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MANITOBA PUBLIC UTILITIES BOARD

Re: MANITOBA HYDRO'S APPLICATION
FOR APPROVAL OF NEW ELECTRICITY RATES
FOR 2010/11 AND 2011/12

Before Board Panel:

Graham Lane - Board Chairman
Robert Mayer, Q.C. - Board Member

HELD AT:

Public Utilities Board
400, 330 Portage Avenue
Winnipeg, Manitoba
June 6, 2011
Pages 7424 to 7621

1 APPEARANCES

2 Bob Peters) Board Counsel

3 Anita Southall (np))

4

5 Patti Ramage) Manitoba Hydro

6 Marla Boyd)

7

8 Byron Williams (np)) CAC/MSOS

9 Myfanwy Bowman (np))

10

11 Antoine Hacault) MIPUG

12

13 Michael Anderson (np)) MKO

14

15 William Gange) RCM/TREE

16

17 Delanie Coad (np)) SCO

18

19 Denise Pambrun) City of Winnipeg

20

21 Gavin Wood (np)) Independent Experts

22

23

24

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1 --- Upon commencing at 9:34 a.m.

2

3 THE CHAIRPERSON: Okay. Good morning,
4 everyone. Mr. Peters, if you could sort of lead off with
5 a quick summary of what we're about to do today.

6 MR. BOB PETERS: Yes, thank you, Mr.
7 Chairman, Mr. Vice-Chair, ladies and gentlemen. On
8 Friday the MIPUG panel of witnesses, Messrs Bowman and
9 McLaren, were led through their direct evidence by Mr.
10 Hacault. They were also cross-examined by CAC/MSOS and
11 by RCM/TREE, and the day was adjourned with Manitoba
12 Hydro and Board counsel yet to pose their questions to
13 Mr. Bowman and Mr. McLaren. We propose to do that this
14 morning.

15 And before we do, I know Mr. Hacault has
16 an undertaking to which his witnesses either are able to
17 respond orally or in writing, and I'll let that be his
18 decision. I would then remind the Board that after we
19 adjourn for today our plan is to meet back here tomorrow
20 morning as CAC/MSOS has witnesses that are coming to
21 Winnipeg. That would be Mr. Matwichuk and Mr. McCormick.

22 And then, in addition to tomorrow being
23 with Mr. Matwichuk and Mr. McCormick, the next day is
24 also booked, that is Wednesday, is scheduled for the CAC
25 witness Mr. Carter. I can indicate to the Board that to

1 the extent that Messrs Matwichuk and McCormick's evidence
2 is not finished tomorrow, it's felt that if it slips into
3 the next morning, Wednesday morning, it will still allow
4 that evidence to conclude and also Mr. Carter's evidence
5 to conclude on Wednesday.

6 Looking forward to Thursday, Council had
7 thought that it might be appropriate to have part of a
8 day set aside before the Board to ask Manitoba Hydro any
9 final questions on the undertakings and exhibits that
10 have been marked throughout the proceedings.

11 And then following the cross-examination
12 of the Manitoba Hydro panel there is a possibility that
13 Manitoba Hydro will want to lead oral rebuttal evidence.
14 And that may occur on -- on Thursday. And to the extent
15 that it's not finished on Thursday, we have tried to
16 protect Monday, June 13th, for possible Manitoba Hydro
17 rebuttal evidence if it is not heard on June the 9th.

18 That will bring the evidentiary portion of
19 the hearing to a close. There's also an indication on
20 the schedule, Mr. Chairman, that certain Intervenors
21 would be in a position to file written issues, briefs or
22 written submissions hopefully by Thursday, June 23rd.
23 And I know some Intervenors and their counsel will not
24 available on that date and they're working to get their
25 most expeditious filings in as they can.

1 And then we have set Monday, June the 4th,
2 for Intervenors' oral closing submissions. I'm sorry,
3 did I say -- let me -- let me -- I apologize, I misspoke.
4 Monday, July the 4th, for Intervenors' oral closing
5 submissions, and we see those submissions also going over
6 to Tuesday, July the 5th.

7 And then, in terms of availability, the
8 Board would stand down until Thursday, July the 7th, to
9 provide Manitoba Hydro an opportunity for its oral
10 closing submissions. And the July 7th date was selected
11 because the -- the dates of July 6th and July 11th were
12 not available.

13 And if there are further available dates
14 later, I'll let Ma -- Manitoba Hydro speak on that
15 themselves, but they do prefer an opportunity to make
16 sure that they have addressed all of the positions taken
17 by Intervenors so that they can be helpful to the Board
18 in its deliberations. And if Thursday, July 7th, is the
19 last day, well, then that's the last day, but if there's
20 a further time later, they'd appreciate hearing that.

21 So, Mr. Chairman, that's a -- a bit of an
22 overview as to where we will go this week and perhaps
23 into next week as well as the written and oral
24 submissions. And unless you have questions of me, I
25 would suggest you turn to Mr. Hacault and ask him to deal

1 with the undertaking that his witnesses provided last
2 week.

3 MR. ROBERT MAYER: Mr. Peters, wouldn't
4 it make more sense for the Board's questions of Hydro to
5 come after they've given their rebuttal evidence so we
6 can get it all inclusive? Maybe we'll discuss that over
7 lunch.

8 MR. BOB PETERS: We get into the
9 question, Vice-Chair, as to what properly is rebuttal
10 evidence and is it a matter that again exposes the
11 Corporation to a further round of cross-examinations.
12 And if the rebuttal is true rebuttal in terms of my civil
13 procedure days, they would simply be responding to brand
14 new issues not raised in the written or oral evidence of
15 Manitoba Hydro and not raised in the written evidence of
16 the Intervenors because Manitoba Hydro has, as you are
17 aware, filed an extensive written rebuttal evidence.

18 MR. ROBERT MAYER: Mr. Peters, this is
19 the first time I've heard you discuss the intricacies of
20 the rules of evidence, which we have been incredibly
21 lacking in following through on most occasions. However,
22 we -- I think we should all have a little discussion
23 about this over lunch.

24 MR. BOB PETERS: Thank you, sir.

25 MS. PATTI RAMAGE: If -- if I could jump

1 in before turning it over to Mr. Hacault. Two (2)
2 points, one (1) I'll -- I'll deal with first, following
3 up on the Vice-Chair's comment on the rules of evidence.
4 Because we made an adjustment to the mo -- along the way
5 and I -- I thought I'd just bring this reminder to the
6 party's attention, that Manitoba Hydro was not provided
7 the opportunity for re-direct.

8 And we decided that we would do that at
9 the time of undertakings and bundle it together. So I --
10 I can't say exactly what we're going to cover but it's --
11 it's rebuttal/re-direct at the same time, and we were
12 doing that for efficiency purposes.

13 So that's one (1) caveat I would put on
14 those comments. The second would be I -- I heard Mr.
15 Peters say certain of the Intervenors would be fal --
16 filing written evidence and -- and it was my
17 understanding following that meeting, or my expectation,
18 and -- and perhaps I was over -- overstating the -- the
19 commitment, but I thought all parties would and that
20 would be part of the Manitoba Hydro's attempt to respond
21 to arguments -- or the Intervenor's final submissions, so
22 quickly, as we would have seen the written submissions.

23 So perhaps we could poll the parties to
24 see who intends to -- to file written because that --
25 that has a major impact on our ability to respond because

1 in many cases we'll be hearing it for the first time.
2 Parties have not taken a position. We've heard them
3 cross-examine, but we don't have any indication of what
4 their position is, and this has been a two (2) year --
5 close to a two (2) year hearing.

6 Then to -- to come up with that in a day
7 is -- is dramatically more difficult if we haven't seen
8 those written positions.

9 MR. BOB PETERS: I'll certainly -- if the
10 Chair -- if the Board wants to poll the parties, but I
11 will remind Ms. Ramage that counsel for MIPUG has a long-
12 standing commitment that makes him unavailable on the --
13 to file materials on the 23rd of June and still enjoy the
14 opportunity that he has reserved to be away.

15 So that was my comment in terms of his
16 unavailability. And Mr. Hacault can speak to that
17 further. Thank you.

18 THE CHAIRPERSON: Mr. Hacault...?

19 MR. ANTOINE HACAULT: We had indicated
20 some time ago that we would do our best to file material
21 as soon as we can. I'm back on the 28th so that the
22 intention is without doing too much work while I'm away
23 to preserve thirty (30) years of marriage bliss is to --
24 to -- when I come back to deal with it as expeditiously
25 as I can, knowing full well Manitoba Hydro's concerns and

1 needs.

2 I do note that it's the first time in --
3 I'm in a proceeding where the applicant doesn't provide
4 any written submission after -- or oral submission first
5 after all the evidence, but that's the way these
6 proceedings work, I guess. So these proceedings require
7 the respondents or Intervenors to present their
8 submissions first instead of the applicant and then Hydro
9 to respond and -- and that's the way ever -- it's always
10 proceeded so we'll follow that procedure.

11 With respect to the undertaking, I believe
12 there's one (1) undertaking that was at page 7,418. So
13 7,418 of the transcript, and I'd ask the witnesses to
14 respond to that undertaking and remind us what the
15 undertaking was.

16

17 MIPUG PANEL:

18 PATRICK BOWMAN, Resumed

19 ANDREW MCLAREN, Resumed

20

21 THE CHAIRPERSON: Mr. Bowman...?

22 MR. PATRICK BOWMAN: Thank you. Good
23 morning Mr. Chair and Mr. Vice-Chair.

24 The undertaking at page 7,418 was to Mr.
25 Gange who had asked for a reference to a -- a document we

1 had mentioned which was a -- a summary of the SPLASH
2 model and the issue in the SPLASH model of what is called
3 "perfect foresight." And the document we were
4 referencing we had indicated provided a -- a test of the
5 implications of perfect foresight. That document is
6 located in Appendix 74 of Manitoba Hydro's filing. It's
7 Attachment 2 to that appendix and the reference is at the
8 bottom page 19. And there's a paragraph there that is
9 going through the weaknesses of SPLASH after having
10 presented it.

11 This -- this is a Manitoba Hydro document
12 that was prepared for the provincial government when they
13 were assessing the Wuskwatim project and the water regime
14 arising from -- from putting Wuskwatim onto the system.
15 And it -- it indicates that the -- that one (1) of the
16 potential weaknesses of SPLASH is the fact that within a
17 year SPLA -- SPLASH works within a one (1) year window
18 and that it works within a monthly time step within that
19 window. And within that one (1) year window it -- it
20 doesn't get fussed about -- about each month not knowing
21 what the water is going to be the next month. It -- it
22 assumes that you know all of the year when you start out
23 and then it distributes it in a -- in an optimized way.

24 With this -- this reference it says that
25 in order to test that Hydro has exper -- it says, I'll

1 quote:

2 "Hydro has experimented with stepping
3 through on a monthly basis and using a
4 forecast of future inflows to simulate
5 uncertainty as it exists in the
6 operating environment."

7 So rather than within a year knowing --
8 you perfectly know where the water goes in -- in each
9 month, it -- it narrows down that horizon to the month
10 and it only focuses on making the decision for one (1)
11 month and that decision is made before you go to the next
12 month. And that decision is made on the basis of
13 imperfect knowledge about the future.

14 And within that -- that paragraph it
15 notes:

16 "That the production costing was not
17 significantly different for this
18 sensitivity analysis. Therefore, it
19 was deemed that solving all twelve (12)
20 months in one (1) step is adequate for
21 the purposes of production costing."

22 And it goes on to discuss whether it's
23 adequate for the purposes of water modelling which was
24 the purpose of this to assess the impacts on -- on lake
25 levels at Cross Lake. And it says it may make a

1 difference in the water level modelling but overall for
2 production costing it -- it makes -- it's not
3 significantly different.

4 THE CHAIRPERSON: Thank you, Mr. Bowman.
5 Mr. --

6 MR. ROBERT MAYER: And it's my
7 understanding that that particular study along with the
8 consultations that Hydro's people had with Pimicikamak's
9 six hundred dollar (\$600) an hour experts out of -- out
10 of the states, convinced them to the point that they
11 didn't even appear at the Wuskwatim hearing, or at least
12 the experts didn't. So it apparently was relatively
13 persuasive to the Americans who looked at that particular
14 modeling scenario.

15 MR. PATRICK BOWMAN: Mr. Vice Chair, I --
16 I know the date on the document is 2005 and it was the
17 provincial government's review that Hydro was brought in
18 for. In that same appendices -- I -- I reference this is
19 Attachment 2, in that same appendices there's Attachments
20 3, 4 and 5, which is the work of three (3) separate
21 independent reviewers who this document was a
22 presentation to and then provided their reviews to the
23 government of Manitoba as independent reviewers and --
24 and though -- you can see there's going to be evidence.

25 But they -- they -- I believe that

1 occurred, you know, related to the consultation with
2 Pimicikamak, but I -- I'm not sure this document was --
3 was directly for that purpose or whether it was just for
4 the government to do its own reviews to convince itself
5 it had reliable information for the purposes of
6 consultation.

7 MR. ROBERT MAYER: Some of us, you may
8 recall -- well, I don't -- no, you weren't at that one.
9 Some of us you may recall had -- were of the view that
10 since water didn't run uphill we couldn't quite
11 understand how Wuskwatim was going to have a great deal
12 of effect on Cross Lake. Some of us still hold to that
13 view.

14 THE CHAIRPERSON: Okay. With that
15 exchange, Ms. Ramage...?

16

17 CROSS-EXAMINATION BY MS. PATTI RAMAGE:

18 MS. PATTI RAMAGE: I guess I'll start --
19 this wasn't my planned starting point, but seeing that
20 we're talking about Dr. Simonovic, could you tell me, are
21 you aware if he -- if Dr. Simonovic, if I'm saying that
22 correctly, reviews SPLASH as part of course studies? I
23 think, Mr. McLaren, you said you've taken courses with
24 him. Does that form part of his studies?

25 MR. ANDREW MCLAREN: Not with any courses

1 that I took with him. I did take some graduate-level
2 systems modelling and system-effects courses, but that
3 model wasn't specifically reviewed as part of that course
4 work.

5 MS. PATTI RAMAGE: Is it done -- are you
6 aware if graduate students focus any efforts on SPLASH?

7 MR. ANDREW MCLAREN: I know Dr.
8 Simonivic, while I was studying with him, had some
9 students who -- whose thesis or doctoral research did
10 have application to some of Manitoba Hydro's models. I'm
11 not specifically familiar with them.

12 MS. PATTI RAMAGE: Last week, I heard --
13 I heard you discuss Manitoba Hydro's OM&A, and if I
14 understood correctly -- well, actually, I'm going to ask
15 you to clarify. In your written evidence, you raise a
16 concern about an ongoing trend of increasing OM&A and
17 suggest the Board remain focussed on -- on that area.
18 When I heard Mr. Williams cross-examine, he suggested
19 your recommendation was that there be added controls.
20 Can you clarify whether it was added controls or a -- a
21 continuing focus on those areas?

22 MR. PATRICK BOWMAN: So if I understand
23 the question, it's -- it's a -- the -- the matter of a --
24 a focus versus controls, and I -- I'm -- I'm not sure.
25 It -- it may be a distinction without a difference, but

1 our submission was that the OM&A spending had shown not -
2 - not only an upward trend, you know, from year to year,
3 as may happen with inflation, but a -- a step-wise trend,
4 if you like, so that every year's forecast isn't only
5 higher than the previous year's series of forecasts would
6 be but it -- it sort of set new -- a -- a new future
7 forecast that -- that went out higher than that, and that
8 was the basis of our concern.

9 In respect of controls, I think the -- the
10 comment we've made related to things like Mr. Brennan's
11 letter or memo that was, as we understand it, seeking to
12 impose controls or impose spending restraint, and we were
13 encouraged by that. With respect to this Board, it's a
14 little bit more difficult to talk about something as firm
15 as -- as controls, per se, and so that may be where the -
16 - the word "focus" is a little more appropriate.

17 MS. PATTI RAMAGE: Thank you. And onto
18 the OM&A itself. Are you aware that Manitoba Hydro has
19 significantly reduced the amount of overheads that it
20 charges to capital projects?

21

22 (BRIEF PAUSE)

23

24 MR. ANDREW MCLAREN: Yes, we're -- we're
25 generally aware of that. When we were looking at the O&M

1 figures, we were trying to review both the -- a number of
2 different slices of looking at the O&M figures, in
3 particular, sort of the number that -- what I might call
4 it, top-line number, before any accounting changes or any
5 allocations to capital overheads or those types of
6 things. And so we -- we tried to look at a couple of
7 different slices of it, and -- including a OM&A per
8 customer before and after some of these accounting
9 changes.

10 We noticed there were a number of
11 accounting changes that Manitoba Hydro listed as having
12 an impact, so we wanted to try and look, and there's a
13 PUB IR, I believe, that -- or pre-ask, maybe, that showed
14 the calculation from a -- what I would call a top-line
15 number, and then going down before you -- to the actual
16 sort of income statement type of O&M number after all
17 these accounting changes.

18 MS. PATTI RAMAGE: If we take into
19 account accounting changes and capital, you'd agree that
20 \$30 million have been added to Manitoba Hydro's OM&A
21 since 2007 as a result of -- it'll be the changes to how
22 it charges to capital projects and accounting standard
23 changes?

24 If it helps here, I'm ref -- referring to
25 Appendix 4.4, page 3.

1 MR. PATRICK BOWMAN: Mi -- Ms. Ramage,
2 the document we have in front of us is Manitoba Hydro
3 Undertaking 121, which was provided -- Manitoba Hydro was
4 to provide a table with the OM&A with everything in
5 before the allocation just to the percentage increase,
6 and it references that the source data is taken from the
7 response to PUB-MH pre-ask 15.

8 And it's got two rows there: one (1) that
9 is called total costs and one (1) that is called OM&A
10 attributable to electric operations. And I presume
11 that's intended to be the same number as -- as your
12 Appendix 4.4, although it may be more up-to-date if -- if
13 Appendix 4.4 came out way back with the original GRA
14 filing.

15 And this one would show the 2006/'07 OM&A
16 attributable to electric operations at 323 million, and
17 by 2010/'11 forecast that was 397 million, and it shows
18 the annual increase at 4.3 percent, but it also shows
19 above that the total cost row, which is the number before
20 any allocations or accounting changes or anything of that
21 sort, so it'd be -- so it's -- it's going to net all that
22 out.

23 And it -- in that same period it goes from
24 -- so 2006/'07 from six fifteen (615) to 2010/'11 at
25 seven forty (740). And it shows the average annual

1 growth over that period, actually a slightly longer
2 period, at 4.1 percent. So that was the -- the
3 undertaking that was provided, and that was probably the
4 -- the most up-to-date information we had available.

5 MS. PATTI RAMAGE: But if I could back
6 up, can you confirm that approximately \$30 million is
7 attributable to the accounting standard changes and the
8 capital changes?

9

10 (BRIEF PAUSE)

11

12 MR. PATRICK BOWMAN: Ms. Ram -- Ramage,
13 we're not seeing a \$30 million number. As I -- as I
14 referenced, this one has three two three (323) in
15 '06/'07. And I don't know what year you're -- you're
16 moving to in that, but 30 million over three twenty-three
17 (323) would be about three fifty-three (353), and I don't
18 see any three fifty-three (353).

19 Within -- within two (2) years it was up
20 at three sixty-four (364) already, and by 2009/'10 it was
21 at three seventy-seven (377). So I -- I can't quickly
22 find the appendices you're referencing, but I'm relying
23 on actuals in this -- in this undertaking.

24 MS. PATTI RAMAGE: Okay, perhaps we'll
25 come back to that. We'll get the numbers in front of us.

1 But you would agree that, in general, new assets require
2 less maintenance than assets that are halfway or more
3 through their expected life?

4 MR. PATRICK BOWMAN: I -- I think it's
5 probably a fair relationship outside of -- sometimes very
6 new assets have certain things that have to be done in
7 the first few years, and -- and then they sort of settle
8 in, if you like. But, you know, old assets requiring
9 more maintenance than new assets is -- is probably, you
10 know, a reasonable enough re -- relationship.

11 MS. PATTI RAMAGE: You would also agree
12 that's it's essential that Manitoba Hydro retain capable
13 operational staff to ensure continued reliability of the
14 --

15 MR. PATRICK BOWMAN: Yes.

16 MS. PATTI RAMAGE: And in order to do
17 that, Manitoba Hydro has to offer a competitive wage --
18 wage package, correct?

19 MR. PATRICK BOWMAN: Yes.

20 MS. PATTI RAMAGE: And would you also
21 accept that Manitoba Hydro -- Manitoba Hydro's
22 representation that many of its input commodities have
23 increased at a level well in excess of Manitoba CPI?

24

25 (BRIEF PAUSE)

1 MR. PATRICK BOWMAN: Ms. Ramage, I think
2 we can accept that some -- some may be below and CPI
3 would be an average, but I -- I don't think it's -- it's
4 out of line with what we see in other places that some
5 aspects of the cost the utility business faces increase
6 faster than CPI.

7

8 (BRIEF PAUSE)

9

10 MS. PATTI RAMAGE: You'd also agree that
11 environmental and regulatory compliance requirements have
12 increased substantially since 2002?

13 MR. PATRICK BOWMAN: Yes.

14 MS. PATTI RAMAGE: For example, there's
15 now a requirement to ensure compliance with North
16 American Reliability Corporation Standards, that's NARC
17 Standards, in order to continue to participate in the
18 export market?

19 MR. PATRICK BOWMAN: That -- that's my
20 understanding. It's -- it's not something I have
21 specific knowledge of but it would be -- it would be one
22 (1) example.

23 MS. PATTI RAMAGE: And the cost of this
24 GRA hearing, for example, will be much higher than any
25 previous GRA?

1 MR. PATRICK BOWMAN: I assume that's the
2 case.

3 MS. PATTI RAMAGE: If I could just have a
4 moment. I want to look -- we've pulled the numbers that
5 Mr. Bowman was referring to.

6

7 (BRIEF PAUSE)

8

9 MS. PATTI RAMAGE: I'm going to move on
10 very -- this cross-examination is going to be very brief,
11 but Mr. Derksen is -- will provide you of a copy of the
12 Appendix 4.4 that I was referring to. It's my
13 understanding the document you referred to didn't
14 segregate costs so it wouldn't allow you to answer.

15 But if you could just confirm this is
16 where -- my question was that the changes to OM -- how
17 operating is applied and capital is applied as well as
18 accounting changes account for \$30 million to operating.
19 Can you confirm that from that document? And again,
20 that's Appendix 4.4, page 3.

21

22 (BRIEF PAUSE)

23

24 MR. PATRICK BOWMAN: Ms. Ramage, we -- we
25 have the document now that was provided. It's -- it's

1 page 3 of 36. It doesn't have a reference. I assume
2 it's out of the appendices that you reference. But could
3 you give us the question again now that we have it in
4 front of us?

5

6 (BRIEF PAUSE)

7

8 MS. PATTI RAMAGE: Can you confirm that
9 the -- the amount of -- that the accounting standards
10 combined with the changes to how Manitoba Hydro charges
11 expenses to capital projects has resulted in
12 approximately \$30 million to Manitoba Hydro's OM&A costs
13 since fiscal 2007?

14 MR. PATRICK BOWMAN: I'm -- I'm -- I'm
15 sorry, Ms. Ramage, I think I may have misunderstood your
16 question originally, because I had -- I had understood
17 you were saying 30 million a year, and as I look at this
18 document it appears that perhaps the 30 million arises by
19 looking at the four (4) years in question.

20 One (1) is 2007/'08 to '08/'09, one (1) is
21 '08/'09 to '09/'10, one (1) is '10/'11 -- '09/'10 to
22 '10/'11, and then '10/'11 to '11/'12, so four (4)
23 sequential steps. And each time there is a certain
24 adjustment shown, which I -- I -- which add up pretty
25 close to \$30 million of that -- of that change, the --

1 the largest being the -- the accounting changes for IFRS
2 and CICA accounting changes, although, there's also
3 transfer Gillam and Frontier School Division and some
4 other -- some other things in there that I assume are --
5 are not quite the same as accounting changes.

6

7

(BRIEF PAUSE)

8

9 MS. PATTI RAMAGE: But if I could fer --
10 the transfer to Gillam and Frontier School is actually a
11 negative off that number so it -- it doesn't change the
12 accounting changes or it changes to charging capital.

13 MR. PATRICK BOWMAN: Right. I was just
14 saying that that section that we're looking at adds up to
15 about thirty-one (31) if I do the math quickly in my
16 head. There --- there's that minus five (5). There's a
17 plus five (5) for waterways management. There's a plus
18 three (3) for wire and telecom, which I'm not sure those
19 are the same as -- as accounting standards changes. The
20 accounting standards changes would appear to add to about
21 twenty-six (26). The IFRS provision and the CICA
22 accounting changes. There's a fifteen (15) in one (1)
23 year, a five (5) in another year, and a six (6) in
24 another year.

25

MS. PATTI RAMAGE: Okay. Thank you.

1 Mr. Bowman, you were present for Mr.
2 Chernick's evidence last week, correct?

3 MR. PATRICK BOWMAN: Yes.

4 MS. PATTI RAMAGE: And you recall he rec
5 -- recommended Manitoba Hydro be directed to provide
6 interven -- Intervenors with a live version of Manitoba
7 Hydro's cost of service study, and I think in general the
8 evidence might be characterized as Manitoba Hydro ought
9 to provide live versions of its various models.

10 Have you experience in any regulatory
11 processes where, setting aside the confidentiality issue,
12 parties were provided with working models?

13 MR. PATRICK BOWMAN: Yes, I have
14 experienced both ways, where working models were provided
15 and -- and also in hearings where they were not provided.

16 MS. PATTI RAMAGE: Can you comment on the
17 efficiency of the processes where parties were provided
18 working models?

19 MR. PATRICK BOWMAN: Yes. I -- there --
20 there's a couple of different ways that models are
21 provided into hearings in the hear -- hearings that I've
22 been in. In -- in a case such as Manitoba Hydro and some
23 other jurisdictions we've been in, you know, substantial
24 data will be provided or something like a cost of service
25 study or cost of service report, and you can do a lot

1 with that data. And, you know, we -- we have never
2 particularly found it limiting to our work that we don't
3 have a live version of Manitoba Hydro's cost of service
4 model.

5 I -- I've been in other jurisdictions and
6 I'll give you an example of Newfoundland, say, where
7 people do provide live Excel models of -- of a cost of
8 service. Sometimes it helps with -- with, you know,
9 efficiency of reviewing where a number came from. You're
10 not quite sort of hunting and pecking to the same extent,
11 but it's -- it's -- I wouldn't say it materially ben --
12 benefits our work or the amount of effort we have to put
13 in to looking at something like the -- the cost of
14 service study to understand where numbers came from.

15 The -- the bigger downside tends to come
16 in -- in examples of a sort of third type of hearings
17 that I've been in where people may -- provided with live
18 models either seek to -- to run them themselves or to --
19 or to ask questions on a -- on a model and look to sit in
20 a hearing room and have people open their computers and
21 talk about cell C492 in a model or something of that
22 nature.

23 Or -- or more confusing sometimes, run --
24 run -- run a model themselves, come in with the result
25 and nobody can replicate the result and -- and then

1 you're not quite sure what to do in the hearing with
2 that. And I have been in hearings with -- with that type
3 of situation arise and have not found it very easy to --
4 easy to deal with it.

5 If you can't poke and prod the results of
6 -- of what's been prepared and ask questions and see how
7 a number sort of was added up it makes it very -- very --
8 very difficult. And -- and particularly where you have
9 people who don't -- don't run that same model for a
10 living. Usually these type of models require manual
11 intervention, require a skilled operator who knows what
12 they're doing in order to re-run them. And -- and I
13 think that's the big downside to live models is that the
14 temptation to -- to run them by people who don't, you
15 know, spend as much time running them as the people
16 inside the utility.

17 We -- we found that you can largely get
18 the information that you need as an Intervenor by having
19 a utility run various scenarios for you or -- and -- and
20 also being able to ask IRs to sort of to understand where
21 certain numbers come from.

22 MS. PATTI RAMAGE: Mr. Bowman, in the
23 course of your work both acting for utilities, acting in
24 regulatory processes, and -- and acting for Intervenors,
25 would it be fair to say that you have reviewed risk as

1 part of -- the concept of risk in those utilities as --
2 as part of your work?

3 MR. PATRICK BOWMAN: Well, risk is a --
4 is a small word to describe a huge range of things. It -
5 - it's -- it's inherent in a number of the different
6 things we deal with. There are other aspects of sort of
7 risk or risk management we don't deal with. I don't have
8 any insight or experience in dealing with setting up an
9 organization and middle office and all the things they've
10 talked about here in the context of risk.

11 But in the context of, you know, scenario
12 analysis or looking at -- at new developments or what is
13 the risk of this decision versus that decision and how do
14 you -- how do you assess that, that -- that is something
15 that's pretty much been in -- in many different
16 assignments we've been involved in.

17 MS. PATTI RAMAGE: And I imagine, as part
18 of those assignments, it would be fairly typical to look
19 at what other utilities are doing, or discussing what
20 other utilities are doing. I think you've discussed here
21 what's going on in the Yukon and -- and the challenges
22 they're facing.

23 Can you provide us with your impression of
24 where Manitoba Hydro's appetite for risk fits on -- on
25 the scale, as compared to other Canadian utilities, if

1 you're able to do that?

2

3

(BRIEF PAUSE)

4

5 MR. PATRICK BOWMAN: Perhaps we could
6 provide some general comments and see if that's the
7 answer to your question. In most of the cases where
8 we're dealing with utilities, either as intervenors or
9 working for utilities, it would tend to be Crown
10 utilities, and they tend to be hydro-dominated -- not
11 entirely, but that -- that's the -- the largest set of --
12 of situations we deal with. And for most of those
13 situations, the utilities would be quite conservative
14 with respect to risk in -- in areas that operationally
15 relate to serving regulated ratepayers or domestic
16 ratepayers.

17 Some clearly take on more bold plans, if
18 you like, or -- or more bold opportunities outside of the
19 regulated operations, but in each case that -- that I
20 can, you know, have some reference to those, one (1)
21 example: the Northwest Territories trying to develop the
22 -- what's called the Taltson project. The example in
23 Newfoundland of trying to get a second development in --
24 on -- on the Churchill River. They're much larger in
25 relation to the utility than anything Manitoba Hydro's

1 doing here and much, much -- much bolder, much further
2 outside the ambit of serving their own domestic
3 customers.

4 So if you look at an entity as a whole,
5 we've seen some Crown utilities, like -- like
6 Newfoundland and the Northwest Territories, who have had
7 to take on, or have chosen to take on, as -- as entities
8 of -- of government or on behalf of the citizens, plans
9 that I -- I think it'd be fair to say are -- are somewhat
10 more ambitious or -- or bolder or large in relation to
11 their size than -- than Manitoba Hydro's development
12 plan. But I'd caveat that with saying, in each of those
13 cases, they've been done under a structure that removes
14 that project or that major development from the portion
15 of the company dealing with regulated ratepayers.
16 They've really been sort of separated off.

17 When you're dealing with projects that
18 relate directly to regulated ratepayers and are going to
19 involve serving them, Manitoba Hydro is probably not that
20 far removed from the others that we've had experience
21 with.

22 Certainly, the example I gave in Yukon of
23 the project that I'm involved with, the Mayo B project,
24 is -- we -- we've done some quick numbers and -- a number
25 of years ago, and it would probably be, to Yukon, about

1 the same scale as a Conawapa is to Manitoba. So it's
2 being done within the regulated entity, it's being done
3 with a lot of measures to backstop the risk, it's being
4 done to bring in partners.

5 In that case, they've -- they've got an
6 ability to get the Government of Canada involved, but, as
7 an overall development, you know, Yukon Energy is taking
8 on, as part of its regulated operations, developments
9 that are pretty comparable to the scale that Manitoba
10 Hydro's taking on.

11 So I think, from that perspective of -- of
12 a regulated entity, Mani -- the scale of Manitoba Hydro's
13 developments are -- are, you know, perhaps somewhat on
14 the larger side, but not far outside the bounds of what
15 other Crowns are taking on where it's needed to do these
16 projects to -- to bring in the lowest cost to ratepayers
17 and where the projects are -- are very much needed for
18 domestic ratepayers over some -- some reasonable horizon.
19 So, from that perspective, I think it's pretty
20 comparable.

21 I may have a sort of a few more other
22 comments about sort of duration if -- if I had a minute
23 to think about it, but -- but tha -- if that's the
24 starting point in answering your -- your question, then
25 perhaps I'll stop there.

1 MS. PATTI RAMAGE: Well, how about if you
2 think about it for a minute. I'm just going to talk to
3 my back row here and -- and determine if there's any
4 other follow-up they want me to do. So if I could just
5 take a moment.

6

7 (BRIEF PAUSE)

8

9 MR. PATRICK BOWMAN: Ms. Ramage, just to
10 perhaps touch on the duration question because this is a
11 bit -- I have to dig a little further back in our memory
12 banks to sort of work through the different projects. In
13 the case of some of the utilities that we're dealing
14 with, including the -- the resource plan that's going on
15 in Yukon right now and -- and different opportunities
16 that -- that exist in that, they face a system that has
17 quite a potentially transient mine load.

18 So, you know, smaller mines, here, we call
19 them small mines, up there, they're quite large loads,
20 will open and with, you know, an eight (8) year mine life
21 or something. And the utility -- they're close enough to
22 the grid, the utility will hook them up and serve them.

23 And they're very large in relation to the
24 grid, so -- so if you're not careful, they can overwhelm
25 your system a bit and require a heck of a lot of diesel

1 generation at twenty-five (25) cents a kilowatt hour,
2 it's -- it -- and drive rates up and a number of other
3 things.

4 So dealing with those mines, which are
5 fairly transient, and if they do indeed close on the
6 schedule that they're -- that they're drilled based on,
7 say an eight (8) year mine life, and mines have been
8 known to close up there. You've -- you've got to be
9 careful with what you develop because you may not need it
10 for the domestic load for say, you know, twenty (20)
11 years, twenty-five (25) years, that type of horizon, and
12 you make have a back end between years eight (8) and
13 years twenty (20) where you've developed something that's
14 of, you know, moderate value or -- or lower value.

15 And in looking through something like
16 that, I -- I note certain parallels to -- to Manitoba's
17 situation, where the -- the recommended development plan
18 is a bit bolder about capturing a near-term opportunity
19 to get some assets in place, near-term contracts and the
20 like.

21 But if you were really drawing the -- the
22 path for when all of this development is needed for
23 domestic loads, you're probably out to the type of
24 horizon, twenty (20), twenty-five (25) years, something
25 of that nature, perhaps a little bit longer by the time

1 you consider the -- the lead time on the projects.

2 So there is some parallels in that
3 context, and -- and managing the risk in either case
4 becomes a very -- a very big deal. In -- in the case of
5 Yukon though, those decisions have to be made without a
6 connection to the outside world, without an export market
7 where you can actually gain value.

8 So if the mines close, you've got a hydro
9 plant that goes to spilling water. And they've had --
10 we've had one (1) in Mayo for -- since the late '80s,
11 which is the -- the Mayo hydro project. They've now
12 found ways to get it loaded up and have completed the
13 grid, which is why we're doing expansion to it, but that
14 project spent twenty (20) years spilling water and
15 generating very little power for economic benefit.

16 In the case of Manitoba, you have a lot
17 more flexibility so long as you have the proper
18 transmission to actually have a market for your power to
19 the extent you can -- you can develop it. So in
20 assessing this overall risk, you want to check -- look at
21 this downside and say, What happens if -- you know, what
22 happens at the back end of this contract, what happens in
23 this interim period, what happens in this advan -- during
24 this advancement phase when I've got more generation than
25 I needed to draw for domestic load, does it pay for

1 itself, and if it doesn't how -- how far backwards do I
2 go and how quick does it turn around.

3 You also need to look at the upside too
4 though, which is the benefits of having built a project
5 in terms of being able to respond to different
6 situations. Just like in the Yukon, you may have a mi --
7 a mine that has a life of eight (8) years and the next
8 tier of mines might be twenty (20) different
9 developments, all of which are busy trying to raise money
10 and get environmental licences and what -- whatever.

11 And maybe one (1) of them will work, and
12 maybe none of them will work, but you can't build
13 projects hoping they'll come. But having said that, if
14 you can make a project work, then you're ready if they do
15 come. And so you've built yourself a lot of upside
16 benefit. And I think that's a relevant consideration
17 when you're looking at the risk of Manitoba Hydro's power
18 resource plan as well is if you look at the load forecast
19 that Manitoba Hydro's prepared, at the back couple of
20 pages, there's some alternative scenarios.

21 And some of those show there could be some
22 pretty big loads that show up. Electric -- if electric
23 heating was adopted in a bigger way, there's a lot of --
24 of load that could show up and -- and taking opportunity
25 to develop projects that -- that are in place in the

1 time with a number of large projects and -- and at a
2 certain point determined it was time to -- to stop that
3 and to scale back. And -- and they did that, and for
4 many years BC Hydro did not add any large projects. Then
5 some policies came along that said, we should start
6 trying to add small projects in BC through IPPs and the
7 like.

8 And you now see that BC Hydro is a net
9 importer of power and the policy decision there is that
10 that's not a good thing for BC. And so the new policy is
11 we've got to get back up on top of this and we want to
12 have full self-sufficiency plus a margin, and bring on a
13 whole bunch of -- of -- of power including some large
14 projects that you have to get started from zero without
15 in-house capabilities and without an easy ability to move
16 those projects forward. And that's what they're going
17 through, and it's part of the reason that Mr. McLaren's
18 spending a fair bit of time in BC these days.

19 So there's -- there is evidence, I would
20 say, in Canada of the -- the alternative, too, which is
21 choosing not to protect your option, choosing not to
22 maintain your -- your capabilities or your available
23 resources, turning out later on to perhaps have a certain
24 degree of -- of regret or -- or need to -- need to change
25 -- change course.

1 So it really goes to sort of -- as I said,
2 both sides of this, what is the downside risk and what is
3 the -- what is the upside risk, if you like, or upside
4 potential benefits. And -- and that's probably by far
5 the hardest part of assessing an overall resource plan is
6 it's not the numbers you can forecast it's -- it's
7 understanding the extent to which there's a lot of things
8 you can't understand that can occur and that you want to
9 -- want to target a system that has a certain robustness
10 and flexibility even though you can't necessarily put the
11 dollar value on it or the -- or -- or the exact scenario
12 that will arise that -- that shows how that plays out in
13 the end.

14 MS. PATTI RAMAGE: If I could just back
15 up a second to one (1) of your comments. You spoke of
16 surprise additions to domestic load and it think the
17 benefits of being able to respond to those. Could you
18 confirm that the risk Manitoba Hydro faces of domestic
19 load not materializing as forecast in the load forecast,
20 for example, would be substantially lower than a place
21 like Yukon that you were speaking of in your comparison?

22 MR. PATRICK BOWMAN: Yes, I think that's
23 fair. In our review of the load forecast the domestic
24 load, for example, changes by a fairly small increment
25 each year and allows you to -- to true-up that percentage

1 but it's -- it's largely a status quo type of
2 development.

3 Industrial is a bit more difficult but the
4 industrial scenarios -- industrial scenarios have changed
5 a fair bit lately but they're not at a scale that will --
6 will materially change your decision.

7 On a -- on a development in the -- you
8 know, in the context of a -- of a Yukon or something a
9 mine can come along and very quickly be, you know, one
10 (1) customer be 25 percent of your system. We don't have
11 anything of that nature here. Like the entire industrial
12 load here isn't -- my recollection is around that -- that
13 level never mind one (1) customer. So you don't have
14 that type of swings and downside.

15 But on the other side there are some
16 pretty big numbers in the back about -- in the back of
17 the load forecast scenarios about what if -- what if
18 electric heating goes forward in a big way and the
19 economics help it or they -- either due to -- what -- for
20 whatever reason natural gas dropping off as a preferred
21 alternative. And it's -- don't quote me on the numbers
22 but it -- you know, it's some -- I could pull it out
23 quickly, but it's some pretty big numbers about how much
24 load could arise in that situation. And -- and winter
25 load at that, which is a little more challenging to

1 serve.

2 MS. PATTI RAMAGE: So you see the bigger
3 risk being that load will arise that -- at a faster pace
4 than -- than might be expected?

5

6 (BRIEF PAUSE)

7

8 MR. PATRICK BOWMAN: I think if one looks
9 at the load forecast on the -- on the balance of
10 probabilities it's hard to say which way it will go, but
11 there is credible scenarios that show that it could be
12 considerably higher than is in the forecast.

13 But the key to working your way through a
14 power resource plan or through a set of developments is
15 the discipline to know that it's not about picking your
16 scenario. It's going to be what it's going to be in --
17 in large part. It's to say I want to assess my scenarios
18 for the robustness against these types of outcomes that
19 might arise. And if you err a certain way or go a
20 certain direction on the plan you may not be very robust
21 for -- for high load growth.

22 If you go another direction you may not be
23 very robust for a stagnating economy and -- and so you
24 have to assess it against those and -- and -- and very
25 much refrain your -- restrain yourself from trying to say

1 I -- I gotta sort of pick the winner or pick the scenario
2 or -- or -- you know, I -- I have to somehow solve
3 whether -- whether shale gas is going to become the --
4 the best source of energy ever found or whether it's
5 going to become the -- you know, an -- environmental
6 nightmare that's it's banned and it never arises.

7 If you're -- you're in real trouble if it
8 -- if it hinges on your guessing the right future path.
9 It's -- it's a question of flexibility and robustness to
10 deal with whichever path arises.

11 MS. PATTI RAMAGE: Thank you, Mr. Bowman,
12 Mr. McLaren, we appreciate your responses and that's all
13 the questions we have.

14 THE CHAIRPERSON: Okay. We'll take --
15 other than the redirect, we've got just Mr. Peters to
16 come so we'll - might as well take the break now.

17

18 --- Upon recessing at 10:28 a.m.

19 --- Upon resuming at 10:52 a.m.

20

21 THE CHAIRPERSON: Okay. Welcome back.
22 Mr. Peters...?

23 MR. BOB PETERS: Thank you, Mr. Chairman.

24

25 CROSS-EXAMINATION BY MR. BOB PETERS:

1 MR. BOB PETERS: Mr. McLaren, Mr. Bowman,
2 I'll have questions and, as always, the Board is
3 interested in the best answer. I may direct it to one
4 (1) of you individuals, and if the other feels more
5 qualified, or equally qualified, to answer it, please --
6 please give the Board the best answer on behalf of
7 InterGroup.

8 And InterGroup was hired, as you've told
9 the Board, by the MIPUG consortium of companies, is that
10 correct?

11 MR. PATRICK BOWMAN: Yes.

12 MR. BOB PETERS: And, Mr. Bowman, both
13 you and Mr. McLaren are principals of InterGroup
14 Consulting?

15 MR. PATRICK BOWMAN: Yes.

16 MR. BOB PETERS: And would the Board be
17 correct in understanding that a principal is akin to a
18 partner in a -- in a law partnership or an accounting
19 partnership?

20 MR. PATRICK BOWMAN: I actually have no
21 experience with the formal relationship of a -- of a
22 partner in a -- a law firm or an accounting firm, so I --
23 I can't say for sure, but it's a -- it is a preferred
24 shareholding type of position.

25 MR. BOB PETERS: All right. You share in

1 the profits, you share in the losses, if that's not too
2 vulgar?

3 MR. PATRICK BOWMAN: It's a -- InterGroup
4 is a corporation. There's a very limited exposure to --
5 to either as part of the preference shares, so it's a --
6 it's a -- quite a -- a small exposure.

7 MR. BOB PETERS: And partners hold the
8 highest form of shares in the corporation, in terms of
9 eligibility for remuneration? I'm sorry, principals as
10 opposed to partners.

11 MR. PATRICK BOWMAN: There are common
12 shareholders who own the company. Principals in the firm
13 are -- simply hold a preference share that en -- entitles
14 you to certain dividends.

15 MR. BOB PETERS: Fair enough. And would
16 my understanding be correct, gentlemen, that InterGroup
17 would be a consulting firm that was founded, would have
18 been, by Mr. Cam Osler many years ago?

19 MR. PATRICK BOWMAN: Yes.

20 MR. BOB PETERS: And would I also be
21 correct in reminding this Board that Mr. Osler appeared
22 on behalf of MIPUG when MIPUG first started to intervene
23 in Manitoba Hydro regulatory hearings?

24 MR. PATRICK BOWMAN: Yes, probably late
25 '80s, yes.

1 MR. BOB PETERS: 1988?

2 MR. PATRICK BOWMAN: That sounds correct.

3 MR. BOB PETERS: And how many principals
4 are there at InterGroup?

5 MR. PATRICK BOWMAN: Six (6).

6 MR. BOB PETERS: And the total employees,
7 not including the principals?

8 MR. PATRICK BOWMAN: Twenty-eight (28).
9 I -- I apologize. Not including the principals is
10 twenty-two (22).

11 MR. BOB PETERS: In terms of your
12 retainers from Manitoba Hydro, Mr. McLaren, would the
13 Board be correct in understanding your resume to indicate
14 you have never personally worked on any matters for
15 Manitoba Hydro?

16 MR. ANDREW MCLAREN: That's not correct.
17 I have, at times, done some work on the environmental
18 side of the business for projects involving Mani -- or
19 projects with Manitoba Hydro.

20 MR. BOB PETERS: Do you have any
21 currently ongoing?

22 MR. ANDREW MCLAREN: At the moment,
23 there's a very, very small amount of work on some of the
24 environmental stuff, but, for the most part, it's a -- it
25 would probably be less than 2 percent of my -- my

1 practice at the moment.

2 MR. BOB PETERS: And, Mr. Bowman, your
3 resume indicates that you last worked on Manitoba Hydro
4 matters between 1999 and 2002, when you provided
5 information to the -- or services to the Mitigation
6 Department.

7 Is that correct?

8 MR. PATRICK BOWMAN: That would have been
9 one (1) assignment with Hydro. I had some other limited
10 roles on -- on Wuskwatim where I assisted a group that
11 was looking at alternative places to put the road and --
12 and a very limited role on -- on what was then called
13 Gull, probably almost ten (10) years ago now, on the --
14 the approach to socioeconomic assessment.

15 MR. BOB PETERS: Let me understand that
16 last answer, Mr. Bowman. Your resume indicated you
17 provided work to the Mitigation Department of Manitoba
18 between 1909 (sic) and 2002, and that's accurate,
19 correct?

20 MR. PATRICK BOWMAN: Yes.

21 MR. BOB PETERS: And before 1999 -- I
22 think you only joined InterGroup in '98, didn't you?

23 MR. PATRICK BOWMAN: I -- I joined
24 InterGroup in '98.

25 MR. BOB PETERS: Did you do work for

1 Manitoba Hydro in 1998?

2 MR. PATRICK BOWMAN: No, but I did have
3 other assignments that were -- were very small. They
4 didn't -- I don't know the reference on the resume, I
5 don't recall, but they were ver -- they were fairly small
6 assignments on each of Wuskwatim and -- and what was then
7 called Gull about that same time frame, 2002, 2003 or so,
8 about the same time we were going through this, the
9 status update hearing before this Board.

10 Wuskwatim's was in relation to where to
11 put the road and -- and the camp, and the Gull was -- was
12 at a broad level of -- provided some advice, an approach
13 to socioeconomic assessment.

14 MR. BOB PETERS: All right. Since 2002
15 then, 2003, Mr. Bowman, have you personally worked on any
16 additional Hydro matters?

17 MR. PATRICK BOWMAN: No, I think that's
18 about the latest that I had any -- any involvement with
19 Manitoba Hydro matters.

20 MR. BOB PETERS: You've indicated, I
21 believe, in your answers to Mr. Hacault that Hydro has
22 been and is currently a client of InterGroup Consultants?

23 MR. PATRICK BOWMAN: Yes.

24 MR. BOB PETERS: Would you describe them
25 as a major client of your firm, sir?

1 MR. PATRICK BOWMAN: Yes.

2 MR. BOB PETERS: As we sit here today,
3 does InterGroup, other than what you've told the Board
4 about yourselves personally, do any work related to
5 Wuskwatim?

6

7 (BRIEF PAUSE)

8

9 MR. PATRICK BOWMAN: There is a rotating
10 role related to monitoring the socioeconomic effects of
11 Wuskwatim, which is -- I know -- I know very little about
12 but relates to communities and jobs and that sort of
13 thing. And we did a round of that I'm going to say about
14 a year ago, and I believe it's just coming up for another
15 round that -- that, to the best of my knowledge, we may
16 have bid on but I don't know that it's been awarded at
17 this point.

18 MR. BOB PETERS: That's something that
19 seems to happen every couple of years?

20 MR. PATRICK BOWMAN: Yes, it's a -- it's
21 a monitoring -- a cyclical monitoring type of assignment.

22 MR. BOB PETERS: All right. And any --
23 any work by InterGroup, other than what you've indicated
24 you've personally done on Keeyask?

25 MR. PATRICK BOWMAN: Yes, we have the

1 ongoing contract to do the effects on -- on people, the
2 socioeconomic side.

3 MR. BOB PETERS: And that's a contract
4 that's been awarded and InterGroup was successful on
5 that?

6 MR. PATRICK BOWMAN: Yes, that was --
7 it's been going on some time, ten (10) -- ten (10) plus
8 years.

9 MR. BOB PETERS: And what about Conawapa?
10 Is that a project on which InterGroup has any active
11 Manitoba Hydro files?

12 MR. PATRICK BOWMAN: It's a much smaller
13 assignment. We have similarly the -- the role to do the
14 effects on -- on people. It -- but it's a much lower
15 level of engagement at this point than Keeyask.

16 MR. BOB PETERS: Lower level of
17 engagement, meaning what, Mr. Bowman?

18 MR. PATRICK BOWMAN: Just the -- the
19 amount of hours and time that's -- that's going into that
20 project or that people are spending.

21 MR. BOB PETERS: Does that suggest that
22 as Conawapa comes closer into focus, if it does, in the
23 future, it may just ramp up the work needed to be done on
24 what you're providing services -- what InterGroup is
25 providing services to Hydro in relation to?

1 MR. PATRICK BOWMAN: Yes, I believe
2 that's the case.

3 MR. BOB PETERS: And in terms of Bipole
4 3, is there any ongoing involvement by InterGroup related
5 to the Bipole 3 project?

6 MR. PATRICK BOWMAN: To the best of my
7 knowledge, we don't have any specific Bipole 3 contract.
8 I believe we have a standing agreement with a
9 transmission department to provide socioeconomic and
10 regulatory advice as and when needed.

11 And that is largely at this point being
12 applied on other -- on other projects, southern
13 transmission. I -- but that's them. Being involved in
14 this hearing, I -- I don't have any further information
15 on that.

16 MR. BOB PETERS: But that's also
17 something you personally wouldn't handle.

18 Isn't that correct?

19 MR. PATRICK BOWMAN: I would have no
20 involvement with that.

21 MR. BOB PETERS: Yeah. When you say
22 InterGroup has a -- a standing arrangement with the
23 transmission department of Manitoba Hydro, that deals
24 again with any and all transmission projects in which
25 Manitoba Hydro would choose to consult your company?

1 Mr. Bowman, that personally you have considerable
2 experience in diesel jurisdictions, including the Yukon
3 and Northwest Territories.

4 Is that true?

5 MR. PATRICK BOWMAN: Yes.

6 MR. BOB PETERS: Mr. McLaren, you're not
7 so much on the diesel side of the files?

8 MR. ANDREW MCLAREN: Actually, I have an
9 additional jurisdiction. We work in Nunavut, that's my
10 file at the moment.

11 MR. BOB PETERS: With that diesel
12 experience do -- does InterGroup consult with Manitoba
13 Hydro in respect of its diesel community?

14 MR. ANDREW MCLAREN: No, we don't have
15 any involvement with that.

16 MR. BOB PETERS: You've indicated a
17 couple of times, gentlemen that InterGroup's work is
18 socioeconomic and impacts -- in addition to the projects
19 you've listed, are there any other projects that come to
20 mind that InterGroup is providing services to Hydro on
21 with respect to socioeconomic matters?

22

23 (BRIEF PAUSE)

24

25 MR. PATRICK BOWMAN: Just to be safe,

1 there is a principal at my firm who does facilitation
2 services, and once in a while he's brought into Manitoba
3 Hydro matters. We don't believe there's any ongoing at
4 this point, but they would be things like the Forest
5 Enhancement program, or -- or the ISO 14001 Environmental
6 Management System, those type of th -- items, or he just
7 provides facilitation service, but I don't believe
8 there's anything ongoing at the moment.

9

10

11

(BRIEF PAUSE)

12

13

14

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16

17

MR. BOB PETERS: All right. So in
addition to the matters that you've expressly put on the
record this morning, there's no other additional
assignments that you're aware of that InterGroup is
involved with with Manitoba Hydro?

18

MR. PATRICK BOWMAN: No.

19

20

21

22

MR. BOB PETERS: Mr. Bowman, you also
indicate that another assignment that you've been
involved on was the Nelson River sturgeon co-management
board.

23

Have I got that right?

24

25

MR. PATRICK BOWMAN: You do. It goes
back a long way, but yep.

1 MR. BOB PETERS: And stur -- oh, okay.
2 And sturgeon, does that refer to the fish?

3 MR. PATRICK BOWMAN: It does.

4 MR. BOB PETERS: And who commissioned
5 that study?

6 MR. PATRICK BOWMAN: The -- the Board
7 itself, the co-management board.

8 MR. BOB PETERS: And who is the co-
9 management board?

10 MR. PATRICK BOWMAN: It's -- geez, this
11 goes back a long way. It's an entity that is made up of
12 the First Nation communities along the Lower Nelson River
13 and the province of Manitoba who jointly work together to
14 set -- at the time set recommendations for -- for
15 sturgeon harvest. The funding for that group was a
16 component of a -- of a -- NFA funding from Manitoba Hydro
17 for -- for Cross Lake. But Manitoba Hydro was not a
18 member of the board or they were -- my recollection is
19 they may -- may have been an observer but it was between
20 the province and the communities.

21 MR. BOB PETERS: Did I understand your
22 answer that while it's between the province and the
23 communities it was funded by Manitoba Hydro?

24 MR. PATRICK BOWMAN: It was -- my
25 recollection is it was a one (1) time funding for ten

1 (10) years under a -- one (1) of the claims, one (1) of
2 the NFA claims from -- from Cross Lake, and that -- that
3 funding was in place and -- and paid for. The -- the
4 communities and the -- the government of Manitoba to --
5 to work together on sturgeon harvest recommendation
6 levels. It was -- it was about fishing.

7 MR. BOB PETERS: All right. Since it
8 went back a long ways and you now told us it's a ten (10)
9 year project, it's -- it's long over?

10 MR. PATRICK BOWMAN: I -- I -- I don't
11 know that. I know that there was an original block of
12 funding that was for ten (10) years and we were doing a -
13 - a ten (10) year review of it. This is pro -- probably
14 -- you have my resume, probably 1989 or so. I -- I think
15 that group may continue to exist but I have no knowledge
16 of its -- its funding or structure or how the province is
17 involved or -- or all of those pieces.

18 MR. ROBERT MAYER: Mr. Bowman, a couple
19 of years ago I talked to -- actually, I know somebody who
20 at least as late as a couple of years ago was still a
21 member of that particular management operation.

22 MR. PATRICK BOWMAN: It was my
23 understanding that the province found it valuable to have
24 the communities involved in helping recommend harvest
25 levels and -- but I -- I have no idea if that means the

1 province is funding it or Manitoba Hydro or -- or, you
2 know, what -- whatever other outcome is possible. But my
3 -- my involvement with it was -- was -- is long over.

4

5 CONTINUED BY MR. BOB PETERS:

6 MR. BOB PETERS: has InterGroup had
7 involvement then in any projects that although not for
8 Manitoba Hydro were funded by Manitoba Hydro?

9 MR. ROBERT MAYER: Be careful, Mr.
10 Peters, you're getting real close here. You want full
11 declaration, Manitoba Hydro paid me when they were
12 originally consulting with Wabowden over compensation --
13 actually, it was originally started with rates and went
14 to compensation, I can't remember how long ago that was
15 but if you go back far enough you're going to find a lot
16 of people in this room.

17 MR. PATRICK BOWMAN: Mr. Peters, as -- as
18 part of the Wuskwatim project that InterGroup worked on
19 and people in this room are familiar with, there were a
20 number of -- of sort of related assignments that
21 InterGroup was involved in. they were for different
22 entities such as the NCN Trust office or related to the -
23 - the entity doing the training.

24 Now these are -- these are separately
25 managed entities but it would be my understanding that

1 some portion of their funding comes through Manitoba
2 Hydro if not all of their funding or a dominant portion.
3 So -- so certainly there was -- would be those examples.
4 I can't think of any others that might sort of fall into
5 that -- that box, but it's a -- it's a pretty wide net.

6

7 CONTINUED BY MR. BOB PETERS:

8 MR. BOB PETERS: Fair enough. You'd
9 indicated earlier that InterGroup had responded to a
10 request for proposal, if I can say that, from Manitoba
11 Hydro and you weren't certain if you were successful or
12 whether you were subbing to some other firm. Are there
13 any others that you haven't indicated where requests or
14 proposals are still active and you're waiting to hear
15 back or about to respond?

16 MR. PATRICK BOWMAN: Not that I'm aware
17 of in terms of working for Manitoba Hydro. There is at
18 least one (1) project I'm aware of where InterGroup and
19 Manitoba Hydro International are jointly bidding on work
20 to work together in some international assignments.

21 There's -- there is at least one (1),
22 possibly two (2), that are outstanding in that regard, so
23 it's -- it's a very different relationship in -- in those
24 type of setups, but bidding with Manitoba Hydro
25 International on -- on consulting work.

1 MR. BOB PETERS: When you talked about
2 your project development work, gentlemen, did I have it
3 right that it was Yukon, Northwest Territories,
4 Newfoundland, and Nunavut?

5 MR. PATRICK BOWMAN: I have not been
6 involved in project development in Newfoundland. I don't
7 believe Mr. McLaren has. But when we talk about
8 developing individual projects those are -- those are
9 places where we have differing roles.

10 There's also a broader resource planning
11 role in British Columbia that InterGroup, through Mr.
12 McLaren, is involved in.

13 MR. BOB PETERS: And, Mr. McLaren, that
14 resear -- resource planning group in British Columbia, is
15 that on behalf of the utility, or is that an intervener?

16 MR. ANDREW MCLAREN: I participate on
17 behalf of the BC First Nations Energy and Mining Council,
18 but it's a technical advisory committee to the utility in
19 that resource planning process.

20 MR. BOB PETERS: Thank you. And, Mr.
21 McLaren, if I understood your direct evidence through Mr.
22 Hacault, your prim -- or one of your primary areas of
23 responsibility dealt with Box 1 on MIPUG Exhibit 14,
24 which was -- the financial forecast was one (1) of the --
25 one (1) of the aspects of it?

1 MR. ANDREW MCLAREN: Yes, that's correct.

2 MR. BOB PETERS: And in Attachment B to
3 your pre-filed evidence, you've indicated that you
4 reviewed a number of Manitoba Hydro's IFFs of various
5 vintages?

6 MR. ANDREW MCLAREN: Yes.

7 MR. BOB PETERS: And suffice to say that
8 one of the striking analyses you found was that, last
9 time Hydro was before this Board, a debt-equity ratio of
10 75:25 was not even in the target horizon of the IFF.

11 Have I got that right?

12 MR. ANDREW MCLAREN: Yes, that's correct.

13 MR. BOB PETERS: And when you were
14 looking at the last IFF, it had rate increases proposed
15 that were in the 2 1/2 to 2.9 percent range?

16 MR. ANDREW MCLAREN: Yes, that's correct.
17 Just to be very clear, I understand those aren't formal
18 rate proposals beyond the test years in Manitoba Hydro's
19 IFF, but those were the rate increases that were shown in
20 the IFF.

21 MR. BOB PETERS: Good comment, and, for
22 planning purposes, Manitoba Hydro does provide a forward
23 view as to what may be rate increases under the scenario
24 that the IFF is prepared?

25 MR. ANDREW MCLAREN: Those were the

1 assumed rate increases in that particular IFF, yes.

2 MR. BOB PETERS: And, again, to be clear,
3 Mr. Warden has also indicated that that's -- they're not
4 applying for that necessarily, that that will be a
5 decision that is made, and you understand that to be
6 made, on an annual basis through their management and
7 board of directors?

8 MR. ANDREW MCLAREN: Yes, I understand
9 Manitoba Hydro isn't formally requesting those rate
10 increases and that decision is -- is made or reviewed, if
11 not annually, then -- then frequently.

12 MR. BOB PETERS: And when you looked at
13 IFF-09 when this application was first filed, you noted
14 that the target debt-equity ratio had in fact been
15 already reached, correct?

16 MR. ANDREW MCLAREN: yes, that's correct.

17 MR. BOB PETERS: And you also noted that,
18 even though that the 75:25 target had been met, and Mr.
19 Bowman said it was cause for rejoicing and we didn't seem
20 to be doing enough of it, but were met with the request
21 for what appears additional rate increases now going
22 forward.

23 MR. ANDREW MCLAREN: Yes.

24 MR. BOB PETERS: And those rate increases
25 going forward are above the rate of inflation.

1 MR. ANDREW MCLAREN: Yes.

2 MR. BOB PETERS: Can the Board take from
3 your evidence, gentlemen, that MIPUG members support rate
4 increases above inflation?

5 MR. ANDREW MCLAREN: I think, ordinarily,
6 MIPUG members in this -- with respect to the specific
7 test years, the conversations we've had have tended to be
8 supportive of the current approximate level of rate
9 increases going forward. I think MIPUG members have
10 expressed a view that rate increases annually on the
11 order of inflation aren't of particular concern. The
12 merits of them would need to be reviewed at each time,
13 but if rate increases over the long term approximated
14 inflation, it isn't something that MIPUG members, I
15 believe, would be that concerned about, given the
16 opportunity to review the merits of them at each rate
17 application.

18 MR. PATRICK BOWMAN: Mr. Peters, I'd only
19 add the caveat that the members will tend to finish that
20 statement, to us, at least, with that rate -- rate
21 increases on the order of inflation are -- are
22 understandable, so long as they're -- they're -- we know
23 that they're -- they're merited in terms of Hydro's cost
24 structure, that if they're being proposed to build up
25 reserves so that in the future we have rate stability,

1 that there is some assurance that those reserves arise
2 and are there for that purpose and -- and aren't being a
3 basis for Hydro increasing spending in a manner that the
4 MIPUG members themselves assert they'd never get away
5 with.

6 And, further, that -- that it is fairly
7 distributed across the classes.

8

9 (BRIEF PAUSE)

10

11 MR. BOB PETERS: We'll come back to that
12 last comment at the end of that sentence, Mr. Bowman.
13 But in terms of the test years, if Manitoba Hydro is
14 saying that inflation in 2011 -- in fiscal 2011 was
15 running at 1.6 percent, a rate increase of 2.9 percent is
16 seen as acceptable and supported by MIPUG members?

17 MR. PATRICK BOWMAN: Mr. Peters, I want
18 to be careful we don't stretch the envelope of the extent
19 to which we're speaking for the members as opposed to
20 speaking for the -- the evidence we prepared given the --
21 our views on the evidence and the assignment we were
22 given.

23 The MIPUG members' position is
24 traditionally put in in -- in argument and through the
25 members' presentations. But the -- the general scope

1 with which we were given the mem -- by the members was
2 they could understand the need for rate changes in the --
3 you know, the low single digits, the, you know, 2 percent
4 range, you know, possibly 3, or 2.9 as proposed.

5 In the -- in the current situation, they
6 would -- would be inclined to suggest that it -- it
7 perhaps is -- be evaluated in light of the situations
8 that some of them are facing in the overall marketplace,
9 but that if it's -- again, if the end result is -- is a
10 predictable transition to a level of rates and the
11 development of a level of reserves that gives them some
12 comfort, that rates will be stable going forward. And --
13 and that level of reserves is needed to accomplish that
14 then -- then within that context they -- they haven't
15 voiced to us a particular high degree of concern.

16 That, of course, is in contrast to an
17 alternative, which would say let's not look at thumping
18 the table today to say the rate increase has to be down
19 knowing we're exposing ourselves to getting walloped at
20 some later date if the -- if a drought occurs or whatever
21 else. That's not in any of their -- their interests.
22 And I think it's in -- in light of that sort of va --
23 balance or that -- that evaluation that people can say if
24 -- as -- as long as -- as long as it's going to build up
25 reserves, as long as they're saying that there is further

1 reserves needed and a -- and a proper evaluation
2 concludes that there is further reserves needed and the
3 result of putting aside those reserves, we can increase
4 our comfort that -- that we're not going to have to phone
5 up the head office someday and say, Guess what, we just
6 got hit with 10 percent.

7 Then, in light of that, then there was --
8 then we weren't charged with finding the way that -- that
9 the rate increase was -- was ratcheted down, if you like.

10 MR. BOB PETERS: Two (2) follow-ups on
11 that, Mr. Bowman. The -- the answer then in terms of the
12 future going forward, you're aware that the IFFs that Mr.
13 McLaren and I spoke of don't contain rate requests, but
14 they indicate rate increases are contemplated, or at
15 least for the IFF pur -- purposes contemplated at 3 1/2
16 percent for the next decade, correct?

17 MR. PATRICK BOWMAN: Yes.

18 MR. BOB PETERS: And, again, compounded,
19 that would be somewhere probably in the, I don't know, 45
20 percent, 50 percent rate increa -- rate increase in the
21 next decade?

22 MR. PATRICK BOWMAN: Right. And that was
23 the value that the Chair put to Mr. Turner when he was
24 here, and he noted that that made him a little
25 uncomfortable at that -- at that sustained level of

1 increase.

2 MR. BOB PETERS: You also said that if
3 there was predictable transition to a level of reserves,
4 that could be understood by your clients. They may be
5 supportive of it.

6 Have I said that correctly?

7 MR. PATRICK BOWMAN: Yes, that within the
8 context of a -- you know, an increase that's known in
9 advance and that people can plan for and that they can --
10 can understand in the context of, like I say, low single-
11 digit percentages, like, say, averaging around two (2),
12 people can understand why that needs to be put in place
13 and can understand if the -- if there's an argument that
14 is sustained that says, As a result of doing that, you've
15 protected yourself in future from -- from getting
16 surprised because -- because it stopped raining.

17 It may -- you know, it may be easy for --
18 for people to understand Hydro's business and to
19 understand that if they have a bad year of net income and
20 they explained it's because it stopped raining, that, you
21 know, the -- the people, they have to do it, their
22 stakeholders might understand it.

23 If you're -- if you're busy running up a -
24 - a firm here, it doesn't necessarily go over very well
25 to say my, you know, my -- my financial results have gone

1 down because it's stopped raining in Manitoba.

2 MR. BOB PETERS: Are the reserves
3 currently available to Manitoba Hydro satisfactory for
4 current purposes according to InterGroup?

5 MR. PATRICK BOWMAN: Well, that was my
6 evidence in the direct that we -- we looked at it from
7 three (3) different ways and -- and it -- it would appear
8 that the reserves that are there are -- are the best
9 shape they've been in ever.

10 And assessed from the perspective of a --
11 of a five (5) year drought and a -- and a fourteen (14)
12 year drought, and a worse drought than previously seen, a
13 worse one (1) year drought than previously seen, it would
14 seem that the reserves are in a -- in a -- in a level
15 that is -- that's surprisingly robust frankly.

16 It's not to say they're -- they're, you
17 know, to the -- to the nickel at the right level or that
18 a -- a few years of building them up to -- to get them
19 somewhere that's a -- a very sustainable level is --
20 isn't advised.

21 I guess on that point if I can just maybe
22 clarify a bit. Even if we were to have an accounting
23 today that said Hydro's reserves were 2.5 billion and the
24 exact level they should be at is 2.5 billion, it doesn't
25 mean that one would say, fine, make it zero percent rate

1 increases, let's target zero net income and I'll sit here
2 at two point five (2.5).

3 It'd be a question of whether they should
4 now be put into a regime where they trend about two point
5 five (2.5) and -- and when we have the water conditions
6 we have today, they should perhaps trend higher. And
7 when the water -- it stops raining they trend lower, but
8 let's see if we can sustain them outside of the really
9 bad events in that -- in that range around two point five
10 (2.5).

11 MR. BOB PETERS: Mr. McLaren, in studying
12 Manitoba Hydro's IFF-09, as you indicate in your
13 evidence, and that's a document, gentlemen, that was at
14 Tab 4 of Board counsel's first book of documents. Mr.
15 McLaren, you're welcome to -- if you need it we'll find
16 one (1) -- a copy for you, but I -- I just want to talk
17 to you in general terms, sir, and did you reach any
18 conclusions with respect to the general consumers revenue
19 line, the top line in the IFFs?

20

21 (BRIEF PAUSE)

22

23 MR. ANDREW MCLAREN: Beyond the fact that
24 they were generally reflecting increases in sales plus an
25 allowance for general rate increases, we -- I don't know

1 what other comments we would have.

2 MR. BOB PETERS: Did you consider them in
3 light of the load forecasts and the -- the actual
4 experience of the Corporation with its load of recent
5 years?

6 MR. ANDREW MCLAREN: We generally do do a
7 review of the load forecast as part of understanding
8 those numbers, yes.

9 MR. BOB PETERS: And do I take from your
10 answer then that you have no criticism of them?

11 MR. ANDREW MCLAREN: Our major issue in -
12 - in some previous proceedings has been the assumptions
13 with respect to industrial load forecasts. In
14 particular, instances where some number of years in the
15 future there's an assumption that a -- a major new
16 customer will -- will join the system and increase those
17 loads for that customer group in particular.

18 We certainly understand that industrial
19 loads tend not to grown in very straight lines the way
20 residential or small commercial customers might be, but
21 do tend to be a bit -- a bit lumpier, to use a phrase I
22 think Mr. Bowman's used in this proceeding before.

23 MR. BOB PETERS: But you're aware that
24 Manitoba Hydro includes a speculative allowance in their
25 load forecast for industrial growth?

1 MR. ANDREW MCLAREN: We're aware that
2 they include provisions in their load forecast for
3 industrial growth and some of that relates to discussions
4 with current industrial customers in terms of what their
5 individual plans are. And also at times I understand
6 that they have included an allowance for a major new
7 industrial customer joining the system without
8 necessarily having a particular customer in mind.

9

10 (BRIEF PAUSE)

11

12 MR. PATRICK BOWMAN: Mr. -- Mr. Peters,
13 if it's helpful, I just note that I have in front of me,
14 Manitoba Hydro Undertaking 29, which was the graph of
15 industrial loads, and it shows, you know, a roughly
16 upward trend, which in the near term is -- would be based
17 on discussions with customers and in the longer term
18 would be sort of extrapolations.

19 In this graph there is not a jump for a --
20 for a new speculative load, but there's also not a drop-
21 off for a highly likely if not known shutdown that was
22 expected in Northern Manitoba, and we're told the two (2)
23 may be, you know, reasonably offsetting.

24 So it's -- it's not like there's a -- a
25 major increase included there's just a sort of a step-

1 wise increase embedded in these numbers.

2 MR. BOB PETERS: Mr. McLaren, when you
3 looked at the extraprovincial revenues that Manitoba
4 Hydro has forecast going forward, did you have any
5 concerns or issues with respect to their forecasts?

6

7 (BRIEF PAUSE)

8

9 MR. ANDREW MCLAREN: We're just looking
10 for an interrogatory response that we provided on this
11 topic, so if we could just have a moment.

12

13 (BRIEF PAUSE)

14

15 MR. BOB PETERS: It's -- it's coming on
16 the computer.

17 MR. PATRICK BOWMAN: We dealt with this
18 question at the PUB's IR to us, PUB/MIPUG-20, and there
19 was a question about some specific -- what were said to
20 be the assumed export sales prices as well as questions
21 about whether we concurred with export market recoveries.

22 And -- and that response tracked through
23 the difference in the export sales, values through
24 different IRs and through the last few proceedings, but
25 it eventually concluded that we have no basis to disagree

1 with Manitoba Hydro's export price forecast, which we
2 indicated had been prepared with the input of a number of
3 market forecasters and specific knowledge of export
4 pricing contemplated in signed term sheets.

5 MR. BOB PETERS: So any concerns you have
6 are assuaged by the fact that Manitoba Hydro was using a
7 stable of forecasters to help them with their export
8 forecast going forward?

9 MR. PATRICK BOWMAN: Well a stable of
10 forecasters is one (1) piece of the puzzle. It's clearly
11 very relevant to opportunity sales. It's -- with respect
12 to firm sales it's -- it's more reliance on the fact that
13 they are dealing in -- in a large part in this -- in this
14 instance with -- with term sheets. I think if you were
15 sitting here a couple of years ago it may have been
16 further out in the IFF but you would find that there are
17 export contracts ending but very little discussions at
18 that point about what happens after the end.

19 At this time there's -- there's something
20 better to go on in -- in that the -- the next round of
21 major firm export contracts have -- have -- have been
22 discussed and have led to -- to some -- some level of
23 agreement that seems to -- seems to change as we go
24 through this hearing as new -- new announcements are
25 made. And -- and, you know, whether it's the Wisconsin

1 legislature dealing with the -- the eligibility under
2 certain programs or whether it's term sheets being moved
3 forward into more firm commitments.

4 I guess I would note that a fair bit of
5 the -- of the IFF that's -- that's there -- you -- you
6 pointed us to IFF-09, it does show a fair bit of the 2016
7 -- a fair -- fair bit of the export price forecasts that
8 appears to start to show up in the later years does hinge
9 on -- on an assumed resetting of some of the export
10 values.

11 MR. BOB PETERS: And when you say
12 resetting of export values what are you referring to?

13 MR. PATRICK BOWMAN: Well, they -- in the
14 latter years of the IFF your export sales are -- are all
15 coming from the same method of forecasting, you know, the
16 first year or two (2) will be affected by -- by the
17 present water conditions. But after that when you're
18 into the latter years of the IFF they're all -- they're
19 all forecast the same method, the same manner, we're not
20 dealing with new projects coming onto line in the -- in
21 these years. What you're seeing is -- is a fundamental
22 change in price.

23 And it's our understanding that those
24 changes in prices arise basically as a result of -- of a
25 resetting of the -- the contracts. So the -- the ending

1 of one (1) series of firm contracts and the -- the
2 initiation of the next generation.

3 MR. BOB PETERS: Specifically, the NSP
4 agreements?

5 MR. PATRICK BOWMAN: That would be the --
6 the largest one.

7 MR. BOB PETERS: It'd also be the only
8 one, wouldn't it, at twenty sixteen (2016)?

9 MR. PATRICK BOWMAN: It may be the only
10 one at twenty sixteen (2016), I -- I don't recall whether
11 it's just the -- the major 500 megawatt sale or -- or how
12 much it may be affected by the other -- the other system
13 participation or diversity type of agreements, but it --
14 it -- it's -- I was sort of referring generally to the
15 latter years of the IFF, which would have a series of
16 these -- of these contracts kicking -- kicking in the --
17 I -- I believe that Wisconsin is -- is twenty eighteen
18 (2018) in that period, if I remember correctly.

19 I'm just trying to pull that up quickly.
20 And then there's -- there's a summary somewhere here, but
21 I can't find it quickly.

22 MR. BOB PETERS: And what's your
23 understanding, Mr. Bowman, of the Wisconsin public
24 service arrangement in light of the recent announcements
25 that have been made publicly?

1 MR. PATRICK BOWMAN: I'm not sure I
2 understand the question.

3 MR. BOB PETERS: In terms of the volume
4 of the sale and the expected revenues from it?

5 MR. PATRICK BOWMAN: I'm sorry, Mr.
6 Peters, I didn't -- I didn't prepare any particular notes
7 on that -- on that subject.

8 MR. BOB PETERS: Thank you. On the
9 expense lines of the IFF, Mr. McLaren, you've already
10 been critical of Hydro's and, to some extent, the Board's
11 ability to control O&M expenses, correct?

12 MR. ANDREW MCLAREN: It's been an ongoing
13 concern of ours over at least the last two (2) GRAs
14 related to the -- the pace of increase of O&M spending
15 and the extent to which that inhibits the ability to
16 build up reserves perhaps as quickly as some parties
17 might like.

18 MR. BOB PETERS: What you're saying
19 politely is that, if Manitoba Hydro wants to come to the
20 ratepayers for some relief, they should look first
21 internally?

22 MR. ANDREW MCLAREN: We would think it
23 would be reasonable for there to be a productivity
24 improvement allowance in O&M spending each year as a --
25 as a priority, prior to coming forward to ask for a

1 higher level of rates.

2 MR. BOB PETERS: Doesn't Manitoba Hydro
3 suggest that they have a 1 percent productivity
4 improvement factor built into their budgeting process?

5 MR. ANDREW MCLAREN: We have heard that,
6 yes.

7 MR. BOB PETERS: Have you seen it?

8 MR. ANDREW MCLAREN: It's difficult to
9 tease out of some of the actual figures that we've been
10 presented with.

11 MR. BOB PETERS: And I take it the -- the
12 bold recommendation is, the Board should not approve the
13 full revenue requirement, but scale it back to some
14 extent, to reflect that, if the company wants to achieve
15 the full level that they're seeking, they should look
16 internally to -- to some savings on the O&M side?

17 MR. PATRICK BOWMAN: Mr. Peters, I
18 believe our -- our recommendation in that regard is --
19 is, as you stated, that confirming the 2.9 percent and
20 the 2 -- 2.0 percent already awarded, which is below the
21 2.9 and 2.9, the request from Manitoba Hydro, would be
22 what we'd recommend. It's definitely a balance of a
23 number of factors, one (1) of which would be perhaps an
24 opportunity to -- to maintain a certain level of cost
25 control over the O&M spending.

1 It's -- we -- we didn't list that as one
2 (1) of our top reasons, and I -- I note that, probably
3 both specifically because, if you look at something like
4 the document we were referencing earlier, Manitoba Hydro
5 Undertaking 121, which is showing the growth in spending,
6 the 2010/'11 forecast and 2011/'12 forecast actually show
7 fairly modest increases in O&M. I guess it will be seen
8 if that arises. They're -- they're below the level of --
9 of total cost increases for the last five (5) years.
10 Every year of actuals is three point three (3.3) or
11 above. Every year of forecast is two point four (2.4) or
12 below. So I guess we'll see if those forecasts come to
13 pass.

14 MR. BOB PETERS: So the recommendation
15 from you is perhaps more sharp words from this Board and
16 more sharp memos from Mr. Brennan?

17 MR. PATRICK BOWMAN: It's not a bad
18 summary.

19 MR. BOB PETERS: Mr. McLaren, in terms of
20 the financial expenses of the Corporation, InterGroup has
21 raised the normal capital spending as an area of concern
22 at this point in time.

23 Would that be correct?

24 MR. ANDREW MCLAREN: Yes, it's one (1) of
25 the other areas we reviewed and made comment on our

1 evidence.

2 MR. BOB PETERS: And when I say "normal
3 capital expending," or, more accurately, when you say
4 "normal capital expending," you're taking not about the
5 major capital projects, but the -- if I may, the day-to-
6 day capital projects that the Corporation embarks on year
7 after year after year?

8 MR. ANDREW MCLAREN: That's correct, it
9 would be the number excluding the major generation
10 transmission projects.

11 MR. BOB PETERS: The concern you raise is
12 that it appears to be increasing at a time when the
13 Corporation is also embarking on spending the major new
14 capital on new plants and transmission, correct?

15 MR. ANDREW MCLAREN: Yes, that's fair.
16 In our review in what we term the preparing for the
17 decade of investment it was one (1) of the factors we
18 highlighted as an area where we thought there should be
19 concern or -- or focus on given the pressures created by
20 this major capital program for the -- the major
21 generation transmission pro -- projects.

22 MR. BOB PETERS: Put another way, if
23 Manitoba Hydro knew they were going on a decade of
24 investment they should have made sure that their normal
25 capital spending was under better control?

1 MR. ANDREW MCLAREN: I would say --
2 perhaps we're saying the same thing. I would say simply
3 that given the context of this major decade of investment
4 it would prudent or desirable from the perspective of
5 Manitoba Hydro's customers for there to be serious
6 attention paid to making sure that particular cost driver
7 is under control as much as you can make it and still
8 maintain, you know, the safe and reliable electricity
9 service.

10 MR. BOB PETERS: Well, isn't that Hydro's
11 rebuttal, is to say that they've got aging infrastructure
12 and it needs -- it needs capital repairs?

13 MR. ANDREW MCLAREN: We understand that.
14 We also note that Mr. Brennan commented on normal capital
15 spending in one (1) of his memos as well.

16 MR. PATRICK BOWMAN: Mis -- Mr. Peters,
17 if it's helpful, just there's a -- we did answer an IR on
18 this in -- from the PUB Question 13, and it did provide
19 some numbers about the normal capital spending. And out
20 -- outside of going back to the 2002 figures, which
21 surely are a bit dated, the Board has asked us to compare
22 to the non-residential building construction price index,
23 which I presume is a particular meaningful metric for the
24 Board.

25 The level of spending though in CEF-07

1 shown there was an averaging of 375 billion a year, so
2 that's from 2007. That's 375 million a year over the
3 capital expenditure forecast arising by '09 went up to
4 four thirteen (413), and by 2010 went up to four forty-
5 eight (448), and it dwarfed the construction price index,
6 again, for whatever value that has as a metric.

7 But it -- it's the annual escalation in
8 that value that's -- that's been quite -- quite dramatic
9 in -- in just a few years.

10 MR. BOB PETERS: And so the
11 recommendation from InterGroup is to reduce normal
12 capital spending where possible.

13 Have I taken that correctly?

14 MR. ANDREW MCLAREN: I'd perhaps phrase
15 it as on a go-forward basis, in particular, continued
16 attention to making sure that those amounts are
17 reflective of the larger context, which is the other rate
18 pressures that are going on and -- and controls on
19 ensuring those are the highest priority products that are
20 actually required for continuing safe electrical re --
21 safe electrical service.

22 MR. ROBERT MAYER: Gentlemen, how much of
23 that increased capital spending resulted from Hydro's
24 acquisition of assets of Winnipeg Hydro?

25 MR. PATRICK BOWMAN: The -- the three (3)

1 numbers that I referenced were from '07, '09, and '10.
2 So in terms of the years, this would have been built into
3 -- built into those forecasts, I -- I presume.

4 They're -- I'm not sure how much material
5 aging of the assets occurred in those three (3) years,
6 but I -- but all -- each of those should fully
7 incorporate any Winnipeg Hydro assets.

8 MR. ROBERT MAYER: My thought is we've
9 heard a significant amount about rehabilitation of the
10 top two (2) generating stations, the top end of the --
11 the Winnipeg River, the names of which at the present
12 escape me, one (1) of which is about to be 100 years old.

13 And I'm wondering how much of that, what
14 we would ordinarily call normal capital expenditures
15 based on reliability, refer to those two (2) particular
16 generating stations. If you don't have that number...

17 MR. PATRICK BOWMAN: I -- I don't have
18 that as a number. What I do have is -- is a table that
19 starts with an overall capital expenditure forecast of
20 somewhere in the order of \$17 billion in each of 2009's
21 forecast and 2010's forecast.

22 But then it removes major new generation
23 transmission and DSM, which is the sort of second page of
24 the document the Hydro puts in. And in that second page
25 is the Pointe du Bois work. So it -- it would be removed

1 from this level of normal capital spending.

2 It would be -- it would be another level
3 of -- of cross-check that one might want to try to do
4 which is to see how much of this is arising from
5 generation, transmission distribution, each individually.
6 It's -- it's an extra layer of analysis that can be done.

7 We found that at the -- focussing on the
8 top-level numbers was -- was about as far as we could get
9 given the record in this hearing. It was -- there was a
10 lot of material that we were trying to sort through as we
11 were preparing our evidence.

12 So we -- this -- this was a -- a topic
13 we'd spent a fair bit of time on in past hearings. We
14 found it easy to cross-check and see the path that --
15 that things were on and -- and -- and put in a fairly
16 simple set of comments on rather than make this the major
17 item of analysis.

18

19 CONTINUED BY MR. BOB PETERS:

20 MR. BOB PETERS: Mr. McLaren, how does
21 Manitoba Hydro prioritize its capital under the normal
22 capital spending, going forward according to your
23 recommendation?

24

25 (BRIEF PAUSE)

1 MR. ANDREW MCLAREN: Is your question how
2 should Manitoba Hydro, in our view, prioritize?

3 MR. BOB PETERS: Yes, sir.

4 MR. ANDREW MCLAREN: In some of the other
5 jurisdictions that we work in that are regulated on a
6 rate base rate of return type of model, they will
7 prioritize projects according to where they have
8 opportunities for economic efficiencies, if they can do a
9 capital project that will save operating and maintenance
10 costs in the future, it's one (1) category of expenses.

11 Other projects that are required to meet
12 safety or environmental requirements will have another
13 category of expenditures. We don't see that type of
14 information -- that -- those types of justifications from
15 Manitoba Hydro the same way I believe, even at times,
16 Centra Gas has presented their capital plan in terms of
17 projects that are required for safety/reliability reasons
18 versus projects that are opportunity projects or have a -
19 - have their own individual business case, or other
20 projects that are -- you know, in a colloquial sense,
21 nice to have, rather than needs to have.

22 And so from our perspective that type of
23 information in other jurisdictions we find helpful in
24 terms of understanding which projects are required for
25 which reasons.

1 MR. BOB PETERS: Thank you, Mr. McLaren.
2 Mr. McLaren, were there any other items under the expense
3 line items of the IFFs that were of particular concern to
4 InterGroup and your clients?

5 MR. ANDREW MCLAREN: The other item we
6 had highlighted in our review was the sinking fund
7 requirement and the impact of that in the IFF period.

8 MR. BOB PETERS: If I was nimble enough I
9 could go there right now, but let me just start off. You
10 -- you -- that -- that's a -- that's a recycling of a
11 recommendation made at the last GRA.

12 Would that be fair?

13 MR. ANDREW MCLAREN: It is a topic we
14 raised at the last GRA, yes.

15 MR. BOB PETERS: And you used, was it
16 2008 data in coming up with a number of approximately \$93
17 million over the IFF span?

18 MR. ANDREW MCLAREN: We relied on
19 information provided by Manitoba Hydro that I believe we
20 had updated in this proceeding.

21 MR. BOB PETERS: All right. And the
22 cumulative amount, was it in the -- in the range of \$93
23 million over the IFF ten (10) year period?

24 MR. ANDREW MCLAREN: Yes, that's the
25 figure I have in mind.

1 MR. BOB PETERS: And in one (1) of the
2 information requests, and I believe it might have been a
3 PUB information request, that was drilled down to about
4 \$8 million in the -- in one (1) of the test years?

5 MR. ANDREW MCLAREN: Yes, that sounds
6 correct.

7 MR. BOB PETERS: And is it also your
8 understanding that Manitoba Hydro has raised caution that
9 this may adversely impact the credit rating of either
10 Manitoba Hydro or the province with respect to having the
11 sinking fund available?

12 MR. PATRICK BOWMAN: It -- that was not
13 the -- my understanding from the testimony that was
14 given. My understanding from the testimony that was
15 given was there's a difference between a -- a -- the
16 requirement to maintain a sinking fund versus the
17 decision to maintain one.

18 And the suggestion was that at -- at one
19 (1) level the requirement to maintain a sinking fund is
20 solely a requirement to make a contribution each year.
21 It's not a requirement to necessarily to keep it there.

22 So it -- it was -- at least if it wasn't
23 said directly, it was implied indirectly that it's --
24 that -- that the legislative requirement is of no -- no
25 material effect on Hydro. And so we -- we were relying

1 on that and thinking our way through what would be the
2 implications for Hydro if the legislative requirement has
3 -- has that little practical import.

4 I think our bigger concern perhaps is that
5 if -- if that's the truth that the -- the legislative
6 requirement doesn't practically require Hydro to -- to
7 put aside monies it doesn't see value in, and it still
8 has the opportunity to set aside monies where it sees it
9 has value to put aside those -- those -- those funds,
10 then the legislative requirement is -- is doing very
11 little. But what it is doing if nothing else is -- is in
12 the IFF forecast it's causing the computer models to spin
13 out some very large sinking funds which have a net cost
14 to the -- to the organization.

15 And that's responded to in I -- IRP-PUB-
16 25A where it shows the -- the total sinking funds for the
17 IFF-09 in that response through the horizon and -- and
18 getting as high as three-quarters (3/4s) of a billion
19 dollars in sinking funds. So it -- it's not a token
20 amount.

21 MR. BOB PETERS: You acknowledge that the
22 decision on the sinking fund appears to rest with the
23 provincial legislature?

24 MR. PATRICK BOWMAN: Removing the
25 requirement would rest with the provincial legislature,

1 we agree.

2 MR. BOB PETERS: And, candidly, I should
3 know this and I believe it's correct, but in the 2008
4 Board order there was a recommendation from this Board
5 that -- that Manitoba Hydro and the government look at
6 whether that requirement needs to be maintained.

7 MR. PATRICK BOWMAN: Yes, that was a
8 recommendation. I -- I assume it's part of the reason
9 why in this hearing we -- once we're into oral testimony
10 we heard a somewhat more considered view from Hydro about
11 the -- the practical import of the recommendation.

12 MR. BOB PETERS: All right. Thank you.

13 Mr. McLaren, in your -- does -- does
14 InterGroup have their own working model of an IFF per se?

15 MR. ANDREW MCLAREN: We prepare
16 spreadsheets that allow us to move some numbers around
17 within the IFF but I wouldn't say we have a -- a working
18 model. We certainly don't have anything that would allow
19 us to do our own IFF scenarios based on assumed
20 underlying changes in natural gas prices or inflation
21 rates or -- or anything of that nature.

22 MR. BOB PETERS: But you do spreadsheets
23 to test different -- different components of the IFF?

24 MR. ANDREW MCLAREN: It's mostly very
25 sort of cursory assessments of if we have an IR response

1 that suggests something might adjust a particular line in
2 an operating statement or balance sheet. One (1) way or
3 the other we can -- we can quickly recalculate some of
4 the major indicators, but I would say most -- most of the
5 time if it's anything more complicated than basic
6 arithmetic we would rely on an interrogatory response
7 from Manitoba Hydro for that information.

8 MR. PATRICK BOWMAN: Mr. Peters, I'd --
9 I'd actually note that it's a bit of -- inverse is the
10 way that you suggested, there's a -- there's a desire to
11 get the IFF model into a bit of a forum where one can
12 test some arithmetic and see which part makes sense and
13 which part doesn't. And it becomes the basis of being
14 able to ask interrogatories about why something arises in
15 -- in -- in different categories, particularly such as,
16 you know, balance sheet categories and current accounts
17 or something which have a -- heck of a lot of things
18 bundled together.

19 MR. BOB PETERS: And what's the
20 recommendation, gentlemen, if the Utility refuses to
21 provide the run that is requested of them?

22

23 (BRIEF PAUSE)

24

25 MR. PATRICK BOWMAN: I'm not sure that's

1 a situation we've run into with respect to data we've
2 tried to -- tried to draw out in -- in -- in
3 interrogatories or an undertaking, so I'm -- I'm not sure
4 we have a very considered view as to how to address that
5 situation.

6 MR. BOB PETERS: And you are aware the
7 record in this proceeding has information requests in
8 which responses to IFF runs was not provided by the
9 Utility for various reasons, some of which were the time
10 it may take or whether the requests were considered
11 reasonable by them?

12 MR. PATRICK BOWMAN: We're aware of -- of
13 some examples of that sort. My -- my recollection of
14 when I've seen those types of responses usually goes to
15 that they can't move from Scenario A to -- to an IFF that
16 reflects that scenario if there's some degree of -- of --
17 of black box in-between to the Utility.

18 So if someone says assume natural gas
19 prices are higher the Utility doesn't have a natural gas
20 price input for a substantial part of their IFF. They
21 rely on, say, outside forecasters to develop the -- the
22 market forecasts and -- and those forecasters have their
23 own way of figuring out natural gas prices.

24 So if -- you know, if you say increase
25 natural gas prices, there's -- there's no way for them to

1 easily change the -- the export market forecast, about
2 what that would do, about which hours of the day that
3 would affect, or which -- on-peak versus off-peak or
4 something of that nature. I've seen a fair number of
5 responses that say it's not a -- it's not an input, it's
6 not a relationship between -- between this value and the
7 other.

8 So that -- the bulk of the samples I ran
9 across were -- were sort of scenarios being asked to be
10 run that -- that where it was applied were -- were
11 difficult or impossible to do. They tended to be of that
12 nature.

13 MR. BOB PETERS: And if the information
14 was provided, even if the Corporation doesn't agree, you
15 think they have some -- they should provide the run and
16 then speak to it afterwards?

17 MR. PATRICK BOWMAN: Well, I -- I think
18 that's fair. I don't think it's wide scope open to an --
19 an applicant who has -- controls the model to say, I
20 don't want to run the case, because I don't think it's --
21 it's credible. I -- you know, you can comment on its --
22 its credibility after it's run, and I've certainly seen
23 certain IRs, like -- I don't know for sure if it's IFF
24 response, but I've seen certain IRs where -- where
25 scenarios were run, but a comment was provided, saying,

1 We don't think it's particularly correct or meaningful.
2 And so, from that perspective, you know, we've never --
3 at least I can't recall in this proceeding ever running
4 up against that problem.

5 MR. BOB PETERS: Did InterGroup research
6 what happened with respect to the finances of the Utility
7 with the coming into service of Limestone generating
8 station?

9 MR. PATRICK BOWMAN: We looked at the
10 record that arises from the Board orders from that point
11 in time, which summarized the -- the rate requests of the
12 Utility and the -- the debt-equity ratios and that sort
13 of thing through a couple of -- of GRAs from about the
14 late '80s to the -- to the mid '90s, and -- and we
15 referenced some of that in our direct. So that -- that
16 was the -- the main source.

17 I don't recall going through anything more
18 detailed than that. I don't recall ever anyone pulling
19 out the old binders from -- from '92, if you like.

20 MR. BOB PETERS: Might have to swear in
21 Mr. Hacault, but before we do that, was there an
22 understanding that the Corporation had negative net
23 income in the years immediately preceding the in --
24 immediately following the in-service of Limestone
25 generating station?

1 MR. PATRICK BOWMAN: Yeah. We actually
2 referenced that in our -- in our direct on Friday as
3 well, that, yes, there was a -- there was years of -- of
4 negative net income, and a request by the Utility for a
5 rate increase that would have still led to negative net
6 income. And this Board didn't grant the full rate
7 increase, it -- it granted something less.

8 MR. BOB PETERS: And would it be fair to
9 say that that would be an expectation that InterGroup has
10 when Keeyask or Conawapa come in service, that, likewise,
11 there could be negative net income?

12 MR. PATRICK BOWMAN: I don't think it's
13 fair to say it's an expectation. I think it's fair to
14 say that serious attention needs to be given to how to
15 maintain rate stability during a period where you're
16 bringing on a capital-intensive asset, and -- and this is
17 something we've dealt with time and again in many
18 different jurisdictions.

19 If I've -- if I've drawn the graph once,
20 I've drawn it a thousand times. It shows the -- the
21 benefits line increasing over time, and the -- the cost
22 line decreasing over time as an asset is depreciated, and
23 that there's a crossover point, and that the early years
24 are the challenging ones. It's the same -- it was the
25 same situation with Limestone, but it -- and it will

1 arise with any -- basically, any capital hints of asset
2 at Keeyask, Conawapa, and anything of that sort. But it
3 doesn't necessarily lead to losses, and it -- and it
4 probably, ideally, doesn't lead -- doesn't -- isn't
5 recommended to lead to losses if you can do that while
6 maintaining rate stability.

7 MR. BOB PETERS: What you're saying in
8 that answer is even if there is negative net income,
9 don't try to make it all up in one (1) rate increase.
10 Have some long-term rate prospect plan that you should
11 implement if that does happen.

12 MR. PATRICK BOWMAN: Right, and -- and
13 that's -- you know, that's been the history here. We've
14 -- we saw that with Limestone. I -- I don' -- we haven't
15 prepared any evidence or any suggestion that -- that you
16 have to be ready to do that with Keeyask or Conawapa or
17 anything of the sort. But if -- if you've got a good
18 project, you've got a good plan that's going to lead to
19 some challenging early years, then your mind can turn to
20 how to deal -- deal with that. And there are some
21 options, and the way that Limestone was dealt with was
22 one (1) example.

23

24

(BRIEF PAUSE)

25

1 financial outlook. It's built off of IFF-10. It was
2 prepared in March, 2011, so it's a fairly -- a fairly
3 recent document. We know there's some dated items in
4 here, but a good portion of the dated items may relate to
5 both scenarios, like a bipole cost estimate, for example.

6 And as you work through this document you
7 have this -- this -- the normal consolidated projected
8 operating statement which has positive net income through
9 the entire twenty (20) years. And more interestingly,
10 you get to Figure 12 on page 20 of that document, which I
11 -- I don't know if it's helpful for people to turn there,
12 but this is a comparison of the incremental impact on
13 retained earnings of the recommended development plan
14 versus what this calls the no-sale scenario, or the
15 alternative development plan.

16 It's page 20. At the top of the page is a
17 graph. And it shows what impact the al -- alternative
18 plan has compared to the recommended plan, so it's --
19 it's a difference of retained earnings. And it shows
20 that in the first couple of years you see that you're --
21 you're better off with the recommended plan up until
22 about 2021 because the recommended plan -- the
23 alternative plan has some slightly less retained earnings,
24 and -- and the reason for that is because of amortizing
25 project costs. If you go to the -- to the alternative

1 plan, I mean, you'd have to start amortizing some of
2 those projects that you -- that you stop pro -- stopped
3 proceeding with.

4 But it turns around, and by 2025 you're
5 back at the same level, and from then on it's -- it's
6 only up -- it's only better, the alternative plan has
7 lower retained earnings than the recommended plan through
8 the entire rest of that scenario.

9 Now, if you look down below you see that
10 the equity ratio isn't quite the same. The equity ratio
11 does have a crossover point at about 2039. So if you're
12 only going to percentages, you're dealing with a much
13 bigger set of assets, so a much bigger denominator, and
14 it takes until 2039 until your numerator gets large
15 enough that you get your debt-equity back to where you
16 would have been at -- you know, at a fairly good level.

17 But on an -- on a year-by-year net income
18 basis you're -- you're pretty much better off through --
19 or year-by-year retained earnings level, sorry, you're
20 pretty much better off through the whole scenario, and on
21 a net income basis, other than about five (5) years,
22 you're further ahead with -- with the recommended plan.

23 And -- and, like I said, this is three (3)
24 months old, so in terms of the -- the recency of
25 information, we're relying on this as being the best --

1 the best current information.

2 MR. BOB PETERS: And just to close on
3 that document, Messrs Bowman and McLaren, that is -- that
4 exemplifies the recommendation you made to the Board,
5 that Manitoba Hydro should, at least at this point,
6 protect the ability to go down that road.

7 Have I got that right?

8 MR. PATRICK BOWMAN: Yes.

9 MR. BOB PETERS: And that protecting the
10 ability to go down that road comes with a price tag, does
11 it not?

12 MR. PATRICK BOWMAN: Absolutely.

13 MR. BOB PETERS: And that price tag is in
14 the order of at least 25 million a month, or perhaps
15 we've been loose enough to say a million dollars a day?

16 MR. PATRICK BOWMAN: Yes.

17 MR. BOB PETERS: All right. Thank you.
18 Mr. Chairman, this might be an appropriate time for the
19 lunch break, and I'll go through my notes, but I will
20 need to ask Messrs McLaren and Bowman to come back this
21 afternoon, and likewise, the Board.

22 THE CHAIRPERSON: Okay. We'll see you
23 back at -- would 1:15 work for you, Mr. Peters?

24 MR. BOB PETERS: Certainly.

25 THE CHAIRPERSON: Okay, 1:15.

1 --- Upon recessing at 12:02 p.m.

2 --- Upon resuming at 1:16 p.m.

3

4 THE CHAIRPERSON: Don't -- don't take it
5 personally, Mr. Peters. You can -- you can recommence.

6 MR. BOB PETERS: Yes, thank you, sir.

7

8 CONTINUED BY MR. BOB PETERS:

9 MR. BOB PETERS: Mr. McLaren and Mr.
10 Bowman, is Manitoba Hydro's plan and projection of
11 potential 3 1/2 percent annual rate increases for the
12 next decade while general inflation will be approximately
13 half of that, an indication that some form of prefunding
14 to facilitate major capital expenditures is being sought?

15

16 (BRIEF PAUSE)

17

18 MR. PATRICK BOWMAN: Mr. Peters, that was
19 our concern looking through the IFF, and -- and it's
20 somewhat borne out by looking through more the twenty
21 (20) year scenario than the ten, as the twenty (20) year
22 scenario show the three and a half (3 1/2) dropping back
23 to a sort of 2 percent range in the long-term forecasts
24 as placeholders in the second decade of the -- of the
25 IFF.

1 And it's -- the three and a half (3 1/2),
2 if anything, permits -- permits the debt-equity ratio to
3 be maintained without eroding a -- a huge amount,
4 surprisingly, notwithstanding adding the -- the billions
5 of dollars in capital that's there.

6 And it permits an ongoing growth in
7 retained earnings well above the level that -- that we're
8 seeing today, so -- I'm trying to find that number
9 briefly -- so in the next ten (10) years it's from two
10 point (2.) -- two point three (2.3), two point four
11 (2.4), two point five (2.5), to four point three (4.3).

12 And the four point three (4.3), on its
13 face of it, would seem to be a very large number, 4.3
14 billion in retained -- in -- in reserves, retained
15 earnings. We've certainly never seen anything like that
16 before in -- in Hydro's numbers, but notwithstanding that
17 there's still an erosion to about 20 percent, 19 percent,
18 equity ratio.

19 So it would seem that, to some degree,
20 there -- there is a building up of equity as a -- as a
21 sort of pre-funding of the -- the next year of projects
22 that arises in -- in -- to some degree from the 3 1/2
23 percent.

24 MR. BOB PETERS: You said surprisingly
25 there's no big deterioration in the retained -- or the

1 debt-equity ratio even in light of the capital
2 expenditures.

3 Did I hear you correctly, Mr. Bowman?

4 MR. PATRICK BOWMAN: Well, there is a
5 deterioration. I think it's surprising in one (1) level
6 that it only drops from, you know, twenty-five (25) today
7 to -- to twenty when you're talking about adding assets
8 at the magnitude that Hydro's doing.

9 MR. BOB PETERS: You would have expected
10 a higher -- a greater reduction in the -- in the debt-
11 equity ratio.

12 MR. PATRICK BOWMAN: Well, it would be an
13 interesting quick calculation to say as of the day that
14 someone brings on Conawapa, or Keeyask, or Bipole, or any
15 of those assets, that bring with them zero equity
16 dollars. It's not like we should share capital to
17 finance them.

18 They -- they come with no equity, so it's
19 the rest of the operation that is generating the equity
20 that's still allowing your overall average to be
21 maintained at twenty (20).

22 And -- and I guess that's -- you know, it
23 -- it's an interesting test that one could do some quick
24 back of the envelope numbers on about just how much
25 equity is being built up in the old assets during that

1 period in order to not have the overall aggregate drop
2 much below -- or drop much below twenty (20).

3 MR. BOB PETERS: If I understood that
4 answer, and if the Board understood it, Mr. Bowman, what
5 you're telling the Board is that when -- when you drop
6 Keeyask into in-service at \$5.6 billion, that should
7 instantly erode the equity ratio because it's not coming
8 with any equity in terms of it being built. It's all
9 debt.

10 MR. PATRICK BOWMAN: Well, yeah, the
11 premise is that it's -- that -- you -- the project has
12 not generated any of its own equity. Now, there may be
13 agreements with partners, and things that do bring some
14 equity dollars, but that -- that probably won't show up
15 the same way we're talking about Manitoba Hydro's
16 retained earnings.

17 So, yeah, you build a new project. It
18 hasn't generated any of its own equity yet. It's -- it -
19 - it's coming with -- it's entirely debt-financed.

20 MR. BOB PETERS: And, therefore, you
21 would have expected the equity ratio to plummet.

22 MR. PATRICK BOWMAN: Well, you'd -- when
23 you mix it in, a -- a very large project like that, into
24 -- into Hydro's balance sheet, that is, as people have
25 noted, is -- is, you know, much smaller than -- than some

1 of the projects being pursued, you'd expect -- yeah,
2 you'd expect to see the -- the equity ratio erode
3 materially.

4 MR. BOB PETERS: And the fact that it
5 doesn't supports your view that there's pre-funding going
6 on?

7 MR. PATRICK BOWMAN: Well, that, and the
8 simple arithmetic that you're adding about \$2 billion in
9 -- in retained earnings over this period, from about two
10 point four (2.4) to four point three (4.3), at a time
11 when, you know, there's notable non-major per spending on
12 what we call normal capital.

13 There's a -- there's quite a bit of normal
14 capital, but -- but there's also quite a bit of
15 internally generated cash to -- to help pay for that, if
16 you look at something like the -- the depreciation
17 expenses of the Company, they're -- there's a -- a fair
18 bit of non-cash expense built into the overall -- overall
19 statements every year. So a good portion of the -- of
20 the normal capital can be financed out of -- out of
21 cashflow. That's what the -- the capital coverage
22 target, the third of the financial targets people don't
23 talk about very often, shows.

24 So your -- your debt that you're adding
25 and your erosion in your -- in your debt-equity is

1 arising because of the -- the new projects. It's just --
2 it's -- it's striking that -- that, if this scenario
3 unfolds, that it -- that you're able to add \$2 billion in
4 -- in retained earnings over ten (10) years.

5 MR. BOB PETERS: All right. With your
6 conclusion that there is pre-funding going on here,
7 what's wrong with pre-funding?

8 MR. PATRICK BOWMAN: Well, I guess I'll -
9 - I'll take it from two (2) different perspectives. The
10 -- the conclusion about there being pre-funding going on
11 is a sort of mathematical relationship, and -- and I
12 think they need to look at it one (1) level deeper to see
13 whether you're really into a -- a pre-funding argument or
14 not for the 3 1/2 percent.

15 And -- and so, while I said there's a --
16 there's evidence that would make one want to spend some
17 time trying to assess that, it's -- it's still a good --
18 an interesting and -- and vigorous debate I'm sure people
19 have over -- over many years is the extent to which the
20 rate increases are needed for today's projects and
21 projects serving ratepayers versus the next generation
22 projects.

23 But what's wrong with it is -- is -- it
24 can be answered on two (2) levels. One (1) is, as a
25 general regulatory principle, you will find, whether

1 you're here or anywhere else, the -- the type of
2 witnesses who will come before this Board or the -- or
3 the type of experts who do this type of work, textbooks,
4 standard practice will say ratepayers pay for the assets
5 that are used and useful to provide them with service.
6 If something's not built yet, it's not used and useful to
7 provide them with service. So paying for the -- the --
8 paying for Conawapa in today's rates would -- is --
9 violates that principle.

10 But I think it's also a level of inter-
11 generational equity, which is a term that's been used
12 here, and I -- I think it's possible we have somewhat
13 different concept of it, which is that, if you're sitting
14 here today and looking at the returns that are possible
15 and looking at the rates that are possible in an
16 advantageous way, and you're looking at the assets that
17 are there, we -- we wouldn't say that today's ratepayers
18 have been, you know, prejudiced or -- or given a raw deal
19 by, you know, those folks from the '80s who didn't pay
20 high enough rates to pre-pay for Limestone. We're doing
21 okay with Limestone, right? It's -- it's -- we're in the
22 decade of returns from Limestone, and it's -- and it's
23 helping the overall situation, and it's true for the
24 other projects, too.

25 And if there was a -- a strong need, a

1 strong -- a rate increase regime that needed to be
2 imposed in that era because someone argued, We need to
3 get -- we need to get the equity up, we can't live with
4 this ninety-five (95) five (5), we have to get more
5 equity here because we're going to build Limestone and we
6 need to, you know, pre-pay these expenses out of ongoing
7 rates, we don't want to borrow debt for Limestone, it
8 would have meant higher rates in that day and age for the
9 benefit of -- of those folks sitting here today. And I
10 don't think the people sitting here today have a credible
11 case to say we were prejudiced by the guys in the '80s
12 not paying high enough rates and not building up enough
13 equity.

14 So it's -- it's that question of -- and
15 you talk about Conawapa. Do we -- to what extent do you
16 want to burden the system today, or have people pay
17 higher rates today, that will help ensure that Conawapa's
18 paid for, to some extent, before it comes into service,
19 so that those people who get the kilowatt hours out of it
20 don't have to pay as much. And I don -- I -- I don't
21 think the evidence is that -- that there's -- the people
22 who were there when Conawapa comes into service and lives
23 out its first twenty (20), or thirty (30), or forty (40),
24 or fifty (50) years are going to be prejudiced by the
25 fact that Conawapa's in service.

1 MR. BOB PETERS: So that goes to your
2 argument that you shouldn't pre-fund through today's
3 generations those who stand to reap the benefits in the
4 generations to follow from Keeyask and Conawapa?

5 MR. PATRICK BOWMAN: Yeah, effectively,
6 yes. There's both on the regulatory principle level and
7 on the -- the sort of sheer mathematics of it level,
8 yeah.

9 MR. BOB PETERS: Well, let's just quickly
10 look at that from a risk perspective with a different set
11 of glasses perhaps, Mr. Bowman and Mr. McLaren. If the
12 risk of this construction program exists and it exists
13 today, shouldn't those who are making the decision today
14 and today's ratepayers bear some responsibility for the
15 risk they're creating?

16

17 (BRIEF PAUSE)

18

19 MR. PATRICK BOWMAN: I guess the premise
20 of the question is that the decision to proceed on this
21 plan causes risks. And while the recommended plan, in
22 the event that's what Manitoba was afforded with, has
23 risks associated with it, the preferred plan also has
24 risks associated with it, as does the third way, if there
25 is one (1) out there that we yet need to investigate and

1 explore.

2 If I look at the -- the graph that I went
3 to before lunch, on the basis of forecasts from three (3)
4 months ago, which may be current or may be dated, maybe
5 change every day, the recommended plan has a better
6 financial outcome in the event these forecasts hold up.
7 If I look at things like the -- the load forecast, which
8 I did find the numbers on, and -- and it says that if --
9 if there's a major conversion to electric heat in
10 Manitoba, within twenty (20) years you can see 2,000
11 megawatts of load arise on electric heat, 6,000 gigawatt
12 hours.

13 Now, what's the risk of that arising if
14 you're not pursuing the recommended plan, if you're
15 sitting -- only targeting the alternative plan, and how
16 quickly do you have to respond to find 6,000 gigawatt
17 hours in twenty (20) years?

18 I don't know the risks of that scenario.
19 I know it's Hydro's scenario they created. And I would
20 say that there's a good chance that the recommended plan
21 is more robust against that set -- that type of
22 circumstance.

23 So the -- I -- I guess there's -- it's a
24 bit of a rejection of the premise that -- that building
25 more and borrowing more automatically means more risk.

1 It's -- I'm -- I'm with Dr. Magee in his comments that
2 sometimes all -- there -- there's a risk to also not
3 building more and borrowing more and -- and putting in
4 place the assets that also has to be looked at. And
5 evaluating that whole bundle takes a lot of data, takes a
6 lot of information that -- that needs to be up-to-date
7 and reliable and has to be done at the time that the big
8 decisions are being made to proceed or not proceed.

9 If -- if it's a more risky path, then we
10 really need to have a good sense as to what -- what the -
11 - what the downside is. What's the -- what's the adverse
12 outcome in the event that some of those risks that are,
13 you know, not forecast to occur but -- but being
14 materialized arise. And if I look at the -- the twenty
15 (20) year financial outlook, the document I -- I was
16 pointing you to, it doesn't take that many more years
17 before the -- the line, the slope of the -- of the
18 alternative scenario, really starts to taper away.

19 So if you're talking about a project that
20 is coming into service, Conawapa comes into service in
21 2024 in the latest power resource plan, this has that
22 line really starting to slope away within, say, ten (10)
23 years after Conawapa comes into service.

24 You could have a fairly -- you could miss
25 these forecasts by quite a bit, and you'd still find

1 within about ten (10) years that -- that your -- your
2 slope of that line that's curving down is going to start
3 to -- to catch up and help dig you out of the hole
4 without having to burden ratepayers.

5 So I -- I guess I'm not particularly
6 sympathetic to the -- the concept if you look at this
7 graph and if you say we're -- we're sticking it to people
8 in the future or -- or if -- if things don't quite come
9 to pass as planned, we may end up sticking it to them,
10 that -- that there's a very high likelihood that that
11 will ultimately turn into, you know, materially high
12 rates or -- or some other problem where they'll be, you
13 know, cursing the people who made the decision.

14 It -- it's not -- it doesn't seem to be in
15 this -- in this one (1) picture and -- and we don't have
16 all the alternative pictures that one could draw to see
17 just how -- how robust this is across different
18 assumptions.

19 MR. BOB PETERS: Can I cond -- condense
20 that answer by saying your view is that if the future
21 generation will get the benefit of the upside, it also
22 has to take whatever risk there is of the downside.

23 MR. PATRICK BOWMAN: Yeah, and fine, but
24 it als -- you also have to have some sense as to how big
25 that downside might be. I don't -- this -- this is not a

1 picture of someone swinging for the fences or -- or a
2 project that is highly speculative. This is a picture of
3 a project that's pretty solid, or a set of -- of -- of
4 scenarios, given, like I said on Friday, given the
5 alternative where you've got to assume the alternative is
6 the best one (1) someone could come up with.

7 If -- if it's not then we come to a very
8 different conclusion. If there really is a lower cost,
9 lower risk, better alternative out there. But assuming
10 that the alternative plan Hydro has come up with is
11 really the -- the lowest cost, lowest risk, least
12 investment type of scenario, then this recommended plan
13 does not reek of swinging for the fences.

14 It -- it -- as I've mentioned before, I've
15 drawn -- I must have drawn it a thousand times, a graph
16 that shows the crossover and how capital-intensive
17 projects like hydro projects, which are at their highest
18 costs in the early years when they're in the -- the
19 largest undepreciated value and the depreciation is as
20 high as it's going to get, because you use a straight
21 line method, and you're -- you're borrowing through the
22 highest, in the early couple of years, and the value of
23 the power is presumably about the lowest you're going to
24 get, because inflation and other things tend to work for
25 you.

1 If not, something else going on with --
2 with power prices like -- like carbon pricing, that those
3 early years can be really a challenge. And we've drawn
4 graphs and helped people get projects in place where that
5 crossover is six (6) years. We've drawn some where that
6 crossover might be ten (10) years.

7 If you're getting much beyond ten (10)
8 years you probably are into trying to find some creative
9 ways to -- to make it work so that you're not carrying
10 too much load in those early years. But these graphs are
11 showing, you know, four (4). And in that four (4) years
12 you're actually not -- you're -- you're behind a bit on
13 net income, but you're not behind on retained earnings of
14 anything.

15 So it'll take -- it would take a fair bit
16 for these graphs not to show that within, you know, that
17 type of time frame, six (6) to ten (10) years after the
18 end of the project, you haven't turned a corner enough
19 that -- that for that period you can help ensure people
20 don't -- don't get walloped by higher rates.

21 And that it will -- like Limestone, be
22 patient and -- and hydro projects come around for that --
23 for that very reason. Capital-intensive projects work
24 out in the end. They have this benefit in the end. It's
25 just that interim period we're talking about. And -- and

1 this is not -- this is not a weak crossover. This is a
2 very robust crossover.

3 MR. BOB PETERS: And it's the, as you
4 call it, the robust crossover that you rely on to say
5 that there is really no intergenerational issue here
6 because the benefits should accrue to the same people who
7 should be charged with the risk, which will be the future
8 gen -- future generation?

9 MR. PATRICK BOWMAN: Yes. And/or that
10 much like Limestone, you could say that had in that 1992
11 decision this Board said, I can't live with the loss, and
12 instead of Hydro asking for whatever they were, 3
13 percent, I'm going to give them six (6), because we want
14 to dig out of this hole faster, those people in '92, and
15 '93, '94, would have faced some higher rates to the
16 benefit of whom?

17 It would have been the benefit presumably
18 of us today, or -- or of people in, you know, ten (10)
19 years later. But you were able to play off to some
20 extent the people in the early '90s versus the people in
21 the, you know, early 2000s, about the time you probably
22 saw -- started to really see those benefits come in and -
23 - and not have too much of a problem in your horizon, not
24 have too much rate instability, and -- and patience works
25 for you.

1 MR. BOB PETERS: Thank you, Mr. Bowman.
2 Mr. McLaren, does InterGroup calculate the in-service
3 costs of Wuskwatim on a cents per kilowatt basis? Have
4 you done that calculation?

5

6 (BRIEF PAUSE)

7

8 MR. ANDREW MCLAREN: We don't
9 specifically have those handy. There's a couple of
10 different ways you could look at calculating the cost of
11 Wuskwatim, and I -- Mr. Bowman's looking for an
12 undertaking that was prepared in this proceeding, but
13 it's not something we have at hand.

14 MR. BOB PETERS: And in the -- did you
15 hear some discussion between myself, I think Mr. Warden,
16 on that issue, as well as some of the Manitoba Hydro
17 information requests, where the incremental revenue
18 requirement on the in-service of some of these projects
19 was calculated?

20 MR. PATRICK BOWMAN: I was here that day,
21 Mr. McLaren wasn't. But I -- I heard that exchange.

22 MR. BOB PETERS: And, Mr. Bowman, in --
23 in terms of their -- the in-service costs of the new
24 generation, you would expect that new generation to cost
25 considerably more than the generation of today, correct?

1 MR. PATRICK BOWMAN: Yes.

2 MR. BOB PETERS: And the cost of that --
3 new projects coming in service, whether it's Wuskwatim,
4 whether it's Keeyask, whether it's Conawapa, that would
5 all contribute to the -- the early years where the
6 crossover is not favourable to the development plan that
7 you spoke about a few minutes ago.

8 Is that correct?

9 MR. PATRICK BOWMAN: Yes, that's exactly
10 right. The -- I recall a bit of possibly confused cross
11 before a break on -- on Wuskwatim in a different sense.
12 Per kilowatt hour values, and how you think about
13 depreciation, which are a type of mathematical confusion
14 that often arises when talking about these projects, that
15 you can look at an accounting cost in a given year, or
16 you can look at a levelized cost across the life of a
17 project, and -- and do some different -- different types
18 of math. You can also document real or nominal values,
19 and come up with different -- different prices.

20 But if one zeroes in on the booked
21 accounting costs in year 1 versus the booked revenues in
22 year 1, you have the shortfall that I talk about in the
23 context of that crossover.

24 MR. BOB PETERS: I think your colleague,
25 Ms. Nikischer, might have some information that is

1 perhaps being brought to your attention.

2

3

(BRIEF PAUSE)

4

5 MR. PATRICK BOWMAN: Mr. Peters, if you'd
6 like us to comment specifically on the exhibit, we can
7 take it up perhaps at the break. I'm --

8 MR. BOB PETERS: No, I'm -- I'm not --
9 I'm not looking for that, but -- but thank you all for
10 that thought as well.

11 When does -- when does InterGroup say that
12 the Wuskwatim energy is going to be needed for Manitoba
13 load? Have you done that calculation?

14 MR. PATRICK BOWMAN: It's -- we haven't
15 done any calculation per se, but we've looked at the
16 overall power resource plan, and the power resource plan
17 is always looking at when energy is needed to serve
18 dependable commitments, or firm commitments, which
19 includes exports that are changed in each version.

20 So when it's needed for domestic load or
21 when it's needed for those firm commitments is a -- is a
22 function of what is assumed as the export contract would
23 be entered into.

24 That answer was given in an undertaking by
25 Manitoba Hydro, that if -- Undertaking 22 -- that

1 effectively it's needed, you know, as soon as it -- as
2 soon as it comes into service, and it's needed in the
3 context -- context of firm commitments, and it's
4 certainly needed well before -- before the next tier or
5 project, which is when Conawapa would be needed under the
6 alternative plan.

7 But, no, we haven't got a separate -- we
8 haven't had our own estimate that's any different than
9 what's provided in the power resource plan.

10 MR. BOB PETERS: There's no long-term
11 firm commitment lined up for the Wuskwatim energy, is
12 there, Mr. Bowman, Mr. McLaren?

13

14 (BRIEF PAUSE)

15

16 MR. PATRICK BOWMAN: Mr. Peters, they're
17 not one (1) to one (1). It's not a layer of vintage
18 generation, as Mr. McLaren uses the term to me right now.

19 The -- the Wuskwatim energy is in the
20 power resource plan in its first full year in 2012/'13,
21 and in that year there is 1,250 gigawatt hours of
22 Wuskwatim in 2012/'13, and that supports the commitments
23 that are there, plus a further 985 gigawatt hours of
24 exportable surplus.

25 So but for Wuskwatim in 2012/'13, you

1 would be short given the commitments that -- that are --
2 exist in that -- in that year. So in the first year in
3 service, it's --it's bridging the gap, if you like.

4 MR. BOB PETERS: No new genera -- sorry,
5 I didn't mean to interrupt.

6 MR. PATRICK BOWMAN: No, I was just going
7 to say, the -- the 2000 -- this is Appendix 84, that's
8 the 2010/'11 power resource plan, and it shows that, in -
9 - in 2010/'11, the system had -- before any Wuskwatim
10 energy came on, the system could meet all of its
11 obligations plus had an exportable surplus of only 72
12 gigawatt hours.

13 The next year, Wuskwatim comes on with
14 five fifty (550), and with that, it can meet all the
15 commitments plus have four fifty (450) surplus to export.
16 So, by that year, Wuskwatim's helping meeting firm
17 commitments, which includes export sales, but it -- but
18 it's the firm commitments of the Company.

19 MR. BOB PETERS: Mr. Bowman, there's no
20 need for new generation to support the continuation of
21 the NSP agreement, is there?

22 Is that your understanding?

23 MR. PATRICK BOWMAN: That -- that's been
24 evidence I've heard in this hearing.

25 MR. BOB PETERS: And that's your

1 understanding?

2 MR. PATRICK BOWMAN: Yes.

3 MR. BOB PETERS: And in terms of any
4 surplus coming from Wuskwatim, there's no long-term firm
5 contract arranged for that output at this point in time.

6 Is that also your understanding?

7 MR. PATRICK BOWMAN: Well, I think this
8 is where we have to be very careful about implying
9 there's a one (1) to one (1) for the output of the plant
10 to -- to a contract, because in 2011/'12, Wuskwatim --
11 absent Wuskwatim energy, the Company would be in a
12 shortfall given its level of commitments. In 2012/'13,
13 it would be in a shortfall of about 300 gigawatt hours.
14 By '13/'14, it would be in a shortfall of about 600
15 gigawatt hours or something of that order.

16 So Wuskwatim energy is needed to meet firm
17 commitments, and, presumably, one would say the -- the
18 domestic load will be met in any event, so Wuskwatim is
19 needed to meet firm export commitments, if you -- if you
20 sort of stack it in that nature. So, while it's not like
21 somebody is signing a contract for output from a single
22 plant, Wuskwatim is definitely permitting the -- the firm
23 load of the -- of the Corporation to be met by dependable
24 resources.

25 MR. BOB PETERS: The surplus energy from

1 Wuskwatim, Mr. Bowman, will be sold on the opportunity
2 market.

3 Is that your understanding?

4 MR. PATRICK BOWMAN: The non-firm output
5 of Wuskwatim would be presumably sold on the opportunity
6 market, yes. The -- the dependable output of Wuskwatim
7 is in the table I'm looking at, which shows that it's
8 needed to continue to meet ongoing firm obligations,
9 including firm exports.

10 MR. BOB PETERS: And the surplus will be
11 sold at opportunity costs?

12 MR. PATRICK BOWMAN: Yes.

13 MR. BOB PETERS: And the MIPUG customers
14 are prepared to pay the shortfall between the opportunity
15 costs and the price achieved on the export.

16 Would that also be true?

17 MR. PATRICK BOWMAN: I'm trying to find
18 the right way to work through that one, Mr. Peters. The
19 -- the concept of the Wuskwatim project coming online is
20 not that there's a Wuskwatim rate increase, it's that,
21 while in the early years --

22 MR. BOB PETERS: Well, let me -- let me
23 put it this way, rather than your thinking out loud, Mr.
24 Bowman. You'd have no alternative but to pay any
25 associated cost increases due to Wuskwatim coming on when

1 it does, and the export revenue from Wuskwatim not
2 returning the full per-unit energy cost?

3 MR. PATRICK BOWMAN: Well, you do have an
4 alternative, and it's the same alternative we talked
5 about in the context of Limestone. You have an
6 alternative to look over the long horizon and to ensure
7 that Hydro's rate regime is -- is stable and reflects a
8 transition to the cost of resources used to serve
9 domestic load. In '92, this Board had an alternative in
10 respect of Limestone, and it was to put in place a stable
11 rate-change regime that didn't burden people just because
12 Hydro was experiencing a Limestone loss.

13 MR. BOB PETERS: So the options are
14 either rate increases through this Board or no rate
15 increases through this Board and let the retained
16 earnings erode.

17 MR. PATRICK BOWMAN: Well, let the
18 project's economics unfold over the long term. We don't
19 see the retained earnings eroding, we see the retained
20 earnings increasing every year, with rate increases that
21 are -- that are still in a range that one would call
22 reasonably stable. It's not like there's a -- a rider on
23 someone's bill to say, Here's the portion where we pay
24 the Wuskwatim shortfall.

25 This is, you know, this -- a similar type

1 of situation, like I said, I've seen in other
2 jurisdictions, where you deal with -- you deal with rates
3 and -- and you deal with projects that -- that have a
4 crossover, and in the early years they're -- they're
5 unable to cover all of the costs, but you address them
6 over some horizon where they -- they -- the long-term
7 economics of the project work for it, just like what was
8 done with Limestone.

9 MR. BOB PETERS: So rather than the
10 retained earnings eroding when they mathematically may be
11 increasing, the -- the debt-equity percentage will not
12 increase -- or the equity percentage won't increase.
13 You'll allow that to slip as an alternative to rate
14 increases. That would be another option?

15 MR. PATRICK BOWMAN: Well, it's -- it's
16 another option. It's -- I don't see it occurring in the
17 case of -- of Wuskwatim. You know, we don't have an --
18 an IFF that shows the world what it would look like
19 without Wuskwatim. And I think there's probably two (2)
20 reasons for that. One (1) is because sometimes it's very
21 hard to disentangle projects that are at that level of
22 integration into the Company's decision making.

23 And, also, as I look at this table, I'm
24 suggesting that Wuskwatim is -- is being used right away.
25 It's not like you could delete it. You'd have to put

1 something else in its place if you're going to meet your
2 firm obligations. But I think the -- the Limestone
3 example is probably one (1) of the best I can -- I can
4 point to. In that case, the Company suffered losses. In
5 this case, it's not suffering losses. If I do the simple
6 mathematics of Wuskwatim, possibly the net income is
7 slightly lower in the first couple of years of the -- of
8 the IFF than it would have been had Wuskwatim not been
9 pursued, but you'd have to think about what the
10 alternative you put in its place was.

11 But I don't necessarily see a lot of
12 evidence that that is -- that is what's driving the
13 overall rate regime or the -- the transitions that we're
14 facing. It's -- it wouldn't -- no one would complain if
15 the retained earnings were a bit higher or if the rates a
16 bit lower or the net income a bit higher with the same
17 level of rates and -- in any given year.

18 But -- but you've got to look at these
19 projects over the longer term, and -- and Wuskwatim's
20 interim rate of return and -- and the numbers that have
21 been provided suggest that it doesn't turn around really
22 fast but it does turn around.

23 MR. BOB PETERS: Mr. McLaren, have -- has
24 InterGroup calculated how much of Keeyask's capacity will
25 be sold at long-term fixed prices compared to how much of

1 that Keeyask capacity will be sold at market price or
2 market index price?

3 MR. ANDREW MCLAREN: No, we haven't
4 specifically calculated that.

5 MR. BOB PETERS: Likewise, for Conawapa,
6 you've not determined how much would be sold at a fixed
7 negotiated price and how much would be indexed to either
8 the market or a proxy of the market?

9 MR. ANDREW MCLAREN: No.

10 MR. ROBERT MAYER: How would you know
11 that until you knew -- until you saw the contracts?

12 MR. ANDREW MCLAREN: We -- we would -- we
13 wouldn't.

14 MR. PATRICK BOWMAN: I'd only add, even
15 if one saw the contracts, it's a type of question that
16 implies you can carve up your system in that manner, and
17 I'm -- I'm not sure that necessarily always works.

18 MR. ROBERT MAYER: Oh, nor am I because I
19 -- I don't think the Wuskwatim power actually finds its
20 way to any bipole line no matter where it's built at this
21 point in time, but you got to know what the contracts are
22 before you can even start to begin to try to work through
23 that, I would have thought.

24 MR. PATRICK BOWMAN: I -- I generally
25 agree, Mr. Vice-Chair. I think the situation with

1 Wuskwatim was a bit easier to work through the
2 with/without scenario, if you like, at the time it was
3 being proposed, before the -- the NFAAT hearing.

4 Today it's a much harder type of analysis
5 because of the fact that if you don't have Wuskwa -- you
6 can't run the world with and without Wuskwatim or with
7 and without a Wuskwatim advancement because it's not
8 advanced anymore, it's coming into service at a time
9 that's needed, so the very foundation of that analysis
10 doesn't exist anymore.

11 And I -- I think Hydro did a not-bad job
12 explaining that in the response to the undertaking they
13 provided, number -- Undertaking number 22, Exhibit MH-35.
14 Well, at least I think that's the one I just flipped to
15 quickly. I'm sorry, Undertaking number 23, Exhibit MH-
16 56, where they talk about the type of -- of internal rate
17 of return.

18 And they say we -- we can't compare an
19 advancement versus no advancement internal rate return
20 anymore, but we can compare a Wuskwatim versus gas IRR,
21 and we can do that as of -- effective as of the CAC
22 hearing, and we can do that effective of the last GRA,
23 and we can do it as -- effective as of now, and they
24 provide each of those.

25 That's one (1) way you can look at

1 Wuskwatim in each of those instances. But the
2 advancement concept doesn't -- is not meaningful in these
3 later reviews.

4 MR. ROBERT MAYER: Mr. Bowman, I thought
5 I heard evidence more recent than that, however, that --
6 with the -- with the recession and the lowering of
7 electricity demand, that Wuskwatim may not be required
8 now until some years down the line in terms of domestic
9 use.

10 I believe that was evidence at this
11 hearing at some point when we started discussing their --
12 their power resource plans. In fact, I'm convinced I
13 recall that being said. But I'm not sure that makes a
14 whole lot of a difference.

15

16 (BRIEF PAUSE)

17

18 MR. ROBERT MAYER: Right, load
19 forecasting. We -- we -- we had some updated load
20 forecasting, I thought. Somebody has got to be able to
21 confirm that, that suggested that Wuskwatim power would
22 not have been required for -- for domestic or for -- as a
23 firm requirement at its in-service date of 2011/2012.

24

25 CONTINUED BY MR. BOB PETERS:

1 MR. BOB PETERS: Have you any
2 recollection of that Mr. Bowman or Mr. McLaren?

3 MR. PATRICK BOWMAN: Yes, it's -- it's
4 all tied up in that same undertaking that I was
5 referring, Manitoba Hydro Undertaking 22. And it's the
6 one (1) that notes that subsequent to 2003 there was a
7 significant increase in the load growth such that with
8 the 2007/'08 load forecast, Wuskwatim GS would be
9 required by '12/'13 to serve existing load requirements.
10 And then it notes that load is decreased to the point
11 where Wuskwatim GS is not required at that time frame.

12 But it's not something that -- that you
13 can easily reconcile with the power resource plan because
14 the power resource plan will only show you the export
15 commitments under one (1) set of -- of assumptions, which
16 is in this case the assumption is that I have Wuskwatim
17 and so I can make commitments and it does some
18 combination of generation changes and -- and firm
19 commitments that illustrates when -- that illustrates
20 that Wuskwatim's energy is -- is meeting firm commitments
21 almost right from the outset.

22 Now if some of those export commitments
23 are -- are not needed, if you didn't have Wuskwatim and
24 you could avoid them, and as a result you could defer
25 Wuskwatim, that's -- that's a -- that's a separate type

1 of change that doesn't leap off these tables. So that --
2 I think that's the -- the difficult part to -- to
3 unscramble without someone from Hydro here to comment on
4 it.

5

6 (BRIEF PAUSE)

7

8 MR. BOB PETERS: I think Ms. Nikischer is
9 trying to help you, if I haven't mispronounced her name
10 for the second time on the record, and if I -- I
11 apologize.

12

13 (BRIEF PAUSE)

14

15 MR. BOB PETERS: Mr. Bowman, were you
16 looking for something further for the Vice-Chair or does
17 that conclude your response to him?

18 MR. PATRICK BOWMAN: No, that concludes
19 my response, I'm sorry.

20 MR. BOB PETERS: And InterGroup has
21 determined that the revenue from Keeyask and Conawapa in
22 service under average flows is not expected to cover its
23 in-service total expenses in those first years. Is that
24 correct, Mr. Bowman?

25

1 (BRIEF PAUSE)

2

3 MR. PATRICK BOWMAN: The latest evidence
4 we have is the document that I had referred you to last,
5 the twenty (20) year financial outlook for March. And
6 based on the graphs shown, it shows that there are five
7 (5) years in which net income is -- about five (5) years
8 in which net income is worse with the recommended plan
9 compared to the alternative plan. And after that the net
10 income is better.

11 Now those are the five (5) years basically
12 after Keeyask comes into service and before Conawapa
13 comes into service. Not quite, it's one (1) year later
14 than that, but in this overall set of assumptions.

15 So at least one (1) of those plants is
16 needed for domestic service, so it's hard to assess that
17 it -- the economics of a plant that is not being advanced
18 but that is being built for domestic supply. It --
19 that's quite a different situation.

20 But in the context of the overall plan,
21 comparing the two (2) scena -- the two (2) plans and the
22 two (2) scenarios, it would seem to suggest that they're
23 contributing positively to net income by 2024/'25.

24 MR. BOB PETERS: So you don't agree with
25 Manitoba Hydro in their response to PUB Manitoba Hydro

1 First Round 197 when they showed that there was estimated
2 incremental revenue requirement from Keeyask and Conawapa
3 under their assumptions, which included the old capital
4 costs? That was at Tab 71 of Board counsel's book of
5 documents, but...

6

7

(BRIEF PAUSE)

8

9 MR. PATRICK BOWMAN: I've -- I've got
10 that document now, Tab 71. It was the response to PUB
11 Manitoba Hydro 1 -- 197, that's the right --

12 MR. BOB PETERS: Yes.

13 MR. PATRICK BOWMAN: -- reference?

14 MR. BOB PETERS: Yes, sir.

15 MR. PATRICK BOWMAN: So this IR is
16 looking at the first year in service of the three (3)
17 projects: Bipole 3, Keeyask, and Conawapa. It looks at
18 their output at calculated average export prices per
19 PUB/MH-145B, which is a -- a response I do happen to have
20 handy, which is a aggregate of -- of export prices --

21 MR. BOB PETERS: Assumed by Manitoba
22 Hydro.

23 MR. PATRICK BOWMAN: -- assumed by
24 Manitoba Hydro, but it's a -- it's a broad average of all
25 -- all of the products that they sell in a -- in a given

1 year, so it's not necessarily looking at the increment of
2 any one (1) of these projects. But I'm assuming that
3 they accepted it as an average, if they produced the
4 answer. And with --

5 MR. BOB PETERS: And they've since
6 downgraded that document in terms of some of the numbers
7 on there as being overly optimistic, and they've reduced
8 some of them.

9 MR. PATRICK BOWMAN: There is a second
10 round question, and I've heard some comments in this --
11 in this proceeding, particularly from ICF about some
12 later adjustments to export price forecasts, but I'm --
13 I'm not sure that I have it -- any update to that IR
14 handy with me, if there is one (1).

15 But this -- this looks at the revenue
16 arising on each project based on it's average energy, and
17 then it subtracts the expenses in the first year of O&M
18 depreciation, capital tax, water rentals, and finance
19 expense, to come up with the total expenses, and to show
20 the estimated incremental revenue requirement.

21 Now, I'm -- don't have a big comment on
22 Bipole 3. Bipole 3 is not, you know, surely being built
23 for its energy benefits. It's a -- it's a different
24 consideration, so I don't think there's a lot to touch
25 there. Bipole 3, for people who don't have it in front

1 of them, shows 225 million as the annual expense in that
2 year, and 26 million is the revenue, so it's a shortfall
3 of a hundred and ninety-nine (199).

4 But when you move to the other two (2)
5 projects, Keeyask's year 1 is a revenue of two ninety-
6 four (294), and a total expenses of three eighty-three
7 (383), for a in -- incremental revenue requirement effect
8 of 89 million its first year. And Conawapa is a -- it's
9 own calculation five forty-three (543) in revenue, and
10 five seventy (570) in expenses, for an incremental
11 revenue requirement impact of 27 million it's first year.

12 So those are the year 1 effects of the
13 type I was talking about. The highest numbers you come
14 to when you look at accounting expenses, which are
15 highest in -- in the first year versus the revenues which
16 will have a tendency to be low within the first year.
17 And those are the -- that the -- the year 1 shortfalls.
18 Under any type of, like I say, the graphs that we've
19 drawn, crossover drafts for other types of projects,
20 those would get smaller as you go forward, and at some
21 point they'd hit the crossover point.

22 So I have no reason to dispute those
23 numbers. I -- I probably suggest caution on anything
24 that uses a -- a broad average export price, because
25 you're -- you really want to look at the -- the products

1 you're producing. Some of those have better dependable
2 versus -- versus opportunity energy and the like, but I'd
3 emphasize that they're -- they're year 1 effects in -- of
4 -- of the projects that occur in different years.

5 Keeyask is in 2021 and Conawapa's in 2025,
6 but the sum total of those, mixed with the other pieces
7 of the -- of the recommended development plan would be
8 rolled into the other figure that I was showing, which
9 shows, you know, improved situation within a -- a few
10 short years after these projects are brought on to line.
11 And I've got a couple of reasons why I imagine that might
12 be contributing to that, but I can't tell you exactly the
13 effect of each one.

14 MR. BOB PETERS: Mr. Bowman, PUB Manitoba
15 Hydro First Round 197 that you referred to, and you put
16 some numbers on the record, that was premised on the
17 capital expenditure forecast that is now outdated.

18 Isn't that correct?

19 MR. PATRICK BOWMAN: That'd be my
20 understanding, based on the time lines, yes.

21 MR. BOB PETERS: And if you added in the
22 new capital costs of Bipole 3, Keeyask and Conawapa, the
23 estimated incremental revenue requirement would be larger
24 than what's shown in that document.

25 MR. PATRICK BOWMAN: For -- if -- if the

1 capital costs are higher and the -- there hasn't been
2 some substantial change on interest expense or interest
3 rates, then, like, the expenses would be higher, yes.

4 MR. BOB PETERS: And from a high level,
5 that's showing that these projects, at least in the early
6 years, aren't paying for themselves at that point in
7 time, and that's been part of the point you've been
8 making, is that they will cross over some point later.

9 MR. PATRICK BOWMAN: There'd be two (2)
10 points. One (1) is that they -- these projects -- I'm
11 not surprised to see them not paying for themselves.
12 I've almost never seen a Hydro or a capital-intensive
13 project that does pay for itself in the first year. The
14 fact that Conawapa gets as close as \$27 million is a
15 pretty good type of number, but, as you know, it was
16 based on an earlier capital cost estimate.

17 But I would just caution that the -- the
18 plan is not solely the sum of the projects. It's the
19 effect that it also has on Hydro's overall existing
20 operations and the other things that are going on. So we
21 sit and listen to things like -- as a result of pursuing
22 this plan, you get improved cross-border transmission, or
23 you get type -- new types of firm export contracts that
24 have better curtailment rates, or you have better
25 opportunity to import from the market without -- during

1 droughts without being transmission constrained.

2 All of those are benefits that won't show
3 up in the simple economics of a sing -- single project,
4 but are tied into the overall economics of the plan, and
5 it's one (1) of the reasons why you -- you really want to
6 try to get full -- full portfolios, to use the word that
7 -- that they would use in British Columbia for this,
8 assessed, not just individual projects.

9 And it's -- it's portfolios of projects,
10 or por -- of -- of a full solution to the resource
11 requirement, or the load forecast, and to get that
12 portfolio or that solution or that plan assessed against
13 a number of different type of scenarios that arise, not
14 just the base-case scenario, which is what Figure 12 of
15 the document that you and I were discussing earlier does,
16 but across a -- a bunch of other possible scenarios, like
17 faster load growth in Manitoba or different changes in
18 gas prices up or down, or all the other types of things
19 that people say you want to assess these plans against.

20 MR. BOB PETERS: In terms of the Bipole
21 3, again, it comes up with a -- a considerable number
22 that will have to be attended to out of Manitoba Hydro's
23 revenues, correct? That is, it -- it's an expense, it's
24 not really a revenue generator?

25 MR. PATRICK BOWMAN: Bipole 3 is a -- is

1 a -- clearly an expense, yes.

2 MR. BOB PETERS: And, just as Keeyask and
3 Conawapa aren't covering their -- their expenses in the
4 first years through their revenues, the costs of Bipole 3
5 would also have to be attended on the income statement as
6 well, correct?

7 MR. PATRICK BOWMAN: Yes.

8 MR. BOB PETERS: And you are using Tab
9 71, to which I directed you, the PUB Manitoba Hydro First
10 Round 197, and the bipole incremental cost is 225 million
11 under CEF-09. And if you update that for CEF-10, the
12 estimated incremental revenue requirement would be --
13 would be greater, correct?

14 MR. PATRICK BOWMAN: Yes.

15 MR. BOB PETERS: And the cost to pay for
16 that bipole will then be a cost to be borne by Manitoba
17 Hydro's domestic ratepayers, correct?

18 MR. PATRICK BOWMAN: Yes.

19 MR. BOB PETERS: And from what you've
20 understood, Manitoba Hydro is not grossing up its export
21 prices to add on any amounts on account of Bipole 3 even
22 if Bipole 3 brings the energy from northern Manitoba for
23 export?

24 MR. PATRICK BOWMAN: Well, I guess in --
25 in all honesty, I -- I hope they're not because I hope

1 that the prices people are trying to sell for is the
2 highest that the market will bear, and there's not a lot
3 of room in there to gross them further up. That's the
4 premise of the par -- market participation.

5 MR. BOB PETERS: Well, and when I say
6 "gross them up," I meant to include an adder on account
7 of domestic transmission costs. And you don't understand
8 that Manitoba Hydro's able to do that?

9 MR. PATRICK BOWMAN: Yeah, anytime you're
10 operating in a competitive market you're -- you're lar --
11 it's a large market, you're a price taker, people, to a
12 certain extent, don't -- don't care that much what your
13 costs are. They're -- they're looking to see whether
14 your power can be provided at a -- at a price that --
15 that they buy it for, and hopefully you're getting the
16 most that the market will pay for it.

17 So even if your costs go up, you're ge --
18 already getting the price that the market will pay for
19 power.

20 MR. BOB PETERS: Another way of saying
21 that, Mr. Bowman, is just because Manitoba Hydro's costs
22 go up, they're not able to extract any greater return on
23 the export market?

24 MR. PATRICK BOWMAN: Yeah, unless --
25 unless for some reason it's bringing a greater value of

1 some sort or they can convince customers or -- or build
2 into contracts, that they're selling them a more premium
3 product because it's backed by a third bipole or
4 something.

5 But the -- the basic premise would be
6 they're selling kilowatt hours and they're getting as
7 much as kilowatt hours are worth. Whether you add a
8 Bipole 3 or -- or any other component, you're -- you're
9 still selling kilowatt hours and trying to get as
10 kilowatt hours are worth.

11 MR. BOB PETERS: Mr. Bowman, let me see
12 if I can assimilate some of the comments you've made
13 about the development plan from the perspective of
14 InterGroup and its -- its client, the MIPUG group of
15 companies.

16 The -- the MIPUG group of companies wants
17 -- wants certainty, which you defined on MIPUG Exhibit 14
18 as stable, predictable, and fair rates?

19 MR. PATRICK BOWMAN: Those are concepts
20 that they've relayed to us, yes.

21 MR. BOB PETERS: And do you and your
22 clients accept that if Hydro's preferred development plan
23 is implemented and the costs are built into the operating
24 statement, as we've now discussed, the revenues and rates
25 to arise in the future are uncertain?

1 MR. PATRICK BOWMAN: I think that any of
2 the plans lead to revenues and rates in the future that
3 are uncertain. The -- the recommended plan has more
4 debt, it has more projects, but there's no certainty with
5 any of the -- any of the scenarios.

6 MR. BOB PETERS: And do you accept that a
7 build decision on the preferred development plan with
8 implications being good or bad, as we've discussed,
9 becomes irrevocable?

10 MR. PATRICK BOWMAN: Largely. There are
11 some projects that have been, you know, paused midway
12 through construction or something. We've run across that
13 concept before. But -- but, generally, no, once you've -
14 - once you've committed your project will go forward,
15 yes.

16 MR. BOB PETERS: And the domestic
17 consumers are going to pay for the downside, if there is
18 one (1), related to that decision to go forward?

19 MR. PATRICK BOWMAN: Ye -- yes, the --
20 the net downside after whatever one can gain from export
21 markets or the like.

22 MR. BOB PETERS: And those same customers
23 would reap the upside if there was an upside in terms of
24 reduced rate increases and the like?

25 MR. PATRICK BOWMAN: Well, that's always

1 been the premise, and that's the -- the basis for the
2 types of comparative IFFs that are -- that are generated
3 in -- in a Wuskwatim NFAAT OR in -- in a twenty (20) year
4 financial outlook that compares things. It -- it has the
5 upside going to the benefit of -- the -- the benefit of
6 ratepayers either through lower rates, or, in these
7 cases, by fixing the rates the same and -- and showing
8 the -- the reserves growing faster and -- and whether
9 that's a benefit to ratepayers once reserves have grown
10 beyond the level that's needed to ensure stable rates is
11 a -- is a debate for a later date, I guess.

12 But -- but, nonetheless, yes, there's a --
13 it's not like there's a huge assumed shareholder benefit
14 in this or -- or anything of the sort. Presumably there
15 are partners built into this, but they're -- they're to
16 the degree that -- you know, similar to Wuskwatim,
17 they're to a minority percentage.

18 MR. BOB PETERS: You brought the Board's
19 attention to the twenty (20) year IFF a couple of times
20 in your evidence to me, Mr. Bowman and Mr. McLaren. When
21 you looked through that twenty (20) year IFF you related
22 how the first ten (10) or eleven (11) years had a 3 1/2
23 percent rate increase followed by a lower rate increase
24 with a considerable increase in the equity percentage,
25 correct?

1 MR. PATRICK BOWMAN: Yeah.

2 MR. BOB PETERS: Do you take from that
3 analysis, Mr. Bowman, that twenty (20) years out we will
4 now see real rate reductions being sought by the Utility
5 to perhaps get their equity back to a 75:25 rather than a
6 -- a stronger portion?

7 MR. PATRICK BOWMAN: We're talking about
8 an IFF that gets back to 75:25 by the year '25 --
9 2025/'26. And it goes up pretty fast from there, and I
10 think it's probably beyond the horizon of my crystal ball
11 to say how -- how rates may be dealt with in that
12 horizon.

13 But we did find it interesting that there
14 was an interrogatory that said, ignore the stable rates,
15 just show me the rates needed to maintain 75:25, allowing
16 them to be unstable but fix -- fix the rate changes. And
17 it was quite instructive that it really showed you needed
18 a -- a bump pretty -- pretty quickly here to a -- a
19 somewhat higher level of rates for a period of time.

20 And then at the end of that period of
21 time, that investment, it drops back down to about the
22 same level, and then it holds pretty constant at that
23 level. So there's a -- there's a period of -- of -- in --
24 - in that -- that mathematics there's a period of higher
25 rates needed to -- to pay the equity -- pre-pay the

1 equity in the projects, and then it drops back down and
2 today's level of rates work pretty well for the -- the
3 second half of the IFF. So there -- you know, we --
4 we've seen a scenario that shows -- shows reductions for
5 that reason.

6 MR. BOB PETERS: That -- that was a
7 specific requested information request, correct?

8 MR. PATRICK BOWMAN: It was, but we just
9 thought it was pretty instructive as to whether --
10 whether we're sitting here today saying we need to
11 transition to a higher rate level because we're bringing
12 on higher cost resources and everybody in Manitoba needs
13 to be prepared to shoulder their share of that, or
14 whether it's just a matter of we need to generate a bunch
15 of -- a bunch of cash to pay 25 percent of new projects,
16 but really today's rate levels are sufficient for
17 decades.

18 And -- and it was pretty instructive that
19 -- that at least as far as someone could develop those
20 forecasts, and I believe that was based on '09 -- IFF-09,
21 not IFF-10, it -- it may have actually pointed to the
22 latter. And I -- I think that's something that we might
23 want to watch going forward and see the normal assumption
24 would be a bunch of people sitting here in 2011 who are
25 largely being served by assets that are twenty (20) years

1 old or older can have a pretty low rate, but once you
2 bring on a couple of thousand megawatts of modern vintage
3 assets, your rates have to be higher.

4 That -- that one (1) actually suggests
5 that maybe it's actually the opposite. That -- that the
6 modern vintage of assets, once they've got their own
7 equity put aside, are -- are not really disadvantaging
8 your rates compared to the rates that exist today to pay
9 for the -- the -- the older assets.

10 MR. BOB PETERS: Let me pose it as a
11 hypothetical, Mr. Bowman, because I'm not sure I asked
12 properly, or I understood your answer. If -- if we start
13 from a premise that consumer's rates are let's say seven
14 (7) cents a kilowatt hour today and after the decade of
15 investment they're say ten (10) cents a kilowatt hour,
16 just for a round number sake.

17 Is it your expectation that -- that that
18 ten (10) cents a kilowatt hour will be returned down to
19 seven (7) cents a kilowatt hour in rates charged to
20 consumers?

21 MR. PATRICK BOWMAN: I was trying to
22 write numbers as you were going through, Mr. Peters, and
23 I may have distracted myself. Can you --

24 MR. BOB PETERS: Well, I was just trying
25 to give you an example of using absolute numbers rather

1 than the answer you gave me Mr. Bowman, that as you look
2 through the IFF going forward and how profitable it -- it
3 -- the preferred development plan may be, is it your
4 expectation that the rates will return to, let's say
5 today's rates at seven (7) cents a kilowatt hour,
6 sometime in the future, or is that an unreasonable
7 expectation?

8

9

(BRIEF PAUSE)

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MR. PATRICK BOWMAN: I guess my -- you --
you wanted to talk in -- in firm numbers and I guess my
first is that seven (7) cents isn't really the right
benchmark today. We're really talking about a bulk power
system that's more like three (3) to four (4) cents,
right. Seven (7) is if you add in a bunch of
distribution.

But -- and -- and it -- it draws out all
the more starkly the -- the type of comparison you're
making, that we've got 5,000 megawatts of three (3) to
four (4) cent power, and we're talking about adding, you
know, fifteen hundred (1,500) or something for almost
2,000 megawatts of say, you know, ten (10) cent power, to
use rough numbers.

So if you -- if you were to sort of put

1 that together in a package, your -- your three (3) to
2 four (4) cents maybe needs to be five (5) once that is
3 all put together. The -- I'm -- I'm doing quick back of
4 the envelope calculations obviously.

5 And that would be a basic type of
6 assumption that we would make, that if your man -- that
7 one (1) of the reasons Manitoba had fairly low power
8 rates for quite a while is because we hadn't built a lot
9 recently, and we have a lot of assets that are built in
10 1980s dollars, or -- or before, '70s dollars, '60s
11 dollars.

12 And that if you start building assets of -
13 - in the modern context, your -- your rates are going to
14 have to transition to a new level. And if we take that
15 as a working assumption, and we've seen it through quite
16 a few GRAs, we've commented on it before. And we sit
17 with MIPUG members and sort of explained that to them.
18 People understand it, that -- that, you know, as the
19 loads grow we need to bring on Conawapa -- Conawapa's
20 higher costs. It gets averaged in, and -- and all of us,
21 whether it's residences or businesses or industry, need
22 to see our bulk power costs transition up to reflect that
23 new sort of average -- average level.

24 And that would be the basic working
25 assumption up until we saw that one (1) curious IR,

1 that's -- like I said, is one (1) we'd want to track,
2 which seems to suggest that -- that potentially the three
3 (3) to four (4) cent level you're at today could -- is
4 insufficient to pump out the cash needed to fund 25
5 percent of -- of the new projects.

6 But that in the event you were to be able
7 to finance 25 percent of their -- of their development
8 with -- with cash generated from rates, you could
9 transition right back down to the three (3) for four (4)
10 cent levels of bulk power, and -- and hold the whole
11 system steady, which is sort of interesting, and curious,
12 and probably a -- a good surprise to us.

13 I'm not -- like I said, I'm not sure we --
14 we understand it perfectly. It was in the MIPUG book of
15 documents Mr. Hacault points out to me, in Tab 3. The --
16 the numbers I'm talking about.

17 That the rates in order to do what I'm
18 talking about, they'd bump up about 30 percent, hold that
19 level for a number of years, and could bump back down
20 about 30 percent once the developments are done, and --
21 and end up about the same level.

22 THE CHAIRPERSON: That is actually quite
23 an interesting chart, isn't it. It gives the -- it
24 suggests basically that twenty (20) years out, despite
25 inflation going on at 2 percent to 3 percent a year,

1 despite for example BC Hydro talking about something like
2 a 50 percent rate hike over five (5) years, and -- and
3 other -- Saskatchewan's huge investment in so-called
4 clean coal, and Alberta's \$2 billion set -- reserve, that
5 that table suggest that after twenty (20) years rates
6 would be the same basically as they are today.

7 MR. PATRICK BOWMAN: Yes, that was --
8 that was our conclusion out of it, too. And I -- I don't
9 want to hang too much on it, but there's a lot of paper
10 in this hearing, and as we poured through it, in doing
11 the type of job we do, you -- it's good to be able to let
12 your -- let your clients know if they're in for, you
13 know, nasty surprises, or -- or if the out -- if it's --
14 there's something in here.

15 And so we tend to flag those off on the --
16 the side of the paper, and -- and as much as there's, you
17 know, \$15 billion in debt, and -- and, you know, pretty
18 big exposure to shale gas, and a lot of uncertainties in
19 the future, there -- there's a surprising number of -- of
20 bits of information in this hearing that -- that, if
21 anything, might, you know, err the other way.

22 It might suggest that -- that there's
23 things we can't fully understand, and that -- that may be
24 overly optimistic, or that may be a bit dated in terms of
25 their capital costs, but that suggest the -- the very

1 thing that -- that lead to our initial conclusion, which
2 is you don't have all the answers. But it doesn't look
3 like you're at a stage where you'd want to shut off the
4 taps and say, Abandon this, because it -- it looks like
5 it -- like there's enough positive -- positive news or
6 upside that -- that you should really make sure you
7 understand the option.

8 And that -- you know, that -- that's some
9 -- it's -- it's a pretty -- I won't say it's the most
10 robust conclusion because we're not in the -- a hearing,
11 or we're not with all the information that one would need
12 to test -- test it across different scenarios and the
13 like, but it's -- but it's interesting. It's intriguing.

14

15 CONTINUED BY MR. BOB PETERS:

16 MR. BOB PETERS: Mr. Bowman, looking a
17 bit beyond the Utility, and perhaps from a provincial
18 perspective, you understand that, with the preferred
19 development plan, the overall debt load of the province
20 will rise substantially, correct?

21 MR. PATRICK BOWMAN: Yes.

22 MR. BOB PETERS: And does that have
23 possible implications for rates of any future, further,
24 non-required Manitoba Hydro borrowings for the province?

25 MR. PATRICK BOWMAN: All the evidence

1 we've ever run across on this subject, in Manitoba or
2 elsewhere, is that -- is that internally financed
3 borrowings that an entity guarantees have -- have, you
4 know, very little effect on the overall entity, that as
5 long as it -- a -- a set of -- of debt is -- is within a
6 -- a self-sustaining Crown or something of that nature,
7 that it's going to have very little -- very little impact
8 on the -- on the main entity that's guaranteeing it.

9 I don't think we've heard anything
10 different here, and so it just comes a question as to the
11 likelihood that -- that Manitoba Hydro can -- can sustain
12 that debt without default. And we sought to put some --
13 some of these questions to -- to people like KPMG who
14 deal a little bit more with -- with some of those
15 markets, and I think we got confirmation that our basic
16 assumption that, if you're sitting here as a bond rating
17 agency and you're looking at an entity like Manitoba
18 Hydro who -- you know, even if things go bad and their
19 retained earnings drop and they're in a drought, they
20 still own a great set of -- of assets, they still are
21 next to a big market that can absorb a lot of their
22 power, and they still have some of the lowest domestic
23 rates around, you're -- the people lending the money are
24 probably not going to doubt its ability to be self-
25 sustaining.

1 THE CHAIRPERSON: Mr. Bowman, you're
2 aware of the seemingly ongoing European credit crisis, I
3 presume.

4 MR. PATRICK BOWMAN: It's not an area of
5 my practice, but I read the newspapers.

6 THE CHAIRPERSON: I was just wondering,
7 with your indication that the credit ratings and the
8 people that hold the bonds take that particular view,
9 there seems to be some indications in some countries in
10 Europe where the pressures are on the governments to
11 dump, if you want to call it, state-owned assets to
12 reduce their ratio of debt to GDP.

13 MR. PATRICK BOWMAN: I'm, at best,
14 generally, you know, vaguely aware of -- of that, but I
15 think the -- the key questions would come down to what --
16 that -- that I could deal with, come down to Hydro's
17 debt, not necessarily sovereign debt, and on -- on
18 Hydro's debt, you know, whether we're -- we're looking at
19 borrowings in -- in, say, Northwest Territories or in
20 Yukon or in different places we've dealt with, the real
21 question becomes: Do I believe that the entity that's
22 borrowing the debt will continue to operate and -- and be
23 able to generate the -- the funds needed to repay the
24 debt?

25 And I -- I can tell you that, when you're

1 in -- when you're in something like Northwest
2 Territories, where rates are -- are not what they are in
3 Manitoba, and a fair bit of your load is sold to
4 commercial customers, and your rates are starting to get
5 to a level where some of those commercial customers might
6 just decide to snip the wire and put their own generators
7 in, people might get a bit nervous about your ability to
8 -- to generate cash, and they -- they look for other
9 solutions that the government there is on -- actually
10 just recently put in to help -- help solve that problem.

11 But if you're looking at something like
12 Manitoba and you're saying, What's -- you know, we're --
13 we're talking pretty severe situations here, and if the --
14 -- you know, if the -- if the rubber really hit the road
15 and Hydro had to hunker down and get its debt paid, I
16 don't -- you know, I don't -- I don't lend billions for a
17 living, but Hydro's got a lot of options available to it
18 to increase the extent to which it generates cash that's
19 not going to lead to it cannibalizing its own load or
20 some of the situations that you might see people get
21 nervous about.

22

23 CONTINUED BY MR. BOB PETERS:

24 MR. BOB PETERS: Mr. Bowman, since
25 Manitoba Hydro's preferred development plan has been

1 established, there have been a -- a number of
2 developments that haven't necessarily been positive.
3 Would you concur, such as the -- the economic events that
4 -- not only that, as you and the Chairman talked about in
5 Europe, but more -- more -- or closer to home, the North
6 American recession has had a negative impact on the
7 Corporation's prospects, at least short term?

8 MR. PATRICK BOWMAN: There have been a
9 number of events. That's one (1) example. Probably of
10 the ones that I've heard about, that's one that concerns
11 me less than many others, but -- but that's one.

12 MR. BOB PETERS: Another one is shale
13 gas, which you mentioned. Does that concern you more or
14 less than the economic turndown?

15 MR. PATRICK BOWMAN: Well, I say it
16 concerns me less because you're -- what you're really
17 concerned about is -- is the ability of these projects to
18 -- to pay for themselves and to market their power in all
19 -- you know, in the -- ten (10) years from now.

20 And I don't think there's a lot of people
21 saying that between, you know, ten (10) -- ten (10) to
22 twenty (20) years from now the current recession we're in
23 is likely to be the one that's going to be a driving
24 factor. Something like shale gas, there are people who
25 talk about -- about that horizon, but I'm -- there --

1 there are not many topics that I've been through hearings
2 on where between the time the hearing starts and the time
3 you get to testify the facts change as much as they do as
4 something like shale gas.

5 And I think it's very early and it's very
6 hard to know, and -- and it's something that needs to be
7 built into the types of scenarios that Hydro has to
8 acknowledge it doesn't control and that it has to analyze
9 across its -- across its different -- across different
10 plans or different portfolios or different resource
11 options and -- and provide evidence about risk and
12 implications of when it -- when it proposes a set of
13 projects or propose a plan to go forward, but it's --
14 it's a fast-moving topic.

15 MR. BOB PETERS: All right. And tha --
16 that includes other -- other aspects, like the exchange
17 rate is perhaps not as favourable for exports as it used
18 to be, the demand load, including that of your customers
19 -- or your client's customers, has diminished. The
20 export opportunity sale prices are perhaps lower than
21 what parties would like, and carbon costs don't appear to
22 be imminent on the horizon.

23 And we've also talked today about
24 constructions costs being greater. Those are some other
25 negative factors, correct?

1 MR. PATRICK BOWMAN: Yes, but every
2 single one (1) of those except with perhaps the last one,
3 on construction costs, you really have to sit here and
4 think what going on -- what -- what the goings on today
5 tells you about what it's going to be like in 2025, does
6 it tell you a lot or -- or not much at all.

7 Shale gas might be a story that goes on
8 that long. Canadian exchange rate is going to have a
9 whole lot of things that go -- go on between now and
10 then, and I don't know that -- that any short-term moves
11 makes a big difference. But if I was -- yeah, the
12 construction costs, one -- could be one that hits you
13 sooner because even before the projects are in service,
14 that's when that one matters.

15 MR. BOB PETERS: Well, having said that,
16 and -- and maybe let me put the question that you were
17 maybe asking rhetorically, put it to you, Mr. Bowman and
18 Mr. McLaren. Can you think of how the decade of return
19 in the end may not materialize as the decade of return?

20 MR. PATRICK BOWMAN: Well, I made a
21 comment in our direct that people who look at Hydro and
22 say the biggest risk they face is drought are not people
23 who spend time thinking about the development plan
24 because drought wouldn't even register on the development
25 plan risk in a way because you don't say Conawapa works

1 so long as we don't have a drought.

2 If you look at the long-term economics of
3 -- of projects though, the things that would -- that
4 arise that could swing them and could swing them
5 materially are -- are much more on the physical output
6 side on a sustained basis than -- than most of those,
7 say, financial factors or things that are going to one
8 (1) way, they're going to go another.

9 They're -- they're fairly short-term
10 trends you're looking at now when you don't now a lot
11 about 2025. But, you know, there are -- I -- I can -- I
12 can get dreaming if -- if you want.

13 There's certainly -- there's certainly
14 projects in the United States where people have built
15 dams to generate power for a long-term and -- and before
16 those dams are -- are ready to be retired, say,
17 environmental concerns come to a forefront and let the
18 rivers run wild type of movements lead to them being
19 bypassed. Probably the people who invested in some of
20 those projects didn't -- didn't have the projects unfold
21 the way that they wanted. So that's a good example,
22 things that can -- that change the way you need to manage
23 water.

24 I guess long-term hydrological patterns,
25 but -- but that's a very hard one to think about

1 forecasting, but -- but probably more so water management
2 environment community, those type of factors are ones
3 that if you don't -- don't manage to keep under control
4 and -- and you had to do unexpected releases or something
5 of that nature, change the way you manage water, give up
6 storage, you may find that the output you were banking on
7 in your project doesn't arise.

8 And -- and probably those would rate
9 pretty high on the -- on the risks to a development plan,
10 if you're -- if you're asking me, but it's not like we
11 have a lot of evidence on that right now.

12 MR. BOB PETERS: What about from a
13 technology point of view? Is there any technological
14 advancements that -- that could put greater risk or
15 uncertainty on the decade of returns?

16 MR. PATRICK BOWMAN: I think that's
17 definitely in the category of crystal balling. They
18 typical experience with Hydro projects is that you're --
19 your big cost is on the fixed cost side, not on the
20 operating cost side. So whether the projects will
21 continue to generate power that's, you know, able to be
22 sold at a profit, is probably -- you know, it's probably
23 pretty unlikely that's going to come to pass; that
24 someone's going to come up with a -- with a source of
25 power that's, you know, south of half a cent or something

1 like that.

2 But whether you will get the big prices
3 you need to pay off your project with haste, or whether
4 you -- you know, whether it's still worth it to generate
5 for half a cent and sell it for something lower than you
6 counted on because of a technological change, that's --
7 you know, that -- that's obviously a possibility. But I
8 -- I think that's true pretty much across the board for
9 those people talking about major hydro in Canada, and I
10 don't see a lot of -- a lot of concern or a lot of sweat
11 out of, you know, say Hydro Quebec or -- or Newfoundland,
12 or -- or others who are -- who are looking at trying to
13 get export projects in place at this point, about --
14 about their projects being sidelined by some brand new
15 generating technology.

16 MR. BOB PETERS: In terms of the Manitoba
17 Hydro preferred development plan, do I take it that MIPUG
18 and InterGroup is recommending that the needs and
19 justification hearing which Mr. Warden promised was --
20 was forthcoming be held before Manitoba Hydro proceeds
21 with -- with their current plan?

22 MR. PATRICK BOWMAN: The framework in
23 Manitoba for reviewing projects -- I -- I touched on this
24 Friday; I'm not sure how much detail we went into -- but
25 it's -- it hinges on that very -- that very late review

1 which is of the -- a -- a project, per se. And the need
2 and justifications concept, even the language is very
3 much tied into the necessary environmental regulation;
4 that in order for a -- for a project to go forward under
5 some of the environmental legislation, you have to show
6 not only its environmental effects, but that the need for
7 and the alternative to the project have been assessed.

8 So the -- the name and the concept is --
9 is to the best of my knowledge not -- not an option.
10 There -- there is a requirement under the Canadian
11 Environmental Assessment Act for a consideration of need
12 for alternatives to the project being proposed.

13 So I don't think it's a matter of us
14 necessarily saying -- recommending that some type of
15 regulatory review being done. It -- I think we would
16 understand it to be a necessity.

17 The type of review, and the degree of
18 rigour in the review, and the degree of expertise that is
19 brought to the review, could vary. And I think that from
20 that perspective one would want to make sure that -- that
21 a ratepayer perspective is -- is somehow brought into
22 that review and fairly -- fairly front and centre.
23 Because I think that's -- you know, for the client that
24 we work for, they would think that as the ratepayers who
25 will bear these risks over the long term, and the

1 benefits potentially over the long term, that that --
2 that view point needs to be -- needs to be brought up.

3 MR. BOB PETERS: What -- what you, I
4 think, said in your direct evidence, Mr. Bowman, was that
5 the -- there's a distinction between a review of a
6 project and review of a plan.

7 Did I understand that correctly?

8 MR. PATRICK BOWMAN: Yes. Yeah.

9 MR. BOB PETERS: And when -- and when you
10 said "review of a project," for example, you would be
11 thinking maybe a review of Keeyask, review of Conawapa,
12 but as opposed to review of a plan, you're talking about
13 the global picture, in terms of Manitoba Hydro going
14 forward for the next couple of decades in terms of their
15 -- their major new capital plans, correct?

16 MR. PATRICK BOWMAN: Right. In some
17 places a plan is reviewed by a rate -- by a utility
18 regulator fairly early in a process, and they will
19 consider, you know, broad suites of -- of generating
20 options -- they'll consider a bunch of different things -
21 - and -- and set out a framework, and then review
22 projects happens later and how they fit into that
23 framework. So that framework is already established in a
24 public regulatory forum.

25 We don't have that framework in Manitoba.

1 The -- the -- the plan and the -- the broad direction
2 Hydro pursues is set by government and Hydro's own board,
3 not -- not -- not some regulator who is charged with
4 that.

5 So -- so by the time a project comes, the
6 -- the assessment presumably becomes how well it fits
7 into the plan, and the framework, and the impact on
8 ratepayers, given that, you know, ten (10) years ago this
9 -- this concept was -- wasn't, you know, crystalized, and
10 -- and set in motion.

11 MR. BOB PETERS: Well, just on that
12 point, Mr. Bowman, the last time Manitoba Hydro's major
13 capital plan was reviewed, it would have been reviewed by
14 this Board pursuant to an order in council in the early
15 1990s.

16 Isn't that correct?

17 MR. PATRICK BOWMAN: Yes, but I think if
18 you look at the language of that order in council, it's
19 prob -- it would be more akin to the -- the second type
20 of review I was talking about. It was -- it was a review
21 of major capital projects that were encompassed in
22 Hydro's plan, and that were scheduled to proceed on a
23 fairly expeditious basis from that point forward,
24 including the contracts that were already in place un --
25 underlying them, or -- or already being negotiated to

1 underlie them.

2 It was -- it was a fair bit down the road
3 of -- of the way that, say something like the -- the BC
4 hydro planning process that Mr. McLaren's in -- involved
5 in right now, which is -- which is looking at broad
6 portfolios, and suites of options, and -- and those types
7 of things.

8 So it's -- it was -- it was probably more
9 akin to the -- the latter type of review.

10 MR. BOB PETERS: And the last time a
11 project, per se, was reviewed under what your answer was,
12 is that that would go back to 2003/'04 when the Clean
13 Environment Commission, together with the assistance of
14 some Public Utilities Board members, conducted a review
15 of the Wuskwatim project?

16 MR. PATRICK BOWMAN: Yeah, that would
17 have been very much a project review. Yeah.

18 MR. BOB PETERS: Mr. Bowman, I'd
19 understood your direct evidence to include a statement to
20 the effect that the objective of minimizing costs is not
21 appropriate.

22 Now, I didn't go back to the transcript,
23 but do you recall words to that effect?

24 MR. PATRICK BOWMAN: I believe this is in
25 relation to the Kubursi/Magee recommendation about

1 overall generation costs.

2 Is that the -- am I thinking of the right
3 reference?

4 MR. BOB PETERS: I believe that's when --
5 that's the refer -- or the context in which you -- you
6 used those words.

7 So you do recall them?

8 MR. PATRICK BOWMAN: I do.

9 MR. BOB PETERS: And is the -- is the
10 point the Board to -- to make from that comment, that
11 minimizing the cost to the ratepayer may not be the best
12 long term plan?

13 MR. PATRICK BOWMAN: No, that wasn't
14 actually the point, although it's -- I might make that
15 point, as well. The point I would have been making was --

16 MR. BOB PETERS: You're welcome.

17 MR. PATRICK BOWMAN: -- in the
18 Kubursi/Magee evidence there was a comment about -- it
19 was -- it was framed in fairly technical nature, but it
20 said the -- the objective function in MOST, which is one
21 (1) of the models, should be changed to minimize the
22 overall cost of -- of generation rather than what it was
23 calling maximum rev -- net revenue.

24 We asked some IRs to confirm that this
25 wasn't a comment limited to that one (1) model; it was a

1 broad comment on Manitoba Hydro that overall Hydro should
2 operate so that at any given point in time its trying to
3 keep its overall generation costs the lowest possible.
4 And that was the part that we found curious, and -- and
5 tried to ask some questions of Manitoba Hydro, and
6 confirm that they found it as curious as we did, because
7 of the difference between overall costs and net cost to
8 ratepayer, which, I think, was where perhaps the
9 misunderstanding probably arises.

10 I -- I guess in -- just to finish off, it
11 is appropriate to -- for Manitoba Hydro to minimize the
12 net cost to ratepayers, particularly over the long term;
13 but to minimize the net cost to ratepayers, but that may,
14 in some cases, mean not minimizing the overall cost. It
15 may, in some cases, mean taking on costs that increase
16 their -- their average costs, but that have a business
17 case, and overall yield greater returns than the costs
18 you're incurring, in which case what's left over for
19 ratepayers to pay is -- is minimized.

20 MR. BOB PETERS: And that's why you --
21 you used the -- the adjective "net", the net costs?

22 MR. PATRICK BOWMAN: Yes.

23 MR. BOB PETERS: All right. I think I
24 have your point.

25 Mr. -- Mr. Bowman, Mr. McLaren, has

1 InterGroup considered the composition of the current
2 equity that Manitoba Hydro reports on its financial
3 statements?

4

5 (BRIEF PAUSE)

6

7 MR. PATRICK BOWMAN: Maybe we need some
8 help with the "composition" word.

9 MR. BOB PETERS: Well, do you find any of
10 the equity that Manitoba ha -- Manitoba Hydro has on its
11 balance sheet to be illiquid?

12

13 (BRIEF PAUSE)

14

15 MR. PATRICK BOWMAN: Well, at one (1)
16 level, basically, all of the equity that's there is
17 illiquid; it's -- it's not held in cash. The equity
18 that's used in the debt-equity calculation is made up of
19 a couple of pieces, and maybe I can comment on each of
20 them individually but, you know, retained earnings is the
21 clearest component, and it's -- it's the residual of the
22 rest of the balance sheet, if you like, the sum of the
23 net income over the years, but it's not liquid.

24 It is reflective of, or it balance off,
25 all of the other things that are on the balance sheet,

1 some of which are -- are only somewhat liquid, some of
2 which are very illiquid but, nonetheless, it's a -- it's
3 a valid type of accounting reporting.

4 The one that I think we have a bit more
5 caution on is the -- what's called the accumulated other
6 comprehensive income, and that's one that -- that is
7 difficult to -- to think about building into an overall
8 debt-equity type of measure, or about considering the --
9 it as a useful measure of the equity of the company
10 because of the -- the nature in which it arises, the --
11 the instability of -- of that -- of that metric. But
12 that's -- that's a second one.

13 There's a third one that relates to
14 customers' contributions, and I don't think we have any
15 particular issue with the customer contribution
16 component.

17 MR. BOB PETERS: But the AOCI is a valid
18 accounting reporting as well as part of equity, is it
19 not?

20 MR. PATRICK BOWMAN: Well, it -- it is
21 but unlike the rest of retained -- well, maybe not unlike
22 but it's a very transient type of entry. It's very
23 unstable in -- in a way, and it -- you have to be careful
24 as to what it's trying to represent. To my
25 understanding, the biggest component, if not almost the

1 entire component, is -- is foreign exchange gains and
2 losses that -- unrealized foreign exchange gains and
3 losses, and -- and not only are they unrealized but
4 they're -- they're a component of Hydro's exposure
5 management program, which is intended that they'll never
6 be realized on their own; they'll always be realized in -
7 - in conjunction with an offsetting entry.

8 So if you're sitting here with a very
9 large balance there of -- of AOCI arising from unrealized
10 gains, but you separately are maintaining an overall
11 program that says, I'm not going to realize those gains
12 in and of themselves, I'm only going to realize them in
13 conjunction with losses that I expect to occur that I'm
14 offsetting them against, then I think you want to be
15 careful about reporting those as -- as some component of
16 -- of equity that makes you -- you think that you're
17 sitting comfortably when it can -- it can change very
18 quickly. And I'm just looking at the IFF where it goes
19 from 266 million to 14 million in a single year of the
20 forecast, so it's -- it's a bigger exchange than the
21 entire net income of the company, just for that one (1)
22 item.

23 THE CHAIRPERSON: Just in concept, Mr.
24 Bowman, when you look at con -- contributions in aid of
25 construction, they're linked, are they not, to assets

1 that are being amortized?

2 MR. PATRICK BOWMAN: Yes.

3 THE CHAIRPERSON: And they potentially
4 could be assets that relate to lines to a particular
5 industry that potentially may not continue infinitely?

6 MR. PATRICK BOWMAN: Yes, but there's --
7 I think there's probably any number of items on Hydro's
8 balance sheet that reflects investments that are --
9 particularly on the asset side -- investments that --
10 that may not continue infinitely, or may -- may end up
11 being disposed of before they've reached the end of their
12 -- of their depreciated life. So I'm not sure it's --
13 it's unique in that nature; it's just -- it only -- the
14 only thing that's unique is that, instead of the utility
15 having put up the money, the customer put up the money.
16 That's the -- that's the defining characteristic.

17 MR. BOB PETERS: Mr. Chairman, a quick
18 flip of my notes leads me to confess I expect to be half
19 an hour more with these witnesses, and I'd be prepared to
20 push through, or we could --

21 THE CHAIRPERSON: We will take a break,
22 then.

23 MR. BOB PETERS: -- we could take a
24 break. Thank you.

25

1 --- Upon recessing at 2:46 p.m.

2 --- Upon resuming at 3:12 p.m.

3

4 THE CHAIRPERSON: Okay. Welcome back.

5 Carry on, Mr. Peters.

6 MR. BOB PETERS: Yes, thank you.

7

8 CONTINUED BY MR. BOB PETERS:

9 MR. BOB PETERS: Mr. Bowman and Mr.
10 McLaren, in your direct evidence one (1) of your
11 suggestions to this Board is that risk tolerance has not
12 been examined enough in these proceedings.

13 Have I got that right?

14 MR. PATRICK BOWMAN: Mr. Peters, our
15 evidence was that risk tolerance from the perspective of
16 ratepayers has -- was a -- did not appear to be front and
17 centre at times.

18 MR. BOB PETERS: And a key measure is the
19 risk tolerance of the ratepayers?

20 MR. PATRICK BOWMAN: Yes, given that the
21 changes in costs and the changes in revenues that arise
22 will ultimately under basically any credible future
23 scenario be borne by ratepayers, that that would be the
24 key measure.

25 MR. BOB PETERS: And is it your view that

1 domestic ratepayers have a low risk tolerance?

2 MR. PATRICK BOWMAN: Yes, low.

3 MR. BOB PETERS: And in addition to that,
4 they have a desire for a continuation of low rates?

5 MR. PATRICK BOWMAN: Yes.

6 MR. BOB PETERS: That applies not only to
7 the residential customer, but also to the general service
8 large greater than 100 kV customers?

9 MR. PATRICK BOWMAN: Yes, we reviewed
10 some different pieces of evidence to -- to support that,
11 and that, you know, low -- low but reasonable rates that
12 are -- you know, change at a reasonable basis stable over
13 -- but stable over time, predictable, was -- was part of
14 what seemed to be the key underlying objectives of -- of
15 ratepayers and of this Board when it's looking out on
16 their behalf.

17 MR. BOB PETERS: Even, Mr. Bowman, if
18 that means ultimately a no sale scenario?

19 MR. PATRICK BOWMAN: Sure, if it's the
20 longer -- in the longer term horizon, if the -- the risk
21 profile and the level of investment is such that rates
22 are on a sustained basis, lower, more stable, less risky
23 under a no-sale scenario, or -- or even any number of
24 alternative scenarios, that would be something that would
25 seem to be -- to better meet the -- the what -- what we

1 have seen in the evidence that we've reviewed on the --
2 the preference and the risk tolerance for ratepayers.

3 MR. BOB PETERS: Even, Mr. Bowman, if
4 that means going to thermal resources as opposed to
5 hydraulic resources?

6 MR. PATRICK BOWMAN: Well, again, it's
7 what is the risk profile, what is the robustness of the
8 scenario, what is the flexibility that it brings, what
9 are the rates, how variable might those rates be. All of
10 those would be considerations in -- in determining the
11 preferable scenario.

12 And -- and it's not -- not only those.
13 I've -- I've set out some very -- very financially
14 oriented ones. There's clearly other priorities like,
15 say, environment or something, but -- but in the context
16 of -- of primary economic criteria, those would be high
17 on the list.

18 MR. BOB PETERS: Is it your view that the
19 domestic residential customers have the same risk
20 tolerance as does the general service large greater than
21 100 kV customers?

22 MR. PATRICK BOWMAN: No, not necessarily,
23 and very possibly the -- well, you said domestic and each
24 of those would be domestic classes in that they're not
25 export classes. But even within a group you may find a

1 different tolerance for -- for Hydro taking on risk on
2 ratepayers' behalf within the industrial class or within
3 the residential class based on, you know, all sorts of
4 different factors.

5 But it's not like we've seen a suggestion
6 that -- that there's a material divergence. I think
7 there may be a small divergence in -- in some of the --
8 some of the evidence we reviewed about the -- the risk
9 tolerance of different classes of ratepayers, but I think
10 they're -- they're not far off.

11 MR. ROBERT MAYER: Mr. Bowman, generally
12 speaking, your larger customers, or Hydro's larger
13 customers, are a more sophisticated consumer than most of
14 your residential consumers.

15 Am I right?

16 MR. PATRICK BOWMAN: A lot of people will
17 cite that type of -- that type of factor. I think it's --
18 - it's hard to take the opposite view that your clients
19 aren't sophisticated. But in -- in fairness, there's a
20 lot of things that -- that these entities have to manage
21 and -- and power cost is one (1) of them and they're --
22 they -- they have a decent ability to pay attention to it
23 but -- but not a great ability. They've got a lot of
24 things that they're trying to make work.

25 MR. ROBERT MAYER: But -- and -- but

1 generally speaking we're talking about relatively large
2 companies, relatively sophisticated companies who know
3 what their business is and who, in themselves, are
4 somewhat used to taking risks, more so than your average
5 consumer who generally will be working for a wage.

6 MR. PATRICK BOWMAN: I -- I think that's
7 fair, Mr. Mayer, but I -- I think the question in the
8 context of risk tolerance, I -- I can only comment from
9 the perspective of the, you know, rate analysis and the -
10 - the sort of economics background we come from.

11 And one (1) gauge that we would use of --
12 of risk tolerance is how well, or how -- how a customer
13 responds to something like price changes. And the
14 tendency you'd see in the literature, and I think there's
15 been some testimony before this Board of -- maybe not in
16 this hearing, but definitely in some prior hearings, is
17 that price changes lead to changes in the amount of power
18 people use, but that they don't necessarily lead to very
19 big changes in -- in any class.

20 And if anything, they lead to even less
21 changes in sort of residential class and more changes in
22 industrial class, which is pretty consistent with the --
23 with the type of economic theory that would say, you
24 know, for -- for a lot of households, electricity makes
25 up a fairly small part of their budget and -- and if

1 prices change they may react over time, but -- but
2 they're not very elastic loads is the phrase people use.

3 Whereas for industries, the price changes
4 usually do lead to, you know, not huge changes, but
5 somewhat more changes because they tend to be more
6 elastic. So if you're assessing someone's sort of
7 tolerance to rate changes, the suggestion at that level
8 would be that residences at least on general, and surely
9 there are -- there are exceptions, but generally are --
10 are a little bit more able to deal with, or -- or -- or
11 unlikely to change their behaviours as a result of
12 changes in -- changes in prices.

13 MR. ROBERT MAYER: Well, Mr. -- Mr.
14 Bowman, when you talk about elasticity, prices go up,
15 usage is supposed to go down. That, I would suggest to
16 you, and I think you said, doesn't happen very much with
17 residential consumers. I mean, residential consumers use
18 electricity. And they say every time it's a price
19 increase that's more money out of their pocket.

20 And they do not generally, as I understand
21 it, being one (1) of them, see that there's much way
22 barring time of use rates, that a consum -- that a
23 residential consumer can -- can save money except by
24 maybe turning down the heat -- yeah, except by turning
25 down the heat and maybe not plugging your car in, and

1 some of those relatively minor matters that don't really
2 make a whole lot of difference, but the bottom line is is
3 every time PUB grants a rate increase it's -- generally
4 we hear via the newspapers, or via letters, or whatever,
5 that, Damn it you raised our rates again costing us more
6 money.

7 And most of the people we hear from,
8 generally speaking, are residential consumers. The odd
9 time we get some comment -- I think from Griffin at one
10 (1) point. That appeared to be more related to the
11 industrial concessions.

12 But, generally speaking, we see it's the
13 residential consumers who seem to react most to rate
14 increases, which lead -- lead me to the conclusion that
15 because the larger industries have some ability to react,
16 and to conserve, and to change their operation, and
17 understand that by changing their operation they can make
18 a substantial difference, they have more tolerance of
19 rate increases.

20 And, therefore, more tolerance to -- to
21 risk. When risk taking, and if in -- Hydro is in fact
22 correct, and their business ten (10), twenty (20) years
23 down the road are going to be paying less money than they
24 did today, it looks like a pretty good risk, or a pretty
25 good gamble.

1 MR. PATRICK BOWMAN: There's -- there's a
2 lot in there, but I guess just to respond to the -- the
3 final comment, it's -- I think our -- our general
4 assertion was the risk tolerance of ratepayers, be it
5 industrial or residential, was -- was pretty low.

6 And I -- I don't think anything, you know,
7 in terms of comparison there are -- we said they're
8 probably not -- not far off, and they're both pretty low.
9 I think if you -- you know, from our experience talking
10 to -- to industrial customers, or -- or dealing with them
11 here, or at other places, they're not really interested
12 in -- in paying rates to have Hydro go take a flyer any
13 more than a residence is interested in paying rates to
14 have Hydro go take a flyer.

15 They're both interested in paying rates
16 that are consistent with the system, have Hydro develop
17 projects that have a good business case. They're not
18 interested in -- in thin projects. They're not
19 interested in think projects that are very speculative,
20 in general.

21 Those provinces who've decided to take on
22 projects that have a more speculative nature have tended
23 to do it outside of -- of ratepayer's money. They've
24 tended to do it in -- in a pot that's in the government's
25 hands, like in Quebec, or Newfoundland, or Northwest

1 Territories, because ratepayers aren't really interested
2 in seeing their rates go up because something didn't turn
3 out so well in the -- in the projects, or -- or
4 developments that have -- that a utility pursued.

5 So I don't think anything is inconsistent
6 with that. There is a lot of other discussions we could
7 have about elasticity and -- and rate responses over the
8 short term and long term and -- and that sort of thing,
9 but -- but in general it's -- it -- it's all consistent,
10 whether it's customer complaints, whether it's lack of
11 response to price changes, whether it's, you know, an
12 inability to survive without electricity.

13 All of them all lean towards this concept
14 that -- that ratepayers' risk tolerance is -- is quite
15 low and consistent with what we've concluded, so.

16

17 CONTINUED BY MR. BOB PETERS:

18 MR. BOB PETERS: Mr. Bowman, is
19 InterGroup of the view that domestic residential
20 customers have the same tolerance for risks as does
21 Manitoba Hydro?

22 MR. PATRICK BOWMAN: Well, when we looked
23 at it we found that the -- to the extent one could sort
24 of look at different pieces of evidence to judge that,
25 it's not like you can put a number on it, but that it

1 seemed to be pretty well aligned.

2 That the types of metrics that Hydro uses,
3 and types of proposals that its made over the long term
4 are -- are pretty consistent with the types of priorities
5 of -- of domestic ratepayers. And that would include
6 everything from the way that Limestone was phased in to
7 the way that Hydro pursues merchant sales to the -- the
8 way that Hydro assesses its possible future developments.

9 Each of those are done, you know, not on a
10 speculative basis, not the way that I might be interested
11 in Hydro doing if it was Hydro's shares in my RRSP, but
12 consistent with the way I -- that ratepayers would seem
13 to argue they want Hydro to do when -- when Hydro's there
14 to just provide them with plain old boring kilowatt
15 hours.

16 MR. BOB PETERS: In your direct evidence
17 you suggest that the risk profiles are materially
18 different with respect to the preferred development plan
19 and the alternative development plan.

20 Have I got that right?

21 MR. PATRICK BOWMAN: Well, they --
22 they're -- they're different in that you're talking
23 billions of difference in borrowing, so they -- they're
24 different in that regard. They're also different more --
25 but in a more fundamental level we've said they're

1 different in the path that Hydro pursues with respect to
2 its degree of integration with the -- the US market. And
3 I think that's the -- that's the key difference.

4 MR. BOB PETERS: Mr. Bowman, can you
5 indicate to the Board how many MIPUG members opted into
6 the demand concession program offered by Manitoba Hydro?

7 MR. PATRICK BOWMAN: It -- it -- I -- I
8 can't give you an exact number. I don't know that. It's
9 not -- it's not a matter that we necessarily review with
10 them, but my understanding is it's very few.

11 MR. BOB PETERS: Manitoba Hydro, just for
12 the record, has filed as Exhibit MH-96 a report to the
13 Public Utilities Board, dated March 11th of 2010. But
14 looking at the report, Mr. Bowman, would it be your
15 understanding and un -- maybe even without looking at it,
16 that of the \$1.3 million at issue in the demand
17 concession deferral program, approximately a million
18 dollars of that is from the general service large greater
19 than 100 kV?

20 MR. PATRICK BOWMAN: Tha -- that's the
21 numbers that are in that exhibit, yes.

22 MR. BOB PETERS: And your evidence is
23 that there would have been more customers that would have
24 applied for it had it been a forgiveness as opposed to a
25 deferral, at least at first instance?

1 MR. PATRICK BOWMAN: Well, that was a
2 quote where we were repeating Hydro's evidence. We -- we
3 didn't individually assess customers' interest.

4 MR. BOB PETERS: Did -- did InterGroup or
5 MIPUG discuss the demand concession program with Manitoba
6 Hydro before it was offered?

7 MR. PATRICK BOWMAN: InterGroup did not.
8 I don't know about it. I assume individual members did,
9 but we didn't have any involvement.

10 MR. BOB PETERS: And the thrust of your
11 direct evidence from Mr. Hacault is that the energy
12 burden increased to a great -- by more than 10 percent on
13 your customers, on the MIPUG group of customers and the
14 customers who took advantage of the program, and,
15 therefore, it was supportable because of that increase in
16 -- in energy burden on the customer?

17 MR. PATRICK BOWMAN: Those customers who
18 took advantage of the program paid 10 percent higher on a
19 -- on a unit price basis, you know, dollars per kilowatt
20 on average, than they had been paying prior to the load
21 shifts and the program, 10 percent higher.

22 MR. BOB PETERS: And the -- the purpose
23 of the demand concession program was to cap it at 10
24 percent higher for those who opted in, correct?

25 MR. PATRICK BOWMAN: Correct.

1 MR. BOB PETERS: Do you have any
2 knowledge, gentlemen, as to whether or not any of the
3 customers who opted into the demand concession program
4 were profitable through the months in which the demand
5 concession was offered?

6 MR. PATRICK BOWMAN: No.

7 MR. BOB PETERS: Are you aware of how
8 many customers who opted into the demand billing
9 concession program passed on increased costs to their own
10 customers?

11 MR. PATRICK BOWMAN: No.

12

13 (BRIEF PAUSE)

14

15 MR. BOB PETERS: In terms of system
16 expansion, gentlemen, a couple of the MIPUG members have
17 expanded their facility since this Board convened for the
18 2008 GRA?

19 Is that your understanding?

20 MR. PATRICK BOWMAN: There were a couple
21 of system expansions. I think it depends on what you
22 call the timing of when it occurs. It's -- there's a
23 decision made. There's a construction period. There's a
24 coming into service and the like. But there were a
25 couple of -- of expansions that -- that we're aware of

1 that were occurring sort of through that period, yes.

2 MR. BOB PETERS: Are you at liberty to
3 indicate to the Board under what conditions the system
4 expansion occurred?

5

6 (BRIEF PAUSE)

7

8 MR. PATRICK BOWMAN: I'm not sure we
9 understand the phrase "under what conditions."

10 MR. BOB PETERS: Who paid?

11

12 (BRIEF PAUSE)

13

14 MR. PATRICK BOWMAN: We -- we weren't
15 directly involved in any customers' payments for
16 connection. Our only evidence in that regard was that
17 Hydro's system extension policies were suspended during
18 that period. So my understanding is that customers would
19 have been in charge of paying all amounts to connect.
20 But -- but that's from what we've heard in these
21 hearings, the same as anyone else in this room. We have
22 no specific knowledge of -- of what each customer went
23 through.

24 MR. BOB PETERS: Thank you. And in terms
25 of the energy intensive industrial rate that has been

1 before the Board, Manitoba Hydro made a subsequent filing
2 or an application which has been withdrawn, or at the
3 very least they've asked us to -- to adjourn.

4 You're aware of that?

5 MR. PATRICK BOWMAN: Yes.

6 MR. BOB PETERS: And part of that
7 adjournment process involved consultation with
8 stakeholders.

9 Are you aware of that?

10 MR. PATRICK BOWMAN: Yes.

11 MR. BOB PETERS: And some of the
12 stakeholders would be the same clients that InterGroup
13 represents?

14 MR. PATRICK BOWMAN: Yes, it was the
15 clients as well as MIPUG as a whole, there has been an
16 active ongoing consultation process on that topic.

17 MR. BOB PETERS: And can you tell the
18 Board as to when that matter will be completed? At least
19 the consultations from the MIPUG end of it?

20 MR. ANDREW MCLAREN: We don't have a
21 specific -- specific date in mind, or ultimately the
22 consultation process and the application process is -- is
23 Hydro's purview.

24 MR. BOB PETERS: InterGroup recognizes
25 that if a -- a new large industrial customer comes to the

1 province of Manitoba seeking a large quantity of energy,
2 that could have detrimental effects to other ratepayers?

3 MR. ANDREW MCLAREN: We -- we understand
4 that any increase overall to the overall demand in the
5 province would have an upward pressure on the average
6 unit cost of serving all loads at the bulk power level in
7 Manitoba.

8 MR. BOB PETERS: So whether that increase
9 is because of residential or general service large,
10 you're telling the Board there will be an impact?

11 MR. ANDREW MCLAREN: That's correct.

12 MR. BOB PETERS: And in terms of
13 forecasted impacts, it is possible that the industrial
14 side would become more of a surprise than the residential
15 side.

16 Is that correct?

17

18 (BRIEF PAUSE)

19

20 MR. PATRICK BOWMAN: I -- I don't know if
21 that's necessarily the case, Mr. Peters. The -- we did
22 look through the load forecast as well as Hydro's
23 forecast of industrial loads. And as I mentioned
24 earlier, far and away the biggest variable or scenario
25 that's in there is -- is a significant growth in electric

1 heating, which Hydro estimate -- estimated could be 2,000
2 megawatts in 6,000 gigawatt hours.

3 I think that's well beyond any -- any --
4 well -- well beyond any single industrial customer, or
5 even a group of industrial customers. But as a -- I
6 guess as a -- as a one (1) time change industrial
7 customers can be, you know, larger -- larger than in a
8 subdivision or something, that -- that's -- that's fair.

9 MR. BOB PETERS: Has the MIPUG
10 consultations with the Utility come to an end?

11 MR. ANDREW MCLAREN: No, they're ongoing.

12 MR. BOB PETERS: When you say ongoing,
13 Mr. McLaren, can you -- can you explain to the Board for
14 how long you expect they're going to be ongoing?

15 MR. ANDREW MCLAREN: I don't have an
16 answer in terms of a specific time frame, but certainly
17 the MIPUG members that have been involved directly in the
18 consultation understand that this current sort of climate
19 where industrial rates and system extension policies are
20 creating a certain degree of uncertainty for industrial
21 customers, their preference, all other things being
22 equal, would probably be for it to be concluded sooner
23 rather than later.

24 MR. PATRICK BOWMAN: I might just add to
25 that. The process that's underway now got started some

1 time ago. You'll know from the -- Hydro's correspondence
2 on the topic. And it was -- it was intended to -- from -
3 - at least from MIPUG's perspective and our understanding
4 of Hydro's perspective it was intended to not quite take
5 this long from where it started.

6 But I -- I don't think we're surprised by
7 some of the detail that people have had to work through.
8 This is a -- this is an active process. It's not
9 something that's being delayed or deferred, as much as
10 one can get through that during a hearing. There has
11 been a fair bit of discussion at a technical group level.
12 There's been a -- a workshop with -- with the members and
13 with the broader group in Hydro. There are quite
14 detailed concepts that have been developed and be --
15 being tested. Our understanding is Hydro is looking very
16 soon, if not imminently, to be dealing with consultation
17 with -- with other stakeholders.

18 It -- it has had a session with the
19 smaller business community that would be -- would be
20 affected by the overall types of proposals, so -- and --
21 and we would understand it to be very close to -- to a
22 point where a proposal could be -- could be detailed for
23 -- then everyone to poke and prod and see if they can
24 live with, including -- including Hydro within its
25 executive ranks.

1 And it certainly our hope that that could
2 be done fairly quickly, but it's -- it's not at that
3 stage quite yet. It's -- it -- I think the general
4 premise though is it's been a very positive process and
5 people are -- are encouraged by how far its been able to
6 get in the time its been available.

7 MR. BOB PETERS: Why is it positive?

8 MR. ANDREW MCLAREN: Mr. Peters, I've
9 been the one directly involved with it on behalf of MIPUG
10 over about the last year.

11 In terms of why it's positive, this is a
12 longer-term journey for many of us that dates back to
13 2006. The -- the process prior to these meetings with
14 Hydro that started about a year ago was certainly not
15 very satisfactory from my perspective or from Manitoba
16 Hydro -- or from MIPUG members' perspective. The more
17 recent year-long consultation has really been an
18 opportunity for people to sit down, and have some
19 difficult conversations with each other, but I think
20 they've been -- they've been fruitful.

21 I've been, quite honestly, quite
22 pleasantly surprised by Manitoba Hydro's willingness to
23 discuss some issues that are difficult for Manitoba Hydro
24 and difficult for our clients. And so I think, compared
25 to the previous process where, you know, essentially

1 Manitoba Hydro might give us very short notice about an
2 application, but there was certainly no -- no meaningful
3 consultation on the process. We all sort of had to gird
4 our loins and get ready for a fight before a Utility
5 Board hearing.

6 I think this process of being able to, on
7 an -- you know, without prejudice basis, have these
8 conversations over a year has increased the likelihood,
9 in my view, that this type of process could lead to a
10 solution where we can come forward eventually with a
11 proposal that addresses many of the Board's prior
12 concerns but that's also supportable, at least on many
13 fronts, by both MIPUG and Manitoba Hydro.

14 MR. BOB PETERS: Is there anybody else in
15 these meetings besides MIPUG, InterGroup, and Manitoba
16 Hydro?

17 MR. ANDREW MCLAREN: The -- there have
18 been about -- about a meeting a month on average over the
19 last year. Most of those are what I would term working-
20 group meetings between InterGroup, MIPUG, and
21 representatives from Manitoba Hydro, but there have been
22 workshops that have involved other general service large
23 customers.

24 MR. BOB PETERS: What about Intervenors
25 from these proceedings? Those Mr. Gange represents, the

1 Green Action Centre, Time to Respect Earth's Ecosystems?

2 MR. ANDREW MCLAREN: Not to date, but my
3 understanding, I believe, as Mr. Bowman just alluded to,
4 was that those are planned prior to any application. And
5 the -- the sooner we can get those to occur the -- the
6 better, I think. Days, not months, Mr. Bowman reminds
7 me.

8 MR. BOB PETERS: Turning to the cost of
9 service study, would the Board be correct in
10 understanding your evidence to suggest that you're
11 satisfied with the previous Board orders on this matter,
12 and you don't understand why Manitoba Hydro is embarking
13 on yet another external review?

14 MR. PATRICK BOWMAN: We -- I don't know
15 that anybody gets everything they want out of the Board
16 orders, but I think we're satisfied that what has been
17 developed is a robust product.

18 It reflects a lot of time, and energy, and
19 money being put into it over many years, and a lot of
20 effort. And we don't understand why -- why someone would
21 chose at this stage, where we're -- we now have a product
22 that has had that degree of -- of time and effort go into
23 it, to -- to pursue a different direction.

24 MR. BOB PETERS: So you're not supportive
25 of Manitoba Hydro's venture to obtain an external

1 consultant's view on cost of service study revisions
2 again?

3 MR. PATRICK BOWMAN: Well, I think on the
4 contrary. I don't think we're adverse to the thought
5 that somebody would always want to continuously improve
6 their product and get the input that they -- that they
7 need from different sources. But the thought that
8 everything comes to a halt, and somehow you start with a
9 blank piece of paper is -- which appears to be the
10 suggestion, is -- I think is the one that's more
11 troubling.

12 That -- that somehow we have to go through
13 a hearing of this magnitude after that much time and
14 energy, at -- that -- on a cost of service study that's -
15 - that is just sort of parked, or that somehow it
16 suggests that ongoing tre -- attempts to improve it means
17 that the product that's there is -- is not of value or
18 should be ignored.

19 MR. BOB PETERS: What you mean by coming
20 to a halt, Mr. Bowman, is that the Corporation hasn't
21 come forward with differentiated rate increase requests
22 as a result of the PUB's orders on cost of service?

23 MR. PATRICK BOWMAN: Well -- well, that
24 at minimum, but on -- and indeed the Corporation's gone
25 further and said, Don't use the operative of our cost of

1 service study, in -- in colloquial terms. I -- I guess I
2 would only -- I would emphasize in that that rate design
3 and coming up with a rate proposal that collects the
4 revenue requirement, as we discussed back in 2006,
5 there's always some degree of an -- an artistic process,
6 and it requires a balancing of many different factors.

7 One (1) of those factors is an assessment
8 of costs, an analysis of costs, and anywhere that you
9 deal with regulated rates you'd -- you'd have that
10 assessment of costs. It doesn't mean that that's the
11 determinate factor, but it is clearly one (1) of them.

12 So someone could very easily come forward
13 and say, given any number of factors I've -- I propose
14 rate design 'X' or rate proposal 'X', but it doesn't mean
15 that you have to dismiss or -- or deny the validity of a
16 cost of service study to come up with that rate proposal.
17 You can just as easily say, Here's a cost of service
18 study, here's some cost ratios that come out of it as an
19 alan -- analytical product, but notwithstanding these, we
20 propose this series of rate changes, and -- and they can
21 be debated on that basis.

22 MR. BOB PETERS: And you acknowledge that
23 the cost of service study is but one (1) tool used in the
24 -- in the design of rates?

25 MR. PATRICK BOWMAN: Yes.

1 MR. BOB PETERS: And this Board has used
2 other tools in designing rates in prior orders?

3 MR. PATRICK BOWMAN: Yes.

4 MR. BOB PETERS: Your objection with
5 Manitoba Hydro appears to be more on the -- well, I'll
6 call them the policy adjustments as opposed to the
7 technical adjustments in the cost of service study?

8 MR. PATRICK BOWMAN: Well, with respect
9 to the cost of service study that's filed, our -- I think
10 over -- over the -- the period that different work has
11 been done on it, our concern has been as a -- as a
12 repeatable, defensible, analytical tool, it -- it holds
13 together very well until sort of the last few steps. And
14 in regard to the last few steps, there's a number of --
15 of adjustments that could very easily be incorporated in
16 -- in those factors to be considered in rate design as
17 you -- as you reference them without having them show up
18 in the cost of service study in a -- in a fairly
19 discretionary and -- and possibly distorting manner.

20 One (1) that we've flagged for quite some
21 time, even going back to 2006, is the -- is what's called
22 the above cost export revenues. We -- I appeared here in
23 2002, not with Mr. McLaren, but -- and we were sceptics
24 on creating an export class. We weren't sure it was
25 going to be very easy to do or -- or we were concerned

1 about how to do it.

2 The Board disagreed and went in the
3 direction of creating an export class, and I -- that's
4 one (1) I've learned from because I -- I'm fairly
5 impressed with how well Hydro was able to do it. Now we
6 have an export class, so we can put a cost on serving
7 exports and we can identify something that, for lack of a
8 better term, is the above cost exports. It's these
9 revenues that aren't needed to pay the embedded cost of
10 the system in order to supply those exports.

11 In 2006, I think there was a fair bit of -
12 - of consideration and -- and concern about what to do
13 with those given that there were different people running
14 around with the concept that these were gravy or -- or
15 windfalls or some other terms that were applied to it.
16 And -- and, as a result, a decision was made to say,
17 Well, let's find a way we can shove them in the cost of
18 service study that -- that is the least distorting but
19 that bears no relation to cost, it just parks them across
20 all the assets.

21 We didn't support that at the time, and I
22 think we still have concerns with it. It -- if it's --
23 it's -- and I think in this day and age we're sitting
24 here now and some people are saying, Let's be careful
25 about calling too many pots of money gravy that we start

1 in terms of recommendations from InterGroup. Based on
2 the information available to this Board, are you
3 suggesting that for an overall 2 percent rate increase
4 that the Board awarded on an interim basis for April 1st
5 of 2011, that the rate design could include finalizing
6 that as a 3 percent rate increase for the residential
7 customer, and a 1 percent rate increase for the general
8 service large, just to afford recognition of the cost of
9 service empirical data?

10 MR. PATRICK BOWMAN: It's -- it's
11 possible. I think our -- I may have referenced numbers
12 in our direct, I think. If -- if not, our suggestion
13 would probably be something perhaps more modest than
14 that, maybe half that level of two and a half (2 1/2),
15 one and a half (1 1/2), or something of that nature.

16 But -- but it would be applied to those
17 customer classes that are below 95 percent, which is
18 residential and general service large 0 to 30 kV would be
19 the ones that -- that are -- are considerably below the -
20 - the level of -- of cost recovery that one would
21 consider the zone of reasonableness.

22 And -- and it could be -- just as easily
23 be applied to all of the other classes, which might
24 include, you know, area and roadway lighting, and -- and
25 other -- the --the other classes who are -- who are not

1 below ninety-five (95).

2 MR. BOB PETERS: Mr. Bowman, I'll see if
3 I can give you the last word, and only one (1) word, to
4 answer this, but can I summarize your evidence that --
5 that you've given to me, at least, and also in -- in your
6 written evidence, in terms of the -- the long-term plan
7 that's before this Board, even though the Board is
8 looking at the test-year rates, looking forward to see
9 what's down the pipe, and even if there are issues and
10 complications with the currency of the information, such
11 as in IFF-09, because we've been at this hearing for a
12 long period of time, and all of the difficulties we've
13 talked about with -- that have faced the Corporation,
14 such as the export prices remaining low, maybe industrial
15 demands being off, IFRS issues still res -- you know,
16 still exist out there. That in spite of all of those
17 issues, it's your advice to this Board that they support,
18 or protect, the preferred development plan that Hydro's
19 put before them?

20

21 (BRIEF PAUSE)

22

23 MR. PATRICK BOWMAN: One word. The --
24 support or protect were the words you used, and I think
25 our -- our evidence went to support or protect the option

1 to be able to -- to keep it alive and find a way to -- to
2 get proper assessment, detail it further, and -- and see
3 if -- if Hydro can put it together as a -- as a credible
4 package.

5 And sorry I couldn't do that in one (1)
6 word. Yeah, I think that's sufficient.

7 MR. BOB PETERS: All right. Mr.
8 Chairman, I'd like to thank Mr. McLaren and Mr. Bowman,
9 for their answers to my questions. Those complete my
10 questions.

11 THE CHAIRPERSON: Thank you, Mr. Peters.
12 Mr. Hacaault, do you have any re-direct?
13

14 RE-DIRECT-EXAMINATION BY MR. ANTOINE HACAULT:

15 MR. ANTOINE HACAULT: I -- I think
16 there's perhaps just one (1) question of clarification,
17 or correction, with respect to Wuskwatim that I would ask
18 this witness to address.

19 MR. PATRICK BOWMAN: Thank you. I
20 apologize to Mr. Peters, I -- I got myself confused on
21 the question about Wuskwatim and when it's needed. I was
22 looking at the -- the wrong row of the -- of the -- of
23 the power resource plan.

24 And the short answer is due to the change
25 in loads, primarily industrial loads, Wuskwatim is not

1 needed until 2019/'20 is the response of Hydro, and that
2 works in the -- in the power resource plan.

3 My confusion was with regards to Brandon
4 Coal. And I was looking at the row about how much is
5 left over after Brandon is included, and for -- I had
6 forgotten that the -- the assumption is Brandon can be
7 used to support existing export sales. I had in my head
8 that -- that it couldn't and that you were relying on
9 other resources to support the existing export.

10 So -- so long as the Brandon coal can be
11 used to support existing exports, Wuskwatim is not needed
12 for those existing exports, and it's back to the -- it's
13 the -- it's the same date. And I apologize for the
14 confusion.

15 MR. ANTOINE HACAULT: That's all, Mr.
16 Chairman and all. Thank you.

17 THE CHAIRPERSON: Thank you. And thank
18 you, Mr. Bowman and Mr. McLaren. I appreciate your
19 testimony; two (2) fairly lengthy days.

20

21 (PANEL STANDS DOWN)

22

23 THE CHAIRPERSON: And so that brings to
24 an end the cross-examination of the MIPUG witnesses. And
25 I understand tomorrow we'll be back to CAC/MSOS's

1 witnesses, correct, Mr. Peters?

2 MR. BOB PETERS: That is correct.

3 THE CHAIRPERSON: Okay, we'll see you all
4 to --

5 MS. PATTI RAMAGE: Oh, just before we end
6 the day, I thought I should let the parties know,
7 following the discussion of the schedule this morning,
8 and I think we've alerted Board counsel too, Mr. Kuczek
9 is not available on a week Monday, today, should we go
10 over to that day. Mr. Cormie is also not available
11 Monday or Tuesday.

12 So if we do go over, we may have a problem
13 that -- in terms of those days, but it's a bit of a wait
14 and see.

15 THE CHAIRPERSON: Well, we'll have to
16 work very hard not to go over.

17 MR. ROBERT MAYER: Let -- let's do this
18 again. So you're saying Monday, June 13th, Tuesday, June
19 14th, and Wednesday, June 15th? Wednesday's okay. The
20 other two (2) are not good?

21 MS. PATTI RAMAGE: That's correct.

22 MR. ROBERT MAYER: We have a problem.

23 THE CHAIRPERSON: Okay. Well, we'll cons
24 -- we will consider that.

25 Ms. Ramage, we also understand you'll be

1 filing some material with the Board, is it tomorrow?

2 MS. PATTI RAMAGE: I will have to check
3 on that.

4 THE CHAIRPERSON: That will be most
5 helpful if you could.

6 We'll see you tomorrow at 9:30.

7 Mr. Hacault...?

8 MR. ANTOINE HACAULT: Yes, there's only
9 other -- one (1) -- one (1) other thing, and it kind of
10 arises out of the question of Mr. -- the Chairperson was
11 asking of Mssrs (sic) Bowman with respect to Kubursi and
12 Magee and saying, Well, we didn't give them a chance
13 perhaps to answer certain questions.

14 Just a reminder to the Board, there were a
15 number of questions which we asked of Doctors Kubursi and
16 Magee to better understand their model and -- and the
17 inputs, et cetera, and we don't know when we're going to
18 get that. And it would be pretty important if -- if
19 somehow we have a sense, and I know the Board can't
20 answer that question, about when we're going to get that
21 information. And unfortunately Mr. Wood's not around.
22 So it's, from our perspective, a fairly important piece
23 of information which we hopefully will get.

24 THE CHAIRPERSON: We'll see if Mr. Peters
25 can assist on that in some of the discussions with Mr.

1 Wood. We'll see you tomorrow at 9:30. Thank you.

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3 --- Upon adjourning at 3:53 p.m.

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8 Certified Correct,

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Cheryl Lavigne, Ms.

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