
7 today's rates once we've absorbed Keeyask.

8                   So the first year of Keeyask, we're  
9 within \$30 million of cash flowing it with the rates  
10 are shown here, without any more time to get those  
11 rates in place or to transition it in. I -- I don't  
12 think that changes this -- the conclusion of the  
13 slide, that Hydro's a -- what Hydro is showing here is  
14 not bad news in the slightest.

15                   MS. ODETTE FERNANDES:    At the end of  
16 the day, Mr. Bowman, you'd still have a deficit?

17                   MR. PATRICK BOWMAN:    You'd -- in -- in  
18 that case, if you did no further rate increases, if  
19 you absorbed Keeyask in full, and in its first year in  
20 service, you expected it to be able to -- Hydro to be  
21 able to operate the Company, absorb all the other  
22 capital going on, and be able to operate cash  
23 positive, you'd be within \$30 million of pulling that  
24 off.

25                   MS. ODETTE FERNANDES:    And you'd

1 agree, Mr. Bowman, that this chart has a 3 1/2 percent  
2 rate increase --

3 MR. PATRICK BOWMAN: That's --

4 MS. ODETTE FERNANDES: -- embedded  
5 into it?

6 MR. PATRICK BOWMAN: -- that's  
7 correct. It wouldn't have to be in this year. Based  
8 on this chart, it could be in any of those years.

9 MS. ODETTE FERNANDES: And so that \$30  
10 million deficit that you calculated has the 3 1/2  
11 percent increase imbedded into it?

12 MR. PATRICK BOWMAN: Yes, but the  
13 numbers we just ran are numbers from four (4) years in  
14 the future. So you would need that 3 1/2 percent plus  
15 another 30 million at some point during the next four  
16 (4) years in order to be fully cash positive in the  
17 first year or full year of Keeyask operation.

18 MS. ODETTE FERNANDES: Thank you very  
19 much, Mr. Bowman. Thank you Mr. Chairman.

20 THE CHAIRPERSON: Thank you, Ms.  
21 Fernandes. Mr. Peters?

22

23 CROSS-EXAMINATION BY MR. BOB PETERS:

24 MR. BOB PETERS: Thank you. Good  
25 afternoon, Mr. Bowman.

1 MR. PATRICK BOWMAN: Good afternoon.

2 MR. BOB PETERS: In the evidence you  
3 provided to the Board, one (1) of your themes is that  
4 for the 2019/20 test year, a rate increase is no  
5 longer needed. Have I got that right?

6 MR. PATRICK BOWMAN: A rate increase  
7 is not needed to stay on the path that was set out in  
8 MH-93.

9 MR. BOB PETERS: If you assume the  
10 November 30th situation of Manitoba Hydro was the  
11 final position, and there was a net income loss of \$28  
12 million, would they need a rate increase?

13 MR. PATRICK BOWMAN: You know, Mr.  
14 Peters, I -- I hadn't made it as far as fully  
15 assessing that one before the new data came in, and I  
16 must admit, I was -- I was pretty relieved that it did  
17 come in, because I think for all the intellectual  
18 challenge of this case, it would be much worse --  
19 much more challenging had -- had we -- had we been  
20 left with that set of facts.

21 I think probably we would -- we would  
22 have been inclined to say you wouldn't come to the  
23 zero percent recommendations for Manitoba Hydro's  
24 facts. I -- I think we'd be -- we'd be debating  
25 something -- something in that 1.5 percent range, or a

1 little bit north of that.

2 MR. BOB PETERS: Even if 28 million  
3 negative, was there -- was there approved position?

4 MR. PATRICK BOWMAN: Right. But  
5 Hydro's been keen to emphasize the 28 million  
6 negatives, again, because it was -- was primarily --  
7 the reason it swung is largely because water was down,  
8 and water got better, and -- and it's that -- that  
9 impression that we have to sort of react to water  
10 through net income, and through rate changes right  
11 away, that I think we want to be really careful about  
12 without the long-term picture.

13 That -- that's not -- that's not what  
14 the Board set out when it said the retained earnings,  
15 and is -- is of, you know, the ways to -- to help  
16 manage water returnings and -- and rate response, and  
17 that would be what I was -- meant with the rate  
18 response part, coming up with a higher rate under that  
19 scenario than under the current one.

20 MR. BOB PETERS: All right. I have  
21 your position. And in terms of any rate increase,  
22 there is the immediate impact of increased net income,  
23 right? That's a given?

24 MR. PATRICK BOWMAN: Yes.

25 MR. BOB PETERS: And then on top of

1 that, we've heard Manitoba Hydro say, but in better  
2 words than mine, that there's a pancake effect, that  
3 once the rate is embedded, it's there in perpetuity,  
4 and it has a long-term value to the Corporation,  
5 correct?

6 MR. PATRICK BOWMAN: Yes.

7 MR. BOB PETERS: And you can measure  
8 that on a net present value basis, depending on how  
9 you discounted and over what years?

10 MR. PATRICK BOWMAN: Well, yes. It --  
11 it's -- you know, is it there forever because you  
12 never would've made up the difference later? I guess  
13 that -- that's the -- the question when you talking  
14 about future scenarios. It's -- if we're foregoing a  
15 rate increase now means foregoing that rate increase  
16 forever. It -- it may not. It may just mean that the  
17 next rate increase is a little bit higher than it  
18 would have been.

19 MR. BOB PETERS: And without some  
20 long-range integrated financial forecasting, you can't  
21 come to that conclusion right now.

22 MR. PATRICK BOWMAN: Right. And --  
23 and for that reason, I think I would err on the side  
24 of caution and say you -- you should do -- you should  
25 seriously consider a rate change now, given -- given

1 the customer landscape, given what's been communicated  
2 to people, given the fact that we know what transition  
3 is needed.

4                   And -- and notwithstanding the fact  
5 that other facts have evolved, most of which I would  
6 say are enduring, not temporary. They're not water.  
7 Other facts have evolved to say we're -- we're on  
8 track without the three and a half (3 1/2). We're  
9 still at 64 million net income. Not 'cause -- not  
10 'cause water is good.

11                   MR. BOB PETERS: All right. We'll --  
12 we'll come to that, Mr. Bowman. But just before the  
13 lunch recess or the earlier lunch recess, you were  
14 discussing a matter with the Chairman and the  
15 suggestion was that in Manitoba using a cost of  
16 service methodology was the approach that -- that  
17 works well.

18                   MR. PATRICK BOWMAN: Well, again,  
19 I'm -- I'm cautious about the term "cost of service"  
20 because --

21                   MR. BOB PETERS: Well, we'll call it  
22 Mr. Rainkie's modified cost of service

23                   MR. PATRICK BOWMAN: Right. Yeah. Or  
24 -- or pure cost recovery, which I think was what Mr.  
25 Colaiacovo called it.

1                   But this idea that you have a few  
2 unique features about Manitoba Hydro, the fact that  
3 it's got variable hydrology, the fact that it doesn't  
4 need to have a rate set to earn a return in equity  
5 every year, and the fact that you have a -- all lend  
6 yourself to say I can look over a longer term.

7                   MR. BOB PETERS:    And in terms of this  
8 cost of service or modified cost of service, one of  
9 the points I don't know that you mentioned to the  
10 Chairman is that there should be a reserve built in,  
11 and that's a consideration that should be made at the  
12 time the rates are adjusted.

13                  MR. PATRICK BOWMAN:   Yes.  And it's  
14 not just that -- that starts right from the Manitoba  
15 Hydro Act.  Reserves or rate stability are referenced  
16 right in there.

17                  MR. BOB PETERS:    And the reserves that  
18 we talk of today are in the neighbourhood of  
19 \$3 billion, Mr. Bowman?

20                  MR. PATRICK BOWMAN:   Well, the -- the  
21 reserves, as a concept today, end up being equated to  
22 the counting concept of retained earnings, and they're  
23 in the neighbourhood of \$3 billion.

24                  MR. BOB PETERS:    Do you agree with  
25 that?

1 MR. PATRICK BOWMAN: Yes.

2 MR. BOB PETERS: And what's the  
3 purpose of that reserve now, according to you?

4 MR. PATRICK BOWMAN: Well, I think it  
5 serves a -- a number of functions. It provides Hydro  
6 with -- with the ability to avoid having to have that  
7 \$3 billion in debt. It provides Hydro with the  
8 ability to report to people something different than a  
9 hundred debt financed assets; to be able to show that  
10 there is a -- an audited balance sheet; that  
11 comparative value or assets to your -- to your debt  
12 and shows a -- a retained earnings level.

13 And it also provides some financial  
14 flexibility that you're not going to run into the  
15 situation such as New Brunswick did or you end up with  
16 a hundred and five percent debt.

17 MR. BOB PETERS: And that  
18 flexibility -- is that flexibility, you're saying, is  
19 not to be used for drought, to provide any relief any  
20 relief for drought?

21 MR. PATRICK BOWMAN: Oh, it -- it  
22 would allow you to address unforeseen circumstances.  
23 Drought would be one you would plan for it -- plan for  
24 under that situation.

25 Others you wouldn't just sit back and

1 wait for -- for the net income to erode. Like -- like  
2 Mr. Colaiacovo was speaking, if interest rates  
3 starting going up, we wouldn't sit here and say, well,  
4 the reserves will pay for it for many years. We won't  
5 change rates. No, no. That one you change rates for.  
6 Export price -- export work has changed. You change  
7 your rates.

8                   But the water -- the water goes down,  
9 you -- you look as to whether your reserves are fine  
10 and whether you really need to start pushing in  
11 some -- some rate changes.

12                   MR. BOB PETERS:    And so I hear your  
13 position to be that if the Corporation Manitoba Hydro  
14 has financial issues related to exports or related to  
15 interest rate, that is -- those are justifiable  
16 reasons for coming for rate relief.

17                   MR. PATRICK BOWMAN:    I -- I think if  
18 you have updated information about export rates or  
19 interest rates that have gone against you and you run  
20 a -- a model that says you -- you need higher rates  
21 in order to reduce the risk of a future rate shock,  
22 then you -- then you put in place high rates.

23                   The biggest -- I think the easiest  
24 model -- and I -- I will say it's -- it takes --  
25 hearings are always the easiest place to -- to develop

1 the -- the themes or the ability to talk about these  
2 things. But the -- the easiest way that -- that I've  
3 found to conceptualize it is that the net income, the  
4 contributions to reserves, paying -- paying rates that  
5 exceed costs in a year is the way that ratepayers buy  
6 themselves future rate stability.

7           And so you -- you need to run the type  
8 of -- of risk scenarios that say, am I at risk of  
9 future rate stability? And if I am, then ratepayers  
10 should -- should buy them -- help buy themselves out  
11 of that by paying higher rates. They should -- you  
12 should face rate increases.

13           If I'm not at risk -- serious risk of  
14 future rate stability because of -- because of the  
15 targets, because of the current reserve levels,  
16 because of -- of whatever else, then -- then there's  
17 not the justification for higher rates. We can -- we  
18 can come back in next year with updated models.

19           MR. BOB PETERS: Mr. Bowman, you say  
20 on slide 13 of your direct evidence this afternoon or  
21 this morning that you believe Manitoba Hydro  
22 misunderstood what -- which review was on negative net  
23 income, correct?

24           MR. PATRICK BOWMAN: Right. And I  
25 think this is -- yes, yes. Correct.

1 MR. BOB PETERS: And your whole point  
2 of talking about net income is that it's not  
3 unexpected when a major capital asset comes into  
4 service.

5 MR. PATRICK BOWMAN: Negative income  
6 is not unexpected when a major capital asset comes  
7 into service.

8 MR. BOB PETERS: All right. And while  
9 we were talking about reserves, there's a suggestion I  
10 get from your evidence that -- that maybe reserves  
11 today -- this \$3 billion -- is -- is sufficient. Was  
12 that the intention that you had in -- when you wrote  
13 it?

14 MR. PATRICK BOWMAN: I -- I wanted to  
15 put out the thought. I wanted to help focus the fact  
16 that rather than allowing this lack of an IFF to cause  
17 us to be myopic about the near term to say, no, no.  
18 There's -- we -- we've got to think about how we're  
19 turning this corner. What's happening when Keeyask  
20 comes into service, and -- and what are we heading  
21 for?

22 And I don't think it's -- it's  
23 unreasonable to ask the question about, in that  
24 context, if -- if, you know, we're -- if droughts  
25 aren't as expensive as they used to be, particularly

1 because export markets aren't as lucrative as they  
2 used to be.

3                   We don't -- we don't forego these  
4 huge -- huge opportunities -- prices that we used to  
5 get. And the ability to serve those export prices  
6 were -- were a bit more creative and have more  
7 options. So droughts aren't as expensive as they used  
8 to be.

9                   And -- and we've now got Keeyask in  
10 service, and we're by this next phase of -- of capital  
11 management. Then what are these reserves about  
12 anyway, as we're updating the financial targets the  
13 same way Hydro talks about.

14                   I wanted -- I wanted us to be able to  
15 start to question, is it inevitable that we're going  
16 to -- we're going to head to the \$7 billion number  
17 that Mr. McCallum was talking about last time he was  
18 here.

19                   MR. BOB PETERS: All right. So I take  
20 from that last answer, you want to plant the seed, if  
21 I may, that perhaps the regulatory focus should change  
22 to figure out what should be the appropriate level of  
23 reserves, and that would include setting rates going  
24 forward with that in mind.

25                   MR. PATRICK BOWMAN: Yeah. And someone

1 might think about a workshop on minimum retained  
2 earnings.

3 MR. BOB PETERS: Okay. Well, I'm not  
4 so sure you voted in favour of that last time. I  
5 think you may have shared a witness that spoke to  
6 that, but was -- at the last GRA, was -- was a  
7 technical conference on financial targets and minimum  
8 retained earnings -- was that endorsed by -- by  
9 yourself, Mr. Bowman?

10 MR. PATRICK BOWMAN: I -- I wrote  
11 some papers on the uncertainty analysis and talked  
12 about the -- the way that tool has evolved to be  
13 something that is extremely useful. It's extremely  
14 innovative compared to what you had before. It tells  
15 us way more than we ever did. And with one more  
16 tweak, if you like, where you can build some rate  
17 response into it, it could take us to an entire  
18 another place in how we talk about Hydro's risk and  
19 reserve levels.

20 And I think that's both for this room  
21 and for people outside the room. Once it gets boiled  
22 down to -- to some -- some clear messages. For  
23 example, this Board saying that they've got models  
24 that show that there's an 'X' percent -- 99 percent  
25 chance -- that they'll be able to -- to help Hydro

1 avoid 'X' financial outcome with rate increases not  
2 higher than -- than 'Y' and people could understand  
3 that, then I think that would help communicate how  
4 regulatory action would occur, how -- how remote these  
5 chances are, and some of the same things that  
6 Mr. Colaiacovo talked in terms of how Bonneville Power  
7 talks about its risks.

8 MR. BOB PETERS: Mr. Bowman, when you  
9 tell this Board about the uncertainty analysis, you're  
10 referring to that as a new tool in toolbox. Is that  
11 what I get from your evidence?

12 MR. PATRICK BOWMAN: Yes.

13 MR. BOB PETERS: And just to refresh  
14 my memory, which -- this uncertainty analysis manifest  
15 itself in the last general rate application, was that  
16 for the first time?

17 MR. PATRICK BOWMAN: You know, I think  
18 it may have been appended to a -- a filing before that  
19 as part of Manitoba Hydro did some runs and -- and I  
20 think there was a -- a KPMG report on it.

21 It -- it was an evolution though of  
22 stuff that was done in NFAT, a significant evolution  
23 of -- of pieces that were done in NFAT where -- where  
24 multiple scenarios were run and a -- and a certain  
25 sort of horizon of future possibilities is -- or

1 future outcomes is modelled.

2 MR. BOB PETERS: So for those Board  
3 members who remember the NFAT, it manifest itself in  
4 what was called the Quilt?

5 MR. PATRICK BOWMAN: There was the  
6 Quilt, but there was also the -- the CONE, if you  
7 like, that it -- it became sort of represented as the  
8 CONE of -- of probabilities.

9 And then we did an attachment in the  
10 last -- in the last rate application to show some of  
11 those outcomes.

12 MR. BOB PETERS: And that -- and that  
13 also manifests itself through those what -- what were  
14 called on the record as Box and Whiskers results.

15 MR. PATRICK BOWMAN: That -- that was  
16 the early work at -- at NFAT. Yeah. And that -- that  
17 led to some of the -- some of the more innovative  
18 modelling, and, like I said, there was a KPMG report  
19 on an internal Manitoba Hydro report.

20 MR. BOB PETERS: And so your comment a  
21 few minutes ago about a possible technical conference,  
22 you see a value in that, getting it out of the  
23 regulatory arena and more into a -- a technical  
24 workshop.

25 MR. PATRICK BOWMAN: Yeah, yeah. I --

1 I think there's a -- yes. I think there's a value in  
2 that. There's -- there's certain types of decisions  
3 that -- that this type of forum is good at making, and  
4 there's certain types of -- of issues that are more  
5 difficult to explore.

6 MR. BOB PETERS: And, Mr. Bowman,  
7 is -- is such a workshop of any benefit before, or is  
8 only a benefit after Manitoba Hydro's Board goes  
9 through the current exercise with its twenty (20) year  
10 corporate strategic planning and then the development  
11 of a new integrated financial forecast?

12 MR. PATRICK BOWMAN: You know, I -- I  
13 would think parts of it might happen during, but  
14 I'd -- I have to admit I don't entirely understand the  
15 full scope of things that -- that Hydro may be dealing  
16 with. It certainly sounds like there are some aspects  
17 which -- which sound wise, I'll say -- of -- of Hydro  
18 considering where this company fits in the energy and  
19 policy landscape for things like electrification,  
20 which are -- which go way beyond financial modelling  
21 and -- and maybe some people need to wrestle with --  
22 with some of that picture before they'd get into  
23 the -- the detailed parts.

24 But I -- I wouldn't think after. My  
25 concern would be after Hydro's hires been completed

1 that they may have come up with a set of financial  
2 targets that -- that they've now had to sort of  
3 publish and defend, rather than -- rather than, you  
4 know, have -- have any serious open debate about.

5 MR. BOB PETERS: All right. I have  
6 your position, sir. Is it also a theme in your  
7 evidence, Mr. Bowman, that, you know, compared to  
8 where Exhibit Manitoba Hydro 93 is, the net income in  
9 the test year is pretty much the same as what you  
10 would have seen in IFF that -- that it was  
11 underpinning Manitoba Hydro Exhibit 93?

12 MR. PATRICK BOWMAN: Well, no because  
13 the IFF underpinning Exhibit 93 had, among other  
14 things, 7.9 percent rate increases. It also had some  
15 different assumptions about accounting approaches that  
16 this Board finally resolved in -- in a different way  
17 than the IFF had -- had included.

18 So the underlying -- it was called  
19 MH16, the IFF scenario, was -- was different.

20 MR. BOB PETERS: And maybe I didn't  
21 ask my question properly, but I'm looking at page 9 of  
22 your pre-filed evidence, and I apologize. I've  
23 forgotten the exhibit number.

24 MR. PATRICK BOWMAN: MIPUG-5.

25 MR. BOB PETERS: And so, Mr. Bowman,

1 on page 9 of your -- at the bottom part of the page  
2 just above a paragraph that says "other relevant  
3 comparators," but the -- just the sentence before that  
4 says:

5 "In short, without a rate increase  
6 today, Manitoba Hydro is achieving  
7 the same net income as had been  
8 expected under the MH-93 scenario."

9 You see that?

10 MR. PATRICK BOWMAN: Yes.

11 MR. BOB PETERS: That's not accurate,  
12 is it, anymore?

13 MR. PATRICK BOWMAN: Well, MH93 is the  
14 exhibit number that we were discussing --

15 MR. BOB PETERS: Let me ask it this  
16 way. You're assuming that the net income under MH93,  
17 that IFF was around the \$60 million mark, \$61 million?

18 Sorry, Mr. Bowman. We can go at it  
19 this way then. If --

20 MR. PATRICK BOWMAN: I -- I have MH-93  
21 in front of me, which is page 3 of -- of that exhibit  
22 from the last hearing.

23 MR. BOB PETERS: It's at page 6 of  
24 Board counsel's book of documents if you were to give  
25 it a proper reference.

1 MR. PATRICK BOWMAN: It's always  
2 helpful when people do proper referencing.

3 MR. BOB PETERS: And you'll see in --  
4 yes, Mr. Bowman.

5 MR. PATRICK BOWMAN: In the -- in the  
6 2020 year, as you -- there's -- if you go to the 2020  
7 year and look at the page, you'll see the -- the net  
8 income numbers we're talking about are that  
9 60-odd million. That -- that's not the IFF for that  
10 year. The official Manitoba IFF for that year had the  
11 7.9 percent rate increases and had different  
12 assumptions on --

13 MR. BOB PETERS: I understood your  
14 point earlier. But if we now turn to Board counsel's  
15 Book of Documents page 52, we use a Coalition  
16 Information Request response by Manitoba Hydro, where  
17 Manitoba Hydro restated Manitoba Hydro Exhibit 93 and  
18 updated it with a twenty (20) year WATM. Do you  
19 remember that? Now you do?

20 And this sheet was not prepared by  
21 Manitoba Hydro, but it was a compilation on the bottom  
22 of Manitoba Hydro's supplement, together with their  
23 response to coalition. Manitoba Hydro First Round 6B,  
24 Attachment 1, Figure 5?

25 MR. PATRICK BOWMAN: Can -- can we

1 scroll it down a bit?

2 MR. BOB PETERS: The point I'm going  
3 to, Mr. Bowman, and I hope you're catching up to me  
4 or -- is that the net income when we stated on a  
5 twenty (20) year weighted average term to maturity of  
6 the debt, the net income drops from 61 million down to  
7 28 million.

8 MR. PATRICK BOWMAN: Yeah. There were  
9 some subsequent analysis done of MH-93 in that  
10 hearing. You will recall there was also a -- an  
11 exhibit prepared that we weren't allowed to see for  
12 the Board which put in capacity values and -- and  
13 opportunity values and the like.

14 And -- and so the -- the twenty (20)  
15 year WATM number drove this down. Some other numbers  
16 drove it up. I -- I was really relying on MH-93  
17 because that's the one the Board said was -- was, you  
18 know, directionally consistent with where the -- the  
19 order was going to go -- they -- they didn't reference  
20 this -- this number, nor the -- nor the updated  
21 exhibit with the capacity values.

22 MR. BOB PETERS: Okay. Well, I've got  
23 your point. But you'll accept that when you adjust  
24 MH-93 for a twenty (20) year WATM, the net income  
25 number drops less than half of what it was when it was

1 filed at the last hearing.

2 MR. PATRICK BOWMAN: Right. We're  
3 doing even better. As compared to that benchmark,  
4 we're better in this -- in this one before you even  
5 think about a rate increase.

6 MR. BOB PETERS: I've got your point.

7

8 (BRIEF PAUSE)

9

10 MR. BOB PETERS: Now, Mr. Bowman, when  
11 we turn to what you said was justification for the  
12 rate increase, your slide number 2, I think, put out a  
13 couple of reasons, and one of them was, in essence,  
14 the transition to when Keeyask comes in service,  
15 correct?

16 MR. PATRICK BOWMAN: Yes.

17 MR. BOB PETERS: And -- and your  
18 acknowledging that's beyond the test year, but  
19 you're -- you're looking a little bit forward with the  
20 limited data you have?

21 MR. PATRICK BOWMAN: Yes.

22 MR. BOB PETERS: And

23 MR. BOB PETERS: And when you suggest  
24 that Manitoba Hydro is likely to outperform Exhibit  
25 Manitoba Hydro 93 in the long run, you've given four

1 reasons. The first was the lower long-term interest  
2 rates, correct.

3 MR. PATRICK BOWMAN: Yes.

4 MR. BOB PETERS: Then DSM spending,  
5 you believe, should be adjusted downwards?

6 MR. PATRICK BOWMAN: I -- I think  
7 there is reason to believe the DSM spending, you know,  
8 may -- may be a positive shift once the -- once all  
9 factors are taken into account, yes.

10 MR. BOB PETERS: The spending and the  
11 savings haven't been adjusted down -- downwards.

12 MR. PATRICK BOWMAN: Yeah.

13 MR. BOB PETERS: All right. And your  
14 other reason for the optimism is that Bipole III has  
15 entered service at a lower cost than was assumed in  
16 Manitoba Hydro Exhibit 93?

17 MR. PATRICK BOWMAN: Yes.

18 MR. BOB PETERS: And the last one I  
19 could find in your evidence was that the export  
20 revenue forecast doesn't assume any additional  
21 capacity revenues or any beneficial pricings on both  
22 imports and exports that would result from the new  
23 transmission assets to the United States.

24 MR. PATRICK BOWMAN: Yes. You said  
25 four. So you listed: interest, DSM, Bipole, and

1 export.

2 MR. BOB PETERS: Those are the four I  
3 listed.

4 MR. PATRICK BOWMAN: There was also  
5 that Keeyask was coming into service earlier, more  
6 revenue from Keeyask earlier, and the risks of Keeyask  
7 have gone down now that things like ground conditions  
8 are known.

9 And the other one I listed -- and by  
10 the way, these are at page 10 to 11 of the  
11 presentation this morning -- was that there were a  
12 number of things already in MH-93 which -- which  
13 directionally were understood to -- to mean that  
14 scenario with conservative.

15 For example, it had 7.9 percent rate  
16 increase, elasticity is built in, so a downward push  
17 on -- on domestic loads. It also didn't have the --  
18 the export price benefits or the import price  
19 reductions related to MMTP and GNTL, which the Board  
20 cited at 2 to 5 percent. And so those factors.

21 MR. BOB PETERS: I lumped those in  
22 with export revenues, and you've -- you --

23 MR. PATRICK BOWMAN: That's fine.

24 MR. BOB PETERS: -- brought to the  
25 Board's attention you could factor them separately.

1                   But you haven't been able to quantify  
2 the impact of the -- on future revenue requirements of  
3 those export changes?

4                   MR. PATRICK BOWMAN:    No.

5                   MR. BOB PETERS:    Then you're just  
6 saying directionally, what Mr. Cormie's been doing  
7 will benefit Manitobans into the future.

8                   MR. PATRICK BOWMAN:    Yeah.  I -- I --  
9 that's correct.  Never doubt Mr. Cormie.

10                  MR. BOB PETERS:    You're under oath.

11                  Mr. Bowman, you've  already talked  
12 about the Bipole III benefit and we went through that  
13 I think yesterday with the -- some of the Intervenors'  
14 questions but skipping over to interest rates, you  
15 provided PUB-MIPUG Interrogatory first round number 3  
16 and (a) I think My Friend Ms. Fernandes also just had  
17 a brief mention of this.

18                  This was your attempt to update it as  
19 current as you could when you responded to the  
20 Information Request?

21                  MR. PATRICK BOWMAN:    Yes.

22                  MR. BOB PETERS:    And you're suggesting  
23 that the information on this chart should only be seen  
24 as positive for Manitoba Hydro?

25                  MR. PATRICK BOWMAN:    Yes, and -- and I

1 don't know that it even tells the entire story. For  
2 example, if you look at the -- the short-term line,  
3 the green line, what we heard is that the -- basically  
4 the borrowing for this year is sort of locked with  
5 the 2.19 percent US dollar borrowing.

6 I think if you track across 2.19  
7 percent and you realize that that's a substantial part  
8 of the borrowing for this year, it's not just that the  
9 line has dipped in March. It's that a good part of  
10 that is now known and far below forecast for the  
11 entire year.

12 MR. BOB PETERS: Is that going to have  
13 any beneficial impact in the test year?

14 MR. PATRICK BOWMAN: Well the locked-  
15 in part certainly -- certainly has an impact on the --  
16 on the finances.

17 MR. BOB PETERS: When I spoke with Ms.  
18 Stephen, I understood her evidence to be essentially  
19 that for the test year the fact that Manitoba Hydro's  
20 achieving interest -- favourable interest rates at  
21 this point in time is not going to have a significant  
22 impact in the test year?

23 MR. PATRICK BOWMAN: Yeah, we --

24 MR. BOB PETERS: Did you hear that?

25 MR. PATRICK BOWMAN: Yeah, there was

1 some rebuttal prepared by Manitoba Hydro and I didn't  
2 really want a dwell on it but I -- I was at -- at best  
3 puzzled by it, if -- if not in -- frankly in  
4 disagreement about how much benefit there could be  
5 from locking in lower -- lower interest rates.

6 And the issue is Hydro's rebuttal  
7 basically says all this money is being borrowed for --  
8 for capital so it's not -- there's not a savings.  
9 It's all being built -- borrowed for Keeyask.

10 But the -- the evidence we have is that  
11 when you're out -- when one actually goes to charge an  
12 interest rate to the projects, they use an average of  
13 all borrowings and the part of the borrowings that are  
14 -- are -- are funding projects not in service, or is  
15 in service, it's only about a third of it. So if you  
16 actually secure interest rate savings, it does save  
17 Keeyask some money but it doesn't save -- it's -- not  
18 all the savings goes to Keeyask. A lot of it goes to  
19 the -- the portfolio debt funding current assets.

20 MR. BOB PETERS: All right. You're  
21 taking issue then with the -- with Manitoba Hydros'  
22 conceptualization that the -- even if they borrow  
23 money today they don't stream it directly for Keeyask  
24 expenses, it -- it forms part of their overall  
25 weighted average interest rate?

1 MR. PATRICK BOWMAN: Exactly.

2 MR. BOB PETERS: All right.

3 MR. PATRICK BOWMAN: I'm not taking  
4 issue with it, I'm saying that once -- once you  
5 consider that factor, it means that the interest  
6 benefits can flow through quicker than is -- then is  
7 implied by the fact of saying, oh, we are only  
8 borrowing for Keeyask.

9 I -- I didn't want to take issue with  
10 it because I think it's -- it's an excessively narrow  
11 point about the one (1) year where when we're talking  
12 about long-term -- long-term rates being locked in for  
13 five (5) or thirty (30) years, the -- the benefit in  
14 the IFF is sort of indisputable for many many years of  
15 it. I don't think -- get fussed about whether it  
16 shows up in one (1) particular year or one (1)  
17 particular month.

18 MR. BOB PETERS: And the benefit that  
19 you say on the IFF will be that the cash interest  
20 payments will be lower?

21 MR. PATRICK BOWMAN: Yes. They'd be  
22 lower than they would've been with the lines that were  
23 forecast here which was the basis of preparation of  
24 the -- of the forecast.

25 MR. BOB PETERS: In terms of the --

1 the answer that's on the screen in front of us, Mr.  
2 Bowman, I appreciate this was prepared earlier in the  
3 month.

4 Does -- do you believe that this is  
5 sustainable at this point in time or do you have any  
6 indication, any evidence to suggest it is or it isn't?

7 MR. PATRICK BOWMAN: I have no  
8 evidence to suggest it is or isn't and it's -- it's  
9 only April 25th.

10 The -- the fact that 1.1 billion is  
11 pre-funded means that there's a lot more known about -  
12 - about the year's financing than -- then may be  
13 implied by looking at it, but in terms of what the  
14 borrowing costs is on any given day or any given  
15 month, I have no further knowledge and I'd -- I'd be  
16 sceptical that -- of any source that would come in  
17 here and tell you they know what Hydro can borrow for  
18 next month.

19 MR. BOB PETERS: Just take a few  
20 minutes on DSM costs, Mr. Bowman. You're assuming  
21 that the current forecast of spending in DSM savings  
22 will be decreased once Efficiency Manitoba becomes  
23 operative.

24 MR. PATRICK BOWMAN: I'm -- I'm  
25 assuming that the current level -- the forecast level

1 of -- of -- of spending in savings will be optimized.  
2 I can't necessarily say it will be -- be decreased but  
3 my understanding is that Efficiency Manitoba is  
4 running with the -- and I did provide a response on  
5 this, is running with a mandate to -- to help mitigate  
6 rate increases or help mitigate rate pressures and --  
7 and I find it -- would find it surprising if they came  
8 in -- in the early years at least and said, hey, we've  
9 got a great plan. It's going to drive a lot of rate  
10 increase.

11 MR. BOB PETERS: Well, then, I think  
12 you're agreeing with me that in your evidence you're  
13 suggesting to this Board that looking forward you  
14 think there's going to be beneficial impacts in the  
15 longer term because DSM spending will be lower as  
16 likewise DSM electricity savings will be lower?

17 MR. PATRICK BOWMAN: Or -- or  
18 potentially more economic programs would be  
19 identified. We certainly heard assertion that the ei  
20 -- part of the purpose of setting up the agency was  
21 that -- for it to be -- to use the words in the -- in  
22 the press -- certainly more -- more efficient, more  
23 optimized, more agile than Manitoba Hydro operated it.  
24 I -- I can't comment on whether that's -- whether  
25 that's the case, but it certainly was the purpose.

1                   So I think there's -- there's -- you  
2 know, is it administrative cost is -- I'm not sure  
3 what people were referring to with that, but I think  
4 the -- the idea that -- that the DSM would be -- that  
5 someone would come with a DSM plan that said I need  
6 even more rate increases than Hydro had assumed for  
7 upward pressure for DSM is -- would -- would be  
8 surprising.

9                   MR. BOB PETERS:   Well, is the 1.5  
10 percent legislated target greater than the savings in  
11 the 2016 DSM plan and underpinning Manitoba Hydro  
12 Exhibit 93?

13                  MR. PATRICK BOWMAN:   It's -- it's --  
14 it's greater than the savings that were included in  
15 the plan when Hydro developed it. As we know --

16                  MR. BOB PETERS:   That was -- that was  
17 1.2 --

18                  MR. PATRICK BOWMAN:   1.2, correct and  
19 Hydro asserted that it was not worth spending the  
20 money trying to get up to 1.5. It would have taken  
21 enormous amounts of money to try to get to 1.5.

22                  And I provided a -- a fairly lengthy  
23 response to this in the last hearing and I -- for your  
24 -- for your reference, Mr. Peters, you might look at  
25 PUB-MIPUG 184 where I -- I put some of that same --

1 same response in here.

2                   That if you look at the mandate of  
3 Efficiency Manitoba it's somewhat different than what  
4 Manitoba Hydro's was. If you look at the tools  
5 available to the Minister, and to this Board to  
6 consider the cost-effectiveness, it's not a given that  
7 1.5 would be the target and -- and certainly it's  
8 specifically stated that part of the -- part of the  
9 effect, part of the purpose of Efficiency Manitoba is  
10 to help manage -- manage costs and rates.

11                   MR. BOB PETERS: All right. So let's  
12 take the DSM costs out of my question then, Mr.  
13 Bowman. If Efficiency Manitoba was able to meet its  
14 legislated targets, DSM savings would increase,  
15 correct? They'd increase up to say 1.5 percent?

16                   MR. PATRICK BOWMAN: Yes.

17                   MR. BOB PETERS: All right. And then  
18 the domestic load would correspondingly, to some  
19 amount, decrease?

20                   MR. PATRICK BOWMAN: All -- all else  
21 being equal, yes.

22                   MR. BOB PETERS: And all else being  
23 equal, that decrease in domestic load would be put on  
24 Mr. Cormie's desk to go sell it the export market?

25                   MR. PATRICK BOWMAN: Correct.

1                   MR. BOB PETERS:    And if he's not able  
2 to secure a firm agreement for it, it would be sold at  
3 opportunity rates?

4                   MR. PATRICK BOWMAN:   Correct, although  
5 it would be -- it would be dependable energy and it  
6 would be capacity savings, both of which are -- lead  
7 to that being a valuable product.

8                   MR. BOB PETERS:    And you're not aware  
9 whether that would attract revenues back from the,  
10 say, the US market that were equal to or greater than  
11 what Manitoba Hydro's domestic ratepayers are paying?

12                   MR. PATRICK BOWMAN:    I -- I think  
13 you'd have to take all of those things into account:  
14 the capacity, the -- the dependability and how it fits  
15 into the portfolio. I wouldn't say it's a given.  
16 It's a US market products. Certainly electrification  
17 of the economy could -- could mean some probably  
18 significant things for Manitoba load. Certainly some  
19 pres -- big pressures on Saskatchewan about how  
20 they're managing their -- their generation and we're  
21 seen that show up.

22                   So, I think that's the reason a full  
23 reserve plan needs to be considered for -- in order to  
24 do -- to do the assessment that's needed about the  
25 appropriate level of -- of DSM spending to make sure

1 that it is -- it is economically efficient, as -- as  
2 required by the -- by the Efficiency Manitoba Act.

3 MR. BOB PETERS: So would it be  
4 correct, Mr. Bowman, for the Board to summarize your  
5 evidence as an expectation that Manitoba Hydro's  
6 financial position would be improved compared to what  
7 Exhibit MH-93 showed them at the last GRA?

8 MR. PATRICK BOWMAN: I -- I set out  
9 there that I -- I -- my submission is that I don't  
10 think it would be adversely affected, and I think  
11 there's a possibility that it would be improved.

12 MR. BOB PETERS: Put another way,  
13 Manitoba Hydro could be in the same financial position  
14 but with lower rate increases?

15 MR. PATRICK BOWMAN: Yes.

16 MR. BOB PETERS: And you can't say by  
17 how much either the changes in the financial ratios or  
18 the changes in the indicative rate increases?

19 MR. PATRICK BOWMAN: No, of course  
20 not. No, no, not with -- not without the plan that  
21 Efficiency Manitoba brings forward and not without --  
22 not without a full financial forecast from Manitoba  
23 Hydro.

24 MR. BOB PETERS: Mr. Bowman, I'm going  
25 to try to keep away from a document, but I want you to

1 turn, please, to page 69 in Board counsel's book of  
2 documents.

3

4 (BRIEF PAUSE)

5

6 MR. BOB PETERS: I think you were  
7 talking about this with Ms. Fernandes earlier, but if  
8 we look to the 2023 fiscal year, the indication that  
9 we now have is things may be accelerated, so those  
10 numbers might come forward on the chart. That's your  
11 understanding?

12 MR. PATRICK BOWMAN: We're looking at  
13 the Keeyask part of the --

14 MR. BOB PETERS: Yes, at the top of  
15 the page.

16 MR. PATRICK BOWMAN: Yes, correct.

17 MR. BOB PETERS: When we turn the page  
18 to page 70, you and Ms. Fernandes were locking horns a  
19 little bit on the -- the net income or loss that would  
20 result. And what I'm taking from that exchange is  
21 you're acknowledging that Keeyask in-service  
22 additional cost could be in the range of \$500 million  
23 more, but you'd want to offset that by the revenues  
24 that are available, correct?

25 MR. PATRICK BOWMAN: Well, we're

1 talking income statement effect now?

2 MR. BOB PETERS: We are.

3 MR. PATRICK BOWMAN: That -- that's  
4 correct. Both of those things will hit the income  
5 statement, the added costs and the added revenues.  
6 There'll be \$500 on the income statement but it's not  
7 \$500 million incremental because, as you'll see there,  
8 the capital taxes are already on the income statement.

9 MR. BOB PETERS: Yeah. That's the 35  
10 million that's already in -- on the statements today.

11 MR. PATRICK BOWMAN: For 2020,  
12 correct.

13 MR. BOB PETERS: Okay, but let's get  
14 past that, Mr. Bowman, and then turn to the KHLP  
15 revenues. You're taking some issue with how Manitoba  
16 Hydro presents this chart, recognizing it's still a  
17 hypothetical presentation, but you're saying that the  
18 revenues from Keeyask will be higher than 262 million;  
19 they'll be more in line with -- and it's in the book  
20 of documents, but they would be more in the  
21 neighbourhood of either 350 to \$400 million.

22 MR. PATRICK BOWMAN: I'd take you to  
23 page 76 of this book. And this is the middle  
24 scenario. The -- the first scenario was Keeyask sold  
25 all that firm, which is actually page -- the previous

1 pages which we can't see the numbers. This page shows  
2 Keeyask sales at -- at the -- assuming the MP250  
3 contract is tied to Keeyask, which it is, and prorated  
4 contracts which has it at three (3) -- well, come --  
5 coming in eventually to three eighty (380), three  
6 seventy (370) number, and the -- the following page  
7 has a somewhat different portrayal of Keeyask, which  
8 is generation all at -- at -- at firm, assuming  
9 Keeyask is all sold at firm which is more like 407  
10 million.

11                   And I would just emphasize that this,  
12 the three sixty (360) number, that -- there's a three  
13 seventy (370) number on the previous page, is also  
14 consistent with the jump you see in export revenues in  
15 the IFFs and that were prepared at that time. So  
16 that's why I would use the -- the three sixty (360) or  
17 three seventy (370) type of number.

18                   MR. BOB PETERS:    And even if we use  
19 your number, Mr. Bowman, there is still a shortfall  
20 of, what would that make it, \$140 million?

21                   MR. PATRICK BOWMAN:    Yes.

22                   MR. BOB PETERS:    And the part I didn't  
23 follow you and Ms. Fernandes on is how is that  
24 achieved by way of 9 percent rate increase, a one-time  
25 9 percent rate increase?

1 MR. PATRICK BOWMAN: Well, I was -- I  
2 was doing that by way of your page 70. And if you  
3 scroll a little bit down you will see this -- this  
4 works out to net income loss of about -- of about 300  
5 million.

6 MR. BOB PETERS: So you've chopped it  
7 in half.

8 MR. PATRICK BOWMAN: Yeah.

9 MR. BOB PETERS: Okay, thank you. I  
10 have you point, I have your point.

11 And my last point, Mr. Bowman, is your  
12 Slide 15. Your recommendation to this Board is  
13 whatever rate increase it is, and you're saying  
14 somewhere between zero and 1.5 percent would be in  
15 your range, correct?

16 MR. PATRICK BOWMAN: Yes.

17 MR. BOB PETERS: Whatever rate  
18 increase this Board was to award, you're saying that  
19 it should be applied across the board, which means  
20 that the average increase would be attached to every  
21 rate class and every component of every rate?

22 MR. PATRICK BOWMAN: Well, I'll --  
23 I'll be two (2) quick comments. I've referenced it as  
24 zero to 1.5 because Hydro's evidenced, in my  
25 submission, leads to zero where customer interest

1 leads to 1.5. I would like -- I would lean towards  
2 customer interest.

3                   So I think being frank we're -- we're  
4 not talking about zero. But from the cost of service  
5 side, I don't think -- as much as Hydro's evidence has  
6 some concerns about completeness, I think the PCOSS  
7 evidence has some significant concerns about saying  
8 it's -- it's complete or sufficient to draw a  
9 conclusion beyond across the board.

10                   And -- and I say that's -- that's  
11 without getting into the policy issues of First Nation  
12 reserve ques -- questions and the like.

13                   MR. BOB PETERS:    Okay, if I turn to  
14 page 86 of Board's counsel book of documents and look  
15 to figure 2, at the bottom of the page, Mr. Bowman --  
16 are you with me?

17                   MR. PATRICK BOWMAN:    Yes.

18                   MR. BOB PETERS:    You're saying that if  
19 the Board -- if the Board was still interested in  
20 differentiating rates to try to bring any rates that  
21 are outside of the zone of reasonableness closer to  
22 that zone of reasonableness, the Board should --  
23 you're saying the Board shouldn't do that this time  
24 around?

25                   MR. PATRICK BOWMAN:    Well, that's

1 correct. I don't -- I don't think this -- this table  
2 holds up to the evidentiary standard I think should be  
3 required to -- to be as refined as saying, we're going  
4 to apply different increases to different classes.

5 MR. BOB PETERS: All right so just I  
6 suppose for the Board's edification, if we go to  
7 General Service Large, greater than 100 kVA, those are  
8 some of the clients that MIPUG represents that are in  
9 that category?

10 MR. PATRICK BOWMAN: There'd be  
11 clients on all three (3) GSL, but few in the zero to  
12 thirty (30), most would be thirty one hundred (30-100)  
13 (sic) and greater than a hundred.

14 MR. BOB PETERS: And under this same  
15 methodology shown in figure 2, the General Service  
16 Large thirty (30) to a hundred (100) and greater than  
17 a hundred (100) would notionally not be -- not be  
18 moved at all if the Board followed the same  
19 differentiation process they did in the last Order?

20 MR. PATRICK BOWMAN: Right and -- and  
21 -- and I have to admit I didn't necessarily follow why  
22 any of them would because they would all be within the  
23 zone under this analysis, if ninety-five (95), one-o-  
24 five (105).

25 MR. BOB PETERS: Except if you wanted

1 to get area and roadway lighting and GSS non-demand  
2 into the zone, somebody has to move, correct?

3 MR. BOB PETERS: I presume so, yes.

4 MR. BOB PETERS: And those -- and  
5 those that are below unity would be the ones that were  
6 targeted, that would exclude the general service large  
7 and the general service large greater than one hundred  
8 (100), as well as the general service thirty (30) to  
9 one hundred (100).

10 MR. PATRICK BOWMAN: That -- that  
11 would definitely exclude the two (2) that I deal with,  
12 yeah. The two (2) I primarily deal with. Like I  
13 said, there is some zero to thirty (30) load.

14 I -- I -- I'd also -- I would never  
15 quite follow the math in this either in terms of, you  
16 know, something like that the GS medium, and the GSL  
17 zero to thirty (30) are -- are, you know, they're --  
18 they're quite -- quite a bit -- or they're -- the --  
19 the -- quite a bit off in terms of the proposals that  
20 are listed there for annual differentiation.

21 And it -- and I take it the idea is  
22 let's get everyone to 98.3 as the new number but it  
23 didn't quite strike me as why that would be -- why  
24 that would be the design somebody would use anyway. I  
25 would think it would be designed to try to get, you

1 know -- the zone of reasonableness is not a Get Out of  
2 Jail free card. It's -- it's a -- it's a sign that  
3 you can't conclude that the rates are unreasonable,  
4 but you would not leave someone at the higher or low-  
5 perpetually. So, even if somebody is at one-o-four  
6 (104) -- I've certainly been involved in many  
7 jurisdictions where you would think about moving them,  
8 if you were confident of the one-o-four (104).

9 MR. BOB PETERS: Mr. Bowman, there's  
10 one (1) latebreaking issue, so please help me out. I  
11 apparently have two (2) minutes to keep to my Ms.  
12 Fernandez timeline.

13 Your recommendation that you discussed  
14 with Dr. Williams was to put the revenues from any  
15 rate increase this Board awarded into a deferral  
16 account; correct?

17 MR. PATRICK BOWMAN: I -- I suggested  
18 the Board should consider it. I wasn't -- I wasn't  
19 necessarily strongly advocating it. But --

20 MR. BOB PETERS: If it was a deferral  
21 account, Mr. Bowman, you're suggesting it would be  
22 treated the same way as was the Bipole III deferral  
23 account, there would be no distinguishing differences?

24 MR. PATRICK BOWMAN: I didn't have a  
25 distinguishing difference, no.

1 MR. BOB PETERS: All right, thank you.  
2 Mr. Chairman, I'd like to thank Mr. Bowman and Ms.  
3 Davies for their assistance. Those conclude my  
4 questions.

5 THE CHAIRPERSON: Thank you, Mr.  
6 Peters. Mr. Hacault, any re-examination?  
7 None?

8 MR. ANTOINE HACAULT: No re-  
9 examination.

10 THE CHAIRPERSON: Thank you, sir.  
11 Thank you, Mr. Bowman, Ms. Davies.

12 We'll adjourn today and we will resume  
13 at 9:00 a.m. on Monday morning. Thank you.

14

15 --- Upon adjourning at 2:55 p.m.

16

17

18 Certified Correct,

19

20

21 \_\_\_\_\_

22 Michael McKenzie

23

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