MANITOBA PUBLIC UTILITIES BOARD

Re: MANITOBA HYDRO

GENERAL RATE APPLICATION

2014/15 AND 2015/16

Before Board Panel:

Regis Gosselin - Board Chairperson

Marilyn Kapitany - Board Member

Richard Bel - Board Member

Hugh Grant - Board Member

HELD AT:

Public Utilities Board

400, 330 Portage Avenue

Winnipeg, Manitoba

June 15, 2015

Pages 3763 to 4135

APPEARANCES

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Odette Fernandes		)Manitoba Hydro
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Byron Williams		)Consumer Coalition
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LIST OF EXHIBITS

LIST OF EXHIBITS (Con't)

1 UNDERTAKINGS

NO.	DESCRIPTION	PAGE NO.
78	MIPUG to provide the underlying data of slide 27 of Exhibit MIPUG-12 and show the calculations of how rate increase calculations were done, as well as how the related impacts on finance expense were calculated	4076

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

2

3 THE CHAIRPERSON: Good morning. I hope

4 that everyone had a good weekend, and we're all girded

5 for a -- a long talk on depreciation. Without further

6 ado, I believe we have some documents that we should

7 acknowledge, and I'll ask Ms. -- okay, Ms. Van

8 Iderstine, please.

9 MS. HELGA VAN IDERSTINE: They're --

10 they're letting me do it, but they're supervising. So

11 we've got a number of undertakings that we are filing

12 on behalf of Manitoba Hydro this morning.

13 And just to let you know where we're at

14 on that before I start filing, we have -- with these

15 undertakings, all of the outstanding MIPUG undertakings

16 will be have -- will have -- be filed. There are only

17 seven (7) remaining undertakings that have been given

18 that remain outstanding, and we're working on to get

19 those filed.

20 So I will start and get these ones

21 filed, and then what -- I'm going to leave one (1)

22 undertaking to the end, because Mr. Rainkie is going to

23 speak to it. So I'll -- when I get to that one, I'll

24 turn it over to him. Okay?

25 So without any further commentary, we'd

like to file the following.

Manitoba Hydro Undertaking number 31 would be file -- which is:

"Manitoba Hydro to review the timing of the introduction of capital taxes and water rentals, as well as the financial circumstances of Manitoba Hydro at a particular point in time."

And that will be Manitoba Hydro Exhibit 96.

--- EXHIBIT NO. MH-96: Response to Undertaking 31

MS. HELGA VAN IDERSTINE: Manitoba Hydro Undertaking number 77:

"Manitoba Hydro to update response PUB/MH-II-21(b) to assume that the deferral account is recovered not over a ten (10) year period but over the remaining service life of the assets to provide what the balance of the deferral account would be after the forty (40) year period."

And that will be Exhibit 97.

1 --- EXHIBIT NO. MH-97: Response to Undertaking 77
2
3 MS. HELGA VAN IDERSTINE: There's the
4 informal Undertaking number 5:
5 "How is the 50 percent DSM saving
6 reduct -- savings reduction
7 apportioned, i.e., among firm
8 exports, opportunity exports, et
9 cetera?"
10 And that will be filed as Manitoba Hydro
11 Exhibit 98.
12
13 --- EXHIBIT NO. MH-98: Response to informal
14 Undertaking 5
15
16 MS. HELGA VAN IDERSTINE: Manitoba
17 Hydro Undertaking number 7:
18 "With respect to the Bipole III
19 community development initiative,
20 Manitoba Hydro to provide a listing
21 for the communities and/or projects
22 invested in, including the amount
23 spent."
24 This was taken under advisement, and is
25 now answered. This is Manitoba Exhibit number --

1 Manitoba Hydro Exhibit number 99.
2
3 --- EXHIBIT NO. MH-99: Response to Undertaking 7
4
5 MS. HELGA VAN IDERSTINE: Manitoba
6 Hydro Undertaking number 32:
7 "Manitoba Hydro to provide retirement
8 data in each category set out in the
9 asset condition report under
10 distribution."
11 And this will be Manitoba Hydro Exhibit
12 number 100.
13
14 --- EXHIBIT NO. MH-100: Response to Undertaking 32
15
16 MS. HELGA VAN IDERSTINE: Manitoba
17 Hydro Undertaking number 35:
18 "Manitoba Hydro to re-file page 223
19 of Board counsel's book of documents
20 with the most current information
21 that the Corporation has related to
22 the operational staffing reductions."
23 Manitoba Hydro Exhibit number 101.
24
25 --- EXHIBIT NO. MH-101: Response to Undertaking 35

1 MS. HELGA VAN IDERSTINE: Manitoba
2 Hydro Undertaking number 37:
3 "Manitoba Hydro to file the Hydro-
4 Quebec and BC Hydro payments to the
5 Provincial Government either as a
6 percentage of gross revenue or per
7 megawatt or some other metric
8 relative to Manitoba Hydro."
9 And this will be hired -- filed as
10 Manitoba Hydro Exhibit number 102.
11
12 --- EXHIBIT NO. MH-102: Response to Undertaking 37
13
14 MS. HELGA VAN IDERSTINE: Manitoba
15 Hydro Undertaking number 43:
16 "Manitoba Hydro to provide an
17 analysis of capital construction EFTS
18 and what projects they are charging
19 in terms of major new generation or
20 transmission projects for all
21 business units."
22 This is Manitoba Hydro 103.
23
24 --- EXHIBIT NO. MH-103: Response to Undertaking 43
25

1 MS. HELGA VAN IDERSTINE: Manitoba
2 Hydro Undertaking number 44:
3 "Manitoba Hydro to summarize the
4 organizational and controlled changes
5 that it has undertaken with respect
6 to the major capital projects."
7 And this is Manitoba Hydro 104.
8
9 --- EXHIBIT NO. MH-104: Response to Undertaking 44
10
11 MS. HELGA VAN IDERSTINE: Manitoba
12 Hydro Undertaking number 45:
13 "Manitoba Hydro to identify the
14 proportion of mitigation costs
15 relative to the total rates."
16 And this is Manitoba Hydro Exhibit
17 number 105.
18
19 --- EXHIBIT NO. MH-105: Response to Undertaking 45
20
21 MS. HELGA VAN IDERSTINE: Manitoba
22 Hydro Undertaking number 55:
23 "Manitoba Hydro to provide a chart
24 comparing when various customers are
25 meeting their own peak demand if

1 available."
2 And this is Manitoba Hydro Exhibit 106.
3
4 --- EXHIBIT NO. MH-106: Response to Undertaking 55
5
6 MS. HELGA VAN IDERSTINE: Manitoba
7 Hydro Undertaking number 58:
8 "Manitoba Hydro to check the
9 agreement with Winnipeg Hydro for
10 representations as to the quantity of
11 luminaires that were being
12 transferred from the City of Winnipeg
13 Hydro to Manitoba Hydro."
14 And that is Manitoba Hydro Exhibit
15 number 107.
16
17 --- EXHIBIT NO. MH-107: Response to Undertaking 58
18
19 MS. HELGA VAN IDERSTINE: Manitoba
20 Hydro Undertaking number 64:
21 "Manitoba Hydro to confirm the
22 current budget projection for 2016
23 year for the Affordable Energy
24 Program and review the three (3) year
25 plan and figure of 4.7 million for

1 2016/'17 and determine whether that
2 requires revision or not."
3 And that is Manitoba Hydro Exhibit 108.
4
5 --- EXHIBIT NO. MH-108: Response to Undertaking 64
6
7 MS. HELGA VAN IDERSTINE: Manitoba
8 Hydro Undertaking number 68:
9 "Manitoba Hydro to provide comparison
10 assuming a 60 gigajoule of heat
11 output and two point four (2.4)
12 people per home compared -- comparing
13 a one (1) year energy only for an
14 electri -- electrically heated home
15 with both electric space and water
16 heating and a gas home which has both
17 gas, space, and water heating, an
18 air-source heat pump home, including
19 a heat pump water heater and an
20 electric water heater."
21 Manitoba Hydro Exhibit number 109.
22
23 --- EXHIBIT NO. MH-109: Response to Undertaking 68
24
25 MS. HELGA VAN IDERSTINE: Manitoba

1 Hydro Undertaking number 69:
2 "Manitoba Hydro to provide the
3 capital cost associated with electric
4 furnace and electric water tank and a
5 natural gas furnace and natural gas
6 water tank."
7 Manitoba Hydro Exhibit number 110.
8
9 --- EXHIBIT NO. MH-110: Response to Undertaking 69
10
11 MS. HELGA VAN IDERSTINE: Manitoba
12 Hydro Undertaking number 70:
13 "Manitoba Hydro to provide the
14 average percentage for all of 2014 of
15 accounts in arrears for the
16 residential customer segment, the
17 First Nations residential customer
18 segment, the residential northern
19 Manitoba customer segment, and the
20 residential rural customer segment."
21 And that's Exhibit 111.
22
23 --- EXHIBIT NO. MH-111: Response to Undertaking 70
24
25 MS. HELGA VAN IDERSTINE: Manitoba

1 Hydro Undertaking number 76:
2 "Manitoba Hydro to provide projects
3 cost of two (2) asset sub-ledgers as
4 a result of the negative salvage as
5 well as two (2) asset sub-ledgers as
6 a result of keeping with Canadian
7 GAAP."
8 Which is Manitoba Hydro Exhibit number
9 112.
10
11 --- EXHIBIT NO. MH-112: Response to Undertaking 76
12
13 MS. HELGA VAN IDERSTINE: Manitoba
14 Hydro Undertaking number 73:
15 Manitoba Hydro to provide twenty (20)
16 year IFFs with rate increases being
17 applied to all years of 3.5 percent,
18 3.75 percent, and 4.25 percent,
19 including Manitoba Hydro's financial
20 targets for each of the years and
21 bill impacts for these scenarios, as
22 well as for the 4.4 percent and 5.3
23 percent scenarios for which IFFs have
24 already been filed."
25 And that will be Exhibit 113.

1 --- EXHIBIT NO. MH-113: Response to Undertaking 73
2
3 MS. HELGA VAN IDERSTINE: Manitoba
4 Hydro Undertaking number 27:
5 "Manitoba Hydro to examine the
6 records that may reflect
7 deliberations in terms of
8 alternatives canvassed with regards
9 to sustaining capital expenditures
10 both in terms of their magnitude and
11 their mix."
12 And that Manitoba Hydro Exhibit 114.
13
14 --- EXHIBIT NO. MH-114: Response to Undertaking 27
15
16 MS. HELGA VAN IDERSTINE: Manitoba
17 Hydro Undertaking number 29, Manitoba Hydro to
18 determine whether or not it has considered other pacing
19 of sustaining capital expenditures in terms of IFF14
20 and CEF14. And that is Manitoba Hydro Exhibit 115.
21
22 --- EXHIBIT NO. MH-115: Response to Undertaking 29
23
24 MS. HELGA VAN IDERSTINE: Manitoba
25 Hydro Undertaking number 47:

"Manitoba Hydro to file consultants report on a 2014 load forecast review if it's received and finalized before the end of the proceeding."

That is Manitoba Hydro Exhibit number 116.

--- EXHIBIT NO. MH-116: Response to Undertaking 47

MS. HELGA VAN IDERSTINE: Manitoba Hydro Undertaking number 52:

"Manitoba Hydro to determine how much additional revenue will be realized as a result of increase demand based on a 97 gigawatt hours higher demand."

That is Manitoba Hydro Exhibit 117.

--- EXHIBIT NO. MH-117: Response to Undertaking 52

MS. HELGA VAN IDERSTINE: Manitoba Hydro Undertaking number 38:

"Manitoba Hydro to provide written undertaking to explain points addressed regarding partnerships."

1 That will be Manitoba Hydro Exhibit 118.
2
3 --- EXHIBIT NO. MH-118: Response to Undertaking 38
4
5 MS. HELGA VAN IDERSTINE: Manitoba
6 Hydro Undertaking -- informal undertaking number 4:
7 "How many of the capital construction
8 EFTs are on term arrangements with
9 the Corporation?"
10 And that is Manitoba Hydro Exhibit 119.
11
12 --- EXHIBIT NO. MH-119: Response to informal
13 Undertaking 4
14
15 MS. HELGA VAN IDERSTINE: And Manitoba
16 Hydro Undertaking number 59:
17 "Manitoba Hydro to provide a list of
18 cost-of-service topic areas with
19 alternatives and pros and cons."
20 And this is Manitoba Hydro Exhibit
21 number 120.
22
23 --- EXHIBIT NO. MH-120: Response to Undertaking 59
24
25 MS. HELGA VAN IDERSTINE: And this

1 brings me to the exhibit which is Manitoba (sic)
2 Undertaking number 75, which was:
3 "Manitoba Hydro to identify the
4 portion of the rate increase being
5 sought which addresses the core
6 required earnings for Manitoba Hydro
7 versus that portion which relates to
8 future investment needs for years
9 2015/2016 to 2018 and 2019."
10 That will be Manitoba Hydro Exhibit 121.
11
12 --- EXHIBIT NO. MH-121: Response to Undertaking 75
13
14 MS. HELGA VAN IDERSTINE: And Mr.
15 Rainkie is -- would like to speak to this as well.
16 Thank you.
17 THE CHAIRPERSON: Ms. Van Iderstine, I
18 -- I do want to thank the people who worked on this
19 over the weekend. Thank you very much for getting that
20 done because my level of optimism about getting this
21 whole process completed by the week has gone up --
22 MS. HELGA VAN IDERSTINE: We're doing
23 our best.
24 THE CHAIRPERSON: -- well,
25 significantly.

1 MS. HELGA VAN IDERSTINE: Thank you.
2 THE CHAIRPERSON: Thank you very much.
3 I appreciate the hard work that you've done. Thank you
4 -- we do.
5 MR. DARREN RAINKIE: Good morning, Mr.
6 Chairman, members of the Board, Intervenors, and ladies
7 and gentlemen. And a special welcome to Ms. Lee on her
8 first time here in Manitoba Hydro rate proceeding.
9 I appreciate the opportunity to speak
10 this morning to this undertaking because, as usual, we
11 filed a schwack of paper with you on Monday morning,
12 and I don't -- I know this was an important question
13 and you took some time delineate it out to us.
14 So I wanted to make sure that you had a
15 chance to -- to understand it because it's not a simple
16 answer, as usual.
17 So just by way of -- and we have the
18 document up on the screen, and I'm going to try to be
19 careful in terms of moving to certain pages so that I
20 can show you how we approach the end response to this
21 question. So if I lose you along the way, please just
22 stop me and I'll -- I'll backtrack as appropriate.
23 So just a general background, and I
24 think you -- you've heard us say this before, but at
25 Manitoba Hydro, we follow a cost -- what we refer to as

1 a cost-of-service rate-setting approach in proposing
2 rates.
3 So in that approach, proposing rates is
4 not based strictly on the level of cost, but rather on
5 implementing gradual rate increases to cover costs and
6 achieve our financial targets over time.
7 So under this approach, we propose rates
8 to cover all of the various costs to providing service,
9 including financing costs, as well as an annual
10 contribution which we call net income to re --
11 financial reserves, which is of course called retained
12 earnings on our financial statement. The purpose of
13 those financial reserves are to promote rate stability
14 for customers.
15 So while -- under this methodology or
16 approach, it's not possible to give you a precise
17 delineation of the contribution of each factor to the
18 3.95 percent rate increases that are requested.
19 We certainly can use different rate
20 scenarios, if you like, or alternate rate scenarios
21 with respect to our financial proj -- projections to
22 respond directionally to the question and give you a
23 pretty good answer.
24 So if we could move to -- Diana, to page
25 4 of 21 of the -- Jerry I'll just -- it's not going to

1 be as quite as slick a -- oh, Kurt, it's -- Kurt and
2 Diana. Okay. It's not going to be quite as slick as
3 if we had the PDF in front of us. But maybe we can
4 just pull it up a little bit so we can get all the
5 figures in. Okay. Oh. You lost it there for a
6 second.
7 So with the 3.95 percent rate increases,
8 if you look at the 2016, 2017, and 2018 columns and you
9 go down to net -- the net income line, with the
10 inclusion of the 3.95 percent rate increases, you can
11 see that we're projecting a contribution to reserves
12 through net income of $115 million in 2016, $59 million
13 in 2017, and $64 million in 2018, respectively. If you
14 add those up, that's a total of $230 million -- $38
15 million over that three (3) year period.
16 Now, that contribution to reserves is
17 rel -- relatively modest considering that Manitoba
18 Hydro's asset base is approaching -- on the electric
19 side of the business is approaching $17 billion and our
20 retained earnings are -- currently are at $2.7 billion.
21 It certainly isn't anything like a 9 or 10 percent rate
22 of return that you might see from an investor-owned --
23 owned company.
24 And if you -- and if you look at the
25 very bottom right-hand under 2024 column, under the

1 financial ratios, you see the equity ratio is projected
2 to fall to 10 percent by 2024 from the current level of
3 around 22 percent, even with the 3.95 percent rate
4 increases.
5 And if you add up the losses that -- if
6 you look at the columns between 2019 and 2024 and you
7 add up the losses that are of 90 million, 160 million,
8 178 million, 206 million, 187 million, and 124 million,
9 those are losses of $901 million in the last six (6)
10 years of -- of this particular ten (10) year part of
11 the forecast.
12 And if we go to page 6 of 21 for one (1)
13 second.
14
15 (BRIEF PAUSE)
16
17 MR. DARREN RAINKIE: If you look under
18 the 2024 column and you pan down to the retained
19 earnings line, you'll see that we project with those
20 losses that we'll move from our current level of
21 retained earnings of $2.7 billion down to $2 billion by
22 2024. And this includes the effects of the 3.95 per --
23 percent rate increases.
24 So the proposed and indicative of 3.95
25 percent rate increases are not -- are not building a

1 war chest for us for future investment in assets, but
2 rather, they're just there to manage the rate of
3 decline in our financial strength. So we're not
4 asking, under the 3.95 percents, for something extra in
5 the first few years. We're simply trying to manage the
6 rate of decline in our financial health. The 3.95
7 percent does not allow us to pre-fund future investment
8 requirements.
9 But in the spirit of the -- the
10 undertaking, what we wanted to do was present a couple
11 alternate -- alternate rate scenarios just to amp --
12 amplify the -- the situation, I suppose, and also to
13 give you some options to consider.
14 So if we -- if we -- and we can move to
15 page 10 of the attachment. So what I've just
16 summarized is what's inherent in our actual IFF13 with
17 the 3.95 percent rate increases. But if we took an
18 approach of allocating the 3.95 percent rate increases
19 between current operations and between an amount to go
20 into a capital deferral account similar to the Bipole
21 III deferral account that was approved in Orders 43/'13
22 and 4 -- 49/'14, it won't particularly change or
23 improve the financial projections. What it will do is
24 just reshape them slightly. And I'll -- and I'll go
25 through that now.

1 So you can see -- so this alternative is
2 for the next three (3) years, 2016, 2017, and 2018, 3
3 percent of the 3.95 percent rate increase going to our
4 current revenues and then .95 percent of the rate
5 increase being added to the -- to the reserve account
6 that was established in Order 43/'13. And you can see
7 that the net income for the next three (3) years is
8 projected at 103 million, 34 million, and 24 million,
9 for a total of 161 million over that three (3) year
10 period.
11 And you can see if we were to take that
12 approach with the 3.95 percent rate increases, that our
13 net income is becoming particularly thin. It would be
14 quite easy if we had below average water flows or other
15 negative financial circumstances for Manitoba Hydro to
16 slip into a loss position in those years.
17 And I should note that in 2016, of
18 course, with the rate increase being implemented later
19 than April 1st, we're already assuming an August 1st
20 implementation date would be down about $17 million
21 from the figures that are included in this -- in this
22 particular exhibit.
23 So if we follow along between 2019 and
24 2024 on the net income line, we see losses of 101
25 million, 85 million, 148 million, 175 million, 186

1 million, and 124 million. So that's a total -- total
2 losses of $819 million during that last six (6) years
3 of this ten (10) year period.
4 If you look at the 20 -- 2024 column,
5 and you pan down to the equity line, you see that we
6 still decline to a -- a projection -- projected equity
7 ratio of 10 percent by 2024. And if we then move to
8 page 12 of the exhibit for one (1) second...
9
10 (BRIEF PAUSE)
11
12 MR. DARREN RAINKIE: And we move down
13 under the 2024 column, the retained earnings line, you
14 see that retained earnings still decrease to two (2)
15 thous -- to $2 billion by 2024, so allocating the rate
16 increase of 3.95 percent to current operations and --
17 and the capital reserve account by the end of the ten
18 (10) years will essentially get you back to the -- to
19 the same place.
20 It doesn't improve your financial
21 projections over the long term, of course, it just
22 reshapes it. It takes a bit of the -- the net income
23 off the front end -- shaves it off the front end and --
24 and amortizes it into net income in the back six (6)
25 years of this forecast. And if you think about that

1 mathematically, it -- it makes sense. It's not a
2 perverse result at all.
3 So as I said, we believe that the 3.95
4 percents are the -- are the minimum that are required
5 for future earnings requirements. And so this scenario
6 simply just shapes that a little differently, but
7 doesn't -- doesn't change the -- the picture.
8 So what we then endeavoured to do is
9 say, Okay, well, what if we want -- what if the
10 objective was to set aside some funds for future
11 investment requirements in the next few years? And if
12 that's the case, then consideration could be given to
13 approving higher rate increases in the next three (3)
14 years, and then allocating those higher rate increases
15 to a capital deferral account.
16 So we -- if we turn to page 16 of the
17 exhibit for one (1) second, this is what we've coined
18 rate alternative number two (2). We see 5 percent rate
19 increases in the next three (3) years versus the 3.95
20 percents, with the differential of 1.05 percent being
21 added to the capital deferral account in those -- in
22 those three (3) -- three (3) years.
23 And if you look under the 2016 to 2017
24 and 2018 columns in net income, you'll see a slight
25 improvement of 117 million, 65 million, and 74 million.

1 If you look at the -- the, losses, then in the back six
2 (6) years, they are reduced to 42 million, 15 million,
3 71 million, 92 million, 100 million, and 28 million.
4 So that's a -- that's a total of 348 million versus the
5 $900 million that we saw when we just looked at our
6 Manitoba Hydro IFF13 projection.
7 So -- so under this scenario, if you
8 look under the 2024 column and you pan down to the
9 equity ratio line, you see that those additional rate
10 increases would assist in somewhat tempering the
11 reduction in the equity ratio. We would get down to 12
12 percent versus 10 percent, but you can see how sticky
13 this projection is to -- to rate changes, just because
14 of the large intensive capital investment in the next
15 number of years.
16 And if we move to page 18 of the exhibit
17 for one (1) second, and we look at the retained
18 earnings line and we move over to the far column, the -
19 - the 2024 column, you'll see -- you see that under
20 this scenario, retained earnings are not that different
21 to what we currently have. They're a little lower, but
22 they're in the $2.6 billion range. So certainly those
23 higher rate increases would assist us in at least
24 maintaining our financial reserves, not significantly
25 improving them. You have to remember the size of the

1 asset base of the Company is doubling over this period.
2 But at least it would allow us to maintain our
3 financial reserves, not -- not deplete them.
4 And in doing that, of course, it would
5 reduce the risk of rate shock to customers if some
6 adverse event, like a significant drought, were to
7 affect us during that period of time.
8 I wanted to just note one (1) other
9 factor in this last scenario. If we could go back to
10 page 16? This will be my last switch, for a moment --
11 or maybe -- sorry, I'm not sure I can promise that, but
12 one (1) of my last switches.
13 You'll -- you'll see that those 5
14 percent rate increases in the next three (3) years, if
15 we move down to the capital coverage line for 2016,
16 2017, and 2018, would assist in making -- approving the
17 capital coverage ratio to at least one (1) or higher so
18 we would be able to generate enough cashflow to cover
19 off our sustaining capital expenditures that we have
20 forecast in the next three (3) years.
21 So in terms of the question, What is the
22 core earnings requirement of the rate increases? Well,
23 at -- at the very least, I think the 3.95 percent is --
24 is the -- is the minimum requirement. Of course, the 5
25 percent requirements would -- 5 percent rate increases

1 would assist us in -- in at least covering our capital
2 -- sustaining capital expenditures from cashflow, which
3 is a desirable thing to occur.
4 The other line item that I would note on
5 this scenario, which is the 5 -- 5 percent rate
6 increases in the next three (3) years, is -- is if we
7 look at the finance expense line and we move all the
8 way over to the 2024 column, you see that finance
9 expense under this scenario would be forecast at one
10 billion, three hundred and nineteen million dollars
11 ($1,319,000,000).
12 I don't think we need to go back to the
13 original scenario. I'll just read you the figure. But
14 if you look at our current projections with the 3.95
15 percent rate increases, that same figure would be one
16 billion, three hundred and forty-nine million dollars
17 ($1,349,000,000), so the higher rate increases would
18 improve finance expense each and every year by up to
19 $40 million, you -- as you can see in this scenario.
20 And -- and that finance expense is
21 really the truth serum of our forecast. We can play
22 around with accounting policies and all the different
23 things we've talked about this hearing, but eventually,
24 after we get through the period of capital build and we
25 no longer are capitalizing, you know, hundreds or

1 millions of dollars of finance expense to plant but
2 that finance expense now moves into our income
3 statement once those assets are in service, thi -- this
4 is the line item to be wary about. It -- it is the
5 true reflection of our finance expense.
6 It's not being -- not being, once we get
7 -- once we get past that extensive level of capital
8 investment, it is reflecting what's happening, it's
9 reflecting -- or more reflective of our cash
10 requirements to meet finance expense. So this is
11 something we need to manage carefully.
12 You can see that finance expense after
13 the big build, the -- the battle of the bulge, as Mr.
14 Hacault would say, increases two (2) or threefold in
15 this -- in this forecast. And higher rate increases at
16 the front end would certainly help us to -- to try to
17 mitigate that increase.
18 So I -- I think that was all that I had
19 to -- to say. It's probably more than you expected
20 this morning, but -- and I know there are other
21 witnesses lining up behind me to -- to speak to their
22 evidence, but that's a very quick moving through --
23 through the scenarios, sir.
24 And I certainly would be more than
25 prepared to answer any questions or clarify anything in

1 these three (3) scenarios that we have in this -- in
2 this undertaking.
3
4 (BRIEF PAUSE)
5
6 THE CHAIRPERSON: I'm trying to do some
7 quick calculations here. But by increasing rates by
8 point -- 1.05 percent over the next three (3) years
9 yields savings of in the order of 550 million?
10 MR. DARREN RAINKIE: Yes. The
11 difference between the losses under our current
12 scenario and the 5 percent, yes, they're fairly --
13 fairly staggering.
14 THE CHAIRPERSON: I haven't done the
15 calculations of the amount of, you know, the 1 percent
16 -- the 1.05 percent increase in rates, what that will
17 cost ratepayers. But I -- you know, the first thing
18 that jumps up at me is 550 million is -- it's a fairly
19 significant amount of savings.
20 MR. DARREN RAINKIE: Well, sir, what --
21 what you see demonstrated here is the power of early
22 rate increases. I mean, it's just the time value of
23 money.
24 I mean, it's just -- you know, it's the
25 -- as your parents probably told you, invest early.

1 Invest a little bit early versus waiting to the -- to
2 the end of your life to build a retirement fund, and it
3 will come much easier.
4 And that's -- our forecast is -- is just
5 like that. If we -- if we kick things down the road,
6 it very quickly can spiral out of control. I don't
7 think it has to. I think we can accomplish all the
8 investments that we have to make on behalf of
9 customers.
10 I think we just need to ask customers to
11 invest a little bit more up front, and -- and we can
12 maintain that reliable, safe power system that they've
13 enjoyed for decades.
14 But if we try to find ways of kicking it
15 down the road, we are -- we are risking that finance
16 expense line to, you know, increase. And as I said,
17 it's a bit of the truth serum in this -- in this whole
18 equation.
19 THE CHAIRPERSON: Now, I'm trying to
20 assess the -- the impact of the deferral account.
21 Could you address that directly? If -- if -- you know,
22 looking back at what was done by this Board a few years
23 ago, we directed Manitoba Hydro to put a portion of the
24 rate increase into a deferral account.
25 Could you -- could you describe the --

1 the significance of that to you, to Manitoba Hydro?
2 MR. DARREN RAINKIE: Sure. if we can
3 just move through the pages a little bit more, I can do
4 that. So if we -- if we move back to page -- page 6 of
5 the document for one (1) second, if you look at the
6 line that says Bipole III Reserve Account, that's where
7 we have apportioned both the current amount that the
8 Board has approved to go into the deferral account,
9 plus any other amounts in this second and third
10 scenario, sir.
11 So right now, with the amounts that had
12 been approved by the Board in Orders 43/'13 and I think
13 it is 49/'14, you can see that that reserve account is
14 projected to build up to about $162 million by 2019.
15 And what we've assumed in -- in this
16 scenario is that we would build that amount up to July
17 of 2019 when Bipole III goes in service, and then we
18 would amortize that amount fairly quickly over three
19 (3) years. So -- so that's why you see the $162
20 million figure amortizing down to one oh eight fifty-
21 four (10,854) and -- zero.
22 The Board certainly, I would
23 acknowledge, hasn't approved yet an amortization period
24 for that amount because it's in the future.
25 But we assumed a fairly quick

1 amortization period because if you stretch that out
2 over a long period of time, it's not going to make much
3 of a difference when you think about the carrying costs
4 of a Bipole III being $400 million a year and of a
5 Keeyask being, you know, $600 million a year.
6 So if we don't amortize it fairly
7 quickly, it's really not going to help customers that
8 much. I hate to say it, but the amounts are fairly
9 staggering, I think.
10 So if you can keep that $162 million
11 amount or pencil it in or circle it under the current
12 scenario with the 1.5 percent rate increase that went
13 to the Bipole III account from Order 43/'13 and the .75
14 percent rate increase that's going to that account from
15 Order 49/'14, if you can keep the $162 million amount
16 in mind, then we can go to the other scenarios.
17 So if we move to the Alternative 1
18 scenario, if we move to page 12 of the material for a
19 second, we -- you can see that, under that same Bipole
20 III reserve account, if we skim a bit of the 3.95
21 percent rate increases from 2016 to 2018, if we skim a
22 .95 percent a year, that account would grow to 253
23 million by 2019, and then it would amortize down of
24 course as depicted here.
25 But what you've done is you've

1 sacrificed some earnings in the front end and just put
2 them into the back end. So overall, it doesn't really
3 change the retained earnings of $2 billion. It's just
4 reshaping the landscape a little bit.
5 But obviously, if you put in another .95
6 percent in a -- up and above the 2 1/4 percent, that
7 would in -- that would increase the amount that's going
8 into that deferral account, but it wouldn't improve our
9 financial position, because you're just reshaping what
10 otherwise would have been.
11 If we move to the rate alternative
12 number 2 scenario with the 3.5 percent rate increases
13 in the first three (3) years, if we move to page 18 of
14 21 for one (1) second. You can see that the Bipole III
15 reserve account under this scenario would increase to
16 about $264 million by 2019, which isn't that much
17 higher than the previous scenario, but keep in mind in
18 -- in this scenario you're both getting a bit more -- a
19 bit more net income in 2016 to 2018, because you're
20 maintaining the amount that's going to current year
21 revenue -- the rate increase that's going to current
22 year revenues of 3.95 percent, and you're also adding
23 to the Bipole -- sorry, to the reserve account by 1.05
24 percent a year.
25 So -- so it's -- it's not the same

1 effect as the second alternative, because there's more
2 -- more earnings and you're adding to the reserve
3 account, of course, and that's what the additional 1.05
4 percent is doing. Plus, the 1.05 percent additional
5 rate increase is actually helping you to reduce your
6 debt and reduce your finance expense. So when you --
7 when you look at that that's why -- that's how we get
8 to retained earnings of close to $2.6 billion by the
9 end of this ten (10) year period, is by generating more
10 cashflow upfront and -- and reducing the amount of
11 finance expense by the tail end of the forecast.
12
13 (BRIEF PAUSE)
14
15 THE CHAIRPERSON: The panel doesn't
16 have -- doesn't have any further questions at -- at the
17 moment. They might -- we may have questions later, so.
18 You'll be here today, so we -- we likely will mull this
19 one over. And if we need some clarification we will
20 certainly ask further questions.
21 Now, I see Mr. Williams there with his
22 finger on the microphone button. Mr. Williams, please.
23 MR. BYRON WILLIAMS: Just a -- a
24 question, Mr. Chair, to -- to Mr. Rainkie, or to Ms.
25 Van Iderstine. On Friday we had asked whether Manitoba

1 Hydro was prepared to share the facility's condition's
2 index for buildings. And so I'm just repeating that
3 request either in an executive summary, or the entire
4 document, whether Hydro is willing and able to provide
5 that important information?
6 MS. HELGA VAN IDERSTINE: So we had
7 refused that undertaking, as you may recall. And it's
8 still refused. Having said that, we are -- I know the
9 Manitoba Hydro staff have been looking into seeing
10 whether or not it exists, whether there's something
11 they can produce in a reasonable time frame, and
12 provide it.
13 And the concern at this point is that if
14 this is -- and I under -- you know, I -- I certainly
15 appreciate everybody's worked very heard in preparing
16 for these hearings and tries to forecast what they may
17 want to ask, but at this point we -- Friday we were
18 however many weeks into the hearing and to get an
19 undertaking like that that is not easily answered,
20 excuse me, it seems to me to be something that should
21 have been considered as an IR somewhat earlier. And it
22 makes it very difficult for Manitoba Hydro to try and
23 respond to that in a timely way at this point.
24 So I'm going to maintain the refusal in
25 the manner that I had previously. And -- and if Mr. Bo

1 -- Mr. Williams wants to speak more to that, then of
2 course we'll -- and -- or the Board wants to speak
3 further to that, of course we'd be interested in
4 listening and understanding further what -- what's
5 being asked.
6 MR. BYRON WILLIAMS: I'll simply say,
7 Mr. Chair, that is, this panel's ware -- well aware,
8 we've been trying for many months to get a handle on
9 what's going on with sustaining capital expenditures.
10 On May 29th I asked questions on this line of -- of
11 questioning and was led to believe that there was not
12 such an index that was currently in operation.
13 So I think we've been very timely on
14 this, but Hydro's refusal to provide the document --
15 and we will certainly draw the appropriate inferences
16 from that.
17 MS. HELGA VAN IDERSTINE: Sorry, if --
18 if I might just clarify, we're not even certain it's
19 available. So that -- that's part of the -- what we're
20 looking for. So I -- I -- to give an undertaking to go
21 and search for something we're something we're not
22 certain is available is -- is somewhat problematic and,
23 you know, I guess Mr. Williams will do what he wants on
24 that particular point.
25 MR. BYRON WILLIAMS: Mr. Chair, we

1 didn't know it existed or was available until last
2 Thursday. We were told it existed was -- for the first
3 time on last Thursday. But we'll -- we'll draw the
4 appropriate inferences from Hydro's position.
5
6 (BRIEF PAUSE)
7
8 MR. BYRON WILLIAMS: Just to be clear,
9 sir, if -- if Hydro is refusing to provide this
10 document, or claiming that it's not sure it exists now,
11 we'll -- we will argue the inferences that should be
12 drawn on that from closing. Thank you -- in closing
13 argument.
14 THE CHAIRPERSON: Do you wish to
15 respond?
16 MS. HELGA VAN IDERSTINE: So Mr.
17 Rainkie is -- is going to continue to look for it to
18 see if there's something that can be readily produced.
19 But at this point we don't have that information, and
20 I'm not certain that we'll be able to get it in a
21 timely way. And so I -- I don't know what more we can
22 say on that point.
23 THE CHAIRPERSON: But -- but the -- the
24 point that Mr. Williams is making is that, you know,
25 Manitoba Hydro indicated it existed last week, and I --

1 I just -- it seems to me that if -- if you want -- you
2 -- if that statement was in error or was drawing an
3 inference that wasn't appropriate, we -- we should know
4 about it, so.
5 MS. HELGA VAN IDERSTINE: Mr. Rainkie
6 is going to speak to that because he's the one who
7 mentioned it.
8 MR. DARREN RAINKIE: Sir, I -- I think
9 the -- the fact is, is that -- as we indicated in that
10 undertaking that we have done the assessment on our
11 buildings the question becomes, Is there a voluminous
12 amount of material or is there something that
13 summarizes that into a nice neat and tidy -- tidy
14 report. As you and I talked about, I think, last week
15 we have numerous buildings all over Manitoba.
16 So what I'm not sure is if there's a
17 readily filable form of it. And I'm not -- maybe --
18 maybe I'm not understanding something but the amount of
19 capital that Manitoba Hydro spends on its buildings as
20 a percentage of its total capital spend is fairly
21 small, so I'm not understanding perhaps why it's such a
22 vital -- a vital part of the Coalition's argument.
23 Now, I'm starting to get into argument
24 myself here but I -- I'm sitting on this side going,
25 Okay, we're all trying to prepare all the other

1 undertakings and get ready for argument so that we can
2 close the hearing this week, and I'm -- I guess I'm --
3 if we had -- if we had a readily available document
4 that we could file I would -- I would share it with the
5 Board. We have nothing to hide in that regard.
6 But that's the thing, is there something
7 that we can put our finger on, or is it a ream of data
8 on different buildings all over the -- all over the
9 place. I will personally phone our manager in the
10 property area, or whatever manager is in that area, and
11 see if I can get a better -- a better bead on -- on
12 what's there.
13 But I'm just not sure at this late date
14 if -- if that's something that -- you know, if we're
15 going to go to summarize volumes of material down to a
16 report, I mean, I -- we -- we did answer, you know, two
17 thousand (2,000) Information Requests during this
18 process, and I think that the conc -- the Coalition
19 group asked probably seven hundred and fifty (750) or
20 more of those.
21 And so I -- I guess we're a little
22 puzzled, sitting here wondering why this is now such a
23 vital, important piece of data at the last moment. And
24 -- and, you know, as I said given the size of our --
25 our building program in relation to our total capital

1 program, and we're having a hard time understanding why
2 it's such a vital -- a vital piece of information.
3 THE CHAIRPERSON: Mr. Williams, please?
4 MR. BYRON WILLIAMS: I'm not sure
5 there's anything I -- I can add, Mr. Chairman. We'll
6 make our position clear in closing, and hopefully
7 demonstrate why -- why we were seeking this
8 information.
9 THE CHAIRPERSON: Okay. Thank you. I
10 think it's probably an appropriate time to take a
11 couple minutes break, so we'll give people a chance to
12 reposition themselves, and -- and refresh our coffee at
13 the same time. Thank you.
14
15 --- Upon recessing at 9:44 a.m.
16 --- Upon resuming at 9:54 a.m.
17
18 THE CHAIRPERSON: I believe that we're
19 ready to resume the proceedings for today. I'll just
20 put people on notice that we will be taken an extended
21 -- an hour lunch again, and so with that...
22
23 (BRIEF PAUSE)
24
25 THE CHAIRPERSON: With that, I'll turn

1 the microphone over to you -- to you, Me. Hacault.
2 MR. ANTOINE HACAULT: Perhaps we can
3 get the two (2) witnesses sworn and -- by Board
4 secretary first. And good morning, members of the
5 panel. I was dreaming that I was David coming into the
6 hearing, because we've had three (3) weeks of some --
7 third floor supporting a back row, supporting a front
8 line, and I felt I was kind of all alone. But
9 hopefully we have some information to share with the
10 Board over this day which is granted to us in the
11 context of a three (3) week hearing to give some food
12 for thought as to options available to the Board.
13 And so if we have Mr. Bowman and Ms. Lee
14 sworn in, I'll proceed, then, to qualify Mr. Bowman,
15 and Mr. Williams will proceed to qualify Ms. Lee.
16
17 MIPUG WITNESS PANEL:
18 PATRICK BOWMAN, Sworn
19 PATRICIA LEE, Sworn
20
21 MR. ANTOINE HACAULT: Next, I believe
22 we have some exhibits to mark. The presentation of Mr.
23 Bowman would be MIPUG Exhibit number 12, I believe.
24
25 --- EXHIBIT NO. MIPUG-12: Presentation of Mr. Bowman

1 MR. ANTOINE HACAULT: And then there's
2 some documents taken from the filings and one (1)
3 illustrative diagram, which would be Exhibit MIPUG-13.
4
5 --- EXHIBIT NO. MIPUG-13: Documents taken from the
6 filings and one (1)
7 illustrative diagram
8
9 MR. ANTOINE HACAULT: With respect to
10 the answers to undertakings, I thank Manitoba Hydro for
11 having tried to respond as quickly and as best as
12 possible. And, unfortunately, I only had the
13 opportunity to communicate to Manitoba Hydro this
14 morning that it's MIPUG's view that two (2) of the res
15 -- answers are not responsive. I just want to indicate
16 that for the record, and maybe we'll be able to resolve
17 those issues.
18 The first one is Undertaking number 29.
19 And the transcript around June 1 shows the context of
20 that request for an undertaking. You may recall I had
21 a discussion with respect to whether or not the
22 Corporation had looked at how it would adjust expenses
23 if it was only given a rate increase less than three
24 point nine-five (3.95), whether it be two point nine-
25 five-three (2.953) or whatever. In our view, the

1 answer that was provided is not responsive to that line
2 of questioning in the undertaking that was given.
3 The second undertaking which we view is
4 non-responsive is again on June 1, page 1,682. And
5 following of the transcript, you may recall I asked a
6 fair amount of details with respect to the asset
7 condition report and the type of data that there was
8 with respect to assets described in that report. And I
9 was looking specifically for the data, the retirement
10 data. The -- the discussion and undertaking will speak
11 for itself.
12 But I wasn't given the data, I was given
13 an interpretation of what Manitoba Hydro's view is of
14 what it did, and it wasn't responded in the context of
15 the asset condition report. And there were reasons why
16 I was asking for that as it related to depreciation.
17 THE CHAIRPERSON: What was the number
18 of that undertaking, the second one?
19 MR. ANTOINE HACAULT: I have it as
20 Undertaking number 32. So I have brought it to
21 Manitoba Hydro's attention, and I'm not too sure if
22 we're going to be resolve -- be able to resolve that,
23 but I just wanted to bring it to the attention of the
24 Board.
25 Now, Mr. -- I'll -- I'll proceed to

1 qualify Mr. Bowman. I don't think I need to make
2 further comments on -- on that at this point.
3 My understanding -- and on that basis,
4 I'm not going to be going through an extensive review
5 of Mr. Bowman's qualifications -- is that Manitoba
6 Hydro is prepared to accept Mr. Bowman's qualifications
7 as they were set out in the NFAT proceeding.
8 Mr. Chairman, you may recall that we had
9 a fairly extensive debate and exposition of Mr.
10 Bowman's involvement as it relates to depreciation,
11 which resulted in the following ruling by the
12 Chairperson at page 5,169 of the January 23, 2013,
13 transcript. And I'm quoting:
14 "The panel has concluded that Mr.
15 Bowman is not an expert -- recognized
16 expert on depreciation."
17 We weren't seeking to have that. I'm
18 coni -- continuing the quote:
19 "However, Mr. Bowman has demonstrated
20 to the satisfaction of this panel
21 that he has experience in analyzing
22 depreciation studies and addressing
23 the outcomes of those depreciation
24 studies for rate-setting purposes."
25 So with respect to the depreciation

1 issue, we are seeking to have Mr. Bowman qualified in
2 the same way as was specifically stated by this Board
3 at that time.
4
5 EXAMINATION-IN-CHIEF OF MR. PATRICK BOWMAN BY MR.
6 ANTOINE HACAULT (QUAL.):
7 MR. ANTOINE HACAULT: Mr. Bowman, I'll
8 ask you a couple questions with respect to your
9 experience generally in rate-making hearings.
10 How long have you been involved in
11 providing advice to both utilities and to companies in
12 this area?
13 MR. PATRICK BOWMAN: Thank you. Good
14 morning, Mr. Chair and members of the panel. I've been
15 working in the area of utility regulation for somewhere
16 in the order of seventeen (17) years, and working
17 primarily with utilities and -- and Intervenors, but
18 also governments dealing with utility matters.
19 MR. ANTOINE HACAULT: And could you
20 expand a bit further on the names of the utilities on
21 whose behalf you provide evidence in hearings and in
22 rate issues?
23 MR. PATRICK BOWMAN: My resume is a
24 part of Attachment A to the -- the prefiled testimony,
25 which is Exhibit MIPUG-7, but -- if anyone wanted to go

1 there. But over the years, I've worked with a number
2 of Crown utilities, Yukon Energy, Northwest Territories
3 Power, some municipally-owned utilities such as Nelson
4 Hydro, the City of Swift Current, the Swift Current
5 electric utility, and as -- as well as working in the
6 jurisdiction where there are -- are Crown-owned
7 companies where I work for Intervenors.
8 MR. ANTOINE HACAULT: Did you... And
9 you've talked about Intervenors. What's the nature of
10 the Intervenors that you have been providing assistance
11 to and expert evidence on?
12 MR. PATRICK BOWMAN: Primarily, I've
13 worked with industrial customers. We're -- obviously
14 Manitoba, as well as I'm in the middle of a hearing in
15 Newfoundland. And for the last year or so, we've been
16 working with the British Columbia Industrial Customer
17 Group. And I've -- I've been specifically in that, as
18 I'm...
19
20 (BRIEF PAUSE)
21
22 MR. ANTOINE HACAULT: Now, could you
23 provide us a little bit of background of your expertise
24 in resource and project planning?
25 MR. PATRICK BOWMAN: Yes, it hasn't

1 changed since the NFAT, which is -- but I've worked on
2 about three (3) different sides, I guess, of -- of
3 getting major utility projects in place. I've -- I've
4 been a witness for both companies and Intervenors on
5 regulatory reviews of resource plans and of specific
6 projects.
7 In practical terms, I was also the --
8 the project manager in charge of all of the planning
9 stages of -- of what I'll call a major Hydro
10 development in Yukon, major for Yukon, a $120 million
11 redevelopment, which, you know, in -- in relation to
12 the size of their system is -- is a lot like you'd find
13 at Keeyask or Conawapa here.
14 And I -- I've also worked with a number
15 of -- of government studies dealing with the -- utility
16 resource plans, some of which came to fruition, some
17 didn't, including some -- some fairly major projects,
18 and -- and then worked on behalf of Intervenors in
19 assessing them, including the -- the NFAT here.
20 Provided some advice to the BC Industrials in respect
21 of some of the developments going on there.
22 That -- that's probably the -- the
23 majority of the list.
24 MR. ANTOINE HACAULT: And since when
25 have you been qualified as an expert to provide

1 evidence in front of this Board on the wide gambit of
2 rate-making issues which the Board has had to deal
3 with?
4 MR. PATRICK BOWMAN: The first hearing
5 I participated in as an expert in Manitoba was the 2001
6 status update for Hydro, which was sort of like a GRA,
7 except Hydro wasn't asking for a rate increase. I was
8 involved in some hearings before that, like the central
9 purchase and the curtailable service program review in
10 '98, but I didn't give evidence in those earlier
11 hearings.
12 MR. ANTOINE HACAULT: So, members of
13 the panel, in addition to the specific description that
14 I gave in quoting from the NFAT ruling on depreciation,
15 which was contested...
16
17 (BRIEF PAUSE)
18
19 MR. ANTOINE HACAULT: Sorry, I misquo -
20 - I misstated when I said the NFAT. It was the GRA
21 that we had that depreciation dispute. That was the
22 January of 2013. I also would propose to have him
23 qualified on the other issues that he was qualified in
24 that hearing, which is as an expert in rate-making
25 principles and appropriate regulatory principles for a

1 Crown-owned utility providing a service at cost, and
2 also with respect to the revenue requirement analysis
3 appli -- applicable in setting rates, and finally,
4 Power System planning in economics.
5 THE CHAIRPERSON: You'll have to repeat
6 that for me, please. Could you mind repeating that,
7 please?
8 MR. ANTOINE HACAULT: So I'll try and
9 do a comprehensive repetition of firstly the ruling of
10 the Board with respect to depreciation, and then the
11 other categories.
12
13 (BRIEF PAUSE)
14
15 MR. ANTOINE HACAULT: The quote is:
16 "Mr. Bowman has demonstrated to the
17 satisfaction of this panel that he
18 has experience in analysing
19 depreciation studies and addressing
20 the outcome of those depreciation
21 studies for rate-setting purposes."
22 So that would be the first area. The
23 second area would be to be qualified as an expert in
24 rate-making principles and the appropriate regulatory
25 principles for a Crown-owned utility providing service

at cost. And the third very broad area is with respect to the revenue requirement analysis applicable in setting rates in Power System planning and economics.

(BRIEF PAUSE)

THE CHAIRPERSON: Ms. Van Iderstine, could you -- could you address the --

MS. HELGA VAN IDERSTINE: So the --

THE CHAIRPERSON: -- the request of this -- MIPUG, please?

MS. HELGA VAN IDERSTINE: Sorry. Okay. There we go.

THE CHAIRPERSON: Actually, it's a request of the Coalition, as I understand it, MIPUG.

MS. HELGA VAN IDERSTINE: Yeah, MIPUG. So I -- I just want to clarify that he's not being requested to be a depreciation expert. Is that correct?

MR. ANTOINE HACAULT: Correct.

MS. HELGA VAN IDERSTINE: Because the quotation that you read out missed the first portion of the order from the previous GRA, which was that he's not a depreciation expert. So that -- if that's clarified, then we don't have any problem with respect

1 to his -- the first level of his -- of his request for
2 being a -- let me just read the -- the quote two (2).
3 Just for clarity maybe I'll read it in
4 its entirety and we'll say, This is what we're pre --
5 we're happy with, and I think that was the previous
6 order, then everybody knows what we're talking about.
7 So the entire quote was -- from the GRA was:
8 "The panel has concluded that Mr.
9 Bowman is not an expert -- recognized
10 expert on depreciation. However, Mr.
11 Bowman has demonstrated to the
12 satisfaction of this panel that he
13 has experience in analyzing
14 depreciation studies and addressing
15 the outcomes of those depreciation
16 studies for rate setting purposes.
17 The Board will allow his evidence --
18 [pardon me] -- will allow his
19 evidence to be and to be heard and
20 determine the weight to be given to
21 his testimony."
22 If that's what's being asked for, then
23 we're satisfied on the depreciation side that that is
24 satisfactory to us.
25 MR. ANTOINE HACAULT: Correct. I

1 confirm that's what's being requested. It's consistent
2 with the previous Board ruling in the previous GRA.
3
4 (BRIEF PAUSE)
5
6 MS. HELGA VAN IDERSTINE: And for the
7 purpose of his testimony today we're prepared to have
8 him accepted as an expert, again given -- and the
9 weight to be attributed to it determined by the
10 evidence that's given with resp -- on those other two
11 (2) issues.
12 THE CHAIRPERSON: So, Ms. -- just to
13 clarify, Ms. Van Iderstine, with the number of requests
14 here made in respect of revenue requirement analysis,
15 qualified rate making principles, and appropriate
16 regulatory principles for, and so on -- so all of that
17 you're -- you're not challenging? You're accepting Mr.
18 Bowman's qualifications?
19 MS. HELGA VAN IDERSTINE: Yeah, I'm not
20 entire certain what that -- all that means, but I'm
21 prepared to have -- to say that he can give evidence as
22 he's anticipating to give it today.
23 THE CHAIRPERSON: Thank you for that.
24 And I call on Mr. Orle, please. Could you comment?
25 Have you any concerns about Mr. Bowman as an expert

1 witness for these areas of examining?
2 MR. GEORGE ORLE: Thank you, Mr. Chair.
3 We accept the qualifications of the witness as an
4 expert. Thank you.
5 THE CHAIRPERSON: Thank you, Mr. Orle.
6 Mr. Masi, please...?
7 MR. TOMAS MASI: We also accept Mr.
8 Bowman's qualifications.
9 THE CHAIRPERSON: Thank you for that.
10 Mr. Peters, any comments? Any questions?
11 MR. BOB PETERS: None, thank you. I --
12 THE CHAIRPERSON: Thank -- thank you,
13 Mr. Peters. Then I'll call on --
14 MR. BOB PETERS: -- I do believe Mr.
15 Gange --
16 THE CHAIRPERSON: Oh, I'm sorry.
17 MR. BOB PETERS: -- I -- I know he's
18 not in the room but I think Dave -- his colleague is
19 here.
20 THE CHAIRPERSON: I'm sorry, I -- I
21 apologize. I should have recognized you.
22 MR. DAVID CORDINGLEY: No problem. No
23 position this morning.
24 THE CHAIRPERSON: Thank you very much
25 for that.

1 RULING RE. MR. PATRICK BOWMAN (QUAL.):

2 THE CHAIRPERSON: So with that, the

3 panel will accept Mr. Bow -- Mr. Bowman as an expert

4 for the areas described by -- by Mr. -- Me. Hacault. I

5 won't repeat them. I have them noted, and hopefully

6 the court reporter will be able to make sense of -- of

7 the outcome of the discussion. But I think I've got it

8 down fairly -- fairly clearly in my notes here.

9 With that, I turn the microphone over to

10 you, Mr. Williams.

11 MR. BYRON WILLIAMS: Yes, and thank

12 you. And -- and first of all, we'd just like to

13 present two (2) exhibits on behalf of MIPUG and the

14 Coalition. And apparently Ms. Lee's evidence and

15 Information Responses earlier were marked as MIPUG

16 exhibits, so these will be MIPUG/Coalition exhibits.

17 M(1) is the PowerPoint of Ms. Lee, which I'm advised

18 should be marked as MIPUG/Coalition-1.

19

20 --- EXHIBIT NO. MIPUG/COALITION-1:

21 PowerPoint Presentation of Ms. Lee

22

23 MR. BYRON WILLIAMS: And secondly would

24 be the curriculum vitae of Ms. Lee, along with a list

25 of her appearances or participations at the Florida

1 Public Service Commission, which we would suggest to be
2 marked as MIPUG/Coalition-2.
3
4 --- EXHIBIT NO. MIPUG/COALITION-2:
5 Curriculum vitae of Ms. Lee with list
6 of appearances or participations at
7 the Florida Public Service Commission
8
9 EXAMINATION-IN-CHIEF OF MS. PATRICIA LEE BY MR. BYRON
10 WILLIAMS (QUAL.):
11 MR. BYRON WILLIAMS: Ms. Lee, with --
12 with the panel's permission we'll proceed. I'll --
13 I'll say, Good morning, which I should have done
14 earlier and I apologize for that. And good morning to
15 you as well, Ms. Lee.
16 MS. PATRICIA LEE: Good morning.
17 MR. BYRON WILLIAMS: And I should note
18 that Ms. Gloria Desorcy, executive director of the
19 Consumers' Association, is here today so we're very
20 pleased to have her.
21 Ms. Lee, you're the author of prefiled
22 testimony with regard to depreciation issues, which was
23 filed on or about April 24th, 2015?
24 MS. PATRICIA LEE: That is correct.
25 MR. BYRON WILLIAMS: And you were also

1 author of information requests both to Manitoba Hydro
2 and to the Public Utilities Board in this proceeding
3 related to depreciation?
4 MS. PATRICIA LEE: That is correct.
5 MR. BYRON WILLIAMS: And you were
6 jointly retained by -- by the Manitoba Industrial Power
7 Users Group, and the Coal -- Coalition?
8 MS. PATRICIA LEE: Yes.
9 MR. BYRON WILLIAMS: At the time of
10 your retainer, Ms. Lee, you were asked to sign an
11 acknowledgement that your role was to provide fair,
12 objective, and nonpartisan advice to the Public
13 Utilities Board?
14 MS. PATRICIA LEE: Correct.
15 MR. BYRON WILLIAMS: And you
16 understanding that while you are retained by the
17 Coalition and by MIPUG, your role is to provide
18 impartial, unbiassed advi -- advice to the -- to the
19 Public Utilities Board?
20 MS. PATRICIA LEE: Yes.
21 MR. BYRON WILLIAMS: We'll come back to
22 this at the end, but if Ms. -- if the chairperson is
23 taking notes, Ms. Lee, you have expertise in the
24 analysis and application of depreciation methods,
25 procedures, and techniques and their implications for

1 recommended depreciation lives, net salvage values,
2 resulted depreciation rates, and reserve imbalances?
3 MS. PATRICIA LEE: That is correct. I
4 have been working in this area for over thirty (30)
5 years.
6 MR. BYRON WILLIAMS: And you are
7 proficient in the application of the principles of
8 statistics, probability, and engineering finance as
9 related to the design of depreciation rates for
10 utilities?
11 MS. PATRICIA LEE: Correct.
12 MR. BYRON WILLIAMS: You received a
13 bachelor of science in mathematics way back in 1970,
14 Ms. Lee?
15 MS. PATRICIA LEE: That was a long time
16 ago, you're right. Yes, I did.
17 MR. BYRON WILLIAMS: And after working
18 as a math teacher you moved to the state of Florida
19 performing statistical analysis for the Department of
20 Revenue?
21 MS. PATRICIA LEE: Yes.
22 MR. BYRON WILLIAMS: And back on or
23 about 1978 you began working at the Florida Public
24 Services Commission?
25 MS. PATRICIA LEE: Correct.

1 MR. BYRON WILLIAMS: And the Florida
2 Public Service Commission is to Florida what the PUB is
3 to Manitoba --
4 MS. PATRICIA LEE: Yes.
5 MR. BYRON WILLIAMS: -- an August
6 institution? Just -- just joking, Ms. Lee. And you've
7 mentioned that you've had over thirty (30) years of
8 experience in reviewing and analyzing the assets of
9 public utility companies in the electric, gas,
10 telecommunication, and water and wastewater industries
11 for the Florida Public Service Commission?
12 MS. PATRICIA LEE: That is correct.
13 MR. BYRON WILLIAMS: And we'll come
14 into this in a bit more detail later. But in the
15 course of those thirty (30) years you've prepared many
16 reports for the PSC in Florida and appeared as a
17 witness in a number of contested hearings?
18 MS. PATRICIA LEE: That is also
19 correct.
20 MR. BYRON WILLIAMS: And over the
21 course of those thirty (30) years you developed a
22 technical understanding of certain plant and equipment
23 of telecommunications, electric, gas, and water and
24 wastewater industries coupled with valuation,
25 depreciation, and accounting knowledge of federal

1 regulatory procedures and regulations?
2 MS. PATRICIA LEE: That is also
3 correct. It is essential to have those -- that
4 criteria when you are reviewing and analyzing
5 depreciation studies.
6 MR. BYRON WILLIAMS: Now, you moved to
7 your current position at BCRI Valuation Services in
8 2011?
9 MS. PATRICIA LEE: Correct.
10 MR. BYRON WILLIAMS: And BCRI Valuation
11 is a consulting and research company specializing in
12 depreciation and property valuation?
13 MS. PATRICIA LEE: Yes.
14 MR. BYRON WILLIAMS: At BCRI your
15 responsibilities have included reviewing depreciation
16 studies and basic data and advising clients concerning
17 recommended depreciation lives, net salvage values,
18 resultant depreciation rates, reserve imbalances, and
19 depreciation methods, procedures, and techniques,
20 agreed?
21 MS. PATRICIA LEE: Correct.
22 MR. BYRON WILLIAMS: And among your
23 projects since moving to BCRI was consideration of an
24 application by the Newfoundland and Labrador Hydro for
25 the approval of changes in depreciation methodology and

1 asset service lives?
2 MS. PATRICIA LEE: That is correct.
3 And that was in 2012, I believe.
4 MR. BYRON WILLIAMS: Now, Ms. Lee,
5 during your thirty (30) years with the Florida PSC you
6 reviewed and analyzed depreciation rates for Florida
7 regulated utilities?
8 MS. PATRICIA LEE: Yes.
9 MR. BYRON WILLIAMS: And you
10 investigated and evaluated various valuation and
11 depreciation methods and concepts such as age life and
12 equal life group?
13 MS. PATRICIA LEE: Yes.
14 MR. BYRON WILLIAMS: You developed the
15 use of planning both short-term and long engineering
16 planning as a tool in the determination of remaining
17 life and/or capital recovery schedules?
18 MS. PATRICIA LEE: Yes, that was an
19 essential took in our analysis.
20 MR. BYRON WILLIAMS: You assessed it in
21 the development of commission rules regarding
22 depreciation study requirements, agreed?
23 MS. PATRICIA LEE: Agreed.
24 MR. BYRON WILLIAMS: And you also
25 assisted in the development of commission rules

1 regarding stratification of depreciable plant for a
2 determination of lives, of live and salvage for gas,
3 electric, and telecommunication companies?
4 MS. PATRICIA LEE: Correct.
5 MR. BYRON WILLIAMS: You co-authored
6 the Florica -- Florida Commission Staff Depreciation
7 Training Manual?
8 MS. PATRICIA LEE: Yes.
9 MR. BYRON WILLIAMS: Okay. I'd just
10 like to turn your attention briefly to the
11 MIPUG/Coalition Exhibit 2. And towards your list of
12 cases, let's go towards the back, the third-last page,
13 which has 1991 on that.
14 Do you see that, Ms. Lee, 1991?
15 MS. PATRICIA LEE: Yes, I do.
16 MR. BYRON WILLIAMS: Okay. And you'll
17 agree that this list of -- of -- that is you've worked
18 on, these are cases in which you either provided
19 analysis to the Florida Public Service Commission or
20 provided evidence?
21 MS. PATRICIA LEE: Yes, that's correct.
22 MR. BYRON WILLIAMS: Now, I note that
23 it only goes back to 1988, but you participated in many
24 matters before that time?
25 MS. PATRICIA LEE: That is also

1 correct. It only went back to 1988 because that's as
2 far as the archives went back at the Commission.
3 MR. BYRON WILLIAMS: So your work with
4 Florida predates the archives?
5 MS. PATRICIA LEE: You really didn't
6 have to say that.
7 MR. BYRON WILLIAMS: When we look at
8 the 1991 data, would you agree, subject to check, that
9 you were involved in at least seven (7) depreciation
10 studies in that particular year?
11 MS. PATRICIA LEE: I will accept that
12 subject to check.
13 MR. BYRON WILLIAMS: And if were to
14 look over the gamut of your experience, some years you
15 might have done more than seven (7) depreciation
16 studies, some years you might have done less. But this
17 is a fairly representative year?
18 MS. PATRICIA LEE: Yes, absolutely.
19 MR. BYRON WILLIAMS: Now, because the
20 Public Utilities Board of Manitoba is a bit -- might be
21 a bit unfamiliar with Florida practices, I'm wondering
22 if you can describe your role in processes that led to
23 proposed agency action. And then in a moment we'll
24 come to your role in contested hearings.
25 MS. PATRICIA LEE: Of course. Thank

1 you. Good morning, Board members. I'm glad to be here
2 in Winnipeg. It's much cooler here than it was when I
3 left Florida at 90 plus degrees and 99 percent
4 humidity. So this is very pleasant.
5 The Florida Public Service Commission,
6 we separate our cases into proposed agency action, and
7 then those cases that go to full litigation. By and
8 large, depreciation study reviews were our proposed
9 agency action. That does not mean in all cases that
10 was the case, but normally it was proposed agency
11 action.
12 What that entailed was a company or
13 utility would file their depreciation study by rule,
14 and the staff would review that study, file a written
15 report asking for additional information or pointing
16 out concerns, and proposing what the staff viewed as a
17 appropriate depreciation lives, salvage values, any
18 reserve position, and resulting depreciation rates.
19 The utility would then have a certain
20 period of time, usually six (6) weeks or so, to review
21 that report and to file comments back with the
22 Commission detailing concurrences or providing
23 additional information, providing alternative
24 approaches to the staff. And then the staff would
25 review that and then file a recommendation perhaps six

1 (6) weeks after that.

2 What -- the commissioners, as far as the

3 recommendation on the depreciation study, outlining the

4 recommendation, the recommended depreciation lives,

5 salvage values, resulting depreciation rates, any

6 reserve transfers, resulting depreciation expenses, and

7 would also point out in their recommendation any areas

8 of concern where the company agreed with the staff or

9 where there -- where there were still differences

10 outstanding.

11 This recommendation was publicly filed.

12 All parties got a copy of it, as well as the staff

13 report. All parties had a copy of that also.

14 And we would go before the commissioners

15 and provide an oral recommendation, oral summary of the

16 recommendation. The utility would be present, the

17 Office of Public Council, which was a public advocacy

18 group, would be present.

19 And the Commission would, after

20 reviewing the recommendation, asking any questions,

21 would then make a decision or a ruling as to approving

22 the staff recommendation, approving the staff

23 recommendation as modified, rejecting the staff

24 recommendation. Those were the options open to the

25 Commission at that time.

1 MR. BYRON WILLIAMS: Thank you. And --
2 and I wonder if you could differentiate between the
3 proposed agency action process and the contested
4 hearings process.
5 MS. PATRICIA LEE: Contested hearing
6 processes there were times where a depreciation study
7 was filed and one (1) party, either the consumer advoc
8 -- advocacy group or the utility themselves would up
9 front say, We want this going to hearing. In which
10 case, it was full litigation. And that process was the
11 formal discovery, depositions. In many cases I did
12 testify in those cases.
13 I was deposed. I gave testimony in
14 front of the commission. I was cross-examined by the
15 parties. And then there was a -- a separate staff
16 recommendation after that based on the evidence in the
17 record.
18 MR. BYRON WILLIAMS: Thank you. And if
19 we could just turn to MIPUG/Coalition-2, the third page
20 in, which should be the -- your cases from 2010 should
21 be on that page, Ms. Lee.
22 MS. PATRICIA LEE: Yes.
23 MR. BYRON WILLIAMS: And just as
24 examples of contested hearings, would it be correct to
25 suggest that the -- you had a -- in 2010 you had a

1 contested hearing related to the Progress Energy
2 Florida account?
3 MS. PATRICIA LEE: Correct.
4 MR. BYRON WILLIAMS: And also a
5 contested hearing for Florida Power and Light?
6 MS. PATRICIA LEE: Correct.
7 MR. BYRON WILLIAMS: Okay. So those
8 are just two (2) examples?
9 MS. PATRICIA LEE: Yes.
10 MR. BYRON WILLIAMS: Now, move up to
11 2011 for just one (1) second. You'll see references to
12 depreciation studies related to Sebring Gas Systems, as
13 well as Florida Public Utilities Company?
14 MS. PATRICIA LEE: Correct.
15 MR. BYRON WILLIAMS: And, Ms. Lee, I
16 understand that those were a different type of process
17 called staff-assisted process.
18 Am I right there?
19 MS. PATRICIA LEE: That is correct.
20 There was no formal word as self-assisted depreciation
21 studies, which is essentially what those -- those
22 studies were. The companies were given the opportunity
23 to -- to file their basic data with us and then we
24 would review it. We would massage the data, ask
25 questions about the data, and suggest, if you will,

1 appropriate lives, salvage values, and depreciation
2 rates.
3 The company was -- the utilities were in
4 no way, shape, or form bound to accept those proposals,
5 but it was an effort to help these companies. By and
6 large they're very small unsophisticated utilities. It
7 was deemed as being a better source of our resources as
8 well as utilities resources so that they would have to
9 -- they would forego spending, sometimes, thousands of
10 dollars for a consultant when, you know, the staff of
11 the Public Service Commission could do the work for
12 them.
13 MR. BYRON WILLIAMS: Okay. Just before
14 we leave Florida, in terms of the types of industries
15 you undertook reviews for, those would include -- in
16 terms of depreciation, electric, gas,
17 telecommunications, and water.
18 Would that be fair?
19 MS. PATRICIA LEE: Correct.
20 MR. BYRON WILLIAMS: And I wonder if
21 you can give me a sense of the type and size of the
22 electric firms in which you provided depreciation
23 analysis, please?
24 MS. PATRICIA LEE: I knew there was
25 something I forgot to do last night. Our largest four

1 (4) electric companies are Florida Power and Light,
2 Florida Progress, which is now Duke Florida, Tampa
3 Electric, and Gulf Power Company. And I'm sorry, I did
4 not have a chance to look these up to see what their
5 bottom line investments are.
6 MR. BYRON WILLIAMS: Would they be in
7 the billions?
8 MS. PATRICIA LEE: I believe so, yes.
9 MR. BYRON WILLIAMS: In terms of the
10 primary source of energy for those electric firms,
11 would it be fair to say that it -- it may have been
12 coal, gas, or nuclear?
13 MS. PATRICIA LEE: Yes.
14 MR. BYRON WILLIAMS: Ms. Lee, you also,
15 when you moved to BCRI, had an opportunity to look at
16 hydro electricity in reviewing an application by
17 Newfoundland and Labrador Hyd -- Hydro for the approval
18 of changes in depreciation methodology and asset
19 service lives?
20 MS. PATRICIA LEE: That is correct.
21 MR. BYRON WILLIAMS: And that matter
22 was before the Newfoundland and Labrador Commissioner
23 of Public Utilities?
24 MS. PATRICIA LEE: Correct.
25 MR. BYRON WILLIAMS: And you provided

1 written evidence in that proceeding?
2 MS. PATRICIA LEE: I did.
3 MR. BYRON WILLIAMS: But it did not go
4 to hearing and was sub -- subsequently addressed
5 through a negotiated settlement?
6 MS. PATRICIA LEE: That is correct.
7 MR. BYRON WILLIAMS: Okay. Just to use
8 the acronym -- if I use the acronym N-A-R-U-C, or
9 NARUC, Ms. Lee, you'll understand that to mean the --
10 the National Association of Regulatory Utility
11 Commissioners?
12 MS. PATRICIA LEE: Yes.
13 MR. BYRON WILLIAMS: And would it be
14 accurate to say at one (1) point in time in your career
15 you served as chair of the NARUC staff subcommittee on
16 depreciation?
17 MS. PATRICIA LEE: That is correct.
18 MR. BYRON WILLIAMS: And you are aware
19 that in the course of this hearing, the Board and Mr.
20 Kennedy have considered the NARUC document, Public
21 Utility Depreciation Practices, published in August of
22 1996?
23 MS. PATRICIA LEE: Yes, I'm aware.
24 MR. BYRON WILLIAMS: And you're aware
25 there have been previous versions of this comprehensive

1 manual published in 1943 and 1968?
2 MS. PATRICIA LEE: That is correct.
3 MR. BYRON WILLIAMS: You didn't take
4 part in those publications I assume, Ms. Lee?
5 MS. PATRICIA LEE: No. A little before
6 my time.
7 MR. BYRON WILLIAMS: But -- but the
8 NARUC manual is the most current comprehensive manual
9 prepared by NARUC in terms of depreciation?
10 MS. PATRICIA LEE: Yes.
11 MR. BYRON WILLIAMS: And you are a
12 coauthor of Pub -- "Public Utility Depreciation
13 Practices"?
14 MS. PATRICIA LEE: I was.
15 MR. BYRON WILLIAMS: And it was subject
16 to an external review committee, which had substantial
17 participation from industry?
18 MS. PATRICIA LEE: Yes, that is
19 correct.
20 MR. BYRON WILLIAMS: And would it be
21 accurate to say that you were the primary author of
22 Chapter 2, "Current Concepts of Depreciation"?
23 MS. PATRICIA LEE: Let me go to that
24 chapter. I believe that is correct. That is correct.
25 MR. BYRON WILLIAMS: And you were the

1 primary auth -- author of Chapter 3, Accounting for
2 Plant Assets?
3 MS. PATRICIA LEE: I believe so, yes.
4 MR. BYRON WILLIAMS: And you were the
5 primary author of Chapter 14, "Depreciation Expense and
6 its Effects on the Utility's Financial Performance"?
7 MS. PATRICIA LEE: That is correct.
8 MR. BYRON WILLIAMS: And in your spare
9 time, you were the primary author for Appendix F on
10 nuclear decommissioning?
11 MS. PATRICIA LEE: Yes. I had
12 substantial input into that appendix, yes.
13 MR. BYRON WILLIAMS: And could you des
14 -- describe your role, if any, in the preparation of
15 Chapter 12, which discussed equal life depreciation
16 rates?
17 MS. PATRICIA LEE: I was not the
18 primary author of this chapter, but I had substantial
19 input with the author of this chapter.
20 MR. BYRON WILLIAMS: Okay. Now, just -
21 - in terms of the NARUC annual regulatory studies
22 program at Michigan State University, would I be
23 correct in suggesting that you prepared depreciation
24 accounting training in the years 1993 through 1998?
25 MS. PATRICIA LEE: Yes.

1 MR. BYRON WILLIAMS: And for the
2 Florida State Public Service Commission, you had
3 conducted commission in-house dep -- depreciation
4 training?
5 MS. PATRICIA LEE: That is also
6 correct.
7 MR. BYRON WILLIAMS: And you made oral
8 presentations to the Society of Depreciation
9 Professionals, and the United States Telephone (sic)
10 Association regarding various telecommunication,
11 electric, and gas issues?
12 MS. PATRICIA LEE: That is correct.
13 MR. BYRON WILLIAMS: And in terms of
14 the Society of Depreciation Professionals, in 1998,
15 were you the chair of ethics and standards committee?
16 MS. PATRICIA LEE: I believe that's
17 correct.
18 MR. BYRON WILLIAMS: And in 1996, the
19 president?
20 MS. PATRICIA LEE: That is also
21 correct.
22 MR. BYRON WILLIAMS: And I wonder if
23 you can discuss the role, if any, that you played in
24 the development of the curriculum and exams for the
25 certified depreciation professionals?

1 MS. PATRICIA LEE: I was one (1) of
2 several individuals putting together the curriculum for
3 the training and for the testing for the certified
4 depreciation professional exam.
5 MR. BYRON WILLIAMS: And there's just
6 one (1) last thing on your curriculum vitae.
7 I see that you were president of the
8 National Conference of Regulatory Utility Commission
9 Engineers at some point in time?
10 MS. PATRICIA LEE: Yes.
11 MR. BYRON WILLIAMS: I wonder if you
12 can just explain that organization?
13 MS. PATRICIA LEE: This was another
14 NARUC committee, a -- a NARUC group. The engineers
15 were valuable assets in dep -- in reviewing
16 depreciation studies. Oftentimes, depreciation reviews
17 or depreciation studies were done by -- are performed
18 by accountants in the utilities. Oftentimes, you would
19 find them performed by the engineers in the utilities.
20 The engineers would provide extremely
21 valuable information when it came to short-term and
22 long-term planning, which can also -- which can be used
23 often as a tool in developing depreciation lives. So
24 that is how I became involved with the NARUC
25 Engineering conference.

1 And they were also, at one time, I
2 believe, the parent committee to the depreciation
3 subcommittee.
4 MR. BYRON WILLIAMS: Okay. Thank you.
5 And -- and just to be clear, you're not an engine -- an
6 engineer?
7 MS. PATRICIA LEE: I am not an
8 engineer.
9 MR. BYRON WILLIAMS: Okay.
10 MS. PATRICIA LEE: And I'm not an
11 accountant.
12 MR. BYRON WILLIAMS: And, Mr. Chair and
13 members of the panel, I thank you for the patience in
14 introducing Ms. Lee to you. We propose that she be
15 qualified as an expert in the analysis and application
16 of depreciation methods, procedures and techniques, and
17 their implications for rec -- recommended depreciation
18 lives, net salvage values, resultant depreciation
19 rates, and reserve imbalances, and also as an expert in
20 the application of the pris -- principles of
21 statistics, probability, and engineering finance as
22 related to the design of depreciation rates for
23 utilities.
24 THE CHAIRPERSON: Thank you, Mr.
25 Williams.

1 CROSS-EXAMINATION OF MS. PATRICIA LEE BY MS. HELGA VAN
2 IDERSTINE (QUAL.):
3 MS. HELGA VAN IDERSTINE: So I -- I
4 actually didn't think I had any questions with respect
5 to depreciation, because I -- I accept -- we certainly
6 will -- are impressed by Ms. Lee's qualifications, but
7 I am a little concerned about that -- the -- the
8 commentary with respect to her knowledge in the area of
9 preparing depreciation studies.
10 And so I'd like to ask a couple
11 questions about that, if I may. So --
12 MS. PATRICIA LEE: Certainly.
13 MS. HELGA VAN IDERSTINE: I -- as I
14 understood it, your involvement in preparing
15 depreciation studies was as a employee of the Public
16 Service Commission of Florida?
17 MS. PATRICIA LEE: That is correct.
18 MS. HELGA VAN IDERSTINE: So it was not
19 ever as an employee. It was never as part of your
20 consultant work with BCRI?
21 MS. PATRICIA LEE: Oh, no. And I'm
22 sorry if that was inferred.
23 MS. HELGA VAN IDERSTINE: And -- and so
24 in terms of the studies that you did prepare or were
25 involved with with Florida's Public Service Commission,

1 that was primarily -- or was it exclusively in
2 reviewing studies done by either your staff or by other
3 utilities themselves, or consultants on behalf of the
4 utilities?
5 MS. PATRICIA LEE: Would you repeat the
6 question?
7 MS. HELGA VAN IDERSTINE: So I'm -- I'm
8 trying to get to, did you actually prepare the study on
9 behalf of a utility at any time?
10 MS. PATRICIA LEE: I will -- I will say
11 no, but I'd like to explain.
12 MS. HELGA VAN IDERSTINE: Let -- let's
13 just clarify that you -- no, you have not prepared any
14 studies on behalf of a utility at any time?
15 MS. PATRICIA LEE: Well, I'd like to
16 explain my answer --
17 MS. HELGA VAN IDERSTINE: Okay, so...
18 MS. PATRICIA LEE: -- because I think
19 there's a caveat there.
20 MS. HELGA VAN IDERSTINE: And the
21 caveat would be?
22 MS. PATRICIA LEE: Companies -- for
23 these smaller companies, they would provide their basic
24 data. I would go through that basic data and review
25 that study. And, yes, I did complete their

1 depreciation study for them. Did I go in and, I guess
2 accumulate their basic data? No, I did not. They
3 provided that.
4 MS. HELGA VAN IDERSTINE: So with
5 respect to those studies for those organizations, as
6 you've said, those were the smaller, unsophisticated
7 facilities within Florida?
8 MS. PATRICIA LEE: Yeah, the smaller
9 utilities.
10 MS. HELGA VAN IDERSTINE: And within
11 Florida?
12 MS. PATRICIA LEE: Yes. Oh, I'm sorry.
13 Yes, they are within Florida.
14 MS. HELGA VAN IDERSTINE: And -- and so
15 not any hydroelectric facilities?
16 MS. PATRICIA LEE: No.
17 MS. HELGA VAN IDERSTINE: And in terms
18 of the studies that you were preparing for them, as
19 you've said, you weren't going in and identifying the
20 data for them, they were coming to you and saying, This
21 is the data we have?
22 MS. PATRICIA LEE: That is correct.
23 That data had already been audited.
24 MS. HELGA VAN IDERSTINE: By someone
25 else?

1 MS. PATRICIA LEE: By the staff of
2 Florida Public Service Commission, and also by myself.
3
4 (BRIEF PAUSE)
5
6 MS. HELGA VAN IDERSTINE: So with that,
7 Mr. Chair, panel members, we are satisfied that Ms. Lee
8 has the expertise in the area of depreciation, but not
9 as an expert in the preparation of depreciation
10 studies.
11
12 (BRIEF PAUSE)
13
14 THE CHAIRPERSON: You know, it sounds
15 like the work that PUB does for waste and wastewater
16 utilities in Manitoba, and there's a fine line there
17 between saying you don't do depreciation studies and --
18 and you assist in doing the depreciation studies.
19 So I think what we'll have to do is --
20 my personal view is that, you know, we -- we -- when we
21 get close to a line where you -- you believe that's
22 important, we -- we'll have a debate around that,
23 because we do an awful lot of handle -- hand-holding in
24 this Board with small utilities.
25 And so I can appreciate what Ms. Lee is

1 talking about, because we -- we do an awful lot of that
2 in -- in Manitoba. So with -- with the proviso that --
3 that, you know, these are -- we're not dealing with
4 electric utilities in -- in Florida, your expertise was
5 not dealing with electric utilities. So let -- let's
6 leave it at that.
7 Let's hear from the other Intervenors.
8 Mr. Orle, please?
9 MR. GEORGE ORLE: Thank you, Mr.
10 Chairman. I take no objection to the qualifications of
11 the witness as an expert.
12 THE CHAIRPERSON: Thank you, Mr. Orle.
13 Mr. Masi, please?
14 MR. TOMAS MASI: Mr. Chairman, we take
15 no position with respect to Ms. Lee's qualifications.
16 THE CHAIRPERSON: Thank you, Mr. Masi.
17 Mr. Cordingley, please?
18 MR. DAVID CORDINGLEY: We have no
19 position, Mr. Chair.
20 THE CHAIRPERSON: Thank you for that.
21 Mr. Peters, any questions? No?
22 MR. BOB PETERS: No questions and no
23 position, thank you.
24 MR. BYRON WILLIAMS: Mr. Chair, if --
25 if I might, just in terms of the air -- the language

1 that we used, I think, which is:
2 "Expert in the analysis and
3 application of depreciation methods,
4 procedures, and techniques and their
5 implications for recommended
6 depreciation lives, net salvage
7 values, resultant depreciation rates,
8 and reserve imbalances, as well as
9 expert in the application of
10 principles of statistics,
11 probability, and engineering finance
12 as related to the design of
13 depreciation rates."
14 We stand by that language.
15 She's amply demonstrated it through her
16 professional life in three (3) different roles. One
17 (1) is in making direct recommendations to the Public
18 Utilities Board, secondly, in participating as an
19 expert witness in contested proceedings, and thirdly,
20 in the staff-assisted processes.
21 So she's had experience in all -- all
22 those areas. And that experience has been recognized
23 at the highest level in North America in the NARUC
24 depreciation manal -- manual, and in her leading roles.
25 And so I think the language that we have

1 presented is exactly consistent with what she has done.
2 We've -- clearly, her -- in terms of hydroelectric, we
3 didn't suggest any -- that -- that she has a long-lived
4 experience with hydroelectric, but she was certainly
5 involved in an important proceeding in Newfoundland.
6 And the -- the methods, procedures, and
7 techniques transcend industries, as -- as Ms. Lee has
8 demonstrated in her work on telecommunications,
9 electric, gas, water, and waste water. Thank you.
10
11 (BRIEF PAUSE)
12
13 RULING RE. MS. PATRICIA LEE (QUAL.):
14 THE CHAIRPERSON: The panel will accept
15 Ms. Lee as an expert according to the terms described
16 by Mr. Williams. I won't try to -- I won't attempt to
17 repeat them, but they will be part of the public
18 record. So we will -- we'll accept her as a witness,
19 recognizing that she hasn't actually done depreciation
20 studies, the distinction that's been made by Manitoba
21 Hydro.
22 With that, I'll turn the microphone back
23 to you, Mr. Williams. And just -- just -- you know,
24 observing the time here, as you know, we're going to
25 adjourn at noon for lunch. And I'm a bit concerned

1 about the length of, you know, the questioning and so
2 on and the presentation.
3 So we -- we are prepared to sit longer
4 than 4:30 if necessary to get the -- to hear from Ms.
5 Lee and question her thoroughly. So we're prepared to
6 stay a bit longer, if that's necessary.
7 So with that, I'll go back to you, Mr.
8 Williams.
9 MR. BYRON WILLIAMS: And I'm going to
10 turn it over to My -- My Learned Friend, Mr. Hacault.
11 MS. HELGA VAN IDERSTINE: And -- and
12 with that, if you wouldn't mind, I -- I would like to
13 make a comment with respect to MIPUG Exhibit 12 before
14 we commence.
15 THE CHAIRPERSON: What was that? Could
16 you please --
17 MS. HELGA VAN IDERSTINE: I -- I would
18 like to make a comment with respect to MI -- MIPUG
19 Exhibit number 12 before we commence. That's the
20 presentation of Mr. Bowman.
21 So this presentation was provided to us
22 last evening around nine o'clock, and so we were review
23 -- have reviewed it. And it contains what we believe
24 to be new evidence that was not referenced in his
25 originally filed evidence, and I can give you some

1 examples.

2 For example, para -- pages 24 through 26

3 -- or 25 through 28, excuse me, it appears to be new

4 scenarios that Manitoba Hydro has not seen, and now --

5 and obviously has not had an opportunity to review.

6 At this point, and being mindful of the

7 time, we do not want to cause any grief in terms of

8 moving forward, but we will -- we would like the panel

9 to note that this something new, and that we are

10 concerned about it being presented at this late date

11 and in this format without having had an opportunity to

12 put -- to -- to actually respond. Thanks.

13 THE CHAIRPERSON: So the -- the slides

14 in question are slides 24 to...?

15 MS. HELGA VAN IDERSTINE: Yes, the --

16 the initial ones that we have reviewed and concluded is

17 -- is absolutely new is twenty-five (25) to twenty-

18 eight (28). In addition to twenty-five (25) to twenty-

19 eight (28), the slide at number thirteen (13), where

20 there's some sort of financial 'N' minus five (5) title

21 and analysis, that's something we've not seen

22 previously.

23 So I -- I'm not -- I haven't identified

24 exactly every single thing that looks like it's new. I

25 know people are looking at it this morning. But this

1 is -- those were some of the things that came off the
2 page when we first reviewed it.
3 THE CHAIRPERSON: Thank you, Ms. Van
4 Iderstine. So Me. Hacault, s'il vous plait.
5 MR. ANTOINE HACAULT: Yes, I think
6 it'll probably be clear once the explanations are
7 given. For example, once you look at slide 25, the
8 reference is to existing material. It's out of --
9 straight out of the IFF14 and out of the IFF12, so I
10 don't think it's new information. The information has
11 always been there. And if you look on the right-hand
12 side -- but it's probably better left -- I don't want
13 to get into a procedural issue now.
14 We're pretty pressed for time in
15 presenting the information, but I think once you have
16 the explanation and the source of the inf --
17 information is Manitoba Hydro documents, I don't view
18 that as new information. It's existing information,
19 just taken and shown in a graph form.
20
21 EXAMINATION-IN-CHIEF BY MR. ANTOINE HACAULT:
22 MR. ANTOINE HACAULT: Mr. Bowman, with
23 respect to the evidence which has been filed, including
24 Exhibit 12 and the responses to the interrogatories,
25 was that evidence prepared under your control and

1 direction, sir?

2 MR. PATRICK BOWMAN: Yes.

3 MR. ANTOINE HACAULT: Do you have any

4 corrections or updates to give with respect to any of

5 the responses that you've discovered might need to have

6 changes?

7 MR. PATRICK BOWMAN: Yes, I have one

8 (1) . I -- I noted that I had made a typographical

9 error in the response to PUB-MIPUG-11, and so the

10 transcript is correct, near the bottom of that page,

11 there's a reference to the impact of the policy changes

12 with respect to capitalizing overhead that are new

13 since the last time we sat in this room in a GRA.

14 And I reference those as being sixty

15 (60) and eight (8) -- between 60 and 80 million a year.

16 The correct reference is between 50 and 60 million a

17 year, and there's a table on the next page which

18 actually shows that. It's just the -- the incorrect

19 numbers were -- were insue -- inserted into the text.

20 So the -- the simple point being we saw

21 changes related to accounting policy chan -- polices,

22 whether that's -- from whatever source two (2) years

23 ago in a GRA. We're seeing estimates now -- the

24 estimates now are 50 to $60 million higher a year.

25 That -- that -- the -- it shouldn't say sixty (60) to

1 eighty (80).

2

3 (BRIEF PAUSE)

4

5 MR. ANTOINE HACAULT: Thank you. Could
6 we go to slide 3, please? Please explain to the panel,
7 Mr. Bowman, what we'll be going through this morning.
8 MR. PATRICK BOWMAN: Yes, thank you.
9 Mr. Chairman, the -- the presentation we've set out in
10 the time this morning and into this afternoon, I guess,
11 is an intent to go through the material that was
12 presented in the original submission, and -- and in the
13 response to Information Requests, but also to make it
14 current to some of the more -- the -- the themes that
15 have arisen with -- as the issues have
16 been debated in this hearing.
17 And what you'll see on page 3 is the
18 same summary that was in our -- our original pre-filed
19 testimony or my -- my original pre-filed testimony.
20 And basically nothing has changed there. The
21 recommendation, very specifically, is that the Board
22 accept and finalize the 2014/'15 increase which is
23 currently in place on an interim basis for a 2.75
24 percent, grant a 2015/'16 increase.
25 The difference with Hydro is we

1 recommend -- I recommend that it be kept more in line
2 with inflation, which I -- in -- in the submission, I
3 noticed was between 1 and 3 percent. I'll -- I'll
4 speak a bit more to that in a minute. There's some
5 rationale provided there why that's supported.
6 We also -- the slide also notes that
7 it's recommended that Hydro do what it can to retain
8 responsibility for the industrial DSM programs, which
9 was also addressed in the original testimony. And
10 also, that -- that you -- the -- the interim caps that
11 have been put on the Curtailable Rates Program to -- to
12 cap the program at a lower level, on -- on -- not to be
13 implemented as final, but be taken off and revert to
14 the previous caps.
15 So that's -- in a nutshell, that's the -
16 - that -- that's the guts of -- of the recommendations.
17 MR. ANTOINE HACAULT: Now, Mr. Bowman,
18 throughout the last three (3) weeks, we've heard a lot
19 about -- a lot of discussion on the revenue side, and
20 what I maybe improperly call a waterbed approach, if
21 you move one (1) side, it -- it affects the other side,
22 but we're always at three point nine-five (3.95).
23 Could you address, in your view, why
24 hearings like this matter?
25 MR. PATRICK BOWMAN: Yes. Mr.

1 Chairman. I was asked to try to boil this down to a
2 simple level, and I've written across the top of my
3 page, "Calm," which was both a reminder to me, but
4 also, I -- I guess, serves as some of the -- the theme
5 for the information that's here.
6 And there is a view that's put forward
7 by Manitoba Hydro arising from the way the numbers are
8 prepared within the -- the IFF and the financial
9 statements that presents one (1) picture. Those same
10 numbers support other pictures. And the hope is today
11 we'll -- we'll help you all to explore some of that.
12 But the context for where we're at is --
13 is that Hydro's facing, in effect, no surprise, the --
14 the most challenging undertakings that have been done
15 in Manitoba in a generation, taking on Keeyask and
16 Bipole as well as some other investments. And
17 certainly Bipole gets more challenging every time we --
18 we seem to review it.
19 MR. ANTOINE HACAULT: Could we move to
20 slide 5, I believe, here, if you're moving to subject
21 matters, Mr. Bowman?
22 MR. PATRICK BOWMAN: No, no, I just
23 wanted to provide context with -- slide 4 is fine. But
24 your question was about why -- why the PUB review
25 matters -- why the hearing matters. The hear --

1 hearing matters because -- because there's an all --
2 because there's an opportunity to have a different view
3 presented. It matters because we're dealing with rate
4 proposals that have revenue impacts on Hydro, and they
5 have impacts on customers, and they need to be
6 balanced.
7 It -- it matters because the juncture
8 that we're at has a -- a situation that we haven't seen
9 in Manitoba in a generation. We're trying to take on
10 challenging projects, trying to -- for Hydro, trying to
11 basically do it on their own, which is entirely
12 different than anybody else that -- that we deal with
13 who's trying to take on these kinds of projects in
14 Canada, and doing it following a period where Hydro's
15 had, frankly, some unprecedented -- unprecedently good
16 finance performance, a long list of things that have
17 really gone their way.
18 And at this time of challenge, there's a
19 number of other things that are being opted to be
20 layered on top of -- of the -- the building challenge,
21 which are extra hurdles to -- to the system and to the
22 rates that need to be -- be put in place. And once all
23 those things are included in a -- in a financial
24 statement, somebody could sit down and look at it and
25 say, Gee, these financials don't look like they used

1 to.

2 Well, correct. I don't know what to --

3 why -- why that's a surprise that financials don't look

4 like they used to. They don't look like they did ten

5 (10) years ago, but -- and we'll -- we'll explain a --

6 a little bit of that as we go through it.

7 But the context is that the test is, Are

8 we reflecting effectively an -- a overreaction to the

9 current situation by the -- the proposals and

10 respective rates? There are options and -- and the --

11 the assertion is that there's a -- effectively, you

12 know, a -- a lack of diligence as to how -- how those

13 options could be unfolded.

14 And -- and why does that matter? It

15 matters because 3.95 percent means you're pulling $60

16 million a year out of the Manitoba economy. It's not

17 spent on other things. It's not used to invest. It's

18 not -- not used by -- whether that's industry or

19 whether that's -- that's other customers. And -- and

20 it's premised on some ways of looking at a financial

21 statement that are -- are different than the way a

22 Crown would normally want to look at it.

23 So the PUB is important to -- to both

24 those issues, and -- and PUB hearings occur because --

25 three point nine-five (3.95) cents, not a -- not to be

1 viewed as fait accompli. It's not a matter of, you
2 know, we do this, oh, it's still three point nine-five
3 (3.95), we do that, it's still three point nine-five
4 (3.95).
5 No, we're here to actually have a
6 substantive debate about whether that's the right
7 number.
8 MR. ANTOINE HACAULT: Thank you, Mr.
9 Bowman. Would it be appropriate to go to slide --
10 MR. PATRICK BOWMAN: Yeah.
11 MR. ANTOINE HACAULT: -- number 5 now?
12 MR. PATRICK BOWMAN: We can go to -- we
13 -- yeah, so slide 5 summarizes some of the things I was
14 talking about. But effectively, you know, these
15 situations, you can't ignore these projections. But,
16 you know, the -- the summary is -- you know, given the
17 context, Hydro is actually doing spectacularly well.
18 The -- the push on rates is -- is harder
19 than is needed at this time, and we'll go through why
20 that's -- why that's the case. Despite that, we're
21 still saying lock in the two point seven-five (2.75).
22 It's in place. Customers are used to it. It's part of
23 their cost structure now. And -- and as much as we --
24 the evidence talks about inflation, even if one was at
25 the higher end, Hydro would be gra -- granted a further

1 30 to $45 million increase, which is about 15 to $30
2 million less revenue than Hydro's requesting, and in no
3 way would we preclude on future decisions to come as --
4 as other actions or other information becomes
5 available.
6 The sixth slide that we put together was
7 just to touch on the -- the context for how to view the
8 hearing, and we were taking the Board's lead on this.
9 In -- in my submission, having been here through this
10 last number of years, we are in some ways at the -- the
11 end of a four (4) hearing process, if you like.
12 We -- we had a -- a major hearing that
13 dealt with Hydro's risks in the GRA -- context of the
14 GRA, and its -- its readiness to be able to take on --
15 on the -- the challenges it's doing. We had the -- the
16 2012 GRA, which dealt with a lot of the transitions
17 that Hydro is needing to go through, and we had the
18 2014 NFAT, which dealt with, you know, with the -- the
19 projects themselves and which plans Hydro should be
20 unfolding.
21 This hearing, we still have a lot of
22 outstanding directives, cleaning up on a lot of
23 recommendations, and really, the Board has, if -- if
24 anything, given us the signal -- or we're taking it as
25 a signal that -- that this -- this cleanup process is -

1 - is part of the basis for our one (1) year hearing.
2 If we get through this, and get through
3 a cost of service, and then -- and then we'll move on.
4 And so we've approached it a lot from that -- a lot of
5 the substance and information we've drawn is from the
6 last -- the last four (4) hearings and -- and
7 certainly, a lot of the evidence and recollections
8 going through those.
9 MR. ANTOINE HACAULT: Now, Mr. Bowman,
10 you were a part of each of those hearings, were you
11 not?
12 MR. PATRICK BOWMAN: Yes.
13 MR. ANTOINE HACAULT: And -- and do you
14 have any recollection as to whether Hydro was saying it
15 couldn't deal with reliability and safety based on
16 previous budgets, even in the 2010 risk hearing, which
17 address infrastructure risk?
18 MR. PATRICK BOWMAN: The -- the 2010
19 hearing add -- addressed all sorts of risk. Capital
20 cost escalation was one (1) of the risks that was
21 talked about, as was major infrastructure failure,
22 things like losing a -- a Bipole and -- and financial
23 risks, export market access risks. Those were talked
24 about at length, and -- and of course, everyone knows
25 they were talked about also in the context of some --

1 some public concerns that arose from a whistle -- with
2 a whistleblower report.
3 And -- and they were, I'll say, well
4 vetted through the process of that hearing and -- and
5 that helped form the basis of being able to go on and -
6 - and have an -- an NFAT review about -- about the --
7 the projects Hydro could undertake and the context of
8 where it was at.
9 MR. ANTOINE HACAULT: And we went
10 through an NFAT hearing about a year ago. Do you
11 recall anything being addressed with respect to the
12 liquidity risk and how Manitoba Hydro might act to
13 curtail or delay operating and capital expenditures as
14 required and appropriate to deal with liquidity risk?
15 MR. PATRICK BOWMAN: There are two (2)
16 main aspects of the comments on -- on cash and -- and
17 liquidity i the NFAT. When we prepared the pre-filed
18 testimony, one (1) of the things that we noted was a
19 bit unique in this hearing is there has been a lot more
20 discussion in the GRA about cash than I can recall ever
21 having seen with a regulated utility anywhere I've ever
22 dealt with.
23 And -- and, if anything, that has -- has
24 amped up through reviewing the -- the transcripts and
25 the like. And so you'll -- you'll see a bit more of

1 the discussion from a cash perspective to try to help -
2 - help deal with the matters the Board has been given.
3 But in NFAT, the -- the key themes, if I
4 can put them that way, was borrowing to invest in
5 assets, you know, credit rating agencies and -- and
6 understand -- and customers ought to understand,
7 borrowing to invest in assets is -- it racks up debt,
8 but it -- it racks up debt that's part of -- part of
9 moving onto the next generation. And they're long-term
10 investments that are necessary, and -- and number of
11 them also pay off.
12 I think that was one (1) that -- that
13 was a -- a very important theme under the cash heading.
14 The -- the other one was that there are options
15 available to Hydro if -- if things did become adverse
16 from a cash perspective like a -- like a drought or --
17 or like some other things that could hit them.
18 And -- and Hydro did have some slides
19 that talked about things like managing the capital
20 program and -- and deferring some normal capital and --
21 and a number of other actions they could take, you
22 know, controlling O&M tighter, to react if those things
23 happened.
24 It was part of explaining why one
25 needn't look at IFF projections that were -- were --

1 had some lower numbers than people were used to seeing
2 in the last decade, and -- and to convey calm.
3 Certainly calm was part of -- I -- I
4 suspect it was on the top of a number of people's piece
5 of paper at the NFAT hearing from Hydro's side, the
6 same way I'm putting on the top of my paper today.
7 MR. ANTOINE HACAULT: I believe we can
8 move to slide number 8.
9 MR. PATRICK BOWMAN: Yeah. So when --
10 when we came to this hearing, we just wanted to put
11 down some of what we would -- what we'd expected to see
12 and -- and what we've seen.
13 Certainly, we've seen the adherence to
14 the 3.95 percent regardless it's the scenario that's
15 run. It's certainly a bit unusual. I think in NFAT,
16 people got used to the concept of you change the facts,
17 you change the rate increase. I'm not sure that theme
18 carried over.
19 For sure, Conawapa's capital is reduced,
20 and we have some slides on that. But it certainly has
21 been met by increases in -- in sustaining capital,
22 Bipoles, and DSM, which we'll talk about the -- the
23 balance. And it raised questions about -- about pacing
24 and prioritization, as well as it raised questions
25 about -- about the flow of information.

1 And we're also having to wrestle today
2 with the -- I'll say accounting policies, but it really
3 comes down to overheads, overhead capitalization rates
4 and how much overhead is being capitalized and how has
5 that changed since the last time we were in a GRA.
6 Certainly, the DSM is that Hydro's
7 spending in a big way. The question is: Given the
8 other things we're dealing with that are -- are now
9 being flagged, now that calm isn't written at the top
10 of the page, does DSM need to be looked at in the same
11 way? And -- and this new heavy focus on cash I'd say
12 is -- is a bit unusual.
13 MR. ANTOINE HACAULT: And -- and, sir,
14 in the context of -- of all of that, can you remind us
15 what your primary focus was in analyzing the
16 information and coming up with your recommendation?
17 Was it for the two (2) test years?
18 And how did that relate to looking at
19 the future?
20 MR. PATRICK BOWMAN: We -- we focussed
21 on -- or I focussed on the rate proposals within the
22 years that the Board has said it was -- it was looking
23 to consider, so the -- finalizing the '14/'15 increase
24 and the proposals for a '15/'16 increase.
25 We didn't focus on that with blinders on

1 to -- to what's coming in the next ten (10) years or
2 the next twenty (20) years. And I've got some -- some
3 graphs that will come that -- so I'll -- just because
4 somebody adopts an -- an inflation-linked rate increase
5 today, they're not -- they're not putting their head in
6 the sand.
7 And -- but I also tried to look at that
8 from the perspective of Hydro's numbers as presented,
9 as -- as well as Hydro's numbers as might be reasonably
10 modified if -- if some diligence was -- was put to the
11 process.
12 MR. ANTOINE HACAULT: There is one
13 other bullet which you have not yet addressed on slide
14 8. It's the reference to ELG, the equal life group,
15 depreciation method.
16 MR. BOB PETERS: Yes, Mr. Hacault.
17 Nothing makes me more pleased than to be able to be
18 sitting next to Pat Lee today to mean that I don't have
19 to spend as much time talking about ELG as -- as we may
20 have seen in -- in 2012.
21 But given the facts that we have seen
22 about the IFRS standards and the changes that have
23 occurred, there were some comments from Hydro in 2012
24 about how they might react if some things had come to
25 pass on IFRS standards, both delays and acceptance

1 regulatory reporting.
2 And I'll say there's a bit of surprise
3 that some of the options were highlighted there don't
4 seem to have been pursued in the -- we're -- we're back
5 to the -- the same proposed more aggressive
6 depreciation methods at -- at this point in time.
7 MR. ANTOINE HACAULT: Could we move to
8 slide 56? You'd referenced views that were previously
9 enunciated on behalf of Manitoba Hydro. It's five-six
10 (56).
11 MR. PATRICK BOWMAN: It is the very
12 last slide. I -- I didn't spend -- intend to spend
13 time on this. I just parked it in there so that people
14 understand the -- the matters I'm talking about, but
15 there's some quotes there if people want to read it at
16 the appropriate time that -- that I -- I took I will
17 say to -- to suggest that if regulatory accounting was
18 -- was being accepted, if IFRS -- if the Accounting
19 Standards Board was -- was showing movement on
20 accepting orders of the Board, and if there -- more
21 time had been granted, that ELG was -- was far from the
22 given. I'll -- and I'll leave it at that.
23 MR. ANTOINE HACAULT: Okay. Could we
24 move back to slide 9?
25

1 (BRIEF PAUSE)

2

3 MR. PATRICK BOWMAN: So we're -- we're
4 back -- slide 9 was -- it may -- we may not need to
5 spend much time on it but I did want to give some
6 recognition that at the time we prepared the -- or I
7 prepared the prefiled testimony there was concern about
8 the degree of information available to this Board to
9 understand sustaining capital, and what had happened
10 since NFAT.
11 I acknowledge some very thorough
12 information has been provided now, both in the rebuttal
13 as well as through the cross, that provide considerably
14 more evidence at a detailed level about individual
15 department projects, which is always interesting. It's
16 fun to learn about poles versus cross-arms.
17 But it's not entirely unexpected. Any -
18 - any utility will have their -- their capital hit
19 list, if you like, the -- the priorities of the staff,
20 the -- the piece that -- that is -- is still there, and
21 I'm -- I'm still not sure has sufficiently been
22 addressed is the -- besides why was this not shared at
23 NFAT, you know, how -- how were these things not known
24 is -- for the -- at the senior level how pacing and
25 prioritization has been addressed.

1 It -- it's easy enough to say, Well, how
2 our department carved up their budget to that pole
3 versus -- versus that substation, but how -- how -- at
4 a senior level how was -- how was -- what type of
5 targets and how its pacing and prioritization has been
6 -- been dealt with.
7 And on -- on the ELG topic, again I -- I
8 just have the same points here that we've just gone
9 through, which is that I -- I would have understand
10 there to be more options rather than -- rather than
11 sort of dig in.
12 MR. ANTOINE HACAULT: Could we move to
13 slide 10? And could you address, especially given your
14 national experience in other utilities, the Manitoba
15 perspective as a vertically integrated utility, and how
16 we address that when we look at all this information?
17 MR. PATRICK BOWMAN: Yes. This -- this
18 was put in a little bit to -- as the final educational
19 slide that is a very important issue to industrial
20 customers who only use parts of a system. And -- and
21 also as a -- as a flavouring to the information coming
22 out of Manitoba Hydro.
23 There are a lot of different discussions
24 that occur and a lot of examples that are used that can
25 support a point, and they -- in a vertically integrated

1 utility they can be brought forward from all sorts of
2 departments, like the distribution system is dealing
3 with these issues, a generation system, a customer
4 service system.
5 And -- and often times those examples
6 can be quite compelling, but it doesn't necessarily
7 mean that the conclusion carries over to a different
8 part of the system. And -- and as I said for -- for
9 industrial customers who only use part of a system,
10 that -- keeping track of that -- that is -- is very
11 important.
12 In a lot of jurisdictions, people don't
13 have this blended. You'd have hearings on generator --
14 for just generators, or hearings just for distribution
15 companies, and you hear some of the facts, and you can
16 always slot them into where they belong, but here,
17 there's a little bit of need to -- to track them.
18 So something like net salvage is an
19 example. We -- we're going to through net salvage.
20 And -- and in -- in my experience, if there's a
21 principle reason to keep a net salvage, then you should
22 keep it. If there's a pre -- if -- if there's not,
23 then you should get rid of it. And it may be that the
24 answer, in some cases, could be different between the
25 utilities -- or between the -- sorry, not -- between

1 the utilities as well between the -- the functions
2 within the utility.
3 You're going to hear net salvage
4 arguments from us that will tend to explain a
5 generation perspective. That doesn't take away from a
6 -- may -- perhaps a distribution perspective that says,
7 We do -- we do need to have a way to deal with
8 disposals that's different than -- a net salvage that's
9 different than the -- the generation part.
10 So I -- I understand Hydro would look to
11 have one (1) set of accounting policies. And if that's
12 the case, then -- then you're bridging. You're having
13 to find a way that you can deal with it that -- that
14 suits both, but it may be that -- that some compelling
15 arguments on one (1) side only relate to part -- one
16 (1) part of the system, so.
17 MR. ANTOINE HACAULT: Now, this is just
18 a -- a pretty small point. But on the bottom of slide
19 10, you referenced poles.
20 What's your understanding of how
21 Manitoba Hydro deals with poles when they replace them,
22 and whether or not that ends up being a double
23 accounting in -- or not in depreciation?
24 MR. PATRICK BOWMAN: Well, I don't have
25 a good understanding of it. I can only go based on

1 what I've heard in these hearings. And -- and it's --
2 it's an example of -- poles is an example of a category
3 where you'd have very, very large numbers of units,
4 which is different than turbines, where you have a
5 fairly small number of units. And -- and it's an
6 example of where a distribution system might come up
7 with a different answer than a generation system.
8 And if Hydro needs one (1) system, you
9 got to look at -- at which one matters more. Something
10 like ELG, which requires statistics, you can do
11 actuarial work a lot -- a lot better on lots of units
12 than you can on less. And I'll -- I'll leave it to Ms.
13 Lee to expand on that when she gets to her
14 presentation. But it's also possible that you're
15 counting policies on something like a pole can -- can
16 suit one (1) method more than the other.
17 MR. ANTOINE HACAULT: But my question
18 was addressed more towards whether or not it's O&M or
19 the capitalization policy with respect to changing
20 poles or cross arms.
21 MR. PATRICK BOWMAN: Mr. Hacault jumped
22 into a very detailed level of -- of one (1) issue,
23 which is a concern I had noted in regards to whether an
24 accounting policies for things like distribution
25 assets, where you have large numbers that live

1 different lives, are -- are consistent with a -- with -
2 - with a certain method of -- of depreciation.
3 And if -- if you have a depreciation
4 method that's premised on capital retirements of -- of
5 units after short lives, but you have a -- a capital
6 accounting policy that's premised on not doing capital
7 replacements, but instead, considering those O&M
8 replacements, you can end up with -- with the theory
9 behind -- behind a -- a depreciation method not
10 matching the -- the capital policies.
11 And -- and pretty soon, your pole -- you
12 have depreciation rates that have been advanced on the
13 assumption that poles won't live very long, but really,
14 you're not any -- putting the pole charge there when
15 you replace it. You're putting it in O&M, and it can -
16 - it can be inconsistent.
17 MR. ANTOINE HACAULT: We can move --
18 sorry to have brought you to that detail, sir, with
19 respect to slide 11 and 12, I guess.
20 MR. PATRICK BOWMAN: So this -- I -- I
21 might be dealing with 11 and -- and 12 a bit in
22 combination, but if -- if we start on -- on 11 -- or --
23 or I'm sorry, it's -- it's called 12. If we start on
24 12, I might be dealing with 12 and 13 together.
25 One (1) of the perspectives that we were

1 working on understanding, and that I was -- I was
2 trying to put down on this presentation to -- to find
3 the right way to get across is -- is that your -- the
4 way one looks at a utility taking on major developments
5 is very different than the way that one might look at a
6 utility that's not in a major development phase, and
7 the types of financial standards, the type of
8 expectations, the type of tools that they would use,
9 the type of support they might try to get look vastly
10 different. And we're not used to the -- the
11 development stage here.
12 We've had two (2) decades of hearings,
13 almost, a decade and a half of hearings based on a
14 largely operating condition of a utility, not major
15 reinvestment. It happened at a time with good overall
16 water flows outside of a -- a one (1) -- one (1) brief
17 -- extreme but brief drought one (1) year, the 2004, a
18 very fast recovery from that, good export prices, some
19 very accommodating domestic rate increases.
20 And what I've called the embarrassment
21 of riches on loads, lots of export customers who want
22 to buy the power, good export prices combined with lots
23 of expectation of load growth in Manitoba to the point
24 where we were having a hearing not that long ago about
25 how we -- how we effectively cap or -- or chase away

1 industrial load, in -- in my language, the EIIR, which
2 was not approved. And -- and today, we probably look
3 back in -- in great thanks that it was not approved.
4 That also occurred in a time of
5 declining interest rates. And as a result, you had
6 Hydro exceeding its financial targets, effectively,
7 year over year, targets being raised. We went into
8 that period at a time where -- where developments were
9 completed and reserves were looking to be built to get
10 Hydro's absolute level of reserves up to a level that
11 could sustain a two (2) year drought at a time when
12 droughts weren't nearly as expensive.
13 We went through that period and got to
14 levels where reserves were -- were well beyond a five
15 (5) year drought, and we're about to look at a period
16 and a bunch of financial statements that show that
17 we're -- we're still above that during the entire
18 development phase we're going into.
19 So, you know, effectively, to -- to not
20 put too fine a point on it, we -- we have a generation
21 of looking at the finances of Hydro, a dec -- decade or
22 more, almost two (2) decades, where the realities we're
23 facing today are a different factual basis than what --
24 what people were dealing with then.
25 MR. ANTOINE HACAULT: Could you address

1 the issues you've outlined on slide 13, the financial
2 capital 'N' minus five (5) question?
3 MR. PATRICK BOWMAN: Yeah, this was
4 just a way to try to put a -- put a characterization --
5 a -- an illustration on a -- on a point that I think
6 has been -- been elaborated on fairly extensively in
7 the -- in the pre-filed testimony and in the IRs.
8 But it's that -- you know, when we talk
9 about something like transmission planning, the people
10 here at NFAT will have heard the 'N' minus 1 concept,
11 which is I -- I have a transmission plan system that
12 works. If I lose a major component, if I put a strain
13 on it, it should still work. It should still work the
14 way it normally does.
15 We have a -- we're facing -- I -- I
16 won't call it a storm, because that implies that this
17 is -- is really bad. What -- what we're facing is a --
18 is an unintentional challenging financial decade. And
19 -- and some of it's -- it's self-imposed. Some of it
20 is -- is wise in the long-term. But you put it all
21 together, and it's a very challen -- and it's a -- it's
22 a challenging period. But there's at least the big
23 five (5).
24 You're trying to finance and absorb
25 Keeyask. You're trying to finance and absorb Bipole at

1 the latest cost estimates. The -- the nuisance NFAT is
2 -- is your -- the major reinvestment of existing
3 assets. It's over a billion dollar increase in the
4 existing asset budget over ten (10) years since the
5 NFAT review. Invest in large DSM, and given DSM's
6 long-term outlook, absorb not only the cost in
7 investment in DSM, but also the lost revenue that comes
8 with it. Losing more revenue from invested customers
9 than you're pre -- presently able to sell that power
10 for in the export markets. And trying to absorb the
11 impacts of major -- the major accounting changes.
12 Some of these relate to cash, some
13 relate to income, some relate to both. And we're going
14 to divide those up as we get along. And -- and try to
15 go through this entire period with those five (5) major
16 headwinds against us without direct sup -- government
17 support in -- in any way of the projects, which is
18 really unusual, and I can talk about that. But if
19 anything, we have more of the pile-on version.
20 The -- trying to -- able to finance all
21 of the ongoing operations over ten years with operating
22 cashflow, including absorbing Keeyask and Bipole, plus
23 all sustaining capital investment over ten (10) years.
24 Sufficient cashflow to pay all operating costs, all
25 interest costs of -- of -- for the operating assets,

1 absorb Keeyask, absorb Bipole, plus entirely finance
2 the sel -- the sustaining capital at the new high
3 levels.
4 We're going to get to that, but a -- a
5 very successful high threshold. And through that
6 entire period, keeping retained earnings at or above
7 est -- estimates of five (5) year droughts, which was
8 unheard of as a standard even -- even a -- a few years
9 ago.
10 So that -- if -- if there's one (1)
11 thing that sort of frames the -- the context of the
12 entire piece and the -- underlines the -- the word
13 'calm', that -- that's it. I can --
14 MR. ANTOINE HACAULT: Now, what's the
15 Manitoba context as far as the type of utility and what
16 we're doing with the Crown utility?
17 MR. PATRICK BOWMAN: So I put in --
18 slide 14 was about Crown utility. And this is nothing
19 different than we talked about at NFAT. Some of the
20 words are the -- even the same.
21 A lot of the things we're trying to do
22 you wouldn't take on if you didn't have a Crown
23 utility. It's the very reason that we've -- that many
24 jurisdictions in Canada have developed them.
25 It's very relevant to hydraulic and

1 transmission planning to bulk assets, and it's relevant
2 for a couple of reasons. One is because these aren't
3 just power projects. They have a major public policy
4 aspect -- public interest role.
5 The second is that these projects would
6 not be possible if we traditionally financed them. And
7 it's more than just debt guarantees for which you
8 charge a fee. There's other approaches to looking at
9 it, and I'm going to -- I can give some examples of
10 that.
11 The role of the Crown can also lower the
12 overall costs, reduce -- you know, reduce expectations
13 of returns because you don't put any equity and -- and
14 save on taxes and -- and in a big way reflect this --
15 this patience and risk management that's available that
16 -- that wouldn't be possible with a private equity
17 investor who's trying to report their quarterly
18 earnings or pay a dividend every year to -- to their
19 shareholders.
20 That shouldn't be any surprise there.
21 Like I said, I -- I used almost the same slide at -- at
22 NFAT. But if we can flip forward one (1), I would give
23 -- give some examples here of -- of why some of these
24 headwinds we're talking about that Hydro is facing are
25 -- are unusual to a degree that may not be apparent for

1 people who don't do this a lot in different places
2 across the country.
3 And -- and my anecdote on the side is
4 British Columbia is trying to take on a -- a big new
5 project called Site C. People can see it in the news.
6 It's $8 billion. It's a little bigger than Keeyask in
7 terms of spending.
8 But BC Hydro is a utility that has a $4
9 billion-a-year revenue requirement. That's two (2)
10 years of revenue requirement if you want to compare it
11 to the dam. That -- just as a -- as a simple ratio.
12 You put Keeyask and Bipole together,
13 what we're trying to absorb, and we're over $10 billion
14 on a $1.5 billion revenue requirement. That's like
15 eight (8) years of revenue requirement, okay? So
16 scales are -- are much, much larger.
17 And in Dece -- last December, after the
18 NFAT had concluded, the BC government announced it was
19 going to change the way that it charged hydro
20 government charges for the Site C project and reduce
21 the cost of Site C by twenty-six dollars ($26) per
22 megawatt hour, two point six (2.6) cents a kilowatt
23 hour. That -- and that's in press releases. It's
24 fairly public information.
25 That's how they came to the table to

1 help it because it's hard to absorb things that are as
2 big as two (2) times your revenue requirement. Well,
3 we're trying to absorb eight (8), just as context.
4 These are -- are not the same times that we were facing
5 in the -- in the 2000s.
6 Some of the examples: Newfoundland was
7 developing Muskrat Falls when it got a federal
8 government guarantee of which there was no -- no fee
9 payable.
10 Certainly you can operate with different
11 financial targets in the private sector, and I give
12 Hydro credit for that. Their financial targets are
13 different than in the private sector.
14 I'm -- I'm going to share some views
15 about other ways that that can even be looked at within
16 the next decade. They're different than -- than one
17 (1) of the utilities in the operating mode. They're
18 different than we should be think -- have been thinking
19 about back when we were in -- in the 2000s.
20 For sure, forego charges on the utility.
21 I give the example of Muskrat Falls for which there is
22 no federal debt guarantee. An example also here is,
23 when Manitoba took on the Lake Winnipeg regulation and
24 Church River diversion, there were -- were much more
25 limited charges in the hydro structure.

1 Provide for different financial
2 structure for projects. And -- and again, things that
3 people of a previous generation here understood,
4 Bipoles I and II when they were developed, associated
5 with the northern projects, were too big for Hydro to
6 take on. All -- all -- a number of reports that will
7 deal with that. And they had some technological risk.
8 I don't know how many people here know
9 the history, but as a result, those projects were not
10 built as Manitoba Hydro projects. They were built as
11 projects of Atomic Energy of Canada Limited who leased
12 them back to Hydro.
13 And the lease rates were organized so
14 that in the early years, the payments were very, very
15 small. Like my recollection is they were, you know, $2
16 to $5 million for a period of time, and they escalated
17 with time.
18 And that's a lease rate that's
19 incorporating both the interest and the depreciation
20 aspect of the project. It's almost equivalent to
21 jumping to a negative deprecation rate and you're not
22 even paying your interest. But it's part of putting in
23 the big projects that provide this long-term benefit.
24 And, you know, that was central to Hydro's ability to
25 go -- to go north.

1 There -- there's also examples of -- of
2 where, you know, government investment dollars don't
3 need to be compensated for short-term risks like
4 drought. And that's a Hydro-Quebec example but that
5 doesn't apply here because we don't have government
6 investment dollars here. Manitoba Hydro has always
7 been developed with its -- any retained earnings it has
8 have been developed on the -- as ratepayer reserves.
9 They're not -- it's not like the government came --
10 came in and -- and provided -- or structured a company
11 with an equity government investment.
12 And just to underline that point, there
13 has been an exhibit that has been provided, MH-102 I
14 believe, which shows a level of -- of government
15 charges payable in -- in BC, Manitoba, and -- and
16 Quebec. And if you have that exhibit, what that
17 exhibit shows is that if you're a Manitoba Hydro
18 ratepayer today and you pay Manitoba Hydro one dollar
19 ($1) for your bill, about fifteen (15) cents of that
20 goes to pay the government. Okay.
21 That's the 15 percent ratio you'll see
22 on that exhibit. And there's some other information
23 that's been filed in Appendix 11 which would show that
24 that's going to work its way up to about twenty (20)
25 cents in -- in the -- by the time Keeyask and Bipole

are online. Okay. That sheet also shows that BC Hydro is paying about fifteen (15) cents per dollar to the government in charges.

What it doesn't show unless you take time to go up through the numbers is that a portion of what's paid to the BC government is not like Manitoba Hydro where it's a guaranteed charge. A portion of it is paid instead as a dividend, which means the BC government is in for a penny, in for a pound, on the risk of the utility.

If BC was taking on a development like Manitoba and they had eight (8) years of negative net income, there wouldn't be a dividend. There's actually an absorbative factor to that. Manitoba Hydro doesn't have that. Instead what we have is if Bipole goes up by $1.4 billion, the government charge goes up. That's the pile on. We don't -- we don't get relief. We get -- we get extra added.

And that makes it even harder to do the type of projects, and to try to -- to look at the statements and say, How are we doing? In Quebec the number you'll see is more like twenty-five (25) cents on the dollar. But again, what's not shown there -- well, what is shown there is that of that, more than fifteen (15) cents is -- is dividend, less than ten

1 (10) is -- is the fixed component.

2 And what's very interesting is in the

3 middle of those five (5) years, there's a year where

4 the government doesn't take twenty-five (25) cents. It

5 takes fifteen (15). The reason for that is because

6 that's the year where there was the decision made to --

7 to decommission the nuclear plant. And that risk

8 wasn't on ratepayers. It was on the -- it was on the

9 government side.

10 The way the Hydro-Quebec production

11 utility is structured, is that it is not -- it -- it is

12 -- it's actually carved out. It's effectively not a

13 regulated utility but it has an obligation to sell a

14 fixed block of power at a fixed price to the regulated

15 business. That fixed block of power at a fixed price

16 doesn't vary because there's a drought. It doesn't

17 vary because there's a nuclear decommissioning. It

18 doesn't put any of those risks on the prices that are

19 going into people's rates.

20 The government takes those risks, and it

21 takes a dividend as a result of -- of combining those.

22 Again, just -- it's -- it's different than here. It's

23 not to say that those facts are -- are -- should be

24 imposed here, or -- or somehow Hydro's statements

25 should be read as if we were -- we were Quebec as a

1 result, or if we were BC. We're not.
2 The facts are the facts here. But they
3 need to be read in light of just how much Hydro's
4 trying to shoulder during this decade.
5 MR. ANTOINE HACAULT: Now, Mr. Bowman,
6 there was some discussion when you were talking about
7 history and how things have developed in Manitoba about
8 the lower debt equity levels in the late '70s and early
9 '80s, and in fact in the NFAT proceedings there was a
10 slide that went back to, I think, it was the 1960s or
11 so.
12 Are you able to assist in a little bit
13 of that history, as to -- just like during some that
14 time period what happened to -- to rates? Was...
15 MR. PATRICK BOWMAN: Well, Mr.
16 Chairman, the comment that I saw in the transcript and
17 that -- that I thought merited a note -- a footnote at
18 least was that if you look back to that period Hydro
19 had low retained earnings. As a result, had to have
20 some big rate increases which wasn't very stable. And
21 I -- I'd suggest that that is an over simplification of
22 the facts of the situation. I did take the time to go
23 remind myself of -- of some of the goings on.
24 But without getting into gory detail,
25 through the period of the early '80s there was a four

1 (4) year rate freeze during a period when there was a
2 drought. At the end of that -- and as part of all of
3 that -- there was a need for some rate increases. I'm
4 not recommending a four (4) year rate increase, and I'm
5 certainly not recommending it if we're facing a
6 drought.
7 We're not talking about that kind of
8 thing. Was -- was it low equity levels that caused
9 that? I don't think the evidence supports that.
10 Long Spruce and Jenpeg were brought on
11 in 1978. The market wasn't there for them. Limestone
12 was -- was mothballed for -- for a long period of time,
13 and -- and Hydro worked to absorb that. Oh, and by the
14 way, at the end of that period, the government also
15 raised the water rental rates by about ten (10) times
16 what they were. And as a result, we got to -- to a
17 period where those rate increases were imposed.
18 And that's without getting into
19 questions about -- about the -- the inquiries that were
20 done about the timing of the projects that were already
21 in place, but it was complicated situation. There was
22 a lot of goings on. Nobody is suggesting to be as --
23 as intransigent on the idea that you go four (4) years
24 without rate increases during a drought.
25 MR. ANTOINE HACAULT: And what were the

1 inflationary pressures in the late '70s and '80s? What
2 was the context of inflationary pressures in the late
3 '70s and '80s?
4 MR. PATRICK BOWMAN: Well, I think '79
5 was 10 or 11 percent, if I remember correctly. So some
6 of the rate increases looked big in -- in context the -
7 - before and after the -- the four (4) year rate
8 freeze, but, yeah, they were -- they were a little
9 different.
10 MR. ANTOINE HACAULT: Can we move to
11 the next slide, please, 16?
12 MR. PATRICK BOWMAN: So in preparing
13 this, I -- I had hoped that we'd be able to go through
14 that front part relatively quickly, both of those two
15 (2) front parts, as they're really context. Without
16 getting into the detail, it's -- it's very nice to --
17 to operate at that level, but, unfortunately, we do
18 have to spend some time on some detail, and so this is
19 where we get to move into that.
20 The slide 18 is starting to address that
21 when one is looking at Hydro's finances, I would say
22 that up until this hearing, 99 percent of the time that
23 I've ever sat in this room, we were looking at an
24 income statement. A cashflow statement was provided,
25 and it was informative, but it's -- was never a

1 determinative piece that -- that anyone spent very much
2 time on.
3 Clearly that's changed in terms of
4 Hydro's arguments in this hearing. And -- and as a
5 result, I'm going to make more of an effort than you'll
6 normally see to keep track of both variables. And --
7 and people who -- who aren't the accountants in the
8 room, there are some things that people can -- can look
9 at as changes, and they may help an income statement,
10 but they don't help your cash. There's other things
11 that will help your cash, but not your income
12 statement. There's a bunch that will affect both.
13 And you have to keep track of both of
14 these separately, or else you can -- you can get into
15 trouble, and -- and Mr. Rainkie and I agree entirely on
16 that. But keeping track of them separately, they each
17 have arguments underneath them, and you can't just
18 dismiss one (1) because it -- it doesn't affect the
19 other. Both of them have their own story.
20 The issue in the income statement, which
21 is normally where we spend a lot of time on the
22 interest coverage ratios, is that Hydro is being
23 extremely heavily burdened by the changes that are made
24 to expensing capital overhead costs. And that has
25 increased significantly even since 2012, where we

1 debated that.

2 The decision to take costs like -- like

3 stores or other components of the -- of the

4 organization and say, I'm going to put those through

5 current day, whether that -- that operation is

6 handling, you know, widgets that are part of operations

7 or widgets that are part of building Keeyask, I'm going

8 to -- I'm going to take those costs and I'm going to

9 put them through today's statements rather than

10 capitalizing them, those are the types of changes. And

11 those operate in a substantial way to make the income

12 statement look much worse than it would have been on a

13 consistent basis.

14 A number of those changes were made in

15 past years, and they relate to CGAAP changes, and we're

16 going to talk about that. Another tranche comes in

17 when IFRS comes in, and it's -- and that's the one

18 that's much larger in the last GRA and -- and

19 similarly on the income statement, we see a building

20 impact from the DSM investment and the sustaining

21 capital.

22 They're not huge impacts in 2015. The -

23 - we have an IR we were asked about: How big is the

24 impact of DSM in -- in 2015? And the answer is, It's

25 not very big, because you amortize it. It's pretty big

1 on cashflow. It's not very big on the income
2 statement. But by the time you look at ten (10) year
3 numbers, those -- those really do build and start to
4 become pretty important.
5 On the cashflow side, you almost have to
6 put those other things out of your mind. The
7 depreciation, capitalizing overheads, those things
8 don't -- don't matter to the cashflow side. There's
9 still cash -- cash out the door for capital. There's
10 still cash out the door for overheads.
11 And the cashflow perspective is the one
12 (1) that is -- we're going to have some -- some graphs
13 that, we'll -- we'll see whether people are happy with
14 them by the time we're done, that show over this
15 decade, it's -- we're -- we're not in a situation of
16 borrowing money to pay interest. We're in a situation
17 of holding our own plus a lot in terms of this -- this
18 heavy investment period.
19 It has nothing to do with high IFRS.
20 These are -- this is -- this DSM spending is a part of
21 the picture, but it's one (1) of the smaller ones.
22 There are some things like O&M
23 escalation and vacancy rates that affect both, and --
24 and as much as we're going to spend some time talking
25 about cashflow, the -- like I said, I can't remember in

1 my career spending nearly this much time on cashflow.
2 MR. ANTOINE HACAULT: Could we move to
3 financial targets? And please address cash and capital
4 spending, net income, and the balance sheet.
5 MR. PATRICK BOWMAN: Yeah. This was
6 just more a reference slide to emphasize that --
7 because of the way it's been talked about, I'm going to
8 go through them in this order.
9 We'll talk about cash and capital
10 spending first, then we'll go through comments on net
11 income, including the accounting changes and -- and,
12 unfortunately, depreciation. And then we'll move to
13 the -- the balance sheet section, all three (3) of them
14 in some ways affected by this capital spending bulge.
15 I'm not sure battle of the bulge was the right
16 reference, or I had something more Weight Watchers in
17 mind, but, nonetheless, the -- the issue with that is -
18 - is, How do you manage capital spending?
19 And -- and I just put for reference
20 there that, from a regulatory perspective, there's a
21 few really important drivers. And I can pull out the
22 textbooks if you want, but a lot of this is about --
23 about making sure that assets make it into rates at the
24 time that they're used and useful for providing service
25 to ratepayers, and they're -- don't make it into rates

1 if they're not prudently acquired.

2 And I'll -- I'll just leave those

3 comments. Those -- those are the references there, and

4 we can go back to them if it's helpful.

5 MR. ANTOINE HACAULT: Okay. I'm the

6 visual guy. I'll take the blame for the double bulge.

7 Could you address slide 21?

8 MR. PATRICK BOWMAN: Yeah, I'll -- so

9 slide 21 is directly out of IFF12. This was the

10 capital spending that we saw when we were at the NFAT

11 hearing. We are definitely seeing a -- an increase.

12 Note -- note the vertical axis for two

13 (2) reasons. One (1) is that it tops out at about 2.5

14 billion a year. The other is that it's unit list, but

15 I'll -- I'll let you know that it's in millions from

16 the IFF. But it tops out at about 2.5 billion a year.

17 You'll see some -- some consistency and

18 a little bit of a -- of a gap, but -- but it was pretty

19 clear that we were talking at the NFAT before Conawapa

20 was -- was -- the status of Conawapa was changed, that

21 -- that capital spending was going to be in a -- you

22 know, at a high level for -- for fifteen (15) years, if

23 Hydro had its plans.

24 The next slide emphasizes where we are

25 today. This is taken directly out of IFF14 and the

capital expenditures that are in CEF14.

Again, I -- I made the point of noting the vertical axis, because we're not -- we're not at twenty-five hundred (2,500) any more. You'll notice that we're now going up to thirty (30) -- 3.5 billion, 3,500 million.

And so if anything, we -- we -- we've made the hurdle higher in terms of the degree of capital spending taken on and how quickly we're taking it on.

The other thing is that we've made the hurdle higher because we've replaced Conawapa, which was going to hit us late, it was going to be depreciated slowly, and it was going to bring revenue, with a different set of capital spending, half a Conawapa if you want to call it, of projects that come into service earlier, many of which are depreciated at a faster rate, and some of which don't bring revenue.

That -- that's the -- the crux of what happened since NFAT picture. And if we flip to the next slide, it's got the table of what happened since NFAT. So this is the capital expenditure forecast from '14 versus '13. And I'm sorry I didn't have the '14 versus '12, which were the -- the bulge graphs, but in one (1) year, what happened to the -- the twenty (20)

1 year CEF projections.

2 Well, in the first ten (10) years, we

3 were going to spend 6.1 billion on Conawapa and have

4 none of it hit our statements. It would still be under

5 construction. Instead of that, that -- that's gone.

6 That -- what's it -- what's it been

7 replaced by? Almost half a Conawapa of these other

8 matters which are hitting our statements as they're

9 completed. The Bipole increases, the Kee -- Keeyask

10 increases our DSM, and this is sustaining capital as

11 well as some other changes.

12 So, yes, capital spending is down in the

13 first ten (10) years, but the -- the impact, if

14 anything, is -- is higher because of the -- the types

15 of projects and because Conawapa was not going to be in

16 service.

17 Now, slide 24 is expanding on matters

18 that we addressed very specifically in the pre-filed

19 testimony about sustaining capital and concerns over

20 the information made available.

21 And I wanted to take the time here to

22 emphasize for the Board that I didn't take the time to

23 write in the pre-filed testimony that I had concerns

24 over the information, because I -- because somehow,

25 filing a hundred thousand (100,000) more pages of

1 information would -- would make me understand it,
2 right? I don't -- I think you're in the same boat as -
3 - as me. I -- I can't look at a list of the condition
4 of cedar poles and know how many need to be replaced.
5 I -- I can't go out and see them. I'm
6 not going to be able to go out and see them, and if I
7 did, I couldn't identify a cedar pole from a pressure
8 treated one, other -- other than by colour. And it --
9 for people who serve on Boards and were asked questions
10 about these things, or people who come in as
11 Intervenors, this is a really difficult topic, How much
12 have you spent on capital, are we going too fast, too
13 slow?
14 Because the information prepared by the
15 utilities can be -- move in either direction. It can
16 be loaded with the adjectives I put, and potentially
17 they're all valid, and the information will tend to
18 focus at detail at a staff level, all the -- all the
19 requests that come in, everything from the manhole
20 cover that needs replacing to the -- the turbine that
21 we might want to swap out because of a crack.
22 All of those will come in and -- and
23 there'll be a -- a huge amount of -- of noise, if you
24 like. And -- and my submission is you can't deal with
25 all detail any more than I could, even if we had it.

1 So when I say, I have a concern about information base,
2 it's not that I'm saying I need a lot more detail,
3 because I don't think it's going to help me come to a
4 conclusion either.
5 The question is the information base at
6 the level of the -- the -- an -- an executive level?
7 How have I prioritized the -- the envelope of budgets
8 that I'm going to provide to departments in which they
9 can -- then -- then you carve up into agencies, and
10 then you carve up into -- into projects? How -- how am
11 I going to prioritize that?
12 And I noticed there was an undertaking
13 on that that came out on the weekend. I haven't had a
14 lot of time to review it, but if anything, it would be
15 the first piece of information I would have -- I -- I
16 would expect. And -- and I only give this example and
17 -- because we deal with the utilities in Newfoundland.
18 And the Newfoundland PUB has almost the opposite
19 legislative mandate as this PUB when it comes to
20 capital.
21 They actually have a section in the Act
22 that says Hydro can't build anything over -- my
23 recollection is ten thousand dollars ($10,000), without
24 a specific line-item approval by the Public Utilities
25 Board. So, you think with that -- the detail -- I

1 don't -- we have a -- a CEF that won't even break down
2 things smaller than -- than 50 million, is it? And
3 they want to have a look at everything over ten
4 thousand dollars ($10,000).
5 And it would seem like that gives you a
6 whole bunch of regulatory control. Now I can decide,
7 do that, don't do that. And at the end of the day,
8 what they end up with is the worst regulatory control
9 ever, because people respond to incentives. And the
10 incentive then on the utility becomes to throw
11 everything, including the kitchen sink, at the PUB and
12 say, Now it's your problem. You have to tell us which
13 ones to do. You decide if I should -- I'll tell you if
14 I don't build the fence, it might not be safe. Do you
15 want me to build it or not? If I don't build it, it's
16 on you. If I build it, it's in rates, it's on you.
17 I just outsourced my -- my management
18 control decision off to a -- to a Board. We're not
19 quite in that situation, but the question is, What do
20 you do when you're in this -- in this middle ground,
21 where you've got this -- this envelope of spending, and
22 you don't know how to make sense of it?
23 And -- and I -- I only end by saying,
24 it's a very difficult issue. I think it was
25 interesting that Mr. Williams put to us the OEB report,

1 which I had not previously read before I saw it in the
2 -- in the IRs, but which -- which gave some of the ways
3 that they dealt with this exact issue. And -- and
4 including, as I note there, sometimes it can be extra
5 complicated if there's overlapping issues.
6 Like if you do fuel switching, you can
7 reduce the loads on some feeders that maybe might
8 change your capital program if you can get people to
9 use gas rather than electric. But it's a topic that
10 ought not see billion dollar changes in one (1) year
11 over a ten (10) year forecast.
12 It ought to see an organization -- or
13 organized manner of planning. And it's a topic that I
14 would -- I would be concerned that someone comes out of
15 this -- this review and saying, Crystalized. Oh, yeah,
16 it's -- it's absolutely clear. It was reviewed in
17 detailed by the PUB and we've got to spend 600 million
18 a year on sustaining capital, because -- because I -- I
19 don't think someone could reasonably expect that you've
20 reviewed it at a level that -- where you can say, Yes,
21 that's the right number.
22 So this one, I'm afraid we're probably
23 going to end up at a conclusion that says a lot more
24 about, What do you do with this going forward? And we
25 have time -- you know, it hits us year after year, we

1 have time to put organized process on this, much more
2 than saying, Yes, Chuck, you have the right -- the
3 right plan.
4 Now, if we can flip to the next slide?
5 This is a chart prepared entirely from data in Appendix
6 11-13. And it is -- it -- Appendix 11-13 was provided
7 by Hydro to give the detail behind the calculation of
8 its financial targets, and this is about the capital
9 coverage capital coverage target, okay?
10 Hydro capital coverage target basically
11 says, all other things being equal, in a given year
12 they would like it if their cash from operations could
13 pay for their normal capital program plus 20 percent,
14 which is a target that's been there for a while.
15 It -- my recollection, it may have
16 moved. The 20 percent number may have moved, but
17 that's the -- that's the type of target. And when they
18 draw the graph, they'll put the line on for the 20
19 percent. I'm not putting the line on because I don't
20 think that that's -- you can carry over that type of
21 target from a sustaining period from -- from a decade
22 ago to the situation we're in.
23 And so what we've put on here, I -- I
24 put -- I've made sure that we put the -- the previous
25 IFF as well as the current one, but the solid lines are

1 the current IFF we're dealing with, okay. And the
2 green line, you can read this directly off the IFF
3 cashflow statement, is the total cash generated in the
4 year by operating activities.
5 That means, all of the cash I take in
6 the door from selling power less all of my operating
7 costs, all of my interest payments on the assets in
8 service, all of my water rentals, all of my taxes, all
9 of my fuel bills, all of those things. I -- I can pay
10 all of that, and leave a cash surplus which is over 400
11 million a year. In the previous IFF it had been a
12 little lower in the -- the first couple of years. Now
13 it's a little higher, but in the back end it's lower.
14 I'm not borrowing to pay interest. This
15 is no borrowing to do this. This is the top part of
16 the cashflow statement, and we can pull up the IFF if
17 you like and see the numbers. Solid green line, over
18 400 million a year. What I've put against that is the
19 normal capital spending.
20 Remember we -- the target would be nice
21 if I could fund my normal capital plus 20 percent, and
22 the answer is, in this period you can't. Right. You
23 can't because among the things that's hitting your cash
24 is that during this period you're absorbing almost $300
25 million a year annual cash costs for Bipole, and almost

1 $100 million a year negative annual cash costs for
2 Keeyask. And that's why the green line dips.
3 A hundred million dollars ($100,000,000)
4 for Keeyask, by the way, is the cash cost of Keeyask
5 less the revenue in the door. That is the -- how far
6 Keeyask drives you backwards on cash when it comes into
7 service, okay. Keeyask cash costs about ten (10)
8 cents, and the -- the revenue on average is about eight
9 (8) in its first year of operation, and I can point you
10 to where those appendices have that.
11 So my green line, cost positive,
12 absorbing Bipole, absorbing Keeyask, staying -- staying
13 -- generating between four (4) and 600 million a year,
14 and -- and if there is a problem, if I want to assert a
15 problem, it's that the green line dips below the black
16 for a period -- for a distance. But I want to
17 emphasize, it is not borrowing to pay interest costs.
18 On the next slide, all we added was a
19 line --
20 MS. MARILYN KAPITANY: Mr. Bowman, can
21 I just ask a question --
22 MR. PATRICK BOWMAN: Yeah --
23 MS. MARILYN KAPITANY: -- before you
24 move --
25 MR. PATRICK BOWMAN: -- yeah.

1 MS. MARILYN KAPITANY: -- from there?
2 So you say when the green line dips below the black,
3 Manitoba Hydro is still not borrowing to finance
4 sustaining capital?
5 MR. PATRICK BOWMAN: Well, then it is
6 borrowing to finance sustaining capital. That's right.
7 So it's always going to be borrowing to finance major
8 new generation transmission. They -- they've even
9 taken that out of their cashflow target. But it --
10 when the green line is below the black, you're
11 borrowing to finance sustaining capital.
12 MS. MARILYN KAPITANY: Right, so
13 something --
14 MR. PATRICK BOWMAN: That's right.
15 That's right. And of course they're also rolling over
16 debt. They're not -- they're -- they're borrowing new
17 debt to replace old debt. They're not paying down debt
18 but over the ten (10) years we'll touch on that in a
19 minute.
20
21 CONTINUED BY MR. ANTOINE HACAULT:
22 MR. ANTOINE HACAULT: Mr. Bowman, as a
23 follow-up on that question, could you remind us the
24 life -- the expected life of some of these assets that
25 form part of the sustaining capital that we want to pay

1 each and every year, and not finance?

2 MR. PATRICK BOWMAN: Well, sustaining

3 capital is a bit of a catchall. It's soups to nuts.

4 It's everything from computers to -- to turbines to

5 work on dams and things, so it's -- it's going to be a

6 wide range. But in a period of major reinvestment in

7 sustaining capital, some portion of that being borrowed

8 while you're absorbing Keeyask and Bipole is -- is --

9 you know, I'll say won't be surprising.

10 The next -- the next page, the only

11 thing that has been done is to lower the '15/'16

12 increase to 2 percent, which is when I said, I'm fine

13 with the higher end of inflation. This would be the

14 bottom end that I -- I would think the Board might want

15 to consider.

16 Only do it for this one (1) year. Let's

17 sort some things out. Let's figure out that sustaining

18 capital line really is where the black is drawn. Let's

19 figure out if -- if there's some other aspects of --

20 that are going to work in our favour. Let's figure out

21 if interest rates might stay down a couple more months.

22 You know, every month we're borrowing -- you know, what

23 -- what are we up to, five (5) -- $6 million a month

24 that we're locking in at these lower interest rates.

25 Give ourselves some time. We're not

1 foreclosing on the -- on the ability of having three
2 point nine-fives (3.95) that follow, but effectively
3 are we -- if a lower increase is granted in this one
4 year, have we put ourselves in a hole we can't recover
5 from? That -- that's all we wanted to put on the
6 graph. And -- and the only adjustment this is -- is --
7 rate increases are at 2 percent, and the vacancy is
8 adjusted back to the way that it always is, which is
9 around eight (8), not the -- the new level that Hydro's
10 putting in. And I'll talk about that in a minute.
11 And just to add to that, the -- the next
12 slide only has one (1) more line, which is -- you know,
13 Mr. Chairman, if -- if you're sitting there and you're
14 saying, But I don't -- I don't want to put my head in
15 the sand about making a one (1) year decision, I don't
16 want to decide on a rate increase that I -- that I
17 don't think I could do for a number of years, I don't
18 want start on a track, this one says, Okay, fine, what
19 if you did 2 1/2 percent for four (4) years, and then
20 you -- and then you -- and then at the end of that, if
21 you really needed 3.95s, if no -- no other solution's
22 been found, you got back on the 3.95, that shows you
23 how far the line moves in terms of cash. If we're
24 going to talk cash, that's the cash perspective, okay?
25 Now, the next slide on that is just for

1 those of us who like numbers rather than graphs. It's
2 to take the -- the ten (10) year period and try to
3 summarize this picture of it. And I can -- these
4 numbers again are directly out of the IFF of what's
5 going on. 2015 year -- year-end net debt of Hydro is
6 11.7 billion.
7 The IFF with all of their rate
8 production shows the 2024 year-end net debt is 23.2,
9 which is a growth of 11.5 billion. I've shown you some
10 alternative rate scenarios which make that growth and
11 debt something along this 11.6 to 11.8 instead of 11.5,
12 okay, in this decade.
13 And what's the debt been for? If you
14 only add up Keeyask, Bipole, the Minnesota
15 transmission, and DSM you have $12.2 billion of
16 investment. In other words, not only are we covering
17 all of our cost over that decade and covering all the
18 sustaining capital over that decade even at the levels
19 that we're now seeing pop up, we're even able to
20 cashflow some of these long-term assets which give
21 benefits way beyond the ten (10) years.
22 And when you're doing that as well as
23 absorbing those projects, that's a very high standard.
24 And I'm not sure that's the same as the -- the picture
25 one gets when you pull out an IFF and you circle seven

1 (7) years of losses. And so if you want to talk
2 cashflow, that's our -- that's our cash picture.
3 And the conclusion there is no different
4 than I just said except that I also note that if we're
5 only talking about managing cash, in the last bullet I
6 note, there are some investments being made that may
7 have long-term payoff, but -- for things like DSM, but
8 you do have flexibility. It's one (1) of the very
9 things that people sell peop -- sell as DSM is it's
10 scalable. When it's time not to do it, when the
11 markets aren't there, when your -- when your cash isn't
12 there you can scale it back a bit. When the -- when
13 the markets are there and the returns are there you can
14 scale it up.
15 So if you want to benefit cash -- if
16 somebody was sitting here saying, Gosh, my cash is a
17 real problem, DSM is one (1) place you could look. The
18 interest rates -- there was some discussion about them
19 holding lower than forecast. I think it's a mugs game
20 to pick which interest rate forecast you like. I'm not
21 objecting to Hydro's, but there certainly could be
22 upside if that occurred.
23 And in -- in, you know, each month now
24 given the scale of spending and the borrowing, each
25 month we'd lock in more and more of our future interest

costs, and we have less of the uncertainty on that. The vacancy rates is -- is one (1) we'll spend some time on. It's -- it's a surprisingly large issue and there's room for bet -- you know, better O&M cost control. And -- and who knows, maybe there would be some -- some room for something like a government charge relief. May -- maybe somebody would say, If you have $1.4 billion of unexpected Bipole -- unbudgeted Bipole increase, then maybe, if it's unbudgeted anyway, someone could forego a debt guarantee fee on the 1.4 billion.

MR. ANTOINE HACAULT: This might be a logical time to break, Mr. Chairman. I didn't indicate it, but I encourage panel members as the Hydro panel members had also encouraged the Board to ask questions as and when they have them. I saw member Kapitany do that. But please ask questions as we're proceeding if you have any

(BRIEF PAUSE)

THE CHAIRPERSON: We're going to adjourn now. We're just trying to decide how long we're going to take for lunch. Excuse me for a sec -- excuse us for a second.

1 (BRIEF PAUSE)

2

3 THE CHAIRPERSON: Okay. We're going to
4 take a forty-five (45) minute lunch break, so we'll be
5 back here at twenty (20) to -- twenty (20) to 1:00.
6 Thank you.

7

8 --- Upon recessing at 11:56 a.m.
9 --- Upon resuming at 12:43 p.m.

10

11 THE CHAIRPERSON: I believe we're ready
12 to resume the proceedings. Before we -- before I turn
13 the microphone over to Me. Hacault, I believe we have a
14 couple -- of -- another undertaking that's been
15 completed by Manitoba Hydro.
16 MS. HELGA VAN IDERSTINE: Yes. Thank -
17 - thank you. So I would like to now file Manitoba
18 Hydro Undertaking number 36, Manitoba Hydro to provide
19 actual vacancy percentage for 2014/2015. And that will
20 be Manitoba Hydro Exhibit number 123. Thank you.

21

22 --- EXHIBIT NO. MH-123: Response to Undertaking 36

23

24 CONTINUED BY MR. ANTOINE HACAULT:
25 MR. ANTOINE HACAULT: Mr. Bowman,

1 please continue. I think you wanted to reference the
2 actual data page with respect to some of the previous
3 slides. So could you do that first, and then proceed
4 with the presentation?
5 MR. PATRICK BOWMAN: Yes. Good
6 afternoon, Mr. Chairman. I understand there was some
7 question about some of the numbers used on a -- a slide
8 that Manitoba Hydro expressed some concern about.
9 It was slide 28 of the presentation,
10 which gave some summary numbers for year-end net debt,
11 and I just wanted to make sure there was -- that it was
12 clear on the record where that comes from. And so
13 Appendix 11.13, if we can pull it up, I'll just show
14 you how that is done.
15 So this is a schedule that Hydro filed
16 about how it calculates its debt ratio, but it gives a
17 lot of useful numbers. And it's columns J, K, L, and M
18 that play the role of calculating the net debt.
19 And you'll recall that for 2015, the
20 number I used was 11.7 billion of net debt. And if you
21 go to 2015, I think you can just do it with your eyes.
22 If you go over to column J, the number is eleven point
23 seven-one-seven (11.717).
24 You need to remove from that the sinking
25 fund investments of a hundred and twenty-five (125),

1 because they're not part of the net debt, and add back
2 to that the hundred and thirty-seven (137) in short-
3 term debt, and you end up back at eleven seven (11.7).
4 So that's where the eleven seven (11.7) comes from.
5 And if you move down the page, the
6 number for 2024 we used was 23.2 billion. And that
7 number in the column J is twenty-three four seven three
8 (23.473). If you subtract from that the sinking fund
9 investment of four sixty-seven (467) and you add back
10 the short-term debt of two hundred (200), and you end
11 up with twenty-three point two (23.2), which is the
12 number we used for year-end net debt.
13 So that's -- that's the -- and that's
14 the one that gives the overall growth and debt of 11.5
15 billion over that period.
16 MR. ANTOINE HACAULT: Thank you. I
17 think the next subject that you're going to be tackling
18 was the financial issues, income statement overhead?
19 MR. PATRICK BOWMAN: Yes.
20 MR. ANTOINE HACAULT: Slide 33.
21 MR. PATRICK BOWMAN: And as I discussed
22 this morning, you --
23 MR. ANTOINE HACAULT: Thirty-one (31),
24 sorry.
25 MR. PATRICK BOWMAN: For the non-

1 accountants in the room, the -- shifting gears between
2 thinking cashflow and thinking income statement, it's
3 good to have a lunch in between, because your -- your
4 perspective on the world is -- is quite different.
5 So -- and I -- I think Mr. Rainkie made
6 that point well that a number of the things we're going
7 to talk about under this section go to dealing with
8 numbers on Hydro's income statement or -- or operating
9 statement in the IFF, but they actually don't affect
10 cashflow. But cashflow, we've -- we've covered our --
11 our discussion on.
12 And in -- the -- there's a good reason
13 why most regulatory proceedings spend their time
14 focussing on the income statement, because it -- it's -
15 - it's consistent with the way one looks at a -- a
16 large company that has lots of assets.
17 Cash -- cash is king, you know, in a
18 start-up or an investment -- you know, an investment
19 outfit or a small company, making sure you can meet
20 payroll.
21 But when you're -- when you're the size
22 of Manitoba Hydro, meeting payroll isn't the issue.
23 It's -- it's, How do you reflect your assets and
24 liabilities and changes over time? So the -- that's
25 con -- that's where the income statement comes in.

1 Now, in terms of the income statement
2 summary, you'll notice on the second bullet there, I
3 note, it's:
4 "Hydro's forecasts absolutely show
5 eight (8) years of net losses
6 totalling 980 million."
7 It's a -- it's an easy pace to take a
8 snapshot of, and pass around to any audience you like
9 who will say, You know, gosh, this is a real problem.
10 Mr. Rainkie referred to it as nine-o-one (901) this
11 morning. He wasn't adding in the extra effects in year
12 '11 and '12.
13 But these numbers are affected by the
14 other things that -- that we've talked about in this
15 room in 2012, and that I'm going to go over here, one
16 (1) of which is the decision to adopt more aggressive
17 policies and overhead capitalization, and I'm talking
18 about just new stuff since eleven (11) -- or since 11-
19 2, since the last hearing, which are up by about,
20 you'll remember me referencing this morning, 50 to 60
21 million.
22 Over that eight (8) years, that 50 to 60
23 million is $400 million. So of your $980 million in
24 net losses, four hundred (400) of it wouldn't be there
25 but for the decision to take it on the chin in that

1 year for costs that, under the standards that were in
2 place six (6) weeks ago, wouldn't have been considered
3 operating costs. They would have been considered part
4 of capital, okay?
5 That -- and -- and there are options on
6 that, and we're going to go through that, and there --
7 the -- that doesn't take into account the CGAAP changes
8 that were happening as -- as far back as 2008, some of
9 which I've said actually made sense as changes.
10 The second item that I note there is the
11 ELG change, which, by the time you get into not just
12 the first year impacts but, the impacts over that
13 period where you've got Bipoles and Keeyask in place,
14 the rebuttal at page 33 provides a table. And you're
15 in -- in the range of 50 to 70 million a year, so just
16 in -- in simple numbers, I've put in the 400 to 560
17 million over that period.
18 And then there's the vacancy issue, the
19 vacancy overestimation. In a cash sense, once you
20 include benefits, that's in the range of 20 to 30
21 million a year. In a -- in an income statement sense,
22 part of that -- of that vacancy adjustment -- or
23 vacancy understatement in -- in the forecast to date
24 won't show up in the income statement. It'll show up
25 in the -- the capital projects.

1 And so when you -- when you scale it
2 back to the -- the income statement component, it's
3 only about 12 to 20 million a year, but still, you're
4 talking about over $100 million of -- of numbers on
5 Hydro's IFF that would not arise if the vacancy rate
6 was -- in the future is a lot more like it was over the
7 last seven (7) years.
8 And the final one is the -- the new DSM,
9 and I -- I only wanted to put that number in there
10 because people will throw around numbers like 700
11 million for added DSM. It's in the -- it's in the CEF
12 forecast. But this is how DSM makes it to the income
13 statement. It does -- it's not -- it -- it's not
14 expensed in that year. So when you actually take into
15 account the fact that it's amortized over ten (10)
16 years, the net DSM paid on the income statement is --
17 is only about 280 million.
18 But you add those up and you -- you say,
19 In that eight (8) year period, there's about 1.2 to
20 $1.4 billion worth of items that are hidden in the
21 income statement that are as -- as listed, and that
22 would shift that number from not a billion-dollar net
23 loss, but actually holding our own in terms of net
24 income over that entire period. And most of those are
25 either because of things we're choosing to do for

1 whatever reason has been put forward, or that as -- as
2 I say, are -- are mis-estimate -- estimations. You
3 could even leave the entire DSM balance in there, and
4 you'd still be at basically a -- a net zero.
5 So that -- that's to give the -- and by
6 the way, the DSM numbers are -- are coming from
7 Coalition-23(b), if anyone wanted to check. And it's
8 only -- just so you know, it's only the DSM added since
9 IFF13 to IFF14. It's not all DSM. It's only the new
10 programs.
11 So to go through these in a certain --
12 in an order, we said -- start with the overhead
13 capitalization issues. Again, this is one of those
14 topics that has more ink spilled on it than -- than a
15 lot of people would like. I don't expect to -- expect
16 to spend a whole lot of time except to say some changes
17 were made in the past related to Canadian GAAP.
18 Hydro adopted a method of -- of taking
19 items that it previously would have capitalized and
20 taken them into income in the current year in the past.
21 They tell us that the new method is compliant and it
22 has been audited. I'm not sure the record is quite
23 clear the old method wasn't compliant, but it's neither
24 here nor there. We're not necessarily taking a -- a
25 run at those.

1 The issue is, What do you do when you
2 convert to IFRS, and you bring in sort of new types of
3 things? I put the example there, stores, just so
4 people can get in their head what we're talking about.
5 I'm not necessarily saying that's one (1) of the IFRS
6 changes. As a matter of fact, I -- I don't -- I can't
7 recall whether stores was an IFRS or a CGAAP change.
8 But it's the idea of -- the reason I put
9 it there, it's the idea of a -- a function that the
10 utility has that's going to be serving both an
11 operating base and a capital base. They're -- they're
12 going to handle equipment and purchasing or something
13 for -- for both parts of the business.
14 And the question is, what do you do with
15 those costs. And we can go on and explain why from one
16 (1) -- why the accountants may have a different
17 perspective on this than a regulatory one, but I -- I
18 don't think we have to spend a whole bunch of time on
19 it. The issue is 50 to 60 million in new costs, 120
20 million if you take in all the ones since 2008. That's
21 a very large impact. It's hard to argue this is just a
22 small accounting changes and it's some -- in -- in no
23 way changed the balance or rate fairness between
24 today's ratepayers and future ratepayers and that --
25 that should guide the PUB.

1 And there's no change in the PUB's
2 legislation related to the way to think about that
3 balance. The biggest thing that we have today is that
4 -- in the evidence is -- is quite clear, I -- that for
5 many years people like Hydro and people like CAMPUT
6 spent a lot of time trying to send submissions and talk
7 to the Accounting Standards Board. Many of those
8 submissions are in evidence, some in IRs in this
9 hearing, some in IRs from past hearings, letters
10 written by Hydro, letters written by CAMPUT, that
11 basically said to the Accounting Profession and to the
12 International Accounting Board, the -- the reality of
13 this company is it sells a product into a regulated
14 market.
15 That is part of the fundamental economic
16 reality of it and you can't ignore that when you write
17 their statements, when you set standards to their
18 statements. You need to reflect that. And if a
19 regulator makes a decision that is going to
20 fundamentally change the way this -- this entity can
21 charge prices in the future, you want to reflect that.
22 You don't want to create a second set of books that
23 somehow turns a blind eye to the fact that the
24 regulator is -- is in this dance and if anything, is in
25 the lead in this dance.

1 I'm par -- paraphrasing. But the
2 letters -- both -- both of them effectively said it
3 would be really cumbersome to have two (2) sets of
4 books. Guys, can't we come together on this. Can't
5 you come over and see our point of view. And there's
6 no progress on that. There has been est -- IFRS-14 has
7 come out which says, Yeah, you -- we -- we can
8 recognize some of these things. We recognize the
9 arguments in terms of -- of regulatory reporting.
10 So if anything, we're in a situation
11 today where we're less being pushed by these issues
12 than we were. And not -- not being pushed into saying
13 we have to have two (2) sets of books. The very
14 purpose of that change was that we can merge into one
15 (1) set of books. It's more along the line with what
16 the PUB would want to do and reflects the PUB's
17 decisions.
18 So on this issue I think the facts have
19 changed. The values have gone up. And -- and the --
20 the opportunities have increased to -- to not have to
21 take on $400 million of extra cos -- extra net -- net
22 income hit, extra cost in that period where we're
23 otherwise recording net losses.
24 I -- I pasted in there the PUB notes its
25 own order I just pasted into the quote that basically

1 said that the Board expects Hydro not to make any
2 further accounting changes. And I just wanted to test
3 against that. And the answer is that at that time the
4 Board -- I -- I would -- I read that to understand no
5 further accounting changes beyond the test years, the -
6 - the proposed accounting changes are appropriate for
7 the test years.
8 That in the test years Hydro's
9 cumulative accounting changes related to overheads was
10 at 57.6 million. The numbers we're working with now
11 are about double that in terms of what's being
12 forecasted into Hydro's statements. Oh, sorry that --
13 and that was on slide 34.
14 Slide 35, to keep us moving, was just
15 putting in the numbers. Even if we leave all the CGAAP
16 changes, only deal with the changes that arise out of
17 the -- out of the IFRS change. It would -- it's still
18 55 to 60 million a year, which is actually a little bit
19 higher than the numbers I was using in the previous
20 slide in terms of benefit to the income statement.
21 And I -- I just pasted back in there
22 Hydro's letter, which -- the -- the small quote. This
23 one was not otherwise -- I don't believe that letter is
24 in this hearing. I believe we had to dig it out of the
25 IRs from the last hearing. There's Hydro's submission

1 to the Accounting Standards Board in regard to
2 regulatory accounting.
3 And -- and you -- you can take your time
4 to review it if time permits. But the essence being
5 follow the regulator's lead, not the other way around.
6 So the final slide on this section, just
7 to keep it brief, is I think the -- the Board's got a
8 clear decision to say that they're not going to accept
9 Hydro for purposes setting rates, at least. Hydro
10 taking it on the chin for that extra 50 to $60 million
11 a year, Hydro would have two (2) options. It could
12 retain consistent reporting for the PUB and -- and not
13 adopt the IFRS changes and -- and deal with that, or it
14 -- it could use a method that has a -- a special
15 regulatory overhead rate, as far as those projects.
16 There -- there's a couple of different
17 ways that someone could think about doing it. I think
18 if they're -- if the decision of the Board and people
19 are sent off, they've got some different ways they can
20 solve it. But I only want to move to the last bullet
21 there, which is the new IFRS standard has a very
22 important word in it, that it will allow you to adopt
23 this regulatory requirement to continue methods being
24 used.
25 And so this isn't an issue that can be

1 left, in -- in my submission. Otherwise, we're not
2 continuing. We can't go back up, and then two (2)
3 years from now decide, no, no, we want to go back down
4 again. We -- we -- I -- I could imagine someone
5 circling that word and saying, You -- you've lost your
6 window.
7 So if someone wanted to help keep to --
8 to one (1) set of books, I suspect you're -- you're
9 probably going to want to make sure that you have the
10 right -- the right information about the role of
11 continuity in that.
12 MR. ANTOINE HACAULT: Thank you. I
13 think that brings us to the next set of financial
14 issues, the fixed assets and the net salvage.
15 Could you address that issue, please,
16 Mr. Bowman?
17 MR. PATRICK BOWMAN: Yes. So starting
18 at page 538, in the same vein of topics in which
19 accounting changes or -- or decisions by Hydro to -- to
20 make things somewhat more difficult are available to us
21 is the way to deal with fixed asset accounting. This
22 has three (3) components. They're not a package deal.
23 There's no reason to think about them as a package
24 deal. I think it's -- it's a bit disingenuous to
25 present them as such.

1 The first one is a change to life
2 estimates. Every time we do a depreciation study
3 you're going to have a change to life estimates. I've
4 helped utilities through that, I can't count how many
5 times. If your things are lasting longer, you -- you
6 change your depreciations rates to reflect that.
7 That's an absolute normal and regular part of -- of any
8 process. And -- and we have no reason -- I haven't
9 seen anything to suggest that any of the life estimates
10 adopted from either of those assets should -- should be
11 adjusted in any particular way. The life estimate
12 study are -- are unchallenged, from my perspective.
13 It also gives a large reserve imbalance
14 that you have to deal, but that's also a normal
15 regulatory thing. It has nothing to do with accounting
16 changes.
17 The second is eliminating net salvage.
18 And this one is a topic that has been actively dealt
19 with over the last ten (10) years in Canada,
20 particularly by some of the Crown's and hydro
21 utilities. I can talk -- I'll -- I'll go over it in --
22 in the next slides. But it's a topic that arises in BC
23 as early as 2004 and some others along the way. It
24 arises today, Hydro will say, because the IFRS no
25 longer allows them to keep it. But it may be a

1 coincidence that that's what drives us to talk -- be
2 talking about it here. But there is plenty of
3 regulatory practice to say that you can look at this
4 issue from a principle basis and make the right
5 decision.
6 And then the third one that -- I've been
7 able to put off talking about equal life group this
8 long, but the third one is changing to equal life
9 group. And -- and the -- like I said, thankfully, Pat
10 will deal with that. The -- in regards to the change
11 of lives, I have no more slides. If your assets are
12 lasting longer, if they're lasting shorter, you adjust
13 the -- the depreciation.
14 In regards to -- sorry, I -- I should
15 update the -- the overall status of the -- of the --
16 what -- what we know from the depreciation right now is
17 adding to those lives gives you a surplus of four (4) -
18 - I'm still on slide 39, by the way. Adding to those
19 lives gives you a surplus of 470 million in your
20 accumulated depreciation. That's -- that's in -- in
21 evidence in one (1) of the studies where it's done over
22 the -- the ASL method with no -- with -- with net
23 salvage is -- is run, but it's -- because your lives
24 have changed, because of your retirement history,
25 because of the curves you've adopted, the study says

1 you're $470 million ahead of where you need to be at
2 this point in time. That's life. That's the life --
3 the life component.
4 It also can calculate that you have a
5 net salvage reserve presently of 530 million. Those
6 are amounts that would be calculated to be -- needed to
7 be set aside if you were doing a net salvage
8 accounting. And they wouldn't be set aside if you --
9 if you never had been doing it. And the total of that,
10 if you get rid of it, is you will have a sur -- net
11 surplus of -- of a billion dollars in your accumulated
12 depreciation. You're ahead of where you need to be.
13 The third item we talked about was this
14 proposed change in method to the equal life group. And
15 by the time you add that in, it goes back in time and
16 it says, Well, where should I have been if I'd been
17 using ELG all along?
18 And it can effectively come up with a
19 number which says, You need $400 million more due to
20 that method change. And so it takes you back to 600
21 million, and I'm sure that's a number you've heard a
22 few times in terms of the overall depreciation surplus
23 at this point. So that's the -- the -- if he puts some
24 numbers on the scale of those.
25 Turn to the next slide now, 40, the net

1 salvage background. As I noted, this is an issue which
2 everyone -- everyone remembers what we're talking about
3 here.
4 When you depreciate an asset, you're not
5 just trying to recover the rote costs of that asset
6 over its life under the way Hydro does things now.
7 You're trying to recover the net cost of that asset
8 given that there's going to be some transaction at the
9 end.
10 It might be a truck that you buy for
11 fifty thousand (50,000) and you sell for ten (10) at
12 the end, so you only have to depreciate forty (40). Or
13 it might be an underground distribution line that you
14 put in for a hundred thousand dollars ($100,000), but
15 it's going to cost you twenty thousand (20,000) to
16 remove at the end, so you have to depreciate a hundred
17 and twenty (120).
18 Okay. That -- that's what net salvage
19 does. It can be positive or negative, and it's the net
20 of pull -- the cost of pulling it out and the cost of
21 selling the scrap, what's left over, okay? So this --
22 this idea of salvage is -- is dealing with what happens
23 at the end of life.
24 And Mr. Kennedy and I have -- have run
25 across this issue in other places, and one (1) thing we

1 completely agree on, and I think he -- he was quite
2 clear, is if it's appropriate to keep in rates, if you
3 have a reason to do it, do it.
4 Don't be distracted by the IFRS thing.
5 You can keep -- you can keep it. If it's appropriate
6 to keep in rates, keep it in rates.
7 What -- where we disagree with Mr.
8 Kennedy is whether it's appropriate for Manitoba Hydro
9 today to keep in rates, and again my focus being
10 primarily on generation and transmission.
11 And this one -- this issue has had a lot
12 of evolution over the past ten (10) years. I've been
13 involved with it in a few different utilities, but it's
14 important to recognize this account, that $530 million
15 balance, only exists today on Hydro's books even under
16 Canadian GAAP, never mind IFRS, because it -- Hydro
17 asserts that this Board wants it.
18 It -- it says, In the past, I had my
19 rate set if it was there, and the Board's never told me
20 to get rid of it. So I'm going to call it a regulatory
21 account. I'm going to say the Board wants me to have
22 it.
23 Now, I can't remember excerpt in an
24 order where it says, Yeah, keep it. But -- but I also
25 can't remember anyone saying, Get rid of it. I can't

1 remember much discussion of it at all over all the time
2 I've been here.
3 But, nonetheless, it's in rates. It's -
4 - it's built up this balance, and it only exists
5 because Hydro will say to its auditors, this is a
6 regulatory account. After IFRS, you -- you didn't even
7 have that option unless you get the -- to deal with the
8 specific exemption.
9 But what I wanted to underline is that
10 other utilities have moved in much the same direction
11 as Hydro does going all the way back to 2004 or so when
12 BC Hydro first stopped accruing to its net salvage
13 reserve. It stopped putting into rates any more money
14 to put aside funds for taking down things.
15 That was followed in Yukon, although in
16 Yukon it was -- the Yukon Utilities Board hires the
17 BCUC staff as advisors, so some of the same thinking
18 came up to Yukon an they stopped putting aside amounts
19 in rates.
20 And at the current time, in NWT, they've
21 stopped putting aside amounts in rates. They haven't
22 concluded whether they'll ever put it back, but they've
23 putting aside amounts in rates.
24 All of them have made their own decision
25 about to do with balances a little bit different, but -

1 - but, nonetheless, this has been a lively topic. It's
2 moved for sure, and -- and it has to be debated on a
3 principle. I think the package -- package deal
4 argument about it doesn't -- doesn't hold water.
5 So at slide 41, we're talking about why
6 would you get rid of the net salvage. Why is it not
7 appropriate to keep it there? And, in short, I think
8 the same type of principle decision that was made with
9 respect to the other Crown with respect to generation
10 and transmission assets, I don't think this net salvage
11 concept fits well, especially negative net salvage.
12 And the reason is, if you give yourself
13 the concept of a test, this current generation of
14 ratepayers is using the power from -- pick your plant -
15 - Kelsey. Many years from now, Kelsey's going to need
16 to be -- have an interim retirement.
17 The chances -- I think it's unlikely
18 Kelsey will have a final retirement. You'll have an
19 interim retirement. Means we take out the one that's
20 there and put in a new one or we do it in parts over
21 time. It's not a final retirement where we leave the
22 site and do a greenfield. I think you've heard the
23 same thing about Pointe du Bois.
24 So you're going to have an interim
25 retirement. And the question is: In the year before

1 the interim retirement, are the ratepayers of that day
2 sitting there with a mess on their hands that they need
3 to clean up because of the existing Kelsey? Or are
4 they sitting there with a gem of an asset and a leg up
5 on having a future Kelsey because the current one was
6 there? Have you left them an economic value, or have
7 you left them a mess?
8 And the answer in hydro plants would
9 tend to be, You left them a value. The answer on
10 transmission lines, you've left them a right-of-way.
11 There's a value. You have water licences. You have
12 site development. You've already taken on the
13 environmental costs. You've got infrastructures
14 associated with the site. You've got communities who
15 are used to dealing with this plant. You're not having
16 to go through all the steps of putting in place. You
17 leave a resource.
18 And that's why -- I've even been
19 involved in cases where very, very old hydro plants
20 sell for a positive value. Not for a negative value,
21 because you've got to consider the salvage, it's
22 because for a positive value because of all of that --
23 aspects of the -- of the resource. So when we're
24 thinking about Kelsey today, Do we need to be building
25 up a bank account to deal with a future Kelsey? No,

1 the -- that is an advantage to people rather than
2 having to build a new one later. So -- so if anything,
3 rolling any of these costs into being recapitalized
4 with a new plant makes total sense.
5 There's also an excerpt in the IRs
6 you'll see where the -- and I don't think this should
7 be determinative, but IFRS comes to the same conclusion
8 for a little bit of a different reason. And their
9 conclusion, or the example they give is, if you were
10 going to build an office building and you buy a piece
11 of property that has a house on it.
12 And you have to take down the -- the
13 cost of tearing down the house to add the office
14 building, that would absolutely be a cost of building
15 the office building. You would roll all that together
16 as the -- your investment. There's no doubt that
17 tearing down the house becomes part of the asset.
18 So why is it any different if you owned
19 the house and you didn't buy it outright from the
20 beginning? The -- rolling the cost of removal in --
21 make -- would -- would lead to consistent treatment
22 between those two (2) cases. And that -- I am afraid I
23 don't have the reference down but that's in the -- one
24 of the excerpts that's in one of the IRs.
25 And that's the end of the net salvage

1 topic, and I have got one brief introduction to the
2 topic of ELG, and then Ms. Lee can -- can carry the
3 ball for a bit.
4 The depreciation issue is about how you
5 deal with recognizing the costs of the assets on your
6 income statement when they're in service. And this is
7 a very complicated topic. There are some people who
8 have trouble getting through it without a bottle of
9 Tylenol.
10 It's -- it's got layers and layers of
11 technical aspects, and theory, and practice, and
12 regulatory precedent, and such. But just to really get
13 to the core of it, Manitoba Hydro using an ELG method
14 as an outlier in Canada, from what we've seen every
15 other Crown uses ASL, I've been involved with one (1)
16 Crown which converted from ELG to ASL.
17 They didn't even know they were ELG. It
18 was put in place while they were being managed by a
19 private sector utility, and when they finally learned
20 that they had an aggressive method of depreciation that
21 went out the window. It was like, this isn't what we
22 do as a crowd. We don't try to pump up our cashflow,
23 and recover costs faster from our ratepayers. We -- we
24 want to reflect these costs in a -- in a fair manner.
25 The second thing is, ELG is higher cost

1 at the outset and in a growing utility there's no
2 crossover. So any concept that someone says about,
3 This is intergenerational fairness. Sure, you're
4 taking it on the chin now for ELG but don't worry,
5 people down the road will be treated fair because
6 they'll pay less. No, they won't. People down the
7 road will also pay more because they're going to have
8 the new assets that are even more valuable in service
9 at that time, which is going to dominate their
10 depreciation rates.
11 So, sure, Wuskwatim's depreciation will
12 go from right here at one (1) level to a slightly lower
13 rate thirty (30) years from now, but by then you'll
14 have Keeyask and Bipole and Conawapa, which will be way
15 more valuable than -- than Wuskwatim ever was, and it
16 will be the dominate factor.
17 So any concept of intergenerational
18 fairness usually comes down to this generation pays
19 more so that one can pay less. The trick with ELG is,
20 this generation pays more so that that one can more, so
21 that the next one can pay more. To what end? You'd
22 never catch up. And -- and Ms. Lee will deal with
23 that. It's -- there's even an excerpt in the book she
24 helped write that -- that very specifically deals with
25 that example.

1 And -- and the third piece that we want
2 -- wanted to make sure got on the record, which is in -
3 - in the -- the data and in the evidence, and it was in
4 the last hearing so I just wanted to touch on it here
5 before we go to Ms. Lee, is -- is the -- the issue of
6 the theoretical benefit of ELG versus the sort of false
7 precision by the time you get into the way Hydro's
8 applying it, but I think Ms. Lee will deal with that as
9 we move onto her section.
10 So with that, I turn it to you.
11 MR. ANTOINE HACAULT: Thank you very
12 much, Mr. Bowman. Now, Ms. Lee, firstly could you go -
13 - when you're testifying, could you reference slides?
14 It's just so the transcript can keep track of where
15 you're at. And I'd like you to start by the scope of
16 work. What we've asked you to do, please.
17 THE CHAIRPERSON: I just have a few
18 clarifying questions if you don't mind. I'm sorry, Ms.
19 -- Ms. Lee. A few clarifying questions from Mr.
20 Bowman. If you could look at slide 31, please.
21 MR. PATRICK BOWMAN: Yes, Mr. Chairman,
22 I have it. I should note, by the way, I come back on
23 the back cleanup, so there's a further opportunity as
24 well, but go on.
25 THE CHAIRPERSON: Okay. I was just

1 going to ask about the -- the ELG and reference
2 rebuttal page 33. And I looked it up and I couldn't
3 find it, so rebuttal page 33 of Manitoba Hydro?
4 MR. PATRICK BOWMAN: Yes, that's
5 correct.
6 THE CHAIRPERSON: Okay.
7 MR. PATRICK BOWMAN: Allow me to pull
8 that out and I'll...
9
10 (BRIEF PAUSE)
11
12 MR. PATRICK BOWMAN: And if you were to
13 go to that -- that page, it's Figure 9 of page 33 and
14 it shows the change in methodology ELG and the impacts
15 by year. And you may be familiar with a number like 36
16 million, which is one (1) that Hydro has referenced,
17 which is a 2016 impact.
18 What that sheet conveniently shows is
19 what happens when you go out to the years we were
20 really talking about, 2021, 2022, 2023, and the numbers
21 are more like sixty-three (63), sixty-seven (67),
22 sixty-eight (68), and sixty-nine (69). So that --
23 that's the scale during that period I was dealing with.
24 Oh, sorry, there's -- we've pulled it up
25 now. So you'll see it's Figure 9. The bottom row is

1 change in methodology ELG. It comes in in 2016 --
2 THE CHAIRPERSON: Okay.
3 MR. PATRICK BOWMAN: -- and scales up.
4 THE CHAIRPERSON: And the same -- the
5 same page, page 31 -- or slide 31, rather, the 280
6 million in new DSM amortization, I'm -- I'm not sure I
7 get the reference. The only DSM in IFF14 but not in
8 IFF13, I -- I don't -- didn't understand that point.
9 MR. PATRICK BOWMAN: Yes, can we pull
10 up -- I have Coalition IR 23(b). I believe it's their
11 First Round 23(b), but... I wonder if we can pull that
12 up.
13
14 (BRIEF PAUSE)
15
16 MR. PATRICK BOWMAN: And if you scale
17 down there'll be a -- a chart. Yeah, there we are, a
18 table. So this shows you the costs in the IFF for
19 amortizing DSM. And if you look down to IFF13 and you
20 -- you grab the years in question and you look at IFF14
21 for those years in question, and starting 2019 you'll
22 see the increase is between 27 and 45 million. So
23 that's a -- an $18 million increase. And the numbers
24 are eighteen (18), then twenty-five (25), then thirty
25 (30), thirty-six (36). But you add those up and you

1 come up with the two hundred and eighty (280).
2 So it's -- it's a amor -- it's -- it's
3 the cost --
4 THE CHAIRPERSON: So it's a two (2) --
5 the -- the ten (10) year rate is based on the
6 incremental amounts starting in -- starting in 2016.
7 Is that --
8 MR. PATRICK BOWMAN: Right. So in
9 2019, if -- if it's all been applied at ten (10) -- ten
10 (10) years, you're --
11 THE CHAIRPERSON: I see.
12 MR. PATRICK BOWMAN: -- amortizing the
13 last year of the 2009 spending --
14 THE CHAIRPERSON: Right.
15 MR. PATRICK BOWMAN: -- as well as the
16 2010, and '11, and '12. So that's why it -- this never
17 builds a bit, is as your ramp up the program it takes a
18 while to get the -- to the full level.
19 THE CHAIRPERSON: The next question is
20 on page -- slide 36 rather and in reference to the
21 first bullet. I'm sorry. Yeah, the -- under two (2)
22 options today and then you've got the second option
23 which is adopt new regulatory red -- rate to capitalize
24 costs consistent with full cost accounting.
25 So could you -- could you explain that

one, please?

MR. PATRICK BOWMAN: Yes. The issue there is to what extent might Hydro need to be able to point to the overhead that was capitalized as regulatory overhead. And the comment there is -- you know, the -- the way that this overhead accounting tends to work is that an entity will track costs towards overheads and then that -- and they'll go into an overhead account which will then be applied against all of the projects.

And especially something like a -- like I gave the example of stores, at times when they're doing something very specifically, like if they're -- they're handling a -- items that are -- that are absolutely for one (1) capital project, and they may book their time directly to that project. More often they're just -- they're just a -- a function within the utility.

And at the end of the day you're going to -- at the end of the year you're going to have a certain amount that -- that stores cost. And you'll say, this portion will be on my income statement and this portion I'm going to capitalize. And if that portion is only being capitalized pursuant to a decision of this PUB, for example, Hydro may -- may

1 feel, or -- or may decide with its auditors it needs to
2 be able to point to the -- the parts that are
3 capitalized only because this pew -- few be directing
4 them to.
5 In which case, they -- they need to not
6 have one (1) overhead rate, they may have two (2). The
7 may have two (2), the overhead rate that they're
8 allowed to apply under IFRS, and the extra overhead
9 rate that they applied only because this Board told
10 them to. In which case, you could -- you'd come up
11 with a number, but I -- I just wanted to give an idea
12 of the scale there. And the scale is around 60
13 million.
14 And on the -- the scale of Hydro's
15 capital program, that would be like adding 2 to 5
16 percent onto projects, which -- which is a way you'd
17 sort of add overhead to projects as a -- a type of
18 adder onto the capital.
19 THE CHAIRPERSON: And the reference to
20 PUB-driven verification, could you explain that one?
21 MR. PATRICK BOWMAN: Yes, this was in
22 material that we submitted. And I'm trying to remember
23 whether it was in -- in an IR, or whether it was in the
24 -- the pre-filed testimony. But one (1) of the things
25 that the Ontario Energy Board does is it has the

1 overheads that are capitalized by utilities,
2 particularly Ontario hydro companies, reviewed for the
3 Board by a third party that verifies that, yes, you're
4 -- you're capitalizing all the things you should have
5 and -- and not the things you shouldn't have.
6 And there -- those reports are available
7 online. I believe the Black & Veatch did a study one
8 (1) year. And they provided a -- a verification report
9 to the Board so that you can -- you can see the types
10 of -- of categories and that they're doing it properly.
11 And -- and I -- I will dig up that reference, Mr.
12 Chairman, whether it's in an IR that we answered or in
13 -- or in the evidence. I -- I don't have it at my
14 fingertips.
15 THE CHAIRPERSON: Those are all my
16 questions. Thank you very much. Sorry, Mrs. -- Ms.
17 Lee.
18
19 (BRIEF PAUSE)
20
21 CONTINUED BY MR. ANTOINE HACAULT:
22 MR. ANTOINE HACAULT: Yes, Ms. Lee,
23 could you begin with your --
24 MS. PATRICIA LEE: Yes, sir.
25 MR. ANTOINE HACAULT: -- presentation?

1 MS. PATRICIA LEE: Yes, sir. Good
2 afternoon, members of the Board and Mr. Chairman. I
3 want to spend a few minutes this afternoon with you, I
4 know you've had a big lunch, but hopefully this won't
5 be very painful, and talk to you about an issue that's
6 been raised in this case. And that is changing
7 procedurally to the implementation of equal life group
8 depreciation.
9 I was retained by the Coalition and
10 MIPUG to look at this issue and advise them of the
11 various pros and cons of ELG and the pros and cons of
12 how MIPUG is implementing it. In participation, I
13 declared that it is my duty to provide evidence in
14 relation to this proceeding, to provide opinion
15 evidence that is fair, objective, and nonpartisan, to
16 provide opinion evidence that is related only to
17 matters that are within my area of expertise, and to
18 provide such additional assistance as the Public
19 Utilities Board may reasonably require to determine an
20 issue.
21 I am here to help you. So if you have
22 any questions, just ask as we go through this. I'll be
23 glad to answer them or try my best to answer them.
24 On slide 3, under the scope of my
25 review, I have reviewed Appendix 5.6, 11.49, Appendix

1 5.7, the transcript from the 2012/'13 and '13/'14 GRA
2 with Larry Kennedy specifically for December the 18th,
3 2012, and December the 19th, 2012, and January the 4th
4 to Jan -- 2013. I also reviewed the transcript from
5 the 2014/'15 and 2015/'16 GRA specifically for Larry
6 Kennedy on June 11th and 12th of 2015.
7 Slide 4. I'm going to talk a few
8 minutes this afternoon on a series of things. The
9 first thing, that my esteemed colleague has already
10 touched on. That's -- that's salvage removal. I'm
11 going to talk about the depreciation reserve imbalance
12 and how to correct that.
13 Many utilities have regulatory books
14 that differ from financial reporting, is that a
15 problem? Componentization, that seems to be a big
16 issue. I want to talk to you a little bit about
17 componentization and -- and what should be done or some
18 options that have been -- to you, and also to the
19 Company.
20 Excuse me. Average service life with
21 reser -- reserve true-up provides a better precision
22 than ELG, and that is with the componentization.
23 Manitoba Hydro's equal life groups are a direct
24 function of the curve shape that is supplied. ELG
25 increases expenses up front.

1 Yes, theoretically, in the later years,
2 your ELG expenses will go below your ASL expenses.
3 Excuse me. But in a growing account and growing
4 company, as long as you have that growth, your ELG
5 expenses will always exceed those of ASL.
6 Slide 5. The observation that utilities
7 generally do not dismantle major generation sites upon
8 retirement of the initial facilities, but rather re-
9 purpose or retrofit the facilities. We've seen this
10 specifically in Florida.
11 We did set aside a reserve for what I
12 call dismantlement of fossil fuel plants. What has
13 happened since that time was companies are
14 retrofitting. They are changing out the generation
15 from steam, for example, to gas.
16 They are building on the same site. You
17 are not returning to greenfield. You are not totally
18 dismantling. You will have interim retirements.
19 And there's no guarantee that the money
20 that's set aside for dismantlement will actually be
21 used for dismantling. Why? Unless it is a funded
22 reserve, it's nothing more than depreciation expense,
23 which is internally generated funds and which can be
24 used for anything from salary increases to any other
25 option open to the company that is legal.

1 Slide 6. Net salvage removal. The
2 question is: Is Hydro doing this for the benefit of
3 ratepayers, or because it's required? I heard two (2)
4 different answers on this.
5 At one (1) point I heard, Well, we're
6 doing this because it will offset what we recognize as
7 an increase in depreciation expense because of
8 implementing ELG. On the same side, I heard, Well,
9 we're doing this because IFRS requires it.
10 If -- if it is a requirement of IFRS,
11 that doesn't mean it has to be a requirement for
12 regulatory purposes. I have always been a firm
13 believer that regulatory does what regulatory needs to
14 do for the benefit of the ratepayers, not because
15 international accounting standards or federal
16 accounting standards tell you, you have to.
17 Companies where I am from, they keep --
18 maintain two (2) separate books. It is not a problem.
19 Do they complain? Yes, they do, but then they do it,
20 and it -- it's never been a problem. Telephone
21 companies did it, electric companies are doing it.
22 You do have the asset retirement -- yes,
23 ma'am?
24 MS. MARILYN KAPITANY: Can I just ask -
25 - you say it's not a problem. Do you have any sense

1 from the companies you've worked with of what the
2 additional cost is of keeping that extra set of books
3 for this purpose?
4 MS. PATRICIA LEE: I certainly don't,
5 ma'am. I can tell you that when I say it's not a
6 problem, when our Commission has -- has dictated or has
7 ordered that a regulator -- a regulated company do
8 something that may differ from financial reporting, the
9 company does not come back and say, No, we can't do it,
10 or, No, it's going to cost us more money than it's
11 worth.
12 Now, they may come out -- they -- they
13 come up with a solution, if you will, all right? They
14 may call it something different, but there's a way to
15 work around it. That's been my experience.
16 Again, asset reach -- removal obligation
17 is where there is a legal requirement. It was a legal
18 requirement like nuclear decommissioning. Is there
19 legal requirement that you have to do certain things
20 with the fuel rods and the contamination on site? And
21 they will have to return those sites to greenfield
22 status. That is an asset retirement obligation.
23 My understanding is that it's just as
24 much required under IFRS as under regulatory at the
25 time being, and so that would stay. There doesn't seem

1 to be an argument about that.

2 Slide 7. This is probably one (1) of my

3 favourite things to talk about, depreciation imba --

4 imbalances. You can have -- and -- and I'm sure you're

5 aware, you can have reserve deficiencies and you can

6 have reserve surplus. What do these mean?

7 A reserve surplus means that your lives

8 in the past were too short based on what you are

9 estimating today. You're estimating that the lives

10 today are much longer, or longer than they have been in

11 the past.

12 Does that mean your estimates were

13 wrong? That means based on the information you have

14 today, it's telling you that the lives are longer. It

15 doesn't mean that there was any conniving going on, you

16 know, the last time. It just means this is a fact.

17 Lives today are longer.

18 What does a reserve deficiency mean?

19 It's just the opposite. Lives today are forecast to be

20 shorter than they have in the past, which means you

21 have to catch up. You have not depreciated enough so

22 far.

23 In a surplus, your depreciation, you

24 have over -- pardon me. I don't like that term, 'over-

25 depreciated', but you have depreciated more than you

1 need to as of this point in time, therefore
2 depreciation expense does not need to be as aggressive
3 on a going-forward basis as maybe it would need if you
4 were playing catch-up mode and you were in a reserve
5 deficiency situation.
6 A point in case, back in the 1980s, with
7 -- it may have been later than that. It was later than
8 that. The telecommunications industry. They had a
9 huge monumental reserve deficiency. They were being
10 faced with the advents of competition. They were being
11 faced with technological changes. Very fast. Very
12 fast paced.
13 There were many accounts that had
14 actually negative reserves. That tells you what bad
15 shape they were in. They needed a more aggressive form
16 of depreciation. They needed to get their books
17 cleaned up. So the FCC and state commissions
18 nationwide were looking for alternatives to
19 depreciation to help them out.
20 Slide 8. We've talked -- I've touched
21 on this a little bit, and that's the two (2) sets of
22 books. All I can tell you is this is done by many
23 utilities in the States, and I have not heard any
24 utility to come back to -- whether it's my commission,
25 and I haven't heard from it from any other state, where

1 a utility has come back and said, We just cannot do
2 this. It is just too cost prohibitive to keep two (2)
3 sets of books.
4 Slide 9. This is another favourite
5 subject of mine, and that has to do with
6 componentization. And you've heard a lot about
7 componentization. Manitoba Hydro has said that IFRS
8 requires additional componentization. I will say that
9 componentization is good.
10 If you have an account, or a grouping
11 where you have significant investment that is going to
12 live different from the rest of the investment, then
13 you as a company should be withdrawing that and
14 treating it as a separate group. I believe that the
15 generators and -- are mixed in with your turbines. I
16 think that was pointed out by Manitoba Hydro, where you
17 have a good deal of investment that's live -- living --
18 let's say seventy-five (75) years of good deal of
19 investment that's living sixty (60) years -- I -- I'm
20 sorry, fifty (50) years.
21 That difference -- they should be
22 pulling those pieces out. Whether or not you're using
23 ELG, whether or not anything else, that's good business
24 practice. That's good depreciation. You need to be
25 separating those -- those pieces out. That is your

1 componentization. I call it subcategorization.
2 I believe that it is the Company's
3 responsibility to ensure that accounts contain assets
4 that have homogeneous life characteristics. What do I
5 mean by that? If it's thirty (30), thirty-five (35)
6 years, forty (40), forty-five (45) years, that's
7 homogeneous in my -- in my mind. Thirty-five (35)
8 versus seventy-five (75) years, that's not homogeneous.
9 There needs to be a separation there.
10 Slide 10. But anytime you do
11 componentization or sub-categorization you need to ask
12 yourself the question: Is there enough investment with
13 a sufficiently different life to warrant separate
14 treatment? Because every time you establish separate
15 sub-accounts or sub -- or componentize is going to cost
16 the utility money to do that, to track those
17 investments separately, so you want to make sure that
18 it's worthwhile.
19 Componentization should be done where it
20 makes sense, where components in the same category are
21 mismatched. Identification of the individual
22 components and expected lives provides more accurate
23 depreciation, gives you more accurate lives, more
24 accurate depreciation rates. If IFRS is -- is saying
25 that you must be more accurate in your determination of

1 depreciation lives and rates, this is one (1) way to do
2 it, and that is to componentize. I will maintain
3 though that componentization is something that every
4 utility should be doing on a day-to-day basis anyway.
5 Slide 11.
6
7 (BRIEF PAUSE)
8
9 MS. PATRICIA LEE: Pardon me. ELG and
10 ASL, under either one of these approaches -- and I
11 think Manitoba Hydro has agreed to this. Under either
12 approach your total depreciation expense will be the
13 same at the end of life. Both approaches will provide
14 100 percent recovery by the end of life; it's just a
15 matter of how you get there.
16 Even -- even when you select a curve
17 shape that is based on judgment, and it could be the
18 best judgment in the world, but you are guaranteed that
19 your plant is not ever going to retire precisely in
20 accord with those projections, it's the nature of the
21 beast.
22 So the difference is in the timing of
23 the recovery. As you've heard, ASL, or average service
24 life, is based on averages. Equal life group, or ELG,
25 it subdivides each vintage into what it calls subgroups

1 all having the same life.

2 In an account with continued investment

3 the ELG rate and expenses will always be greater than

4 your ASL rate and expenses. In an account with

5 decreasing investment, where you're having loss of

6 retirements and the investment is actually decreasing,

7 your ELG rate and expenses decreases and will

8 eventually be less than your average service life rate

9 and expenses.

10 Under either approach, ASL or ELG, it is

11 important, if you want to ensure full recovery, you

12 need to have the appropriate life estimates under each

13 -- either approach.

14 Slide 12. Let's talk a minute about the

15 background on ELG. And again, I -- I'm sure you've

16 heard some of this. It was purely academic prior to

17 the 1980s. You've read about it in books, but nobody

18 had even ventured to -- to implement it. It was first

19 adopted in the telecom industry in the United States.

20 And it was adopted in part to improve the capital

21 recovery in these telecommunications companies that

22 were affected by competition and technological change

23 outs.

24 But once the Federal Communications

25 Commission approved equal life group methodology the

1 telephone industry came back and said: Oh my goodness,
2 we can't implement this, it is too difficult. We are
3 going to have to keep separate rates for each vintage.
4 We've got to come up with an easier solution.
5 MR. ANTOINE HACAULT: Could you take a
6 moment just to explain? When you say, "vintage," that
7 doesn't mean too much to me. I don't really understand
8 for each separate vintage. If you have a dam or some
9 life group that's got a hundred and twenty-five (125)
10 years, what does 'each vintage' mean in that context,
11 or even in poles?
12 What does it mean? MS. PATRICIA LEE:
13 In some cases, it would mean that I'm vintaged. In
14 other cases -- vintage is the year, and 2015 is a
15 vintage. This would be the -- any additions that are
16 made in 2015 would be to the 2015 vintage. Additions
17 made to the 2004 -- to 2014 would be to the 2014
18 vintage. That's what that means.
19 So what the FCC, the Federal
20 Communications Commission did when the telephone
21 industry came in and said, We cannot implement this
22 even though it's a great idea, and even though those
23 were the rates that they asked for, they just couldn't
24 do it. And so the FCC said, Well, we'll make it
25 easier. We'll do one (1) composite rate.

1 So what you were doing is was you were
2 going from a -- a procedure that was, yes,
3 mathematically, 100 percent correct, and in theory,
4 would ensure probably a better recovery than any other
5 procedure out there, but only if you maintained the
6 certain data and you had rates -- your depreciation
7 rates were established for every single vint -- ELG
8 group for every vintage.
9 Think about it for just a minute, and
10 you would soon realize how many rates you could be
11 talking about. I mean, they would just compound.
12 That's why the telecommunication industry said, Oh, we
13 cannot do this. We cannot keep up with this many
14 rates. And that is also why the FCC has said, We'll
15 make it -- going to make it easier. We're going to
16 collapse all of that and make it one (1) rate.
17 So now you're back to one (1) rate
18 again. Everybody is happy. But you've lost some of
19 that purity of ELG.
20 Slide 13. As we've -- I've already
21 talked about, theoretically, under ELG, each vintage,
22 like 2014, is divided into subgroups or equal life
23 groups based on a common life expectation. Your equal
24 life group at age -- and a half year would live one (1)
25 year. Your ELG group at age one (1) and a half, two

1 (2) years, with the idea being that each of those equal
2 life groups would be fully depreciated, fully recovered
3 at the end of their life.
4 Wonderful idea. Wonderful concept. The
5 -- yes, the theoretical application of ELG better
6 matches consumption with capital than does the
7 application of ASL, as each equal life group is
8 recovered during a specific period of service. But as
9 we've talked about, theoretical ELG is not practical to
10 implement, and in some cases, it may be even impossible
11 to implement.
12 Slide 14. The proper application of the
13 equal life group requires a significant amount of data
14 and adjustments. You need detailed vintage activity
15 data. What does that mean? It means that I know for
16 this piece of equipment, it was installed in this year
17 and it was retired in that year. So I know the age at
18 which that piece of equipment retired from service.
19 That is what detailed vintage activity data means.
20 And it is needed to properly determine
21 the curve. Some -- in some cases, you don't have
22 enough retirement activity. Your -- your data can be
23 great, but you haven't had sufficient retirements
24 occurring which to draw any conclusions as to a curve.
25 That is when you might rely -- you might go and talk to

1 engineers. You might rely on a little bit of judgment
2 to come up with a curve, but the data is not there.
3 It requires separate and regular
4 monitoring of each vintage, both to additions,
5 retirements, disposals, and the reserve level. Why the
6 reserve level at the vin -- at the vintage level?
7 Well, think about it. If I'm sit -- if I am so
8 concerned with accuracy to the point where I want to
9 implement this procedure, that means I am establishing
10 conceptually depreciation rates for every vintage, then
11 I want to monitor the recovery of that vintage, don't
12 I?
13 I want to know that those sub-groups or
14 those equal life groups are actually recovering in the
15 nature or in the method or in the -- in the time period
16 as established. The only way you can do that is if you
17 have the vintage data to monitor that. And that also
18 means the reserve.
19 Why the reserve? Because if I am off
20 with my estimates, if my equal life group does not live
21 -- just one (1) equal life group does not live in
22 accord with that curve shape or my expectations, I'm
23 going to have a reserve balance.
24 It may be a -- a reserve surplus, it may
25 be a reserve deficiency, but it will be an imbalance.

1 And under ELG, you need to be mindful of that, and you
2 need to be correcting that.
3 That is why the Federal Communications
4 Commission set up what called an annual update. It
5 didn't mean that things were going to change. It just
6 meant that the -- the companies had to come in and show
7 what was happening with their equal life groups. Were
8 things still on track? Did there need to be an
9 adjustment to the reserve or to the lives?
10 Slide 15. Now, let's talk a little bit
11 about Manitoba Hydro's use of ELG. I think -- this is
12 my opinion, but I believe that Hydro is using a hybrid
13 version of ELG, not the -- what I could call the
14 academic version of ELG. It's a hybrid version.
15 Is that bad? You know, it depends.
16 It's not -- to me, it's not the academic version, so
17 it's not the pure, theoretically, 'I'm the best thing
18 since sliced bread' version. But this is the version
19 of ELG and this is an approach that they find workable,
20 that they can implement. But let's recognize it for
21 what it is.
22 Hydro's existing asset base is assumed
23 to contain items with varying lives, which they have
24 said it does.
25 And that's one (1) of the things that

1 Hydro has said that is a problem with average service
2 life because average service life by its name deals
3 with averages. ELG, you have your little groups, and
4 each one has its own life.
5 There is -- I think that there has been
6 the comment made that for some accounts that they have
7 where -- where they have disparate lives, accounts with
8 a disparate lives, I think it was in one (1) -- one (1)
9 of the IRs, and it was asked to talk -- to compare an
10 average service life with ELG on the last rate case.
11 And one (1) of the groupings they had
12 was -- they talked about turbines and gener --
13 generators. And they had differing lives. And they
14 talked about, with ELG, it didn't matter. They can
15 keep those two (2) together. They can keep that
16 account together. ELG recognizes that. There's no
17 problem with ELG.
18 That concerns me, frankly, because if
19 you -- I will go back again. The reason you have
20 categorization, or you should have cat --
21 categorization or componentization or however you want
22 to call it, if you have disparate lives, you should be
23 pulling that investment out and depreciating it over
24 its life, okay?
25 You're mixing apples and oranges

1 together and you're throwing a curve shape on it and
2 you're saying, This curve shape is going to take care
3 of all those inconsistencies. I can't tell you it
4 does.
5 MR. ANTOINE HACAULT: Just on that
6 idea's, Mr. Visual again, there's been a diagram drawn
7 by hand that's the last page of MIPUG-13.
8
9 (BRIEF PAUSE)
10
11 MR. ANTOINE HACAULT: Okay.
12
13 (BRIEF PAUSE)
14
15 MR. ANTOINE HACAULT: And I really
16 don't care who tries to explain this visual, either Mr.
17 Bowman or Ms. Lee, but could you explain when you're
18 commenting of your views of the need to create
19 subgroups for different assets where it makes sense to
20 do that? What this diagram is trying to illustrate?
21 MS. HELGA VAN IDERSTINE: Sorry, Mr.
22 Chair, could we have some clarification as to who
23 produced that diagram?
24
25 (BRIEF PAUSE)

1 MR. PATRICK BOWMAN: Mr. Chairman, it
2 was a joint effort. We have differing art skills, but
3 -- but it -- it's part of the material that was entered
4 as a MIPUG exhibit to keep things easy but it's -- it's
5 part of the material the MIPUG and the Coalition will
6 be dealing with.
7 MR. ANTOINE HACAULT: And, Mr. Bowman,
8 could you explain when it says, "Derivation of Iowa
9 Curve" -- "Curves Example," what you're -- what the art
10 skills are trying to depict?
11 MR. PATRICK BOWMAN: I -- I can explain
12 what was drawn. It might fall to Ms. Lee to explain
13 the principle behind it. But as you can appreciate by
14 the art skills, it's not intended to show precision. I
15 hope no one is asking for the -- the formula behind the
16 curve, but the premise is exactly as laid out in -- in
17 the evidence of Mr. Kennedy.
18 When you draw something called an Iowa
19 curve you have a frequency distribution of retirements
20 of a unit, and in the top of the page you will see that
21 at a -- pick a -- pick a type of -- of asset and at a
22 given age the height of the line will tell you what
23 percentage of that will retire. And the idea being
24 that, in this case, the -- the generators in this
25 example have a shorter life, and so they -- they peak

1 earlier.

2 They have a high rate of retirement

3 earlier, and the turbines peak later. And if each were

4 its own group what you would carry down, the way an

5 Iowa curve works, is the highest point of the -- of the

6 frequency graph above becomes the steepest part of the

7 curve down below, which is telling you the percent

8 surviving, right.

9 And so the blue and the green graph were

10 -- were transposed over there, and I can tell you why

11 we -- we sketched on the dotted lines according to Ms.

12 Lee's direction to show the -- the steepest part of the

13 blue and the green. The problem becomes when one tries

14 to say, Oh, well we can -- we can merge these. We'll -

15 - we'll just put -- put them together and show the --

16 the two (2) as one (1) category.

17 And -- and up above -- and as I say it's

18 a -- it's an artwork limitation. If you were doing

19 this properly it -- it would be a little bit more

20 confusing because the area under each of the graphs

21 above should sum to the same area, even including the

22 black one. But to make things easy it was added on top

23 so that you can see the -- the two (2) hump version of

24 the -- of the -- in the top part of it in terms of the

25 -- the frequency of retirements.

1 And when you carry that down you end up
2 with the two (2) humped Iowa curve, which if one is
3 seeking for precision you can draw one Iowa curve
4 through it but -- but the whole concept of the
5 precision is -- is lost, and it was -- it was just a
6 point that Ms. Lee -- I -- I take credit for the art
7 and, I'm sorry, Ms. Lee will take credit for the theory
8 that -- that you can't -- you can't hide bad
9 componentization in an ELG method. Componentization
10 still needs to be done properly, and then you can
11 decide on the method.
12 But as -- as I said, Ms. Lee will speak
13 to the -- the theory behind that.
14 MS. PATRICIA LEE: And that's a very
15 good point. Componentization is the key. You need it
16 regardless of what procedure you use, whether it's ASL
17 or whether it's ELG. Componentization should come
18 first, then the procedure. That's a very good point.
19 And all this -- this illustration shows you is that
20 this is definitely an account that should have been
21 separated out, separated into the two (2) -- two (2)
22 various pieces.
23 Doing ELG is just selecting a curve
24 shape, a smooth Iowa curve shape to put -- to place
25 over the data. It's hard to say -- I have difficulties

1 in saying that, that curve shape that is selected
2 recognizes those disparate categories. I'm sure it
3 does.
4 But I don't know that you've gained any
5 accuracy from that. To me, you can get more accuracy
6 by saying: I know 'X' dollars in that investment or in
7 that account is going to have a seventy-five (75) year
8 life. I know 'Y' dollars is going to have a thirty-
9 five (35) year life.
10 The Company knows that.
11 THE CHAIRPERSON: My recollection of
12 the -- of the testimony of Mr. Kennedy, and perhaps he
13 can -- he's here to grimace if I -- if I interpreted
14 what he said in an incorrect fashion, but basically he
15 said, you know, the population of some of these
16 elements is too small, we combine -- that's why we
17 combine them together.
18 So to -- and this is your point, I
19 think. You're saying they shouldn't be combined
20 together. Yet if you start from the premise that we
21 don't have enough dams, what's wrong with putting them
22 together with the other elements?
23 MS. PATRICIA LEE: I'm not sure I
24 understood your question.
25 THE CHAIRPERSON: Well, the question

1 I'm making is that you're suggesting that these two (2)
2 should be broken out. And we heard --
3 MS. PATRICIA LEE: Correct.
4 THE CHAIRPERSON: We hear from another
5 -- we heard from the expert, Mr. Kennedy, that the
6 reason that he grouped these two (2) together is
7 because the population of one (1) of these elements was
8 too small. And so you're saying: Let's break them
9 together. Let's break them apart. Let's have a
10 different subgroup for one (1) element and have a
11 different subgroup of the other element, so there's a
12 choice that has to be made.
13 You can't argue -- you know, you have to
14 have enough evidence, and yet -- you know, and that's
15 the point you're making?
16 MS. PATRICIA LEE: Absolutely.
17 Absolutely. And I'm not sure -- I don't have it in
18 front of me, but I believe the investment in both of
19 these pieces were -- was, like, in the millions of
20 dollars. It was, like, a 50 percent portion in one (1)
21 and a 50 percent portion in the other, but it was
22 almost -- I think it was, like, $500 million.
23 MR. PATRICK BOWMAN: Mr. Chairman, Ms.
24 Lee -- it may have been me that mentioned that to Ms.
25 Lee. That -- my recollection of the transcript was

that the re -- at least the replacement cost side, turbines and generators, are each about a $2 billion category.

MS. PATRICIA LEE: Oh.

MR. PATRICK BOWMAN: But that's replacement. Now, book value would be different. But we're not -- it's not like, you know, you have dams and waterways. Do you break out 'danger, fast water' signs from the dam? They probably last shorter, but is it significant? No. But turbines and generators are not one (1) of the categories I would think that would lead to that conclusion.

MS. PATRICIA LEE: But the answer to your question, and when you have small amounts of investments like that, you're right, you would combine them.

(BRIEF PAUSE)

MS. PATRICIA LEE: Continuing with slide 15, the last bullet there. Looking at Hydro's data has speci -- specifically, excuse me, in generation accounts, many accounts, they don't show sufficient retirements to rely on for determining a curve. And what I mean by that is the retirements have

1 been very, very small in number. Less than 1 percent
2 of the account balance has retired.
3 In some cases, that is, you know, more
4 than 90 percent of the investment is still surviving.
5 It's real hard to draw a curve based on that few
6 retirements. And that's why I'm saying that, in those
7 cases, it's hard to come up -- it's difficult to come
8 up with a retirement pattern now. I believe that
9 Manitoba Hydro has said in those cases they have used
10 judgment to help them come up with a future retirement
11 pattern. The data certainly does not help you there.
12 Slide 16. This is the dams, dikes, and
13 weirs. And as I was alluding to, you'll notice that
14 there's seventy (70) -- over 90 percent surviving
15 there. That is your -- your actual data. And then you
16 can see the Iowa curve that's been applied to that.
17 With that data there's a number of
18 curves that you -- that you could apply. I'm not
19 saying that their choice of 125-R4 is wrong. I'm not
20 saying it's right either. What I am suggesting is
21 there are a number of curves that -- that can fit that
22 data just because there isn't enough there to do much
23 with.
24 Slide 17. Oh, yes. Can we go back to
25 slide 16? Mr. Bowman pointed out to me --

1 CONTINUED BY MR. ANTOINE HACAULT:
2 MR. ANTOINE HACAULT: If you'll bring
3 up Exhibit MIPUG-13, there's the actual --
4 MS. PATRICIA LEE: It shows the actual
5 retirements.
6 MR. ANTOINE HACAULT: -- that -- that
7 corresponds to the curve and the explanation of what
8 was retired related to that data. So it starts on page
9 2.
10 MS. PATRICIA LEE: Page 2 is the three
11 (3) -- is the curve, I'm sorry. And page 3 and 4 is
12 the data. This is from the 2010 study.
13 MR. PATRICK BOWMAN: If I can help, Mr.
14 Chairman, the -- the exhibit -- this was Exhibit MIPUG-
15 13, and it was handed out in paper. And unfortunately,
16 this may be one that's a little bit easier on paper
17 than on the screen because it's a bit of putting your
18 finger in one (1) place, putting your finger in the
19 other, if you like.
20 I don't know if you have it in front of
21 you on paper, but perhaps Diana can do split screen
22 magic for us or something. But what this attachment
23 has is it has an excerpt from the attachment to Mr.
24 Kennedy's study.
25 The first few pages are from the 2010

1 study, and the second few pages are from the 2014
2 study, and they're both for the same category which is
3 dams, dikes, and weirs.
4 And you'll see that, if -- if you have
5 this, you'll find that there's two (2) cur -- two (2)
6 curves, one (1) at the -- page 2 and one (1) at page 6.
7 They're the same curve. The 125-R4 is used for this
8 category.
9 But if you flip to the second and third
10 and fourth page of that excerpt, you'll find that the
11 size of the category was 508 million in the 2010 study,
12 and it is now 550 million. That was additions to dams,
13 dikes, and weirs.
14 I -- I presume that's Wuskwatim-type
15 additions, but -- and you'll see a column down the
16 middle that is mostly blank which is the actual
17 retirements Hydro has experienced on that category.
18 And just to -- for people who aren't
19 following the paper, Diana, if you can bring up page 7,
20 for example, of that exhibit. That's perfect. You'll
21 see that in terms of any dam, dike, and weir asset, no
22 asset has ever been retired that was less than twenty
23 (20) years old.
24 Of the subset of dams, dikes, and weirs
25 that made it to twenty (20) years old, there's a total

1 of 459 million of assets in that subset. And of that,
2 one (1) retirement occurred that was worth fourteen
3 thousand dollars ($14,000).
4 If we scroll down the page, and you'll
5 see the blanks, blanks, blanks. The next retirement
6 you'll actually see in Hydro's data is at fifty-four
7 and a half (54 1/2) on the next page.
8 So -- so no -- no component of a dam,
9 dike, and weir has ever been retired at age forty (40)
10 or at age forty-one (41) or at age forty-two (42).
11 Never been recorded in this data set. There was one
12 (1) piece recorded when -- that was fifty-four (54)
13 years old, okay, and it was a hundred and ninety-two
14 thousand (192,000).
15 Of course, a lot of our stuff has never
16 made it to fifty-four (54) years old. So if you look
17 at the left-hand side, you'll see only 17 million ever
18 made it to fifty-four (54) years old. That's a much
19 smaller sample set, and of that, a hundred and ninety-
20 two (192) was retired.
21 And if you want to check -- do it for
22 diligence, you'll -- you can flip back and forth
23 between the two (2) studies. You can see that the
24 retirement history is identical between the two (2)
25 studies. Nothing in the last four (4) years has been

1 retired from the category of dams, dikes, and weirs.
2 They haven't recorded a single retirement.
3 And the last piece that we put into that
4 is at page 11 of that exhibit, which was an IR from the
5 current hearing where you'll see a number of
6 retirements at age intervals.
7 And this one, other than that eighteen
8 thousand dollar ($18,000) one that was hanging out
9 there at twenty (20) years old, this will tell you
10 everything Hydro has ever recorded as a retirement in
11 their books on dams, dikes, and weirs. The -- the
12 numbers correspond to that.
13 And you can see that there is age of the
14 asset at the time it was retired, how much was retired,
15 what plant it was from, what year it was retired, when
16 it was installed, and -- and you can see the -- the
17 book value on it.
18 And the interesting part in this is the
19 year retired. And it tells you that Hydro has never
20 recorded a retirement out of all of its dams, dikes,
21 and weirs for any component, any asset in its dams,
22 dikes, and weirs since 1990. Back in 1990 they retired
23 some concrete and structural steel overflow at Great
24 Falls.
25 So I have a $550 million investment.

1 How long does it last. This is the sum total of
2 Hydro's data about how long those things last, in terms
3 of what's actually been recorded. So that -- this is
4 the reason that we -- we dug out these IRs for -- for
5 Ms. Lee's benefit and that she could -- she could
6 review that and -- and put this -- this exhibit
7 together.
8 So -- and -- and --
9 THE CHAIRPERSON: You're not arguing
10 that this data was inappropriately handled, were you?
11 I mean, you're not arguing that the technique was
12 inappropriately used, or -- you're simply arguing, I
13 think, that the restricted amount of data makes this
14 curve speculative.
15 Is that what you're arguing, or?
16 MS. PATRICIA LEE: It makes it
17 questionable, I would say. Now, I'm -- I'm not saying
18 it's wrong, okay. I don't know whether it's right or
19 wrong. I'm suggesting that this data indicates that
20 there is more information that's needed. Now, I think
21 Manitoba Hydro will say that's where they used judgment
22 in coming up with that curve shape.
23 And, you know, I have no reason to -- to
24 doubt that they -- that they did. What I am suggesting
25 is that when you apply an ELG procedure on this type of

1 -- of data I don't know that you're getting the
2 accuracy that the procedure claims, or that they claim
3 would be a result of this procedure. That's all I'm
4 saying.
5 MR. PATRICK BOWMAN: Mr. Chairman, if I
6 might add, from a -- from a capital planning and
7 capital management perspective more than a depreciation
8 perspective, I -- I think it's pretty simple to
9 conclude that if you look at the CEF and the scale of
10 spending on sustainable capital, even over the last
11 twenty-five (25) years, since 1990, Hydro will have
12 been doing a lot of ongoing capital work on dams,
13 dikes, and weirs. And -- and this is a big category.
14 Your -- your generating stations are
15 broken up into like eight (8) or nine (9) components.
16 This is a big category. It catches a lot of things.
17 And it's been could have done a lot of -- a lot of
18 capital projects over the years. If you can pull out
19 any CEF from any period in there and you'll see lots of
20 capital projects. If you're properly recording your
21 asset base, a lot of those projects would have some
22 component of retirement associated with it.
23 I -- I think this data doesn't seem to
24 be -- at first blush, at least, look like a complete
25 set of data for assets that have been managed even --

1 even recently in terms of keeping track of -- of
2 retirements. And I'll -- I'll just -- I'll leave it at
3 that. Reg -- regardless of its use in a depreciation
4 study, it -- it raises questions about the -- the
5 suggestion of precision that comes from ELG if this is
6 the input.
7 MS. PATRICIA LEE: And Mr. Bowman's
8 absolutely correct. Looking at this data one would
9 ask, Why aren't there more retirements. Is it because
10 they -- in some cases I have found that they have
11 actually -- companies have actually expensed the cost
12 of retirement. They don't even book the retirement.
13 Is that the case with Manitoba, I don't
14 know. But, yeah, it's -- it raises a flag. You have
15 to wonder, Why aren't there anymore retirements than
16 there are? I mean, you're talking, you know, there
17 hasn't been a retirement in twenty (20) some years.
18 It's kind of curious.
19
20 (BRIEF PAUSE)
21
22 MS. PATRICIA LEE: Can we go back to
23 slide 15. I just wanted to talk -- I just wanted to
24 make one (1) other point here and that's on the last --
25 the last bullet and it also has to do with the picture

1 that you just saw.
2 The curve shape -- your selection of
3 curve shape with have a material impact on ELG. More
4 so than average service life. Why is that? You don't
5 necessarily need a curve shape when you're using the
6 average service life proced -- technique, procedure,
7 method, however you want to say it.
8 With ELG, you do have to have a curve
9 shape. That curve shape is your projection of how that
10 plant is going to retire in the future. That has a big
11 par -- plays a big part in coming up with your life and
12 your rate. Why is that? Because the curve shape
13 magically divides every one of those vintages into the
14 equal life groups, and those equal life groups are
15 dependent on that curve. That's why it becomes so
16 critical.
17 Slide 16. Seve -- let's move to
18 seventeen (17).
19
20 (BRIEF PAUSE)
21
22 MS. PATRICIA LEE: Issues with Hydro's
23 use of ELG. Better accounts for cost of today's
24 ratepayers so tomorrow's rate payers are not burdened.
25 I don't know that that's necessarily true. I will pose

1 that, you know, again, as long as you're in a growing
2 account, a growing industry, a growing company, ELG
3 expenses will not decrease below your average service
4 life expenses. That is one (1) reason why Florida --
5 the Florida Commission would not approve equal life
6 group.
7 Slide 18. Why not ELG? ELG increases
8 costs up front. Now, the argument and counter-argument
9 to that was -- is, But that's -- it may increase the
10 costs up front, but it's their fair -- it's those --
11 it's those ratepayers' fair portion for those increased
12 costs.
13 MS. MARILYN KAPITANY: Can I just ask
14 you a question?
15 MS. PATRICIA LEE: Yes, ma'am?
16 MS. MARILYN KAPITANY: We heard
17 evidence from Manitoba Hydro last week that even with
18 large capital investments, whether you change to ELG or
19 stay with ASL and do further componentization, that the
20 increase in depreciation expense would be approximately
21 $36 million. So that sounds to me like what we're
22 concerned about is the depreciation expense, because
23 that translates into rates to ratepayers.
24 MS. PATRICIA LEE: M-hm.
25 MS. MARILYN KAPITANY: If those two (2)

are going to be grosso modo, the same, then I don't understand your concern that it -- that ELG increases costs up front.

MS. PATRICIA LEE: The whole theory behind ELG is your initial age for ELG will have your higher depreciation rate. It'll say that for that age, that life is one (1) year, 100 percent. It's also theoretical that for the first age, your age one half (1/2), or age one (1), will have your heavier investment. Your ung -- younger ages will be more heavily invested, greater additions, than your older ages.

Older ages will have lower depreciation rates than your younger ages. That's why it increases -- it has increased costs up front. Your -- because your younger ages, starting off with a brand new plant, you will have increased depreciation expenses right off the bat. I think there's an example in my direct -- in my testimony on that. Let me see if I can find that.

MS. MARILYN KAPITANY: Just while we -- you're looking for that, so we're going into in a -- a period of large capital investment --

MS. PATRICIA LEE: Yes.

MS. MARILYN KAPITANY: -- and so we're going to have new assets --

1 MS. PATRICIA LEE: M-hm.
2 MS. MARILYN KAPITANY: -- so I don't
3 understand your argument then of whether it's a new or
4 an old asset. Could you explain to me --
5 MS. PATRICIA LEE: Your old asset --
6 MS. MARILYN KAPITANY: -- why the
7 depreciation expense would go up the same amount under
8 both of these two (2) methods of depreciation?
9 MS. PATRICIA LEE: Your -- as your
10 asset ages, your deprecation rate under ELG will
11 decrease. That is a fact. Your older -- the older
12 plant, your depreciation rate for ELG will decrease,
13 okay? If you are continuing to make additions, those
14 additions are coming in. Brand new age. Very new.
15 They will have a much higher depreciation rate.
16
17 CONTINUED BY MR. ANTOINE HACAULT:
18 MR. ANTOINE HACAULT: There's --
19 MS. PATRICIA LEE: They will be
20 depreciated over a shorter period of time, those
21 groups, those subgroups.
22 MR. ANTOINE HACAULT: If we go to
23 Volume VI of PUB book of documents? Can you bring that
24 up, Diana, and page 164, which is MIPUG/Manitoba Hydro
25 interrogatory, and scroll down to Wuskwatim, which is

one (1)of the newer dams? And could you do a split screen so we see the titles at the top?

(BRIEF PAUSE)

MR. ANTOINE HACAULT: If we go to the tables on the extreme right-hand and look at the heading, "2014/'15 ASL rate with no net salvage." And the ELG also has no net salvage. Would this assist, Ms. Lee, in looking, for example, at dams, dikes, and weirs?

What's the depreciation rate under ASL as compared to ELG for this new dam?

MS. PATRICIA LEE: Yes. And you would see that the ELG rate is .87 percent, if I'm reading this correctly. And under, "Average service life," the rate is .82 percent. Well, that's for a -- a different period of time, 2014/2015.

(BRIEF PAUSE)

MS. PATRICIA LEE: Okay. All right. The -- the 2014/'15, Mr. Bowman just told me, is -- your ASL rate without net salvage is .82 percent. And then '15/'16 is the policy change to ELG, which then

1 becomes .87 percent.

2 THE CHAIRPERSON: But isn't the

3 appropriate comparison is approved ASL rate against the

4 approved ELG rate without net salvage? You know,

5 ignore the net salvage column. If you compare the net

6 -- approved ASL rate and the approved ELG rate, you're

7 getting point nine-one (.91) and point eight-seven

8 (.87)?

9 MR. PATRICK BOWMAN: Mr. Chairman, the

10 point nine-one (.91) includes salvage, so the -- you're

11 -- you're -- the -- you're -- the -- we're mixing two

12 (2) changes there. The difference between the point

13 eight (.8) -- nine-one (.91) and the point eight-two

14 (.82) is the removal of salvage, which is point nine

15 (.9), approximately 10 percent, if you look through the

16 studies.

17 So if you want compare apples to apples,

18 it's the .82 and the --

19 MS. PATRICIA LEE: Point eight (.8) --

20 MR. PATRICK BOWMAN: -- the point

21 eight-seven (.87). And -- and I would just note, Board

22 member Kapitany, the -- your question started with the

23 -- the evidence that you've been told about ELG versus

24 ASL with more components. And if -- if I can -- it was

25 -- it was in the middle of the question rather than the

end. And I just want to make sure Ms. Lee had a chance to -- to deal with that, but it's -- it's the -- the false choice, I believe, that's being put forward.

Components and deciding what things go together is a step before one decides grouping and a method for depreciation. If -- if two (2) things should be in two (2) different components -- if turbine and generation be in different components, they need to be in different components. Then you apply an ASL or ELG rate.

This idea that, if it's ELG, I can -- I can hide all that in a rate, but if it's ASL, I can't, is -- is the false choice that was -- was why I had to use my artwork skills to try to -- to help make the point, as Ms. -- Ms. Lee was presenting to us.

CONTINUED BY MR. ANTOINE HACAULT:

MR. ANTOINE HACAULT: Now, if we just go to page 160 of that same book of documents, we get -- if we go to -- I was just looking for an older plant, such as Pointe du Bois, for example.

(BRIEF PAUSE)

MR. ANTOINE HACAULT: Now, if we go to

1 the column, "2014/'15 ASL rate with no net salvage,"
2 which is the apples-to-apples com -- comparison to ELG
3 rate, which also has no salvage, the Board will note
4 that the -- by the time that plant is now -- it expire
5 -- expected to retire by 2050. It was installed in
6 1910, I think, was the record. So we have a plant
7 that's over a hundred years old, and by the time we
8 reach that age, we see for that plant that we've got
9 the same depreciation rate for the older plant.
10 MR. PATRICK BOWMAN: I -- I think, Mr.
11 Hacault, this underlines the point that Pointe du Bois
12 should be in the -- the payoff years when you put in
13 the ELG. We're in the back end, where ratepayers get
14 the benefit except, oh gosh, we have done some work on
15 dams, dikes, and weirs, so we actually have a whole
16 bunch of ten (10) year old assets there as well, and we
17 have some -- some ten (10) year old powerhouse assets,
18 or -- or the like, and those are being depreciated at
19 the -- the high end of ELG.
20 So do we ever see the benefit of -- the
21 ELG turns around and gets cheaper for anybody? No,
22 because even on a small reinvestment, much less a
23 growing utility, the -- the -- this is the turnaround.
24 This is -- this is the big win we play for by -- by
25 taking it on the chin up front so that the people down

1 the road can have the benefit.
2 I -- I do note that there is a benefit
3 in the spillway which, in one (1) case, is amortized at
4 seventy-three point five-seven (73.57) and the other
5 case at seventy-three point three-seven (73.37), so --
6 so but -- but for -- for having used the ASL rate, we
7 could be a point two (.2) lower.
8 MR. ANTOINE HACAULT: Does that answer
9 the questions of the panel with respect to --
10 MR. RICHARD BEL: I have -- I have a --
11 I want to go back to Ms. Kapitany's question. What
12 Hydro, Ms. Bauerlein, testified about was, if I can
13 recall it, that if Hydro was -- or if she was to move
14 to ASL under IFRS, they would componentization to a
15 greater degree subcomponents. Once that was done, and
16 we turned Hydro loose on ASL, the depreciation expense
17 would not materially differ. So that's the question, I
18 think, that we would like you guys to address.
19 MR. ANTOINE HACAULT: And -- and that
20 is addressed in one (1) of the last slides. It's slide
21 22, which talks about Appendix 11.49, which was that
22 study which was the subject of cross-examination by
23 Board counsel going through whether or not the samples
24 chosen to do an extrapolation were appropriate samples.
25

1 And these witnesses may have comments on
2 the reliability of the extrapolation with the choices
3 that were made by Manitoba Hydro in trying to do an
4 extrapolation as opposed to a full study.
5 THE CHAIRPERSON: I think it's probably
6 an appropriate time to take a break. We've been at it
7 for close to -- over -- well over an hour and a half,
8 so let's take a -- a ten (10) minute break, and we'll
9 be back to finish up the presentation.
10
11 --- Upon recessing at 2:20 p.m.
12 --- Upon resuming at 2:36 p.m.
13
14 THE CHAIRPERSON: I believe that we're
15 ready to resume the proceedings. Manitoba Hydro has
16 some undertakings it wants to -- to have recognized so,
17 Ms. Van Iderstine, please.
18 MS. HELGA VAN IDERSTINE: Thank you.
19 Just have to find some papers, here. We have again
20 managed to come up with a few more undertakings to resp
21 -- to submit as exhibits. So if I may, Manitoba
22 undertaking number 53:
23 "Manitoba Hydro to file -- file the
24 values that feed into the spreadsheet of
25 export value marginal values."

1 That will be Manitoba Hydro Exhibit 124,
2 and that is a confidential exhibit.
3
4 --- EXHIBIT NO. MH-124: Response to Undertaking 53
5
6 MS. HELGA VAN IDERSTINE: Manitoba
7 Hydro Undertaking number 62:
8 "Manitoba Hydro to provide a
9 breakdown between the Winnipeg
10 population for Neighbours Helping
11 Neighbours and the rural population
12 for 2012/'13 and 2013/'14 year."
13 And that's Manitoba Hydro Exhibit number
14 125.
15
16 --- EXHIBIT NO. MH-125: Response to Undertaking 62
17
18 MS. HELGA VAN IDERSTINE: Manitoba
19 Hydro undertaking number 63:
20 "Manitoba Hydro to provide the
21 calculations upon which the grid
22 parity presentation slide was
23 prepared, including the sources that
24 were relied upon in its preparation."
25 And that is Manitoba Hydro Exhibit

1 number 126.

2

3 --- EXHIBIT NO. MH-126: Response to Undertaking 63

4

5 MS. HELGA VAN IDERSTINE: And that

6 brings me to the end of this set of exhibits. Thank

7 you.

8 Oh, sorry, one (1) thing, I guess. Mr.

9 Simonsen's reminded me that we'll also be filing a book

10 of documents in preparation for the cross-examination,

11 and that will be Manitoba Hydro Exhibit 122. Thank

12 you.

13

14 --- EXHIBIT NO. MH-122: Book of documents

15

16 CONTINUED BY MR. ANTOINE HACAULT:

17 MR. ANTOINE HACAULT: So I think we've

18 got just a clean -- just a little cleanup point, and

19 then we'll try and address -- or I'll ask them to

20 address your questions with respect to the

21 extrapolation work that was done in Appendix 11.9 --

22 49.

23 So firstly, I think you have something

24 to address, Mr. Bowman?

25 MR. PATRICK BOWMAN: Yes, thank you.

1 Mr. Chair, let me give you a bit of a roadmap about the
2 different things we -- we need to get through here,
3 maybe as much to help me as you coming back after that
4 break.
5 The first is just a -- a cleanup point
6 I'll touch on. The second is you had comments -- or
7 questions about the studies that have been filed, or
8 the assertions that had been filed about ELG versus ASL
9 with more componentization costing the same. And --
10 and we'd look to deal with that in -- in two (2) parts,
11 each of which will require some documents, one (1) of
12 which deals with basically the incorrect premise of
13 this -- of that analysis, and the second deals with the
14 analysis of -- of -- the incorrect analysis in that --
15 in that work.
16 And -- and each of these will -- we'll
17 work our way through them. So first, my cleanup point
18 is going back, Mr. Chairman, you had asked me about
19 overhead accounting and the Ontario Energy Board in
20 regards to overhead accounting. And I have been able
21 to confirm it's in the response to PUB/MIPUG-9. We
22 have a reference to the work of the Ontario Energy
23 Board in regards to Hydro One networks.
24 And annually, they have an independent
25 third-party verification prepared by, in this case it

1 was Black & Veatch. There's a footnote that has the
2 reference links to the studies for two (2) consecutive
3 years that were prepared, and the premise of the study
4 is whether Hydro One has properly applied full cost
5 accounting in respect of those departments that have
6 shared functions between operating and capital. And
7 you can -- you can review it at your -- at your
8 leisure, if that's the right word.
9 The second was in regards to the
10 question that Ms. Kapitany raised about materials that
11 have been prepared to indicate to the Board that were
12 an ELG method with less componentization compared to an
13 ASL method with more componentization, you'd come out
14 with effectively the same cost.
15 And our understanding of that, the key
16 piece is Appendix 11-49, which was worked on to respond
17 to a PUB directive. But first, if we can go to -- and
18 -- and we can do this on the screen, I hope, the
19 response to MIPUG/MH-I-17(a). And this is to deal with
20 -- before we get to the study, which is trying to save,
21 you know, two (2) roads that Hydro could go down, this
22 is the question of, What does componentization mean in
23 the first instance, to what level do you need to do it
24 in order to meet whether it's an accounting or a
25 regulatory standard?

1 This references accounting standards.
2 The regulatory may be different. But we've got some
3 comments that -- that Ms. Lee will make on the -- the
4 materials that were submitted in -- in her reading of
5 them and then we'll go to the mathematics, and that
6 will be the fun part, if I can amuse some people in the
7 room.
8 So with that, this -- this response, I
9 think you probably want to scroll to the top of the
10 second -- this is into the second page. So I'll just
11 let you know this is a question asked by MIPUG.
12 The question was:
13 "Provide the relevant references and
14 excerpts from the more specific IFRS
15 standards and the CGAAP standards
16 mentioned regarding depreciation at
17 page 5."
18 And the -- the reference was how come --
19 was there regressive componentization? So at the top
20 there, you'll see it says, "Excerpts from IAS 16,
21 property, plant, and equipment."
22 MR. ANTOINE HACAULT: And, Ms. Lee,
23 could you address this issue of componentization again
24 with respect to generators and turbines? What causes
25 your recommendation that something should be

1 componentized?

2 Is it the significance of the group and

3 the difference in lives, or is it the data points that

4 you have with respect to retirements?

5 When do you decide to merge two (2)

6 together or separate them?

7 MS. PATRICIA LEE: Yes. I -- I want to

8 make sure I was clear on that point. In your

9 componentization or subcategories, you are going to

10 subcategorize significant investments within the group

11 that have differing lives.

12 For example, the turbines and

13 generators, they're in one (1) account. But yet they

14 both have extremely significant investment, and they

15 have differing lives. I think one (1) is seven (7) --

16 one (1) group is seventy-five (75) and the other group

17 is fifty (50) -- forty-five (45), fifty (50), something

18 like that.

19 Differing lives, significant

20 investments, those two (2) pieces, if you will, should

21 be subcategorized regardless of what method you are

22 using, regardless of what pro -- procedure you're

23 using. That's where you get into the accuracy of your

24 depreciation regardless of your procedure.

25 You need to subcategorize those -- those

1 pieces, but that is significant investment that have
2 differing lives, not necessarily the data points on the
3 graph, which shows minimal historical retirements.
4 It's based on the significant investment in an account
5 that has differing lives, significantly different lives
6 from one another.
7 Now, to Ms. Kapitany's question, on
8 MIPUG/MH-I-17(a), I wanted to -- this is the IAS 16
9 property, plant, and -- and equipment. If you go down
10 to -- if you look at paragraph 44 there, just starting
11 there, you see where it says:
12 "For example, it may be appropriate
13 to depreciate separately the air
14 frame and engines of an aircraft,
15 whether owned or subject to financial
16 lease."
17 They're recognizing that there are going
18 to be piece parts that should be depreciated
19 separately. They are recognizing componentization
20 right off the bat. Regardless of the method, they are
21 -- or procedure, they are recognizing componentization
22 may be needed.
23 It also says at paragraph 45, it says:
24 "A significant part of the item of
25 property, plant, and equipment may

1 have a useful life, any depreciation
2 method that are the same as the
3 useful life and the depreciation
4 method of another significant part of
5 that same item. Such parts may be
6 grouped together."
7 Signi -- you would have a significant
8 part of an item, the lives are signi -- are relatively
9 the same, maybe twenty (20) and twenty-five (25) years.
10 It's okay to group those together.
11 What they are saying, at least my
12 interpretation of what they are saying, if you have one
13 (1) piece that's thirty-five (35) years and one (1)
14 piece that's seventy-five (75) years, they should be
15 componentized. They should be subcategorized.
16 If we go on down -- I'm sorry. My --
17 oops, went too fast.
18
19 (BRIEF PAUSE)
20
21 MS. PATRICIA LEE: With regard to the
22 second part of that page, depreciation unit of measure,
23 let's see -- okay. The part that's underlined, maybe:
24 "Of particular concern to the Board
25 were the situations in which the unit

1 of measure is the item as a whole,
2 even though that item may be composed
3 of significant parts with
4 individually varying useful lives or
5 consumption patterns. The Board did
6 not believe that in those situations,
7 an entity's use of approximation
8 techniques such as the weighted
9 average useful life for the item as a
10 whole resulted in a depreciation that
11 faithfully represents an entity's
12 varying expectations for the
13 significant parts."
14 I'm not an accountant and I really can't
15 -- can't tell you what this means because I'm not
16 really sure. But what it means to me is that any
17 approximately technique which would be -- which ELG is
18 an approximation technique. You know, how can you
19 apply that if you have situations where you have a
20 grouping or an account that has varying different
21 lives?
22 Again, what -- what does this do? It
23 brings you right back to you should be componentizing
24 first regardless of what procedure. You can -- you can
25 decide, okay, we're going to -- we're going to accept

1 the ELG procedure; that's fine, but you need to be
2 componentizing first, and then decide the procedure.
3 If -- if you have -- I can't say this
4 enough, and I -- I apologize upfront for sounding like
5 a broken record. But if you have significant pieces of
6 investment in that account that have different lives,
7 if you want accurate depreciation, you need to separate
8 those.
9 MR. PATRICK BOWMAN: I -- I guess the -
10 - the only addition in terms of comment is -- is when
11 you now take these principles and you apply them to the
12 next place we're going, which is Appendix 11.49, the
13 standards, and Ms. Lee will speak more to regulatory
14 standards than to accounting standards, but the
15 standards which are the same as what I've run across is
16 that you need to apply a level of componentization and
17 that it's not dependent on the method you choose. You
18 can't -- you can't hide that componentization in the
19 method that you choose.
20 Now, having said that, you go to
21 Appendix 11.49, which is a strug -- study premised on
22 the idea that you can do ELG with less categories
23 versus ASL with more categories, okay.
24 MS. MARILYN KAPITANY: Mr. Bowman, can
25 I just ask? We heard last week from Ms. Hooper that

she and her group have just spent five (5) years componentizing. So I'm missing something somewhere where you say you have to componentize first, and then choose your method of depreciation?

MR. PATRICK BOWMAN: Ms. Kapitany, you -- you and me both in a certain level because we're sitting here with a massive investment with a huge amount of new things being built. If I need more components, I can -- I can -- you tell what the money in Keeyask is being spent on.

Yeah, it might be really difficult to go back to records of -- of say Slave Falls which was brought over from Winnipeg Hydro which was built in 1934 and you try to do something. But if people have put their work into componentizing, that work is of the same value and the same relevance whether you're using ELG and ASL.

And if you've done the work to -- to meet test 1, which we were just reading, was -- wasn't about ELG and ASL, it was about how componentized do you need to be. And you've met a test, you've met a test, right?

So, you know, I'll -- I'll jump ahead to the footnote to -- or the conclusion of where we're going, which is I'm not in meetings with Hydro's

1 auditors. You're -- you're probably not in meetings
2 with Hydro's auditors. Certainly Ms. Lee is not in
3 meetings with Hydro's aud... And it could be that in
4 meetings with Hydro's auditors somehow between --
5 between the two (2) of them they've -- they've
6 convinced themselves that they can do ELG one (1) way,
7 but they got to ASL and they've got to do more
8 categories, and that's possible.
9 It's not what I read out of the
10 standard, but -- but it's possible that that's the
11 conclusion they've come to. But --
12 MS. MARILYN KAPITANY: I asked the
13 question about whether their auditor had given an
14 opinion on whether they should go with one (1) method
15 or another. And they said, No, that that wasn't the
16 job of the auditor. That they had not given that
17 opinion.
18 MR. PATRICK BOWMAN: I -- I guess back
19 to the -- I can't comment. My -- my comment is this
20 high degree of caution about tail wagging the dog. An
21 auditor and a firm will have to get together and do
22 some reporting on the financial and -- and fiscal and
23 regulatory realities that the firm faces. And those
24 regulatory realities will be posed by people like this
25 Board who act prospectively in advance of selling power

1 to set the price, and the rules would be associated
2 with that.
3 And so, you know, if -- if they have a
4 problem that arises on the back-end then as a result of
5 you applying the Public Utilities Act, I'm not sure how
6 we make that our problem in the first instance in terms
7 of the tail and the dog problem.
8 But let's go through Appendix 11.49 and
9 show you why we're -- we're also concerned that the
10 componentization is not only a standard and theoretical
11 mouse game, it may also be a mathematical mouse game.
12 MS. PATRICIA LEE: If we -- if we look
13 at Appendix 11.49, 3-9 maybe.
14 MR. PATRICK BOWMAN: The -- the page
15 we're looking for, it's going to be near the back, but
16 I think there's about three (3) different page
17 numberings in the appendix, so it's -- it's landscape
18 tables are very small numbers near the end. And once
19 you get there you'll see a 3-7 --
20 MS. PATRICIA LEE: Yes.
21 MR. PATRICK BOWMAN: -- 3-8, 3-9 --
22 MS. PATRICIA LEE: Yes, no.
23 MR. PATRICK BOWMAN: -- there you are.
24 MS. PATRICIA LEE: Down at the bottom,
25 the Keeyask, turbines and generators. Right -- right

1 there.

2 MR. PATRICK BOWMAN: So if -- if you're

3 following on the screen, it's the -- the last two (2)

4 rows. This is apart of the Keeyask -- this is just --

5 to pick one (1) example that we went to because we were

6 talking about turbines and generators. It's an

7 assumption of a category that has $559 million of

8 investment, 50 percent turbines and 50 percent

9 generators, if you're looking under the forecast

10 capital additions category.

11 If you move a little bit to the right,

12 it lists the estimated service life at seventy-five

13 (75) years for turbines and fifty (50) years for

14 generators. It has a lifespan date of sixty-five (65),

15 a survivor curve of S-3, and then as you move on out to

16 the right it's going to show you a calculation of an

17 ELG rate and an ASL rate.

18 MS. PATRICIA LEE: And the ELG rate is

19 one point six-five (1.65), but then it goes onto the

20 ASL which the lives have changed. The lifespan is

21 seventy-five (75) years for turbines, and forty-five

22 (45) years rather than the fifty (50) years for the

23 generators. And that gives you an ASL rate of two

24 point zero (2.0).

25 Why did it change? I don't know the

1 answer to that.

2 MR. PATRICK BOWMAN: And -- and why did

3 we conclude that a category made up of half --

4 MS. PATRICIA LEE: M-hm.

5 MR. PATRICK BOWMAN: -- of generators

6 less forty-five (45) years and half of turbines that

7 last seventy-five (75) years can be combined into an

8 ELG rate that we do over sixty-five (65) years. If

9 you're doing the arithmetic in your head, it -- it's

10 not even close to the mean much less weighted for the

11 shorter life -- life assets, which is the whole

12 premise.

13 MS. PATRICIA LEE: Yes, and it seems

14 that ISAB 14 says that you should sub --

15 subcomponentize those two (2) groups. I know as a --

16 as a depreciation person, I would. As a regulator, I

17 would. But that's -- those are our concerns with

18 eleven-four-nine (11.49).

19

20 CONTINUED BY MR. ANTOINE HACAULT:

21 MR. ANTOINE HACAULT: Are you able to

22 say, Ms. Lee, with certainty based on an extrapolation

23 method chosen that the extrapolation method would lead

24 to the same result as a proper comparison which was

25 directed by the Board? A full comparison.

1 MS. PATRICIA LEE: I can't say one way
2 or the other. I can tell you my instincts are that it
3 would be different if it was a -- if it was a full
4 study, but I can't say that for sure.
5 MR. ANTOINE HACAULT: And why do you
6 say your instincts say it would lead to a different
7 result?
8 MS. PATRICIA LEE: Because I have dealt
9 with ELG for at least thirty (30) years. And in all
10 instances, your ELG rates, if you're in a growing
11 account -- a growing company, growing utility, ELG
12 expenses will be higher than ASL.
13 THE CHAIRPERSON: Ms. Lee, you -- you
14 indicated earlier that the Public Service Commission in
15 -- in Florida does not allow ELG for depreciation for
16 rate setting?
17 MS. PATRICIA LEE: That is correct.
18 THE CHAIRPERSON: Okay. So -- so the -
19 - the reference you've made about your experience with
20 ELG is in relation to companies using ELG for their
21 financial reporting? Is that --
22 MS. PATRICIA LEE: That -- yes, because
23 many of our companies in Florida, quite a few of them,
24 will use ELG for financial reporting purposes.
25 THE CHAIRPERSON: Okay. And then they

1 -- and then the -- the Public Service Commission does
2 not allow it for rate setting purposes.
3 MS. PATRICIA LEE: That's exactly
4 right.
5 THE CHAIRPERSON: Okay. Now, are there
6 other jurisdictions in the United States where the
7 regulator allows ELG?
8 MS. PATRICIA LEE: I'm sure there are,
9 yes.
10 THE CHAIRPERSON: You're sure -- you're
11 not sure where they are though? You're not sure --
12 MS. PATRICIA LEE: No, I'm not positive
13 but I do know that, yes, there are some regulated
14 companies that use ELG for regulatory purposes.
15
16 (BRIEF PAUSE)
17
18 CONTINUED BY MR. ANTOINE HACAULT:
19 MR. ANTOINE HACAULT: I think before we
20 got into eleven point four-nine (11.49) and to try to
21 answer the Board's questions, we were around slide 18.
22 Could you, please, continue your presentation, Ms. Lee?
23 MS. PATRICIA LEE: I think we have
24 started with slide 18, why not ELG. It increases your
25 upfront costs. You will continue, as I said before,

1 with continued investment. You'll never have that
2 crossover where the expenses and the rates go down.
3 And if it's precision that IFRS is requiring, it's my
4 belief that average service life does it better than
5 ELG.
6 ELG rates are based on judgments that
7 have large impact -- larger impacts compared to the
8 ASL. And again, this goes back to the
9 componentization. Which comes first, the chicken or the
10 egg? Componentization comes first, then you would
11 apply whatever procedure you -- you feel is
12 appropriate, whether that's ELG, ASL, average remaining
13 life. But to say that ELG is precise without the
14 componentization, I think is a false assertion.
15 Slide 19. ELG -- it's a fact ELG will
16 increase cashflow. And as Mr. Bowman has said, you
17 can't hide bad componentization with the ELG procedure.
18 It's there. If you don't componentize -- it's -- it's
19 going to be there regardless and ELG isn't going to
20 solve that problem.
21 The ELG mechanics of proper vintages, it
22 needs to be tracked. Reliance on any given curve life
23 combinations of signed vintages into equal life groups.
24 It is a -- it is a process of curve shape. You come up
25 with the curve shape and life pattern, and whatever

1 that is, you apply it to that account. It will give
2 you the equal life groups. It does it within their
3 program.
4 Are those equal life groups correct?
5 They're correct based on the curve shape and the life
6 pattern that you've selected. So it comes back to are
7 those comp -- are that -- is that life pattern and
8 compon -- life pattern and curve shape correct.
9 Your effect on life mis-estimates, yes,
10 they are amplified under ELG. You can say, Well, isn't
11 that true under any procedure and the answer is yet --
12 yes. Our job is to be as accurate as we possibly can.
13 It's that ELG, because of its very nature, everything
14 is a little more heightened.
15 Slide 20. Appropriate depreciation
16 approach. You want to be looking at, I would think, a
17 matching costs with benefits, avoiding, you know,
18 generational equity issues, transparency, quality of
19 data, and the industry standard. The industry standard
20 is still ASL.
21 Avoiding intergenerational equity
22 issues, and this is again, my -- my opinion, Manitoba
23 Hydro is supplying ELG to all vintages. It's doing it
24 to the embedded plant. By doing that you are assuming
25 that ELG had always been the procedure of choice, they

1 had always done -- always used that. So you are
2 creating some intergenerational inequity by that
3 assumption.
4 Slide 21. ASL versus ELG. You can see
5 matching costs with benefits. ASL, yes, with a resu --
6 reserve true-up. You will match cost with benefits.
7 ELG, based on Hydro's application I'm not really sure.
8 I do know that ELG is impractical to implement. I can
9 tell you that the theoretical piece of ELG or the
10 academic version of ELG, yes, it would match costs with
11 benefits.
12 But again, that was impractical to
13 implement. Avoiding intergenerational iss -- issues --
14 equity issues, pardon me. ASL, yes, it will avoid them
15 with a reserve true-up. Under any procedure you're
16 going to need that reserve true-up for any mis-
17 estimates of life. Does that mean they were wrong, no
18 it just means you know more today than you did
19 yesterday.
20 But ELG -- by applying ELG to embedded
21 investments, to me, creates intergenerational issue --
22 intergenerational issues. And again, if your
23 retirements don't actually match your curve shape, you
24 will have a reserve imbalance.
25 Transparency with ASL is the same rate

1 applied to every vintage. That's what makes ASL --
2 that's why -- why people liked it, why they still like
3 it, because it's easy to implement and it's the same
4 rate applied to every vintage.
5 For ELG, it is a composite rate based on
6 a selected curve shape. It's elected life combination,
7 and it's applied to your account.
8 Quality of data. Average service life
9 technique does not require mortality curve shapes.
10 That doesn't mean they can't be used, it's just not
11 critical for the ASL procedure. It is critical and it
12 is necessary for ELG.
13 Slide 22. This is Appendix 11.49 which
14 is the conclusion that IFRS compliant ASL and ELG rates
15 will result in a similar increase. I can't say that
16 for certain. What I can tell you is that 11.49 seems
17 to be amas -- well, I won't say that.
18 I'm not sure that it gives you a fair
19 representation. There are groups that will not need to
20 be componentized under ASL. What happens then? What
21 is your ASL rate versus your ELG rate? It -- that
22 doesn't -- that's not shown there.
23 Without a full ASL IFRS-compliant study,
24 I don't know what the impact would be. I can't tell
25 you that with certainty.

1 THE CHAIRPERSON: Now, Ms. Lee, I just
2 have a few statements here that I'd like to question
3 you about. And I guess the first one is you concluded
4 that the -- that Manitoba Hydro had done a selective
5 analysis. How did you -- how did you come to that
6 conclusion, that they had done a selective analysis?
7 MS. PATRICIA LEE: Based on -- based on
8 what I found in 11.49, and let me bring that up again.
9
10 (BRIEF PAUSE)
11
12 MS. PATRICIA LEE: Because basically,
13 Manitoba Hydro selected the accounts to show the
14 componentization, the additional componentization they
15 would need. To me, that doesn't show you the full
16 picture. In other words, the accounts that did not
17 need additional componentization, what do those look
18 like? You don't know. You don't know.
19 I look at this and, for example, if I
20 look at the step-up trans -- the electric power systems
21 at Keeyask, that's only $13 million. But the lives are
22 quite different. One's forty (40) and one's fifty-five
23 (55). Is that significant? How significant is the $13
24 million?
25 These are all questions that I would ask

1 at the front end as far as componentization. And I
2 think what this shows you is these things should be
3 componentized regardless of what procedure you're
4 using.
5 THE CHAIRPERSON: Okay. So your point
6 is that we should have done a more complete analysis,
7 not that they picked -- by -- by its nature, if you're
8 doing a partial analysis, you're going to be selective.
9 MS. PATRICIA LEE: Right. It does --
10 THE CHAIRPERSON: Okay.
11 MS. PATRICIA LEE: -- correct.
12 THE CHAIRPERSON: Okay.
13 MS. PATRICIA LEE: Correct.
14 THE CHAIRPERSON: I just wanted to
15 confirm that point because --
16 MR. PATRICK BOWMAN: Yeah.
17 THE CHAIRPERSON: -- it is conveying
18 very strong mentions that in my opinion should have
19 been tempered a little bit. But in any case, let's --
20 let's look at the second point. And this is your
21 central thesis. Fundamentally, you're saying that
22 really, to be able to compare apples to apples,
23 Manitoba Hydro --
24 MS. PATRICIA LEE: Any --
25 THE CHAIRPERSON: -- should have done a

1 full -- full review. Okay.

2 MS. PATRICIA LEE: Correct.

3 THE CHAIRPERSON: Okay. There's a --

4 there's another statement which I'd like to ask you

5 about.

6 MS. PATRICIA LEE: Sure.

7 THE CHAIRPERSON: And this is on the

8 slide 18.

9 MS. PATRICIA LEE: Yes, sir.

10 THE CHAIRPERSON: Okay. The last

11 bullet talks about a false assertion of precision.

12 Wouldn't it have been better to say questionable

13 assertion of precision or doubtful assertion of

14 precision rather than false, which is pretty strong?

15 MS. PATRICIA LEE: You're probably

16 right, Mr. Chair.

17 THE CHAIRPERSON: I do want a question

18 about -- and -- and this is -- in -- in Florida, I

19 would imagine that you regulate on a rate base of

20 return?

21 MS. PATRICIA LEE: Correct.

22 THE CHAIRPERSON: So you don't use cost

23 of service in Florida?

24 MS. PATRICIA LEE: We do use cost of

25 service.

1 THE CHAIRPERSON: Which -- which kind
2 of utilities?
3 MS. PATRICIA LEE: For all of them --
4 THE CHAIRPERSON: Okay.
5 MS. PATRICIA LEE: -- is a cost of
6 service.
7 THE CHAIRPERSON: Could you talk about
8 -- enlighten me about the impact of lower depreciation
9 costs from ASL on the impact on the -- on the return on
10 rate base? So in other words, if you calculate lower
11 expenditures for depreciation, that would have a
12 corresponding effect on the rate base of return,
13 wouldn't it?
14 I mean, you would -- you would then be
15 using lower depreciation on the rate base, which would
16 mean a higher return on equity?
17 MS. PATRICIA LEE: Correct.
18 THE CHAIRPERSON: Okay. So -- so
19 utilities in Florida may not like the fact that you're
20 setting rates using ASL, but then they gain from having
21 a higher depreciation on the rate base?
22 MS. PATRICIA LEE: Would you say that
23 again? I'm sorry.
24 THE CHAIRPERSON: I'm simply making a
25 point that, because depreciation -- lower depreciation

1 --

2 MS. PATRICIA LEE: Right.

3 THE CHAIRPERSON: -- has an impact on

4 operating expenses --

5 MS. PATRICIA LEE: Yes.

6 THE CHAIRPERSON: -- it would also have

7 an impact on the rate base --

8 MS. PATRICIA LEE: Yes.

9 THE CHAIRPERSON: -- because your

10 depreciation cost would be lower, which would mean your

11 rate would be higher, wouldn't it?

12 MS. PATRICIA LEE: Your depreciation

13 expenses, what -- your overall expenses would be lower.

14 THE CHAIRPERSON: Yeah.

15 MS. PATRICIA LEE: Yes.

16 THE CHAIRPERSON: So --

17 MS. PATRICIA LEE: Yes.

18 THE CHAIRPERSON: -- so

19 correspondingly, you'd get a higher return on equity?

20 MS. PATRICIA LEE: Correct.

21 THE CHAIRPERSON: Okay, so -- so

22 utilities in Florida, I mean, they may not like the

23 fact that you're using ASL, but they -- they also like

24 the fact they're getting a better return on equity?

25 MS. PATRICIA LEE: In Florida --

1 Florida prescribes average remaining life rates with
2 reserve corrections. Florida, at one (1) time, did use
3 average service life rates, what I would call modified
4 remaining life, which was the average service life
5 rates with a reserve correction that's modified. But
6 currently, they use average remaining life rates, not
7 ASL.
8 And, yes, the depreciation expenses in
9 Florida have been decreasing. Let me just add this,
10 Mr. Chair. And that is, in Florida, which is a little
11 bit different than here, depreciation studies -- the
12 outcomes of depreciation studies aren't always tied to
13 a revenue rate case. Companies by rule are required to
14 file within such -- such a time period. I think
15 electric's four (4) years. Gas companies have to file
16 every five (5) years. That's with or without a revenue
17 rate case that they have to file a depreciation study,
18 and the commission will act on that.
19 THE CHAIRPERSON: Now, just to confirm,
20 you know, my understanding is that in the US
21 jurisdiction, IFRS is not used. You don't use IFRS
22 reporting standards in US jurisdictions?
23 MS. PATRICIA LEE: It is my
24 understanding that companies are going through IFRS.
25 There are some things that they are going to be

1 implementing. I can't tell you specifically what
2 parts. They are still looking at that. I think that
3 by and large, the companies -- at least the Florida
4 companies are holding out hopes that IFRS will change.
5 THE CHAIRPERSON: No, I'm simply making
6 the point that you have not been exposed to IFRS before
7 --
8 MS. PATRICIA LEE: That is correct.
9 THE CHAIRPERSON: -- you came to this
10 jurisdiction? Okay, so -- so I'm a little -- little
11 bit unfair to ask you to comment on the IFRS
12 provisions, because you haven't been exposed to that in
13 the US --
14 MS. PATRICIA LEE: That is correct. I
15 am not.
16 THE CHAIRPERSON: -- in -- in the US
17 jur -- okay, thank you.
18
19 (BRIEF PAUSE)
20
21 THE CHAIRPERSON: Okay, the panel has
22 no further questions at the moment. I will turn the
23 microphone over to --
24 MR. ANTOINE HACAULT: Mr. Chair, the --
25 as you may have seen the slide deck, we -- we were not

1 completed Mr. Bowman's presentation. He had a couple
2 slides left. It was because it made sense to deal with
3 depreciation at that particular part of the financial
4 analysis impact. And there's a couple other subjects
5 that he was going to deal with, the DSM, and debt-
6 equity ratios, and the Curtailable Rate Program.
7 So if we could go, I believe, to slide
8 44, please?
9
10 (BRIEF PAUSE)
11
12 MR. PATRICK BOWMAN: Okay. And Mr. --
13 Mr. Chairman, slide 44 will be the last time we talk
14 about depreciation, I hope, at least in this part of
15 the presentation, or at least some people hope, I am
16 assuming.
17 But if I can just touch on one (1)
18 aspect of the arithmetic inherent on the -- the
19 discussion you just had, a -- a utility regulator on a
20 rate-base rate of return method will have a revenue
21 requirement set by adding up the various components of
22 their -- of their cost structure, right? An O&M, a
23 depreciation, a return.
24 A return will be calculated based on a -
25 - a percentage applied to debt, a percentage applied to

1 equity, right, to come up with the return? And the
2 total will be the rate -- the rating requirement to set
3 rates. Because the depreciation expense is one (1)
4 slice of that, a higher depreciation expense leads to
5 higher rates, but it doesn't necessarily change the --
6 in that year, anything within the return on equity
7 portion.
8 It may lead to a higher rate base in
9 future years, but in that year, it doesn't necessarily
10 change anything in the -- in the return and equity part
11 of that calculation, which would be a rate base times a
12 -- time -- times a -- a fair return on equity -- fair
13 cost to capital.
14 Out of that, a utility would then go
15 back to their financial books that they would report to
16 the FCC or the to the stockholders or that if you're a
17 private utility, and -- and all that statement is -- is
18 over there for the regulator, but they're actually
19 going to do things like talculate -- calculate their
20 taxes and all that, and whatever approach they --
21 they're going to use.
22 Higher rates on non-cash items means
23 higher cash generation, higher ability to pay dividend,
24 and all of those types of things, all other things
25 being equal. So higher depreciation rates can be quite

1 appealing to a private sector utility to bring up the
2 cashflow, and to bring up the ability to pay dividend,
3 and all of that.
4 All other things being equal, I'm -- I'm
5 not -- I'm not -- I don't follow the connection to
6 necessarily a higher return on equity except as the
7 idea that if I don't depreciate it this year, I have a
8 higher rate base next year I get to run a return on.
9 But in most cases that -- that wouldn't be the -- the
10 normal understanding of -- of the incentive on
11 depreciation rates.
12 The normal understanding for a private
13 sector utility would be get the depreciation rates high
14 in your revenue requirement, get higher rates, generate
15 cash, you can pay dividends. That -- that's sort of
16 the -- the incentive flow through for -- for an ELG
17 rates, and it's -- I think if you look at where it's
18 used in -- in Canada, you'll find the -- the case has
19 been most -- made most persuasively by private sector
20 utilities for leave -- leaving that outcome.
21 Now, in this last slide, which is -- was
22 meant to deal with not necessarily eleven forty-nine
23 (11.49). It's meant to deal with a different ELGA.
24 It's not reconciliation that's been put in the record.
25 And -- and, Ms. Kapitany, you may have been citing this

1 evidence rather than eleven forty-nine (11.49) when you
2 said, In Hydro's conclusion, they'd be the same, okay?
3 Because that -- that -- it's -- it's been made once or
4 twice based on different analyses.
5 This is an analysis that was done in
6 page 23 of the -- of the rebuttal evidence, and then it
7 was redone in -- in response to a -- an undertaking to
8 Board counsel in Exhibit 97, okay? And -- and it was
9 comparing an -- an ELG versus an ASL reconciliation.
10 And I -- I only go to this one because it -- it was a
11 different way in which numbers were used to show the
12 two (2) cost the same. Right.
13 And in this case, ELG and ASL were
14 applied where ELG was used for financial reporting.
15 ASL was used for regulatory reporting, a low -- and it
16 was a lower value. And the difference was carried as a
17 deferral account -- an IFRS deferral account on Hydro's
18 books.
19 And the -- the calculation at that point
20 becomes, How quickly do you amortize off that deferral
21 account? And Hydro's original piece was, Oh, well we'd
22 need to amortize it quite quickly. Ten (10) years.
23 Ten (10) years, we need to amortize that off. So if we
24 take what should have rightfully been related to
25 depreciation of long-lived assets and we try to recover

1 it really fast, look, we get the same result.
2 Board counsel appropriately asked for
3 some different way of looking at that. Like, why would
4 you do it over ten (10) years? They asked about doing
5 it over forty (40) years. And there's an exhibit
6 filed, Exhibit 97, which then says here -- How does it
7 look over forty (40) years?
8 And you'll see in that case, all of a
9 sudden we're back to the situation where -- where ELG
10 is more expensive than ASL, as Ms. Lee commented.
11 Anybody who's done this for thirty (30) years would
12 completely expect it.
13 But the concern I wanted to note on that
14 one goes back to this concept of the tail -- you know,
15 the tail and the dog, is in the instance where this
16 Board would look at the overall recommendations, which
17 is to apply an ASL no-salvage rate, componentize as
18 much far as you need to, make your case on
19 componentization. Don't tell me they have to be
20 different between the two (2), that -- it's not even
21 meaningful. Componentize the proper level and apply an
22 ASL low salvage rate and bring the Board the statements
23 on this basis.
24 There wouldn't be this debate over how -
25 - how quickly we're amortizing the difference, because

1 the difference is just the asset value. It's going to
2 be part of what the remaining value of the assets is.
3 If it's a difference on a turbine, it's going to be
4 sixty-five (65) years. If it's the difference on a
5 dam, it's going to be a hundred forty (140) years.
6 We already know that. We don't have to
7 -- it's not -- the -- the mathematics were done as if -
8 - as if, okay, you -- we'll -- we'll do our ALG over
9 here, but -- but you guys for the Board, pretend to use
10 ASL and we'll loan you the money different, and we'll
11 just debate at what -- what price you pay it back at.
12 And -- and that was -- it just turned it
13 on its head and it was, at a certain level, I think a
14 bit -- a -- a bit undermined of the -- the image of
15 this regulator as a -- as a valid body to be able to
16 make those decisions.
17 THE CHAIRPERSON: I'm sorry, I don't
18 get it.
19 MR. PATRICK BOWMAN: Well --
20 THE CHAIRPERSON: I don't get that
21 bullet. Analysis based on the view that MH convert to
22 ELG, but pretend to use ASL for the PUB and -- explain
23 that one to me.
24 MR. PATRICK BOWMAN: I -- I didn't get
25 what they were doing either, Mr. Chairman, and I wanted

1 to find a way to try to at least capture the premise.
2 But the idea is if ELG says I should have $300 million
3 of depreciation, and ASL says I should have two hundred
4 and ninety (290), I have a $10 million difference.
5 And rather than continue to produce
6 statements that say two hundred and ninety (290), and -
7 - and continue to produce those to the Board on a
8 consistent basis, the question is, what do I do with
9 the ten (10), because I've got this $10 million
10 problem? The -- I've got to produce my IFRS statements
11 that say three hundred (300). What do I do with the
12 ten (10)? You've only -- you've only allowed me to
13 depreciate ninety (90).
14 And the ten (10) becomes this deferral.
15 I'm -- I'm owed ten (10). I've already had to book
16 three hundred (300) on my statements. You've only
17 allowed ninety (90), Mr. Chairman, and so when -- when
18 am I getting my ten (10)? From -- from the Hydro
19 perspective.
20 And rather than a normal understanding
21 of what that ten (10) is, that ten (10) is assets you
22 have not yet depreciated yet, because you didn't need
23 to. In the event this Board decides ASL, that ten (10)
24 is assets you didn't depreciate yet, because you didn't
25 need to.

1 Hydro's analysis is that ten (10) is
2 money I've already depreciated and you owe me. And so
3 now, let's debate how quickly you're paying me back.
4 And then it becomes this game of, is it ten (10), is it
5 forty (40), is it whatever else. And it turn -- and
6 the other thing, that -- that turns it on the head.
7 The issue is if you consistently run a set of ASL
8 statements, just like they did in MIPUG-22(b), just
9 like they can do five (5) years from now in the next
10 study, just like they can do five (5) years from now in
11 the next study, just like they do all the way through.
12 And you apply those, you'll get exactly
13 the outcome Ms. Lee is talking about, which is a set of
14 consistent regulatory statements based on an ASL -- a -
15 - an ASL statements. IFRS will have to make the
16 decision whether they want to accept that or not, but
17 you will have a consistent set of statements that are
18 conti -- has continuity and that accounts for that
19 difference of $10 million in the asset values, in the
20 undepreciated value of assets -- value of assets it
21 amortizes over those assets, not as some lump sum that
22 we fight over the -- the amortization period.
23 The -- the final point I just would make
24 on that is, Ms. Kapitany, going back to your question,
25 I put in those quotes at the back where there was --

1 Mr. Warden was talking about these things would unfold.
2 And -- and like you, I heard the evidence that Hydro
3 had done considerable work to create more components.
4 Except, the 2014 study does not have
5 more components than the 2010 study, for the major
6 assets, at least. There -- there are no more
7 components. What I would have understood from both
8 from what Hydro says now and from what Hydro said in
9 2012 was -- was -- and -- and this is the -- the
10 comment from Mr. Warden, that in the interim period,
11 we're still using ASL. If IFRS deferred, we'll --
12 we'll put off using ALG.
13 And I'm -- I'm just read -- I'm going to
14 read in a -- a bit here which says:
15 "If we proceed down this path and
16 IFRS continues to be deferred, we
17 will continue to use ASL. And if we
18 take it to the next depreciation
19 study in five (5) years from now
20 [which means the 2014 study], in
21 fact, we will be adding more
22 componentization in order for ASL
23 rates to be compliant."
24 All right. So as you, I hear work has
25 been done. They followed the path Mr. Warden set out,

1 but the study didn't actually do that. It hasn't yet
2 included these categories.
3 It's -- I know it's entirely possible
4 those categories are just ready -- ready to exist, that
5 this work has been done. I don't know the answer. I
6 haven't seen the evidence on that. But if they are,
7 and if we switch to an ELG method and the next thing we
8 know is we have a bunch more categories, we're going to
9 end up with the aggressive method with more
10 componentization on a path we don't even see here,
11 which is ELG, more componentized.
12 And so that -- what goes in the back of
13 one's head is: Are -- are we making one (1) decision
14 in time, or are we somehow entrenching ourselves into
15 missing a window to adopt a regulatory approach that
16 can -- keeps a consistent method that's been used by
17 this jurisdiction and every other Crown on terms of
18 ASL, and -- and wait for the next shoe to drop? And --
19 and I'll -- I'll leave it at that. That was the --
20 sort of the final slide on that point.
21 And we're going to be at slide 46 now,
22 slide 40 -- 45, 46, which is getting us back into the
23 question of revenue requirement, not all the excitement
24 that comes with -- with just ELG.
25 I have spent time talking about cashflow

1 and topics that are unique to cashflow and how that
2 looks. We spent time talking about -- talking about
3 income statement and items that are unique to income
4 statement, one (1) of which is ELG, and I will note not
5 even the biggest one, but it certainly gets a lot more
6 of the air time. I guess it's the excitement of the
7 topic.
8 And there's a few other topics that fill
9 out the story, which is things that have an effect on
10 both, and the first one is vacancy rates.
11 And I note there, in the last GRA, Hydro
12 was coming in and saying that they wanted an 8.2
13 percent vacancy rate, or that's what they projected.
14 We -- we were looking at evidence and saying, You're
15 averaging eight (8), guys. What -- what -- why six
16 point two (6.2)?
17 The Board quoted that in the order, and
18 -- and it was part of the decision to give Hydro a -- a
19 -- lower overall rates. That was for '12/'13. You can
20 see where '12/'13 to '13/'14 came out with the eight
21 five (8.5) and eight one (8.1), and you can see where
22 the long-term history is.
23 I'll just note that if we go even
24 further back than this table, one (1) year back,
25 2008/'09, the actual was seven point two (7.2). One

1 (1) year back from that, it was seven o-eight (7.08).
2 The actual was eight point one (8.1). So the actual is
3 staying very tightly in that range in -- over this
4 entire period.
5 In this GRA, Hydro is projecting 4.5
6 percent vacancy. And it's one of those numbers that is
7 far more material than it sounds on the first instance.
8 If you stay with the range that has been put out in the
9 past years, we're talking 9 to $15 million in salaries
10 that wouldn't arise, and another 35 percent for
11 benefits, just in that year due to vacancies.
12 That's just the difference between
13 Hydro's estimate versus the seven (7) year history that
14 we have behind us, okay? If you add the 35 percent,
15 you're up to about 12 to $20 million. That is an --
16 the difference in the -- in -- in the income statement
17 effect.
18 But there's a larger impact on cash,
19 because it also affects capital -- employees working on
20 capital. So if you take in the full cash effect,
21 you're talking 20 to $30 million a year.
22 And I just wanted to highlight that, put
23 in -- put it in before you all the evidence that's --
24 that's on that matter that I had up until last night.
25 I see there's an undertaking had been filed we haven't

had a chance to review.

As I understand hires -- Hydro's evidence that it's -- in this day and age, they're going to have lower vacancies, because they need to get on and hire people faster, I think it was the same rationale used for the six point two (6.2) in the last hearing, frankly. But -- but it wouldn't be consistent with what I understand were the methods Hydro listed that it could use to manage cashflow during tough times in the NFAT.

DR. HUGH GRANT: Could I -- could I ask you, a -- a vacancy rate is a ratio or percentage of unfilled positions divided by positions.

MR. PATRICK BOWMAN: Correct.

DR. HUGH GRANT: Do you know how both the nominator and denominator are changing?

MR. PATRICK BOWMAN: We -- we have that calculation in one (1) of the IRs. I don't know if it's the same one that yielded this. I could look it up, or I could just tell you. This comes from MIPUG/MH-I-6(c).

It could be it's the same IR that has the absolute numbers, but they -- they are available. And -- and if I look at the break, I can come back and --

1 DR. HUGH GRANT: Do you have a quick
2 impression what's happening on the bottom side of it?
3 Are the total number of positions changing during --
4 MR. PATRICK BOWMAN: Well, the total
5 number's that -- that big value in the -- in, you know,
6 the six thousand (6,000) something range, right? Now,
7 they're like six (6) -- at the beginning of this
8 period, the seven (7), eight (8) numbers I was giving
9 you, it was, what, sixty-two hundred (6,200).
10 Now we're talking sixty-eight hundred
11 (6,800) employees. But that -- that bottom number is
12 going to be -- is going to be going up.
13 DR. HUGH GRANT: Thanks.
14 THE CHAIRPERSON: And -- and the -- the
15 basis for the next -- the lowest calc -- the less
16 calculation had 20 to 30 million? Is that -- you've
17 got that somewhere --
18 MR. PATRICK BOWMAN: Well, yes, it's in
19 -- it's in an IR we produced, but it's the -- it's --
20 it's the average salary times that number of positions
21 type of -- of value. So I can dig it up pretty --
22 THE CHAIRPERSON: If -- if you have a
23 reference, that's fine.
24 MR. PATRICK BOWMAN: But, yeah, it --
25 it is -- it is referenced, and people did review it

1 with -- with Hydro. It -- it uses the average salary,
2 the seventy-seven thousand (77,000) or something for
3 the Corporation times the number of positions. It
4 would be the difference between 8 percent and -- and
5 six point two (6.2).
6 Yeah, we can -- the next slide was just
7 briefly on DSM. And it was just to help summarize, I
8 think we've been over this, but that there has been a
9 significant increase in the DSM spending and
10 amortization since the previous GRA, which is no
11 surprise to anyone who was at the NFAT hearing. It's
12 just to note that this is -- does have an adverse
13 impact on cash, particularly given the low export
14 revenues, to replace the lost domestic revenue.
15 So if you get a person to stop using a
16 kilowatt hour through a DSM program, that person saves
17 the cost of 1 kilowatt hour. If they're an industrial
18 customer, it's four (4) cents. If it's residential,
19 it's closer to eight (8). Hydro loses that revenue,
20 but it has a kilowatt back it can go sell in export
21 markets, and it can make whatever it can make from it.
22 If it's opportunity, it might be making between two (2)
23 and three (3) cents.
24 So not only have you spent money on the
25 DSM program, but you've lost the -- the revenue. And

1 those two (2) combined give you the cash impact in the
2 year where the savings occurred and the program was
3 run. Of course, that -- that savings value will change
4 if that kilowatt hour can be sold for more as years go
5 on. That's why it's an investment, right?
6 The -- one (1) of the problems that
7 arises is that DSM's values to show that it's
8 worthwhile are done on the long-term marginal values,
9 up to thirty (30) years depending on the type of DSM
10 program, but the costs are amortized over ten (10).
11 If the DSM's only giving you ten (10)
12 years of savings, looking at the ten (10) years ahead
13 of us and the -- the market values, it's -- it's really
14 hard to justify a DSM program. You -- the -- the --
15 these -- these programs pay for themselves,
16 particularly when you look at those marginal values in
17 years 10 to 20. And so you -- you have to make your
18 decision now about to what extent this can play a role
19 in overall managing of cashflow.
20 The last thing, if you -- is -- to talk
21 about is the -- the third of the set, the debt-equity
22 ratio that we normally spend a -- a lot of time on, but
23 it seems to be the -- the least of the -- of the focus
24 in this hearing.
25 We highlighted -- or I've highlighted in

1 the pre-filed testimony that drought remains a -- a
2 large cost risk, but not as large as -- as numbers we
3 had seen, you know, back in '08 or -- or the like, when
4 export prices were that -- were so much higher.
5 I came up with a number, just based on
6 taking a snapshot, of one (1) year and -- and applying
7 five (5) year flows of that. It comes up with about
8 1.2 billion. Hydro obviously wasn't impressed with the
9 calculation and did a full scenario analysis, which is
10 fine. They came up with 1.7. My point was to contrast
11 it with the type of 2 1/2 to $3 billion numbers we
12 heard back when exports were very high, okay?
13 So I -- I don't have any reason not to
14 accept Hydro's type of number, their 1.7 billion. And
15 I'll just note 1.7 billion includes the impacts of --
16 of compounding interest, which is a point someone could
17 debate if they were talking about how much a drought
18 cost.
19 But in any event, during the entire IFF
20 scenario, retained earnings remains above 1.9 billion,
21 even in the worst of the years, where the net losses
22 are occurring. And if you accept the rate increase
23 scenarios that we put out in the earlier slides, it
24 would be lower than that by somewhere between about 50
25 and 300 million. So we're still in the range of what a

1 five (5) year drought costs.

2 And I can't emphasize enough that -- how

3 many hearings we went through in terms of revising

4 financial targets up and going through great efforts to

5 find the way that Hydro's reserve levels made it up to

6 -- first, to be able to hit the -- the two (2) year

7 drought level, then be able to hit the 15 percent

8 equity level, and finally to be able to get up to this

9 level, it's around the five (5) year drought.

10 And the idea that we sail through the

11 next ten (10) years and -- and are exceeding that level

12 that at one (1) point was the gold standard, and we're

13 still meeting the gold standard or exceeding the gold

14 standard during the toughest headwinds is -- is merely

15 the point of this slide, was to try to -- try to

16 highlight that.

17 And -- and I -- I don't want any

18 suggestion that with the $1.2 billion calculation, I

19 was suggesting that you should stop there or somehow

20 you sit on 1.2 billion. It -- it's fine. And the only

21 other thing I'll note about that is there was some

22 comments in the transcript about New Brunswick Power

23 having a very bad equity ratio, and that is true. New

24 Brunswick Power had a very bad equity ratio for a

25 while, but you -- it -- it wasn't anything wise, but

1 we're talking 105:-5, not -- not 75:25.
2 But it was -- particularly arose because
3 New Brunswick Power is dealing with nuclear assets, not
4 -- not something like hydraulic assets where you have
5 this long life, and very little of that decommissioning
6 risk and the like. They were having to take on that --
7 that type of risk that has very large costs, so.
8 MR. ANTOINE HACAULT: And the debt
9 equity --
10 MR. PATRICK BOWMAN: And the -- and the
11 last slide that has anything to do with sort of the
12 financial matters is slide 50, about the debt equity
13 target. And -- and this is a precursor to where we're
14 going.
15 Our understanding of this hearing is
16 Hydro is doing a study on its financial targets. It
17 was a conclusion at the NFAT that they ought to do
18 that. That the Minister supported it, and I think it's
19 a good idea. And we're looking forward to seeing how
20 that comes out.
21 Right now the -- the IFF runs
22 percentages. It was interesting to flip back to NFAT
23 when people liked to talk in absolute dollar values
24 more than percentages. It seems percentages suits the
25 -- the rate increase hearing more.

1 But the percentages work their way
2 through the IFF back up to 75:25 by 2034, at which
3 point Hydro has $5 billion in retained earnings. And I
4 don't know how we can sit here today and say that's --
5 the right number for twenty (20) years from now is $5
6 billion. Certainly there's nothing wrote about 75:25
7 being magical, and -- and so we'd look forward to the -
8 - to the results of that study.
9 But the one other thing we'd note is if
10 Hydro had brought in a depreciation study in this
11 hearing that said, Our assets are a billion dollars
12 under depreciated, everyone would look at that equity
13 number with suspicion and say, Wait -- wait a minute,
14 is that really retained earnings because you're sitting
15 with this hole on your depreciation that's a big
16 number.
17 But we don't have that. We have assets
18 that are a billion dollars ahead of where they need to
19 be under depreciation. Now, I'm not suggesting we take
20 that and add it to retained earnings, but it is very
21 much a consideration of the entire financial picture.
22 You cannot just look at that one row in retained
23 earnings to tell you the entire financial picture of --
24 of Hydro as it sits.
25 Outside of the financial matters, slide

1 52 was dealing with items I understand the Board has
2 already been briefed on. It's comments on DSM tests
3 that I -- I've hit on. That lost revenue does need to
4 be taken into account when you're looking at DSM
5 programs, or else you get into the cross-subsidization.
6 That -- that information is in our -- our -- or in --
7 in my prefiled testimony. You can go ahead and take a
8 look at that.
9 And the other piece is about this
10 industrial DSM topic that is -- is a pretty important
11 topic to the members that -- that they wanted to make
12 sure that I took a mere moment to address, which is if
13 there's any aspect in which this Board sees a role for
14 Hydro to continue to deliver the industrial DSM, it's a
15 successful model that people should look at trying to
16 continue.
17 When you talk about adding -- industrial
18 DSM is entirely different than -- than retail DSM.
19 It's entirely based on the relationship with -- between
20 Hydro and the customer. Much of it involves
21 commercially confidential information. Some of it even
22 intellectual property on -- on technology processes.
23 And a lot of the aspects of it are not
24 just about saving a kilowatt hour. They're about
25 figuring out how to size a distribution line, or a --

1 not distribution, a substation. Figuring out how to
2 shape the customer's load. Figuring out how it can fit
3 into your overall resource planning as curtailable
4 loads, for example.
5 That's not really the same thing as
6 marketing, you know, high efficiency furnaces at Home
7 Depot or something, which is very retail which is very
8 marketing outreach. So that's -- industrial DSM isn't
9 like that. It's -- it's very customized.
10 Hydro has skilled engineers for good
11 reason who do that type of thing. And the -- the
12 member thought it important to highlight that -- that
13 access to that is -- is pretty critical.
14 And the last slide is just on the
15 curtailable program. And I just wanted to highlight
16 we're -- I'm recommending that the curtailable program
17 be keep -- kept at the -- this is slide 53 --
18 curtailable program be kept at the permanently approved
19 level that it's at, and not the lower interim caps that
20 were imposed at the last GRA. If you recall, Hydro was
21 asking for a lower cap. The Board proposed one on an
22 interim basis pending going through the NFAT and
23 getting an understanding of the value of capacity.
24 In my opinion, Option C, if it doesn't
25 provide value, could be dropped. This is the one that

1 takes a one (1) hour notice. If Hydro asserts it
2 doesn't provide value, that's fine, then it ought not
3 be there. But the critical thing with curtailable is
4 to preserve the value of the program.
5 It would seem that there's room within
6 the program to preserve value and have the caps at the
7 level that was in place prior to the last GRA, which is
8 Option A at two hundred and thirty (230), and Option R
9 at 100 megawatts. And part of the reason I can come to
10 that conclusion is that when you look at the assessment
11 of curtailable, Hydro gives the curtailable load and
12 the curtailable program insufficient credit for the
13 fact that it's been there for over two (2) decades and
14 that customers have been on it continuously, and that
15 there have been a -- an ongoing load. This program is
16 analyzed as if it provides value for one (1) year and
17 then everyone goes away.
18 So no long-term values are prescribed to
19 the program. And the rationale is, Well, there's no
20 long-term contract with the customer. Just -- take it
21 like just like every other DSM program, if you don't
22 have a long-term contract with a customer they're not
23 going to use the LED lightbulb and throw it out, but
24 you rely on the premise, accurately, that you -- you
25 have evid -- evidence that in all likelihood the

1 customer will continue to be there.
2 The same thing with industrial -- with
3 curtailable. And so in that manner the -- the value is
4 -- is understated. And the other is that the
5 curtailable load does provide a -- a very local
6 regional benefit for things like transmission
7 constraints, which are of increasing importance, acco -
8 - according to Hydro's evidence.
9 So that -- you know, that -- that ought
10 also be considered with part of the curtailable.
11 MR. RICHARD BEL: Mr. Bowman...? Mr.
12 Bowman...?
13 MR. PATRICK BOWMAN: Yes.
14 MR. RICHARD BEL: On the curtailable
15 rate program, so if the existing customers are
16 grandfathered and there's no new customers on the
17 horizon, and Hydro is using the same argument in terms
18 of the capacity that the curtailable rate program
19 provides, they don't need it, so it doesn't have export
20 value for them, why -- why is there an issue with the
21 grandfathering and -- and holding at that level rather
22 than keeping the program open?
23 MR. PATRICK BOWMAN: Mr. -- Mr. Bel, I
24 -- I think there's -- there's two (2) matters in which
25 -- on which I'm concerned about getting the factual

1 record correct. The first one (1) is, if you'll look
2 back to the presentations that were made in the
3 previous GRA and the NFAT, you will see presentations
4 from members who are saying, I have asked Hydro to
5 participate in the curtailable program. They told me,
6 No.
7 So I don't know about no customers,
8 because that's -- that's the information that's
9 presented to you and I -- I know it continues to be of
10 interest to at least one (1). Okay. So this cap is
11 having a practical impact.
12 And the second point is, I don't know
13 about grandfathering. What I understand is that
14 Hydro's proposed lower caps, the interim caps that are
15 in place now, if they -- they were to be finalized, it
16 has enough room for all of the participating customers.
17 I don't -- I don't think of them as grandfathered. I
18 think of them as ongoing participants, right.
19 There is a -- there is a grandfathered
20 issue with relation to the customers -- relation to
21 Option C, which is the program that Hydro had wanted to
22 roll -- roll up. It's not one (1) I've spend any time
23 on. And -- and I don't know where the prop -- Option C
24 proposal is today, because I haven't spent any time on
25 it. My -- my issue is that if Hydro's assertion is

1 Option C provides no value, then -- then cancel it.
2 When I look at Hydro's assertion about
3 Option A and R, they say, It provides value at 180
4 megawatts and 50 megawatts, but not at two hundred and
5 thirty (230) and one hundred (100), okay. That -- so
6 they -- they want to continue the program. They just
7 want to continue it at those lower levels, okay.
8 And my conclusion looking at that is the
9 hundred and eighty (180) and the fifty (50), the
10 proposed lower levels have been concluded to be of
11 value on the basis of an analysis that it
12 insufficiently considers the benefits, because it looks
13 at this one (1) year no ongoing aspect and it doesn't
14 give it credit for -- with the Hydro system.
15 If you were to put in those higher
16 values you would say this program is actually more
17 valuable than Hydro gives it credit for and you might
18 find that you can sustain the credits that are there to
19 these customers and still have room for some more to
20 participate. And that -- and that -- that's the
21 essence of the -- of the conclusion.
22 Now, I'm -- I'm led to believe there are
23 ongoing discussions with customers about the ability to
24 participate, but I'm not in the middle of those. All -
25 - all I know is that there are customers who have been

1 -- had interest and have been told, No.
2
3 (BRIEF PAUSE)
4
5 THE CHAIRPERSON: Mr. Hacault, are you
6 -- have you completed the direct, the --
7 MR. ANTOINE HACAULT: Yes, that --
8 subject to the -- any questions that the Board may
9 have, these witnesses are available for cross-
10 examination. THE CHAIRPERSON: Okay. With that, I
11 think the panel has completed its questions for the
12 time being.
13 Mr. Williams, would you have some
14 questions to ask of Mr. Bowman?
15 MR. BYRON WILLIAMS: Mr. Chair, you'll
16 hear in closing argument that there's a lot our client
17 agrees with Mr. Bowman. There are a couple of things
18 in a normal process we -- we might want to spend a bit
19 of time with him on, but given that we co-presented
20 part of the panel, there's a certain awkwardness in
21 that.
22 And our client's instructions are that
23 we would -- we'll -- we'll not cross-examine Mr. Bowman
24 with MIPUG's understanding that they will not draw an
25 adverse inference from our choice not to cross-examine.

1 THE CHAIRPERSON: Thank you for that,
2 Mr. Williams.
3 Mr. Cordingley, I don't believe he's
4 here. So Mr. Orle, please. Any ques -- any questions
5 of the -- of the two (2) witnesses?
6 MR. GEORGE ORLE: No questions, Mr.
7 Chair.
8 THE CHAIRPERSON: Mr. Orle, thank you
9 very much.
10 Mr. Masi...?
11 MR. TOMAS MASI: No questions, Mr.
12 Chair.
13 THE CHAIRPERSON: Thank you.
14 Ms. Van Iderstine...?
15 MS. HELGA VAN IDERSTINE: So I'm very
16 conscious of the time, but I think that if you give me
17 ten (10) minutes, I can shorten my cross-examination by
18 at least that much time. So if you'll give me the ten
19 (10) minutes, then I -- as I said, I think I can
20 shorten it further.
21 THE CHAIRPERSON: Let's take ten (10)
22 minutes.
23 MS. HELGA VAN IDERSTINE: Thanks.
24 THE CHAIRPERSON: Thank you.
25

1 --- Upon recessing at 3:43 p.m.
2 --- Upon resuming at 3:57 p.m.
3
4 THE CHAIRPERSON: I believe that we're
5 ready to continue with the proceedings, so I will have
6 the microphone -- turn over the microphone to Ms. Van
7 Iderstine.
8 MS. HELGA VAN IDERSTINE: Thank you
9 very much. Oops. Am I on now? Good.
10 Just looking for a cite, so if you can
11 just give me one (1) second here.
12
13 (BRIEF PAUSE)
14
15 MS. HELGA VAN IDERSTINE: I can
16 guarantee to you, though, that -- by having the break,
17 that I have probably at last shortened it by half an
18 hour, probably forty-five (45) minutes. So I think it
19 was a break that was well worth it.
20 I'll come back to that -- looking for
21 that in a moment.
22
23 CROSS-EXAMINATION BY MS. HELGA VAN IDERSTINE:
24 MS. HELGA VAN IDERSTINE: So if I may,
25 Ms. Lee, would you agree that Gannett Fleming is a

1 recognized expert in the analysis of assessment and
2 depreciation?
3 MS. PATRICIA LEE: One (1) of several,
4 yes.
5 MS. HELGA VAN IDERSTINE: And in fact I
6 know -- I understand you've seen their work utilized in
7 a number of utilities over the years?
8 MS. PATRICIA LEE: Yes, I have.
9 MS. HELGA VAN IDERSTINE: And you also
10 know Mr. Larry Kennedy?
11 MS. PATRICIA LEE: Yes, I do.
12 MS. HELGA VAN IDERSTINE: And you'd
13 agree he's an expert in depreciation?
14 MS. PATRICIA LEE: As I am, yes.
15 MS. HELGA VAN IDERSTINE: And would it
16 be reasonable for a utility, when considering
17 depreciation, to retain an outside consultant to review
18 and provide it with advice?
19 MS. PATRICIA LEE: Would you please
20 repeat the question?
21 MS. HELGA VAN IDERSTINE: Would it be
22 reasonable for a utility, when considering
23 depreciation, to retain an -- an outside consultant to
24 review and provide it with advice?
25 MS. PATRICIA LEE: Not in all cases,

1 but I can understand why Manitoba Hydro did in this
2 case.
3 MS. HELGA VAN IDERSTINE: And the --
4 and what Manitoba Hydro has done is gone to an industry
5 leader in the area of depreciation for that advice.
6 MS. PATRICIA LEE: Okay.
7 MS. HELGA VAN IDERSTINE: So they're
8 not relying solely on their own assessment of
9 depreciation, but that of a recognized expert.
10 MS. PATRICIA LEE: That is true.
11 MS. HELGA VAN IDERSTINE: Now, I
12 understand that, from the evidence and from the
13 materials filed, that you were one (1) of the authors
14 of the NARUC manual from 1996 on the issue of
15 depreciation.
16 MS. PATRICIA LEE: That is also
17 correct.
18 MS. HELGA VAN IDERSTINE: And where in
19 your report you have provided examples and charts,
20 those are largely identical to those that are contained
21 in the NARUC manual.
22 MS. PATRICIA LEE: The -- yes, very
23 similar.
24 MS. HELGA VAN IDERSTINE: And some have
25 just been updated to 2010/2011 rather than 1996 to '98,

1 but --

2 MS. PATRICIA LEE: That is good.

3 MS. HELGA VAN IDERSTINE: And in the

4 manual, it describes several of the more common and

5 acceptable categories for grouping procedures.

6 MS. PATRICIA LEE: Correct.

7 MS. HELGA VAN IDERSTINE: And that

8 included both the ELG procedure and the vintage group

9 procedure.

10 MS. PATRICIA LEE: Yes.

11 MS. HELGA VAN IDERSTINE: Now, when

12 we're talking about vintage group, do I understand that

13 -- vintage group and ASL and average service group are

14 all the same thing or similar?

15 MS. PATRICIA LEE: Vintage group, equal

16 life group, and what was the third one (1)?

17 MS. HELGA VAN IDERSTINE: No, vintage

18 group, ASL, and average group life.

19 MS. PATRICIA LEE: Yes.

20 MS. HELGA VAN IDERSTINE: Those are all

21 the same?

22 MS. PATRICIA LEE: Yes.

23 MS. HELGA VAN IDERSTINE: So when we

24 see those different acronyms I just try and make sure

25 that -- that we're talking about the same thing, that's

1 all. And that's a separate procedure from the ELG
2 procedure?
3 MS. PATRICIA LEE: Correct.
4 MS. HELGA VAN IDERSTINE: And did you -
5 - were you aware that -- even before 1996, that the ELG
6 procedure was being used by utilities in Alberta?
7 MS. PATRICIA LEE: No.
8 MS. HELGA VAN IDERSTINE: And in
9 considering either the AS -- AL -- ASL procedure or the
10 ELG procedure, one (1) of the weaknesses in both of
11 them is that -- the subjective element that comes into
12 play when you're determining survivor cor -- curves?
13 MS. PATRICIA LEE: That is correct,
14 although I would submit that for the ASL you do not
15 necessarily need a survivor curve.
16 MS. HELGA VAN IDERSTINE: Okay. Can we
17 take a look at... And how about with respect to true-
18 up?
19 MS. PATRICIA LEE: I would also suggest
20 that you do not necessarily need a survivor curve for
21 true-up.
22 MS. HELGA VAN IDERSTINE: So to Vol --
23 Volume VI of the PUB's book of documents, page 160.
24 And you were looking at this earlier and it came up in
25 the -- with respect to the topic of the comparison of

1 ELG and ASL. And you were looking at Pointe du Bois.
2 Do you recall that?
3 MS. PATRICIA LEE: Yes.
4 MS. HELGA VAN IDERSTINE: And were you
5 aware that Manitoba Hydro purchased Pointe du Bois in
6 2003? As a result, it's, in effect, a used asset?
7 MS. PATRICIA LEE: No, I was not aware
8 of that.
9 MS. HELGA VAN IDERSTINE: And in terms
10 of ASL, I think you've said that even in the Florida
11 experience it's not used in a pure form all -- all the
12 time?
13 MS. PATRICIA LEE: I'm sorry, would you
14 repeat that?
15 MS. HELGA VAN IDERSTINE: One (1) of
16 the criticisms you've had of the ELG procedure has been
17 that it's not applied in a pure form?
18 MS. PATRICIA LEE: Correct.
19 MS. HELGA VAN IDERSTINE: But you'd
20 agree that the ASL procedure is not always applied in a
21 poor -- pure form either?
22
23 (BRIEF PAUSE)
24
25 MS. PATRICIA LEE: I'm not so sure

about that, but I would agree for argument sake.

MS. HELGA VAN IDERSTINE: Well, I can just take you to PUB/MIPUG/Coalition Lee IR. And it's at Tab 8 -- page 18 of the book of documents we filed. And perhaps I've misunderstood what you were saying there. I don't think I pulled that up for the -- thank you.

If you look down to the bottom of that page. Oh, I've got the wrong -- is that page 18? There we go.

MS. PATRICIA LEE: Are you talking about where I was referencing modified whole life?

MS. HELGA VAN IDERSTINE: Yes. So you say, "Current" -- on the bottom of the page:

> "Currently, some companies use the ASL procedure for all accounts. Some use a combination of the ASL procedure and remaining life technique. Some use the ASL procedure plus a remaining life reserve correction, the whole life depreciation rate plus a reserve imbalance correction over the remaining life sometimes referred to as a modified whole life."

1 MS. PATRICIA LEE: Correct.
2 MS. HELGA VAN IDERSTINE: So those
3 group -- those companies or utilities are not using a
4 pure form of ASL either. Is that how --
5 MS. PATRICIA LEE: Oh, that would be --
6 based on what you're saying, the way you -- you are
7 discussing it, I would agree with what you are saying.
8 MS. HELGA VAN IDERSTINE: And one (1)
9 of the concerns that you raised when -- in your direct
10 evidence was with respect to the turbines and
11 generators being ju -- lumped or put together into the
12 same grouping. And if I could ask Diana to pull up
13 Appendix 11.49, Attachment A. And I'm sorry, I don't
14 have the exhibit number.
15
16 (BRIEF PAUSE)
17
18 MS. HELGA VAN IDERSTINE: Attachment A.
19 And it's Roman numeral III.3 -- III-3. Thank you. So
20 if we're looking at this document, and inder -- under -
21 - on the left-hand side you'll see about -- in the
22 first -- second bold term it says, "Turbines and
23 Generators (Generation)."
24 And you'll see over there under the ELG
25 method twenty-three point four-five (23.45). And I --

1 I've jumped ahead a bit. I should explain what this
2 is.
3 This is Mr. -- the Gannet Fleming report
4 that was generated in response to the PUB decision
5 43/'13. So with that in mind, and this summary is a
6 summary of differences in depreciation procedures. So
7 looking at the turbines and generators, and you'll see
8 the ELG method uses -- suggests it's twenty-three point
9 four-five (23.45).
10 Do you see that?
11 MS. PATRICIA LEE: This is depreciation
12 expense.
13 MS. HELGA VAN IDERSTINE: Yeah.
14 Sorry, expense. Twenty-three point four-five (23.45)--
15 MS. PATRICIA LEE: Which would follow
16 from the other attachment we had talked about earlier.
17 MS. HELGA VAN IDERSTINE: Right. And
18 if you look over under the ASL method, do you see
19 turbines is eight point eight (8.8) and generators is
20 fifteen point one-five (15.15).
21 MS. PATRICIA LEE: Correct.
22 MS. HELGA VAN IDERSTINE: And if you
23 were to combine that, that would be twenty-three point
24 nine-five (23.95).
25 MS. PATRICIA LEE: Correct, and I --

1 MS. HELGA VAN IDERSTINE: Which would
2 be a higher depreciation expense than in fact the ELG
3 method.
4 MS. PATRICIA LEE: Well, certainly I
5 would have expected that based on your -- the slide
6 that we were using before because the rates were
7 different.
8 MS. HELGA VAN IDERSTINE: So in that
9 case, that would be a circumstance where, in fact, the
10 ASL method would in fact increase the expense rather
11 than decrease it.
12 MS. PATRICIA LEE: I cannot -- I cannot
13 agree with that.
14 MS. HELGA VAN IDERSTINE: Okay. Are
15 you aware that Florida Power combines turbines and
16 generators into one (1) grouping?
17 MS. PATRICIA LEE: And they very well
18 may. I do know that Florida Power and Light has a lot
19 of componentization, and they may have it in one (1)
20 account but they may also study it separately. I do
21 not know that.
22 MS. HELGA VAN IDERSTINE: Now, you
23 didn't ask -- there was no IRs of Manitoba Hydro with
24 respect to componentization and how they did their
25 componentization?

1 At least you didn't ask any?
2 MS. PATRICIA LEE: No, I was not
3 brought into the case until April.
4 MS. HELGA VAN IDERSTINE: So I'd like
5 to turn to a few definitions. And in the NARUC manual,
6 and if you'll look to our page 17 -- sorry, page 15 of
7 the book of documents we prepared, you'll see there's a
8 definition of depreciation at the top of the page?
9 MS. PATRICIA LEE: Can you just give me
10 just one (1) minute?
11 MS. HELGA VAN IDERSTINE: Yeah.
12 MS. PATRICIA LEE: I have it here
13 someplace.
14 MS. HELGA VAN IDERSTINE: It's on --
15 it's on the -- it's on the -- the screen --
16 MS. PATRICIA LEE: Oh, it's okay. I'm
17 sorry.
18 MS. HELGA VAN IDERSTINE: -- if that
19 helps.
20 MS. PATRICIA LEE: I'm sorry.
21 MS. HELGA VAN IDERSTINE: No, it's fair
22 enough. If you wanted to look at the original I'm
23 always pleased to let people look for that but --
24 MS. PATRICIA LEE: That's quite all
25 right.

1 MS. HELGA VAN IDERSTINE: -- it's a
2 question of what you wanted. So depreciation, and now
3 this is defined in this particular definition:
4 "As applied to the depreciable plant
5 of utilities, the term depreciation
6 means the loss in service value not
7 restored by current maintenance
8 incurred in connection with the
9 consumption or perspective retirement
10 of a utility plant in the course of
11 service from causes that are known to
12 be in current operation against which
13 the company is not protected by
14 insurance, the effect of which can --
15 effect of which can be forecast with
16 reasonable accuracy."
17 And then it goes onto say:
18 "Among the causes to be considered
19 are wear and tear, decay, action of
20 the elements, inadequacy,
21 obsolescence, changes in the art,
22 changes in demand, and the
23 requirement of public authorities."
24 MS. PATRICIA LEE: That is what it
25 says.

1 MS. HELGA VAN IDERSTINE: And would you
2 agree with that definition?
3 MS. PATRICIA LEE: Yes, I would.
4 MS. HELGA VAN IDERSTINE: So that
5 definition seems to me in depreciation analysis
6 considers that the serv -- expected service life which
7 is being considered in those -- those cases is not
8 going to be the same as the expected service life that
9 you might consider in a maintenance or O&M purposes.
10 MS. PATRICIA LEE: I would agree with
11 that.
12 MS. HELGA VAN IDERSTINE: And that's
13 because for depreciation purposes you're including
14 things like obsolescences, change in demand, the action
15 of elements, inadequacy, other sort of unknown or
16 unexpected causes?
17 MS. PATRICIA LEE: That is correct.
18 Although I will add to that, I have known some company
19 people in the maintenance area who do consider things
20 like that in their life estimation, so. But by and
21 large you are correct.
22 MS. HELGA VAN IDERSTINE: Now, if could
23 have MIPUG Exhibit 8, page 16, and this is Ms. Lee's
24 report, put on the screen?
25 And I -- so under the section, "Net

1 Salvage," I just wanted to review what you had to say
2 about this.
3 MS. PATRICIA LEE: M-hm.
4 MS. HELGA VAN IDERSTINE: And you'll
5 see your answer to the question -- first of all, who --
6 who formulated the questions that you're answering?
7 MS. PATRICIA LEE: I did.
8 MS. HELGA VAN IDERSTINE: So the
9 answer: "Utilities are generally not
10 dismantling major generation sites,
11 but rather -- or rather using the
12 site for gen -- other generation
13 purposes. And, for example, it's not
14 uncommon for electric companies to
15 convert a steam generating site to
16 gas. And while there will be
17 retirements involved in this process,
18 there is no return to greenfield,
19 recognize that the alternative of a
20 new site with costs for the required
21 land, permits, licensing, rights of
22 way, roads, et cetera, are too
23 expensive. When this is done often
24 the majority of associated costs are
25 recorded as new costs, not as

1 retirement costs of the old asset.
2 Therefore, the reuse of existing
3 sites has become more common. Any
4 required dismantlement costs
5 associated with the final retirement
6 of the site can still be properly
7 accounted for using an Asset
8 Retirement Obligation."
9 So I take it you're still -- that's
10 still your opinion?
11 MS. PATRICIA LEE: If it's a legal
12 obligation --
13 MS. HELGA VAN IDERSTINE: Yeah.
14 MS. PATRICIA LEE: -- dismantlement
15 cost would be an ARO. That is correct.
16 MS. HELGA VAN IDERSTINE: So you'd
17 agree that one way or the other a regulator would
18 accept that a company -- or sho -- could accept, or
19 should accept that a company would account for its
20 expenses that are anticipated either through an ARO or
21 a net salvage?
22 MS. PATRICIA LEE: For removal costs,
23 yes.
24 MS. HELGA VAN IDERSTINE: And, Mr.
25 Bowman, or Ms. Lee, you can answer this question, if

1 you were shutting down a hydro-electric dam facility,
2 would you accept that there would be costs associated
3 with that facility becoming safe, addressing any
4 environmental issues, and that there would be ongoing
5 costs associated with keeping the area safe for people
6 like boaters, swimmers, hikers, et cetera?
7 MR. PATRICK BOWMAN: Can you expand on
8 your definition of 'shutting down'?
9 MS. HELGA VAN IDERSTINE: Taking out of
10 service.
11 MR. PATRICK BOWMAN: You mean without a
12 -- a replacement on the site of an equivalent asset.
13 Is that what you mean by 'shutting down'?
14 MS. HELGA VAN IDERSTINE: Or if it's
15 re-purposed such that there's new -- new area to be
16 associated with it. And -- and I can give an example,
17 the Pinawa Dam.
18 MR. PATRICK BOWMAN: Okay. Fair
19 enough. The Pin -- Ms. Lee won't be familiar with it,
20 but you're -- the -- the concept in -- in the -- the
21 parlance of depreciation is there's usually an interim
22 retirement and a terminal retirement and you're talking
23 about something that's akin to a terminal retirement.
24 So we're -- Mr. Chairman, we've taken
25 the asset, we've -- we're no longer getting a service

1 out of it for what it was built for. It -- it may be
2 hauling things away, or it may just be making it -- it
3 safe in -- in situ and Pinawa Dam you're talking an
4 historical site which still has a whole lot of concrete
5 there, but is a -- a safe park where people go to fish
6 and do the other things.
7 Is that -- I'm --
8 MS. HELGA VAN IDERSTINE: So in those
9 sort of circumstances, I -- I think you'd agree that
10 there'll -- there would be ongoing environmental issues
11 and costs associated with keeping those kind of areas
12 safe, even if you take it out of service and don't
13 remove all portions of the dam?
14 MR. PATRICK BOWMAN: There would for
15 sure be one (1) time costs. I suppose there could be
16 ongoing depending on how it's done, but for sure
17 there's be one (1) time costs of doing that.
18 MS. HELGA VAN IDERSTINE: And if you
19 were con -- converting to a coal plant as was done in
20 Selkirk, then in addition to any safety or structural
21 issues there may be environmental costs such as the ash
22 lagoons coal piles that would have to be considered?
23 MR. PATRICK BOWMAN: Right. Ms. Lee
24 would have more experience than me on coal, but for
25 sure. And -- and often those will have an ARO against

1 them, because there's actually a legal requirement
2 associated with the -- the licence.
3 MS. PATRICIA LEE: I would agree.
4 MS. HELGA VAN IDERSTINE: So again,
5 there's some cost that's going to be associated with it
6 and that's a cost that we'd pass on to the ratepayers?
7 MS. PATRICIA LEE: Let's put it this
8 way, it would be a cost. The regulatory body would
9 decide whether it was being passed onto ratepayers.
10 MS. HELGA VAN IDERSTINE: And the
11 question is whether you take it into account for the
12 current generation of ratepayers or whether you put it
13 off to the future generation of ratepayers?
14 MS. PATRICIA LEE: Well, that would
15 depend whether it's being amortized or whether it's a
16 current year's expense, so yes, I -- if I understand
17 your question right, yes, it would be one (1) or the
18 other.
19 MR. PATRICK BOWMAN: But there are
20 three (3) possibilities, Ms. Van Iderstine, and I think
21 in this matter we're not -- or I'm not, at least, at
22 odds with Hydro in its proposals. One (1) is that it's
23 not terminal -- in case they're not terminal retirement
24 you would -- you would capitalize with the new rebuilt.
25 The second is in cases where it is a

1 terminal retirement, but it was the example of your --
2 your coal lagoon where you -- you book an ARO, you
3 would have been building up that ARO over time as part
4 of Hydro's costs that are built into rates, in which
5 case you would -- you would treat it in that manner.
6 The third is where you have a -- a
7 terminal retirement which there is no ARO built up for
8 -- because it doesn't meet the tests that -- that are
9 required to have an ARO, in which case under -- you
10 know, under the -- the proposals that Hydro, as I
11 understand them, and -- and I don't take issue with it,
12 it would be -- it would part of the costs in that
13 current year.
14 And -- and to give an example with the
15 Hydro Quebec nuclear example I gave earlier, which was
16 the costs for taking it into income in one (1) year.
17 MS. HELGA VAN IDERSTINE: So just
18 changing topics just a little bit, Ms. Lee, when you
19 started your evidence -- and if you look at your
20 presentation, that's the MIPUG/Coalition 1 and over to
21 page 3 -- I just wanted to ask you a question about the
22 scope of your review.
23 Now, the first one (1), two (2), three
24 (3), four (4), five (5) bullets, that's what you had
25 reviewed, as I understand it, prior to preparing your

report.

MS. PATRICIA LEE: Correct.

MS. HELGA VAN IDERSTINE: And the fifth bullet, which references the transcript from this GRA from June 11th and 12th, as I understood it you were listening in throughout the entire process of those two (2) days.

MS. PATRICIA LEE: I was listening in all of June the 11th and till noon on June the 12th.

MS. HELGA VAN IDERSTINE: And you subsequently have had an opportunity to review those transcripts as well?

MS. PATRICIA LEE: Not completely --

MS. HELGA VAN IDERSTINE: Okay.

MS. PATRICIA LEE: -- but I do have them.

MS. HELGA VAN IDERSTINE: You've not -- you -- you have not worked for Manitoba Hydro, as I understand it?

MS. PATRICIA LEE: That is correct.

MS. HELGA VAN IDERSTINE: And you haven't spoken to anyone in the Manitoba Hydro accounting department or operations departments?

MS. PATRICIA LEE: That is correct.

MS. HELGA VAN IDERSTINE: And as I said

1 earlier, you didn't ask Manitoba Hydro for any data or
2 clarification of their depreciation analysis, practice,
3 process, or componentization?
4 MS. PATRICIA LEE: That is correct.
5
6 (BRIEF PAUSE)
7
8 MS. HELGA VAN IDERSTINE: If -- just
9 one (1) second.
10
11 (BRIEF PAUSE)
12
13 MS. HELGA VAN IDERSTINE: So if you
14 could -- if I could ask Diana to put up from our book
15 of documents page 31. And if you'll look down in the
16 middle column there, the question had been asked of you
17 by the PUB to provide some further information on
18 comparisons, and you produced this chart.
19 And in the middle column, you're
20 responding to the quality of data with respect to ELG.
21 Was that right?
22 MS. PATRICIA LEE: Correct.
23 MS. HELGA VAN IDERSTINE: And what you
24 -- you then reference down in talking about it that:
25 "According to MH's 2014 depreciation

1 study, it does not have vintage data
2 from any of its accounts."
3 Can you tell me where you got that
4 statement from?
5 MS. PATRICIA LEE: I think it was from
6 the 2014 depreciation study, as I recall. But I could
7 be wrong.
8 MS. HELGA VAN IDERSTINE: We can't find
9 that statement. That's why I'm asking you.
10 MS. PATRICIA LEE: Oh. That could also
11 be a mistake. It may have been -- I may have said
12 2010.
13 MS. HELGA VAN IDERSTINE: Okay. So
14 there's significant --
15 MS. PATRICIA LEE: I knew it was in one
16 (1) of the studies.
17 MS. HELGA VAN IDERSTINE: Okay. And --
18 and I guess my information is that it's not in the 2010
19 study either, so --
20 MS. PATRICIA LEE: Oh. Well, I didn't
21 -- I can tell you that I found it someplace, and I can
22 look for it.
23 MS. HELGA VAN IDERSTINE: It may be in
24 the 2005 study.
25 MS. PATRICIA LEE: Could very well be.

1 MS. HELGA VAN IDERSTINE: And if you --
2 MR. PATRICK BOWMAN: I will -- I will
3 accept that subject to check.
4 MS. HELGA VAN IDERSTINE: And if you
5 were listening to the evidence on June 11th and 12th,
6 you would have heard Ms. Hooper's evidence about the
7 extent to which she has been working to identify the
8 components and do further componentization.
9 MS. PATRICIA LEE: I have heard that
10 there has been work to do additional componentization,
11 yes.
12
13 (BRIEF PAUSE)
14
15 MS. HELGA VAN IDERSTINE: And one (1)
16 of the recommendations in your report was that if this
17 Board decided to proceed with an ELG for Manitoba
18 Hydro, that you would recommend it be only implemented
19 for new additions.
20 Do you recall that?
21 MS. PATRICIA LEE: Yes.
22 MS. HELGA VAN IDERSTINE: And would
23 that be so that they would have installation or
24 retirement data available to inform them in using the
25 ELG process?

1 MS. PATRICIA LEE: Not necessarily.
2 The reason I was recommending new additions was because
3 it's a change in procedure. And I really think with
4 the connotation of ELG and the increase in expense that
5 ELG will produce, that doing implementing on a going-
6 forward basis for new additions is fair and equitable.
7 MS. HELGA VAN IDERSTINE: Now, you have
8 -- are you aware that Manitoba Hydro has stated that
9 for it to utilize the ASL procedure for depreciation,
10 it will have to further componentize the asset groups?
11 MS. PATRICIA LEE: I am aware of that.
12
13 (BRIEF PAUSE)
14
15 MS. PATRICIA LEE: I would just like to
16 add, if further componentization is needed, it may be
17 needed because it's the right thing to do, not because
18 of ASL or ELG.
19 MS. HELGA VAN IDERSTINE: And as we've
20 seen, with further componentization, ASL can result in
21 higher upfront costs.
22 Is that fair?
23 MS. PATRICIA LEE: I don't necessarily
24 agree with that, no. I think you've asked that before.
25 MS. HELGA VAN IDERSTINE: As we looked

at the turbines and generators?

MS. PATRICIA LEE: Yes. And I said I -- I see the numbers. It doesn't necessarily mean that I agree with it or with the end result.

MS. HELGA VAN IDERSTINE: So I was just -- I just want to look for something for a moment, just to -- I need just one (1) -- one (1) minute.

(BRIEF PAUSE)

MS. HELGA VAN IDERSTINE: If we could turn to the MIPUG Exhibit 12, which was the presentation today, and to the last page?

MS. PATRICIA LEE: I would like to add something to my last response, if I can, please, and that is the turbines and generators question. There's also the question of the different lives. I believe under the ELG, the life for one (1) of the components is shorter than it is under ASL, and I don't know why, so.

That's another -- that is just one (1) reason why I'm not necessarily -- I cannot agree with that exhibit.

MS. HELGA VAN IDERSTINE: And that relates to the underlying data, which I think we've

1 agreed you haven't seen --

2 MS. PATRICIA LEE: Correct.

3 MS. HELGA VAN IDERSTINE: -- or asked

4 for?

5

6 (BRIEF PAUSE)

7

8 MS. PATRICIA LEE: It relates to the

9 data as well as to the assumptions.

10 MS. HELGA VAN IDERSTINE: So as I said,

11 the -- if we can turn -- I think we've got the -- the

12 exhibit that I wanted up on the screen. And I just

13 wanted to draw your attention to a couple of things

14 with respect to this. And the first is that I

15 understand that -- that this was a reference from a

16 transcript at a previous GRA in which Mr. Warden, who's

17 the for -- formally the senior vice president of

18 Finance and Administration and -- and the CFO, was

19 giving evidence.

20 And you can see the transcript evidence

21 note there, "T1650." So I just wanted to point out,

22 because it's important that this doesn't represent the

23 entire transcript reference. And I -- I'd like to read

24 it to you, starting at line 15, Mr. Vince Warden:

25 "Yes, if rate-regulated accounting

1 were approved, or some form of rate-
2 regulated accounting by International
3 Board, then we would, at that point,
4 be -- would be a policy decision as
5 to whether or not we wanted to
6 include -- or to continue to include
7 net salvage value. We would also
8 consider -- perhaps reconsider ELG at
9 that point, as well.
10 MR. RAYMOND LAFOND: That being
11 said, would you really like to avoid,
12 if at all possible, two (2) sets of
13 books, if I can call it such?
14 MR. VINCE WARDEN: Oh, absolutely,
15 yes."
16 And then the reference continues on.
17 Having -- my having refreshed your
18 memory of that, Mr. Bowman, you'd agree that the issue
19 of two (2) sets of books has come up previously in
20 these hearings with some concern expressed by Manitoba
21 Hydro at that time?
22 MR. PATRICK BOWMAN: Oh, absolutely,
23 yes. And -- and I would -- would add that it -- it
24 occurred at a time where there was not an IFRS option
25 for rate-regulated accounting, for -- for whatever

1 that's worth. But, yes, two (2) sets of books has been
2 discussed a number of times.
3 MS. HELGA VAN IDERSTINE: And fair to
4 say that one (1) of the issues for rate regulation, and
5 importance -- and I think Ms. Lee mentioned it earlier,
6 is the need for transparency?
7 MR. PATRICK BOWMAN: I'm not sure which
8 of us should answer it, but I'm pretty sure the answer
9 will be yes, in either event.
10 MS. HELGA VAN IDERSTINE: And, Ms. Lee,
11 are you familiar with the -- with CAMPUT, which is the
12 Canadian Association of Members of Public Utility
13 Tribunals?
14 MS. PATRICIA LEE: Just by name.
15 MS. HELGA VAN IDERSTINE: And it would
16 -- if we can ask to have -- I'm sorry -- our page --
17 just put up -- page 35 from our book of documents put
18 up? It is also found in Exhibit PUB/Manitoba Hydro-II-
19 21(a) to (c) as Attachment 3, page 1, but for ease of
20 reference, I've put it up here.
21 So with reference to this, if you'll
22 note on the first page that the Manitoba Public
23 Utilities Board is a member of CAMPUT?
24 MS. PATRICIA LEE: I see that, yes.
25 MS. HELGA VAN IDERSTINE: And if we

1 turn over to page 37, top of the first -- first --
2 second paragraph there on the page, that's the first
3 full paragraph, CAMPUT was expressing the concern, and
4 I'll paraphrase it. I think I'll let you read it
5 yourself, if you want to read down to the fifth -- or
6 maybe I will read it. It's easier, I guess:
7 "The interim standard resolves one
8 (1) major problem for entities with
9 rate-regulated operations. Our
10 observation is that without the
11 interim standard, these rate-
12 regulated entities will be required
13 to provide two (2) sets of financial
14 statements, as has happened in some
15 other jurisdictions, and as -- and
16 was acknowledged by IASB, one (1) to
17 meet the general purpose financial
18 reporting requirements under IFRS,
19 and the other to present to the rate
20 regulator for the purpose of 1)
21 requesting rate adjustments, 2)
22 regulatory accounting and rate
23 making, and 3) regulatory reporting.
24 As regulators, we find it
25 unsatisfactory and not serving the

1 public interest if there are two (2)
2 views of economic reality of entities
3 with rate-regulated operations."
4 Now, had you had -- did you have a
5 chance to review that before you gave evidence today?
6 MS. PATRICIA LEE: No.
7 MR. PATRICK BOWMAN: Ms. -- Ms. Van
8 Iderstine, if I can just add on top of Ms. -- Ms. Lee's
9 no, that same quote is in Manitoba's rebuttal evidence
10 at page 25 to 26. And in -- in the interest of -- of
11 fulsome quotes, I would -- I would note that further
12 down the page is the key part that Manitoba Hydro
13 underlined, which said:
14 "It behoves the accounting profession
15 to find the appropriate ways to
16 ensure all economic events are
17 reflected in the base numbers
18 reported in general purpose financial
19 statements, requiring rate-regulated
20 entities to leave certain economic
21 events outside the purview of the
22 financial statements, or at best,
23 relegated to no disclosure is not
24 good enough for regulatory actions
25 that affect prices. Furthermore,

1 excluding certain economic events
2 would not serve the needs of users of
3 the financial statements."
4 This letter was written at a time where
5 people were encouraging IASB to come around to the fact
6 that rate regulators have a role in making economic
7 decisions that refle -- that ought to be reflected in
8 the financial statements.
9 And I think -- I think we want to be
10 careful about turning on its head that says, CAMPUT was
11 saying they would follow the auditors.
12 MS. HELGA VAN IDERSTINE: I think the
13 point I was making was with respect to the concern
14 about having two (2) sets of books, and I think you'd
15 agree that that is a concern expressed in this letter.
16 MR. PATRICK BOWMAN: It -- it's
17 expressed in the sense of a bunch of regulators saying,
18 I have a law to follow, and I'm going to do my job.
19 And it's up to you whether you do two (2) or -- two (2)
20 books -- sets of books or not, but it should be --
21 behove you not to do two (2) sets of books, and
22 throwing it onto the IASB.
23 MS. HELGA VAN IDERSTINE: So, Mr.
24 Bowman, you're clearly familiar with IFRS 14?
25 MR. PATRICK BOWMAN: I am -- I am only

1 generally familiar mostly with how it's been portrayed
2 in this hearing.
3 MS. HELGA VAN IDERSTINE: Okay. In the
4 exhibit that -- the book of documents we provided, we
5 provid -- and I'm sorry, it came -- came late in the
6 day. It was this morning that I -- I came across this
7 particular article.
8 So we've distributed it now, and it
9 should be the last item in the -- in the book of
10 documents. Thank you very much, Diana. That's it.
11 This is a E&Y, Ernst and Young,
12 commentary on the IASB issues in IFRS 14, interim
13 standards and regulatory deferral accounts. And in --
14 they have a nice little summary if you go down to the -
15 - the grey box.
16 And what they identify is, first of all,
17 that IFRS allows rate-regulated entities to continue
18 recognizing regulatory deferral accounts in connection
19 with their first -- first-time adoption of IFRS.
20 Existing IFRS preparers are prohibited from adopting
21 this standard.
22 So did you understand that, Mr. Bowan --
23 Bowman, and understand the -- the IFRS 14 to mean that
24 if Manitoba Hydro does not adopt it now, a regulatory
25 deferral account, that they will not be able to do so

later?

MR. PATRICK BOWMAN: It's -- yes, and it's the exact evidence I gave earlier to this Board as to why it can't be a decision for another day.

MS. HELGA VAN IDERSTINE: And the -- the second point:

"Entities that adopt IFRS 14 must present the regulatory deferral accounts as separate line items on the statement financial position and present movements in these account balances as separate line items in the statement of profit or loss or other comprehensive income."

MR. PATRICK BOWMAN: That -- that would cov -- consistent with my understanding.

MS. HELGA VAN IDERSTINE: Okay. And the next point:

"The standard requires disclosures of the -- on the nature of and risks associated with the entity's rate regulation and the effects of that rate regulation on its financial statements."

MR. PATRICK BOWMAN: That reflects my

1 understanding of the standard, and it reflects a
2 considerable amount of the discussion before this
3 standard was ever adopted, that I -- I've been involved
4 in it at -- at times that the financial and audit
5 community had always been nervous that regulatory
6 boards are -- can be unstable.
7 And -- and they don't like financial
8 statements reflecting decisions of regulatory boards
9 who go ahead and change their mind at a later date.
10 MS. HELGA VAN IDERSTINE: And:
11 "The standard is effective for annual
12 periods beginning on January 1st --
13 [or] 1 January 2016. Earlier
14 application is permitted."
15 You'll see that?
16 MR. PATRICK BOWMAN: I -- I do, and I
17 have to admit this one always confused me, because if
18 you're required to adopt IFRS for statements earlier
19 than this, and if this statement has to be adopted at
20 the time you adopt IFRS, I'm not sure why it's give --
21 you're given an extra year to adopt it.
22 It -- the -- the dates never made sense,
23 but I -- I have seen that bullet, and it is a bit
24 puzzling to me.
25 MS. HELGA VAN IDERSTINE: And the --

1 and the next one, as well:
2 "The IASB is continuing its
3 comprehensive rate-regulated
4 activities project, which could
5 result in a standard on rate
6 regulation or decision not to develop
7 specific requirements. By issuing
8 IFRS 14, the IASB is not anticipating
9 the outcome of the comprehensive
10 project."
11 So there -- there's a little uncertainty
12 there, but that's what the -- that's what they're
13 saying.
14 MR. PATRICK BOWMAN: It -- it's an
15 interim standard. I think it's an appropriate caution.
16 The fact of the matter is, people worked for many years
17 to get the -- the accounting standards boards to yield
18 and recognize rate regulators as a -- as a valid entity
19 that can affect regulated utilities.
20 This -- that -- there was near
21 intransigence on the part of the -- of -- of the
22 accounting standards boards community to doing that,
23 and this reflected a -- a major move, a first move in
24 that -- in that direction.
25 I think it's up to anyone's guess as to

1 what happens from here, and I think that bullet is
2 appropriately cautionary in regards to that
3 uncertainty.
4
5 (BRIEF PAUSE)
6
7 MS. HELGA VAN IDERSTINE: Now, in the
8 NFAT, do you recall that the terms for -- you've
9 mentioned it a couple of times in your presentation,
10 that matters had not been referenced in the NFAT.
11 And I wanted to ask you if you recalled
12 the terms of reference for NFAT, and that those were
13 very specific relating to its purpose, and that that
14 purpose was specific to the Preferred Development Plan,
15 and did not include a review of sustaining capital?
16 MR. PATRICK BOWMAN: I -- I recall that
17 the terms of reference were -- were very specific to
18 the Preferred Development Plan. It was -- certainly
19 was not a GRA, but I think it's fair to say a
20 considerable amount of the -- of the evidence went to
21 the question of the risks inherent in the plan. That
22 may even have been the words in the terms of reference.
23 And for the entire hearing, that was always viewed
24 through the lens of this Utility, given what it faces
25 in the next twenty (20) years with all of its other

1 challenges, can it handle these plans?
2 And -- and the -- the -- it was never --
3 the concept of a new entity or something, it was always
4 viewed in light of -- of Manitoba Hydro and -- and
5 certainly all of the cashflow forecasts and the income
6 statement forecasts always had a -- a -- the CEF
7 assumptions built into them.
8 MS. HELGA VAN IDERSTINE: And so you're
9 aware that the asset condition report, which comments
10 on these assets, was dated December 2014, and that's
11 considerably after the NFAT proceedings?
12 MR. PATRICK BOWMAN: I'm -- I'm aware
13 of that and the asset condition report that was filed
14 in this hearing. I also recall considerable discussion
15 about asset condition assessments at the last GRA, and
16 I -- I don't think that was the first time the -- the
17 work or the concept arose. It seems to me I've heard
18 people have been working at it for quite awhile.
19 But -- but the -- the document is dated
20 post-NFAT.
21 MS. HELGA VAN IDERSTINE: And if I
22 could get, Diana, please, if you wouldn't mind, to turn
23 to MIPUG Exhibit number 12, which was their
24 presentation today, and go to page...
25

(BRIEF PAUSE)

MS. HELGA VAN IDERSTINE: And if we could turn to page 27?

(BRIEF PAUSE)

MS. HELGA VAN IDERSTINE: Can you tell us where you got the supporting data for the 2.5 percent analysis you did?

MR. PATRICK BOWMAN: Two point five (2.5) percent rate increases are -- are calculated off of one (1) line of the IFF, where it has a row of -- of rate percentages as a -- as a percentage of the existing rates in place at that point in time. It's a -- it's a -- a straight multiplication.

(BRIEF PAUSE)

MR. PATRICK BOWMAN: I'd be happy to provide the calculation, if it helps.

(BRIEF PAUSE)

MS. HELGA VAN IDERSTINE: And would

1 that also change the finance expense?
2 MR. PATRICK BOWMAN: Yes, it does.
3 Hydro filed a number of cases of different rate
4 increase scenarios and the finance expense changes in
5 all of them. But it's -- it's very easy to -- to look
6 at the -- the finance expense as a function of the
7 balance of debt. And if the balance of debt changes by
8 $100 million, because you've collected 100 million less
9 in rates, you'd apply the -- the finance rate for that
10 year to that change at $100 million, and you come up
11 with the change in cash.
12 But as I said, I can provide the
13 mathematics, but it's a -- it's about -- it's a -- it's
14 a quite simple calculation to do that, the same way
15 that Hydro did it in their scenarios.
16 MS. HELGA VAN IDERSTINE: So if -- if
17 you wouldn't mind providing that information, we would
18 be grateful. So that will be an undertaking.
19 MR. PATRICK BOWMAN: The undertaking is
20 to provide the underlying data of the -- slide 27 of
21 Exhibit MIPUG-12 and show the calculations of how rate
22 increase calculations were done, as well as how the
23 related impacts on finance expense were calculated.
24
25 --- UNDERTAKING NO. 78: MIPUG to provide the

1 underlying data of slide 27
2 of Exhibit MIPUG-12 and
3 show the calculations of
4 how rate increase
5 calculations were done, as
6 well as how the related
7 impacts on finance expense
8 were calculated
9
10 MS. HELGA VAN IDERSTINE: If I just
11 might have one (1) minute? I think I'm done.
12
13 (BRIEF PAUSE)
14
15 MS. HELGA VAN IDERSTINE: Thank you
16 very much. Those are my questions. Thank you for your
17 time and patience, Ms. Lee, Mr. Bowman.
18 MS. PATRICIA LEE: Thank you.
19 THE CHAIRPERSON: Thank you, Ms. Van
20 Iderstine. Mr. Peters, please.
21 MR. BOB PETERS: Yes, thank you, Mr.
22 Chairman, I expect to be shorter than half an hour.
23 And I'll thank my colleagues, and as well, the
24 qualities of the presentations and the materials that
25 have been provided.

1 MR. ANTOINE HACAULT: I just have a
2 question, Board counsel and of the Board. There was
3 one (1) question in re-exam that I would be asking Ms.
4 Lee as a result of the questioning, and I can leave
5 that to the very end. I don't know what the wish of
6 the Board is.
7 MR. BOB PETERS: I always like to get
8 the information earlier, Mr. Hacault, but you're
9 expecting Ms. Van Iderstine may also have questions?
10 MR. ANTOINE HACAULT: No, my -- my
11 question was arising from Mrs. Van Iderstine's
12 question. And I'll just let you know it specifically
13 relates to the turbines generator question and the
14 ASL/ELG. And she showed the witness one (1) part of
15 the table, and I would have directed the witness to
16 another part of the table, because she referenced some
17 numbers, but without looking at the table. So that's -
18 - that's the area of -- that I -- I wanted to deal
19 with.
20 THE CHAIRPERSON: Well, let's do it --
21 can we do it right now? Okay, let's do it right now.
22 Thank you.
23
24 RE-DIRECT EXAMINATION BY MR. ANTOINE HACAULT:
25 MR. ANTOINE HACAULT: Diana, and people

1 can follow this in two (2) ways, either -- yeah, PUB
2 book of documents 216 is where the Appendix 11.49
3 analysis was done, two-one-six (216). And...
4
5 (BRIEF PAUSE)
6
7 MR. ANTOINE HACAULT: The -- I think --
8 yeah, I think we're okay. Okay. There's a line that's
9 called Keeyask turbines and generators.
10
11 (BRIEF PAUSE)
12
13 MR. ANTOINE HACAULT: Can you go a bit
14 further down? And there is -- on that table you had
15 previouly -- previously referenced, there is indicated
16 estimated average service life, as I see, seventy-five
17 (75) years for turbines and five-zero, (50), fifty (50)
18 years for generators.
19 Are you following me so far?
20 MS. PATRICIA LEE: Yes, sir.
21 MR. ANTOINE HACAULT: Okay. And if we
22 go to the ASL lifespan and look at the lives, you'll
23 see that, and you were referencing lives, the turbines
24 is attributed seventy-five (75) years under the study?
25 MS. PATRICIA LEE: Correct.

1 MR. ANTOINE HACAULT: Which is the same
2 as the average service life vintage?
3 MS. PATRICIA LEE: The estimated
4 average service life for the ELG portion is the same as
5 the seventy-five (75) years for the lifespan for the
6 ASL.
7 MR. ANTOINE HACAULT: Now, we'll get
8 back to ELG.
9 MS. PATRICIA LEE: Oh.
10 MR. ANTOINE HACAULT: ELG is --
11 MS. PATRICIA LEE: I'm sorry, I have
12 them -- I have them backwards. Seventy-five (75) --
13 the -- the lifespan of seventy-five (75) is ASL, and
14 the average service life of seventy-five (75) is ELG.
15 I had them backwards.
16 MR. ANTOINE HACAULT: Okay. And for
17 generators, we see the average service life is shown as
18 fifty (50) years?
19 MS. PATRICIA LEE: Correct, for ELG.
20 MR. ANTOINE HACAULT: And we see
21 there's a different life shown -- lifespan shown for
22 the calculation of ASL. What -- what's that life?
23 MS. PATRICIA LEE: That's forty-five
24 (45). And I think we talked about that earlier, that I
25 don't understand why it's forty-five (45), when for

1 ELG, it's fifty (50). And if you composite the
2 seventy-five (75) and the forty-five (45) together for
3 the ASL, the composite life is, I believe, somewhere
4 around sixty-one (61).
5 MR. ANTOINE HACAULT: So for the non-
6 tech people like me, if I choose forty-five (45)
7 instead of fifty (50), what does that do directionally
8 to my depreciation amount, if I choose a shorter life
9 span to depreciate the asset?
10 MS. PATRICIA LEE: Can we move the
11 screen over just to the right a little bit, because I -
12 - I -- right there.
13 If you look at the composite that they
14 used for ELG, it's sixty-five (65). That is longer
15 thank -- thank you. It's been a long day. It's a
16 longer life for ELG than it is for ASL, and that's why
17 the rates are the way they are.
18 I don't -- I do not know how they
19 derived the -- or -- or what -- I don't know how they
20 derived it. I don't -- didn't see the backup.
21 MR. ANTOINE HACAULT: So is your point
22 that if they had used the same life spans, you would
23 have a different result, but for ASL they shortened the
24 life span which cause -- causes a mathematical increase
25 in the depreciation rate?

1 MS. PATRICIA LEE: It certainly appears
2 that way, yes.
3 MR. ANTOINE HACAULT: Thank you.
4
5 (BRIEF PAUSE)
6
7 THE CHAIRPERSON: Mr. Orle or Mr. Masi,
8 any follow-up questions to what we just covered? No?
9 Manitoba Hydro --
10 MR. GEORGE ORLE: No follow-up
11 questions.
12 MR. TOMAS MASI: No questions, Mr.
13 Chair.
14 THE CHAIRPERSON: Manitoba Hydro...?
15 MS. HELGA VAN IDERSTINE: No, thanks.
16 THE CHAIRPERSON: Thank you for that.
17 Mr. Peters, please?
18
19 CROSS-EXAMINATION BY MR. BOB PETERS:
20 MR. BOB PETERS: All right. Mr.
21 Bowman, just a couple of clean-up areas that I want to
22 make sure the record is clear on, sir, and the first
23 one we're going to start with you on is the -- the
24 discussion you've given the Board about the overhead
25 that has been capitalized or not capitalized.

1 Do you recall that?
2 MR. PATRICK BOWMAN: Yes.
3 MR. BOB PETERS: And would it be
4 correct to summarize your evidence as saying that all
5 of this additional $55 million of additional overhead
6 costs in 2015/'16 need not be expensed?
7 MR. PATRICK BOWMAN: Yes. Yes.
8 MR. BOB PETERS: And when I go to slide
9 36 on what's been marked as MIPUG Exhibit 12, make sure
10 I understand in terms of how much of that 55 million
11 need not be expensed such that it has an impact on the
12 rates.
13 Are you suggesting all of it?
14 MR. PATRICK BOWMAN: I'm suggesting,
15 Mr. Peters, that a practical means of implementing this
16 that avoids the two (2) sets of books problem is for
17 Hydro to continue to capitalize all of the overhead
18 that is only being proposed to be expensed as a result
19 of the transition to IFRS.
20 By doing it in that manner, I -- I can
21 take you to an exhibit that shows the exact numbers,
22 but nonetheless, in doing it in that manner, it's a --
23 it's a definable set of categories, and it would --
24 would fit, in my submission, well into the -- the IFRS
25 14 standard that would allow them to -- to continue to

1 follow a -- a regulatory accounting within their
2 financial books, as well as to provide this Board that
3 type of information.
4 MR. BOB PETERS: No, we've got the --
5 we've got the underlying evidence. I understand your
6 point, Mr. Bowman, thank you.
7 Just while I'm on that page that's on
8 the screen, the risk factor mentioned at the bottom of
9 the slide 36 is the same issue that you and Ms. Van
10 Iderstine were referring to in terms of what can be
11 done under IFRS 14?
12 MR. PATRICK BOWMAN: Yes. And I -- I
13 only note that I put it last intentionally. I don't
14 think it's determinative. I think the Board has to
15 decide the right things, but it sure would be nice if
16 somebody could -- could capture the IFRS 14 exemp --
17 exemption or room on this topic.
18 MR. BOB PETERS: Mr. Bowman, when you
19 analyze the economics of DSM, is the value of DSM in
20 the deferral of generation or in the increased ability
21 to export electrons?
22 MR. PATRICK BOWMAN: Mr. -- Mr. Peters,
23 it -- it depends at where the utility is within its
24 planning cycle. If you're closing on a date where you
25 need to build a plant, and your triggers for building

1 that plant are load, and you can reduce that load and
2 push the plant out and that reduces your net cost, then
3 deferral of plant can be a -- a relevant consideration,
4 whether that's generation or frankly as a substation
5 upgrade.
6 But Manitoba Hydro's in a very different
7 situation in that DSM today is not -- can't easily be
8 presented as deferring what I can do for Keeyask.
9 Could one defer Conawapa?
10 I -- I don't think Conawapa's -- I think
11 the evidence we heard in NFAT is that Conawapa's date
12 will be -- if it ever comes forward, will be determined
13 by a whole bunch of outside factors, including when you
14 can get contracts with counterparties.
15 And it won't be one that can easily move
16 six (6) months this way or twelve (12) months that way.
17 It will be a very -- a large commitment. So -- and,
18 further, I think Hydro would say deferring isn't always
19 positive. Deferring allows you to -- misses economics.
20 So in the case of Manitoba Hydro, a
21 deferral concept like they've been using based on -- on
22 export revenues make -- makes sense, or I guess export
23 revenues being the dominant factor, but also costs of
24 droughts and fuel and all -- all of the other factors
25 that go into the -- the sum of all of the water flow

1 conditions.

2 MR. BOB PETERS: Thank you. I've got

3 your point. In terms of the Curtailable Rates Program

4 and the recommendations you've given the panel, can you

5 -- are you in a position to advise the Board as to

6 whether there are any MIPUG members requesting to join

7 the Curtailable Rates Program?

8 MR. PATRICK BOWMAN: I'm able to advise

9 the Board that they had a presentation from one (1) of

10 the MIPUG members at NFAT who indicated they wanted to

11 join. And I -- I'm not aware of any change in that.

12 And there are at least two (2) other

13 members I know of who have had discussions with us

14 about the Curtailable Rate Program and how it works.

15 But I don't know that they're at the point of -- of

16 pushing Hydro to sign.

17 MR. BOB PETERS: Diana, slide 53 from

18 MI -- MIPUG Exhibit 12 is on the Curtailable Rates.

19 Mr. Bowman, what's the impediment to the

20 members joining at this point in time? Are they

21 looking to join Option A, Option R, or Option C?

22 MR. PATRICK BOWMAN: I -- I would -- to

23 my understanding, the Curtailable Rates Program tends

24 to be -- the vast majority of people's consideration

25 with it is Option A. Option R is a fairly unique

1 element, and Option C is -- is very narrow.
2 Option C is -- is not that valuable
3 because the credit is discounted substantially because
4 you -- you have this one (1) hour notice period, so
5 it's not as valuable to Hydro.
6 So in most cases, we talk with someone -
7 - and -- and then there's Option E, of course. But in
8 most cases, when you talk about the Curtailable Rates
9 Program, you're basically talking about Option A.
10 And the impediment right now is that
11 Option A has an interim cap at 180 megawatts, which is
12 approximately the current subscription to it.
13 MR. BOB PETERS: So you're telling this
14 Board that your understanding is that there are clients
15 and customers of Manitoba Hydro who want to subscribe
16 for Option A under the Curtailable Rates Program, but
17 they are unable to subscribe because of the 180
18 megawatt interim cap at this point in time?
19 MR. PATRICK BOWMAN: Yes, Mr. Peters.
20 I sat in the room while that was presented to this
21 Board in NFAT, and, like I said, my -- my understanding
22 is -- is that hasn't changed.
23 MR. BOB PETERS: Do you have an
24 understanding, Mr. Bowman, as to what your view of the
25 Curtailable Program would be if the curtailments per

1 year were increased from what the current level is?
2 MR. PATRICK BOWMAN: When you say,
3 "your view of the program," I'm not sure I understand
4 that.
5 MR. BOB PETERS: Let me ask it this
6 way. You're aware that approximately circa
7 2005, there was a change such that the number of actual
8 curtailments of CRP customers decreased?
9 MR. PATRICK BOWMAN: Yes.
10 MR. BOB PETERS: And what's your
11 understanding as to the reason for that?
12 MR. PATRICK BOWMAN: The reason is
13 because in the initial design of the program, Hydro had
14 a terms of reference that gave it a scope of reasons it
15 can cause a curtailment.
16 And one (1) of those reasons was read to
17 say -- and I won't get into whether it was read
18 accurately, but it was read to say they can do it for
19 export market opportunities.
20 In a period in -- in the -- the late
21 '90s, early 2000s, to my recollection, export markets
22 were -- were quite -- quite high. Hydro had a program
23 that gave it a lot of opportunities to interrupt.
24 It had quite large numbers at the time,
25 and it would use them for four (4) hour interruptions,

1 not because it needed the capacity, but because it
2 could take that energy and sell it to Minnesota for a
3 profit.
4 And I would suggest it's not the purpose
5 of a curtailable program. It's a -- that's an entirely
6 different concept. Hydro apparently agreed, and -- and
7 got the -- the obvious pushback from the customer who
8 was getting interrupted twice a day every time it got
9 hot in Minneapolis for four (4) hours and ele --
10 elected to say that they needed to preserve the value
11 of the important reliability curtailments and not lose
12 the customer, not have them quit the program.
13 So they came in with a -- Hydro proposed
14 on their own, I give them credit, a narrowing of the
15 scope and a major reduction in the number of
16 curtailments allowed so that it could give the -- the
17 customers comfort that -- that this situation wouldn't
18 continue. And that's been the case ever since.
19 MR. BOB PETERS: When you were critical
20 of the insufficient credit ascribed by Manitoba Hydro
21 to the CRP, that was premised on Manitoba Hydro's
22 reflection of the curtailable rates program in the
23 Power Resource Plan?
24 MR. PATRICK BOWMAN: Well, in the -- in
25 the Power Resource, and -- but the Power Smart Plan if

1 -- if anything. The two (2) -- but the two (2) should
2 correspond. The Power Resource Plan is the Utility's
3 assessment of the resources it has available to it.
4 The Power Smart Plan is -- is the DSM component where
5 it calculates the value of a DSM resource and -- and
6 proposes programs.
7 In both it -- it -- the curtailable is -
8 - the view of it's excessively conservative.
9 MR. BOB PETERS: Is it your view that
10 the CRP as a capacity resource should be given greater
11 prominence in both the Power Resource Plan and the
12 Power Smart Plan?
13 MR. PATRICK BOWMAN: Yes, within
14 limits. And -- and it's one (1) of the reasons why
15 we're not saying take off caps entirely. Because a
16 program like this has value as long as you haven't over
17 subscribed it. Okay. The -- the -- if -- the first
18 megawatt subscribed to the program is a wonderful
19 resource.
20 The -- the 10,000th megawatt isn't worth
21 very much to you. And somewhere in there -- the -- the
22 numbers go up the value goes down. We -- we accept
23 that. So the issue is -- is whether -- it's how you --
24 it's how you protect the value of the program to the
25 existing customers, not that you triple the size, half

1 the credit, and then they're all gone.

2 MR. BOB PETERS: Is there value in the

3 CRP as a energy resource?

4 MR. PATRICK BOWMAN: Only in Option E.

5 Option E is valuable as an energy resource -- just so

6 that people understand, Option E is a -- is a unique

7 component because it's the only one that has an energy

8 value, but it's a very extreme drought planning tool

9 where you can interrupt the customer, not for four (4)

10 hours, but for ten (10) days, and you can do it three

11 (3) times in a year.

12 So effectively a customer is putting at

13 risk a month of its production, which is very large,

14 very substantial, but they know that they're way down

15 in the stacking order on terms of a drought risk. As a

16 matter of fact the -- the option has -- has never been

17 used because we've never hit that level of -- of

18 sustained drought in Manitoba since the program has

19 been in place.

20 That resource does have an energy value.

21 And -- and that energy value is not presently reflected

22 in the Power Resource Plan. It's -- it's one (1) of

23 the -- the safety valves that Hydro cites.

24 MR. BOB PETERS: All right. In turning

25 to some depreciation questions in the time I have, and,

1 Ms. Lee, I'd welcome your advice to the Public
2 Utilities Board as well, as Mr. Bowman's.
3 Mr. Bowman, I'll start with you, but,
4 Ms. Lee, if you choose to pipe in you certainly are
5 welcome to do so. And likewise, Mr. Bowman, if I as a
6 question of Ms. Lee you're welcome to provide your
7 comments.
8 Would the Board understand, Mr. Bowman,
9 that MIPUG's concern about equal life group methodology
10 from -- from MIPUG's perspective is the -- what we've
11 called -- or what we've heard to be called front
12 loading of the depreciation expense?
13 MR. PATRICK BOWMAN: Mr. -- Mr. Peters,
14 the -- the evidence I provide is -- is my own opinion
15 and I'm -- I'm always cautious about suggesting I speak
16 for the members. I -- I can really think that they've
17 asked me to relay, but. The members would have a
18 concern that in a -- a decade of severe headwinds
19 anyone would chose to impose standards or -- look at
20 whether that would be on an income statement or
21 cashflow that -- that makes things harder than they
22 need to be.
23 Speaking for myself, the concern is that
24 in terms of recognizing the costs of an asset, putting
25 aside accounting, it's -- it's a basic economic premise

1 of how do you take into account the -- this asset
2 that's being brought into service. You can have a
3 spectrum from sort of soups and nuts if you like and
4 somewhere over on one end is the stuff -- the versions
5 I talked about with respect to Bipole III -- or Bipole
6 I and II where ACL financed it and -- and darn near let
7 Hydro use it for -- for free for a couple of years with
8 no interest or depreciation expense.
9 And on the far other end you have the
10 most extreme options of bringing in an asset, which is
11 ELG. Somewhere on that spectrum is ASL closer to the
12 ELG end. As you move over, there are other methods
13 that people talk about, like sinking funds methods and
14 -- within the spectrum. But -- but ELG is on the very
15 far end of aggressive in terms of how you could think
16 about trying to do that with assets.
17 MS. PATRICIA LEE: I would agree with
18 that, yes, yes.
19 THE CHAIRPERSON: Mr. Bowman, are you
20 sure that your clients aren't using ELG?
21 MR. PATRICK BOWMAN: I -- Mr. Chairman,
22 I -- I don't know whether they're using it or not.
23 THE CHAIRPERSON: You're simply
24 proposing that for the -- for the purposes of this
25 rate-setting process, we abandon the idea of ELG and

1 just use ASL?

2 MR. PATRICK BOWMAN: I'm -- I'm

3 suggesting consistency with what was there in terms of

4 ASL. But I -- in my experience, utilities spend a

5 considerably more time debating these depreciation

6 issues than most other industrial type of operations,

7 and -- and -- there's -- it's my first comment.

8 The second is, none of these matter if

9 you're not doing group depreciation methods. And a --

10 a lot of the -- the industries that have very diverse

11 assets wouldn't be using group methods.

12 THE CHAIRPERSON: But I'm simply making

13 the point that, you know, be cautious about saying that

14 one (1) method is better than another, because your

15 members may be using ELG. You know, members of MIPUG

16 may be using ELG for reporting purposes, for their own

17 financial reporting purposes. So --

18 MR. PATRICK BOWMAN: Oh -- oh.

19 THE CHAIRPERSON: So -- so, I -- you

20 know, I -- you have to be careful about the kind of

21 statements that you would make about the accuracy of

22 one (1) versus the other when a number of companies are

23 using this, and it's quite acceptable in the financial

24 reporting circle.

25 So admittedly, I think you've

1 highlighted some of the deficiencies of ELG versus ASL,
2 but, you know, I -- I guess what I'm saying is that
3 it's quite acceptable methodology. It's just, you
4 know, you're -- you're voicing the opinion that, in
5 this case, given the fact situation, we should be using
6 a different alternative, because it yields a lower
7 rate?
8 MR. PATRICK BOWMAN: Mr. Chairman, I
9 agree with everything up to your last four (4) words.
10 I think in this situation is the -- the most important
11 words in terms of setting rates for Hydro. There --
12 there are many things that are on the table that could
13 be acceptable in different situations. Putting
14 overheads through income statement, not -- not
15 capitalizing them is -- is acceptable in -- in many
16 situations where you're trying to reflect the purposes
17 of a financial statement for -- for one (1) purpose,
18 but that's not what we're trying to do.
19 We're trying to reflect a -- a view of
20 the utility that's ref -- that's dealing with fairness
21 issues, assisting with balance between different
22 generations and that is facing this -- this decade of
23 facts that we were -- we're going through. In a
24 different set of facts, you might come up with a
25 different conclusion, and -- and certainly, some other

1 utilities and other regulators did.
2 Ms. Lee highlighted that, if you were
3 coming in here and every -- if every hearing, Hydro
4 came in and said, We're behind on depreciation again,
5 let's raise our rates, we're behind on depreciation
6 again, let's raise our rates, I think this Board would
7 be very favourable to sitting there and saying, Is
8 there something we can do that's more aggressive,
9 because I'm sick of sitting here and hearing we're
10 behind again, and how do we raise our rates? But
11 that's not what you're hearing.
12 You're hearing, you know, after -- study
13 after study, Oh, we're ahead, we got surpluses and
14 we're facing huge headwinds, but let's -- let's raise
15 our rates. And it's like, Wait, what?
16
17 CONTINUED BY MR. BOB PETERS:
18 MR. BOB PETERS: Ms. Lee, Manitoba
19 Hydro's assets, and the most expensive ones, tend to be
20 the long-lived assets.
21 You'd agree with that?
22 MS. PATRICIA LEE: Yes, sir, I would.
23 MR. BOB PETERS: And is it just because
24 an asset is long lived that average service life
25 methodology is recommended over equal life group?

1 MS. PATRICIA LEE: No, that's not true.
2 MR. BOB PETERS: So the life of the
3 asset doesn't influence whether it should be ASL or
4 ELG?
5 MS. PATRICIA LEE: No, I -- I just have
6 a fundamental concern with the ELG procedure.
7
8 (BRIEF PAUSE)
9
10 MR. BOB PETERS: I'll come back to --
11 to your slides and I'll make sure that we've covered
12 that, or I'll -- I'll try to get that.
13
14 (BRIEF PAUSE)
15
16 MR. BOB PETERS: Mr. Bowman, in your
17 pre-filed evidence, and we could turn to it if you
18 wish, but there was a suggestion that you -- you were
19 concerned Manitoba Hydro's policies do not match the
20 equal life group early asset retirement assumptions, I
21 believe, because you felt some of those retirements may
22 be treated as maintenance as opposed to retirements.
23 Do you recall that?
24 MR. PATRICK BOWMAN: Yes.
25 MR. BOB PETERS: Your point was, if a

1 hydro pole is knocked over by a truck, it's an O&M
2 expense, it's not -- it's not an end-of-life of the
3 pole, simply through its useful life has been lived
4 out? MR. PATRICK BOWMAN: Not quite. My
5 point is your capital asset policies need to be
6 consistent with your depreciation policies. If your
7 capital asset accounting policies, your capitalization
8 policies, are going to say, for example -- and it's a
9 distribution example, but are going to say, For example
10 if a distribution pole is hit by a car two (2) years
11 old we're going to -- we're going to swap it out with
12 another one from O&M and keep depreciating it as -- as
13 if it was -- you know, with -- without affecting our
14 depreciation.
15 If that's the way your capitalization
16 policies are structured, then an ELG method, which
17 takes your full suite of new poles and says, Some of
18 those are going to last one (1) year and have to be
19 fully amortized over one (1) year, and some of them are
20 going to last two (2) years and have to be fully
21 amortized over two (2) years, and slice -- makes all of
22 your little slices, that premise that says some of them
23 are going to last two (2) years and have to be fully
24 amortized because at the end I'm going to dispose of it
25 and capitalize a new one, is -- is wrong because you're

1 not going to capitalize a new one. You're going to put
2 it through O&M.
3 And so the ELG process needs to be
4 consistent with your capitalization policies, and --
5 and I don't think I'm -- I'm off base on that. I think
6 any -- and, you know, anybody who's -- would be dealing
7 with -- with depreciation topics would -- would expect
8 to -- to have them mesh with capitalization policies.
9 MR. BOB PETERS: That's a matter of
10 data? I'm sorry, Ms. Lee, I didn't mean to interrupt -
11 -
12 MS. PATRICIA LEE: No, and that's a
13 concern that I have as well because for many of these
14 accounts, you have very few retirements. Well, you
15 have to wonder, Is it that they're not retiring the
16 assets? Are they charging it as an O&M expense when
17 the asset is retired and they're just not booking it as
18 a retirement? Is that why you're not seeing the
19 activity?
20 And if you're applying a curve shape
21 that does infer or imply early retirements, or
22 retirements all the way down, then certainly ELG is
23 going to give you a skewed answer.
24 MR. PATRICK BOWMAN: And -- and I would
25 -- oh, go ahead.

1 MS. PATRICIA LEE: No, go ahead. Go
2 ahead.
3 MR. PATRICK BOWMAN: Okay. And it's
4 not just a data issue, Mr. Peters. It's a -- it's a
5 fundamental premise of the -- of the ELG method that --
6 that some things live less and some things live more,
7 and you need to amortize them over the less. But it --
8 but it's premised on the fact that you will dispose of
9 and recapitalize at the end.
10 And if you're not doing that, you don't
11 have a data issue, you have a -- you have a mismatch.
12 MR. BOB PETERS: Ms. Lee, if we -- if
13 there was a perfect world where asset groups were
14 identical, would both ELG and ASL yield the same
15 results?
16 MS. PATRICIA LEE: Identical as far as
17 lives?
18 MR. BOB PETERS: Yes.
19 MS. PATRICIA LEE: Yes.
20
21 (BRIEF PAUSE)
22
23 MR. BOB PETERS: And so if there are
24 assets with different service lives in one (1) group,
25 that's where the issue arises?

1 MS. PATRICIA LEE: Definitely.
2 MR. BOB PETERS: And on slide 10 of Mr.
3 Bowman's presentation marked as MIPUG-12, there was
4 something that caught my eye, Mr. Bowman. Is there a
5 suggestion that Manitoba Hydro should consider
6 different group depreciation methodology for different
7 classes of assets?
8 Such as, Mr. Bowman, distribution poles
9 should be depreciated through ELG theory, where
10 generation and transmission should go through average
11 service life?
12 MR. PATRICK BOWMAN: No, not
13 necessarily, Mr. Peters. The -- the point of that
14 slide was simply to say that if -- if the Board asked
15 the question about -- about whether Hydro can do
16 statistical analysis on its plant in order to come up
17 with a reliable ELG curve, the answer to that might be
18 yes, if we're talking about 65 foot cedar poles. We've
19 got lots of those, and we've been using them for years.
20 But the answer might be no, if we talk about turbines
21 because there's not that many. There's what, a
22 hundred, and we haven't retired very many.
23 So your -- your ability to do that
24 assessment is like, Is -- is life insurance a good
25 business? It is if you have lots of customers. If you

1 have two (2) it's a mug's game because you don't have
2 the -- the actuarial basis to -- to want to -- to -- to
3 people to come up with -- with the protection you need.
4 MR. BOB PETERS: Diana, I didn't ask
5 you but I wonder if you could find PUB Exhibit 22, and
6 find page 14 of that exhibit. It's PUB Exhibit 22, and
7 I think my colleague, Mr. Hombach, was speaking to that
8 I think with Mr. Kennedy. I recall reviewing some of
9 the transcript.
10 And looking at page 14, a question, Ms.
11 Lee, that was asked of you by Board member Kapitany,
12 and I'm not sure the answer was -- was fully developed
13 on the record, but the question had to do with why it
14 appeared that equal life group procedures were yielding
15 higher depreciation expense, certainly in the early
16 years.
17 And I understood your answer to be that
18 the short-lived assets are depreciated faster under
19 ELG.
20 MS. PATRICIA LEE: That is correct.
21 And -- I'm sorry. That is correct. And in this
22 example, you will see that item A under ELG has a life
23 of one (1) year, and it is depreciated at 100 percent.
24 It has a one (1) year life. Item B --
25 MR. BOB PETERS: But that --

1 MS. PATRICIA LEE: I'm sorry. Go
2 ahead.
3 MR. BOB PETERS: Well, let -- I don't -
4 - well, let me interrupt then, if I have already. That
5 item A, though, we've -- we've agreed in this -- this
6 example -- and this is an example from the -- the NARUC
7 manual?
8 MS. PATRICIA LEE: Correct.
9 MR. BOB PETERS: One that you've seen
10 previously?
11 MS. PATRICIA LEE: Yes.
12 MR. BOB PETERS: All right. So that
13 item A by definition has a life of one (1) year,
14 whether it's depreciated under equal life group or
15 under the vintage group, which we can also call the
16 average service life, correct?
17 MS. PATRICIA LEE: Under the vintage
18 group procedure, whether it's item A, B, or C, they're
19 all -- all of those are depreciated at the same rate.
20 MR. BOB PETERS: Yes. But my question
21 was that item A has a cer -- has a life of one (1)
22 year.
23 MS. PATRICIA LEE: Oh, I understand
24 what you're -- I understand what you're -- you're
25 asking now. It has a life of one (1) year by the

1 assumed curve shape implies that, yes.
2 MR. BOB PETERS: And by looking at this
3 chart, we don't know if item A lived longer than a
4 year. We're assuming it didn't, correct?
5 MS. PATRICIA LEE: Correct.
6 MR. BOB PETERS: And so that under ELG,
7 the item A is fully depreciated within -- by the end of
8 its useful life.
9 MS. PATRICIA LEE: It's presumed useful
10 life.
11 MR. BOB PETERS: All right. And would
12 you then agree that item A, under the VG or the average
13 service life procedures, is only 50 percent depreciated
14 under its assumed service life?
15 MS. PATRICIA LEE: Correct, and that
16 has to do with the averaging, yes.
17 MR. BOB PETERS: All right.
18 MR. PATRICK BOWMAN: Mr. Peters, if I
19 can just jump onto that, pursuant to your invitation,
20 there's -- this example is very similar to the one that
21 Mr. Kennedy used and -- and Hydro had included in our
22 book of documents to us but we didn't end up using,
23 which shows a five (5) year and a fifteen (15) year
24 asset and -- and how amortization occurs against those.
25 MR. BOB PETERS: Can we just pause you,

1 Mr. Bowman, and put it up on the screen for the benefit
2 of the panel?
3 MR. PATRICK BOWMAN: Sure.
4 MR. BOB PETERS: This is out of
5 Manitoba Hydro Exhibit 122?
6 MR. PATRICK BOWMAN: Page 61 of the
7 book they handed me. I'm --
8 MR. BOB PETERS: That's the last page
9 of the book?
10 MR. PATRICK BOWMAN: Yeah.
11 MR. BOB PETERS: Just a second, please.
12 MR. PATRICK BOWMAN: That's the one.
13 Bigger numbers in my journal are easier to follow.
14 So this has been put forward as an
15 example of how an average service life procedure works
16 and how an equal life group procedure works. And --
17 and there was some -- there was some discussion on this
18 one, so I thought it might be more familiar.
19 And the con -- the comment in regards to
20 this example is -- there was two (2). The first one is
21 an asset lasts five (5) years and an asset lasts
22 fifteen (15) years under this example presumes perfect
23 foresight at the beginning.
24 If you had that perfect foresight, the
25 left-hand side is not average service life. The left-

1 hand side is called bad componentization. The right-
2 hand side is average service life.
3 In other words, they'd be two (2)
4 different groups, one that was five (5) years and one
5 that was fifteen (15) years, if I had that perfect
6 information at the beginning, okay?
7 The issue is I don't have that perfect
8 information at the beginning, and so I have to work
9 with the premise of -- of statistical lives and
10 distribution. And one (1) of the problems with this
11 example is that it fails to note that ELG doesn't work
12 to assume there's a retirement at five (5) and a
13 retirement at fifteen (15).
14 With these two (2) assets, ELG would
15 assume, if you have two (2) assets, that point one (.1)
16 of an asset survives one (1) year, and point one-five
17 (.15) of the asset survives two (2) years, and point
18 two-five (.25) of the asset survives three (3) years.
19 And you can draw the entire curve and you end up with
20 these -- these increments which are not necessarily
21 meaningful when applied to small numbers of units.
22 Okay. That's -- that's one (1) of the
23 problems is this -- this -- these examples, as -- as
24 Mr. Kennedy said, you oversimplify and you run into the
25 problems with the simplification.

1 If you don't mind if we go back to the
2 one that Ms. -- Ms. Lee was looking at with the NARUC
3 manual, the issue, now that we go back to this, is
4 these two (2) procedures are there. But what have you
5 done to apply these rates to these assets now?
6 Under the ASL or VG procedure there, in
7 this case you have three (3) assets. And as Ms. Lee
8 gave the example, you have an average service life
9 procedure. You would come up with a rate for this
10 class. It would be applied to all of the assets in the
11 class, one (1) rate. And it would lead to the
12 conclusions you had, which is some of the assets are
13 retired early. And -- and in theory, they're under-
14 depreciated and some would provide later, and in
15 theory, they're over-depreciated. Even though you
16 always knew they were going to average to the end, and
17 that over-depreciation meant that this under -- under-
18 depreciation is designed that way.
19 The ELG one works where you have three
20 (3) rates for this class, okay? That is the ELG
21 procedure as it's meant to work, and where you get 100
22 percent amortization. So you get to the bottom, and
23 you see that there would be three (3) rates for this
24 class.
25 Hydro's study doesn't generate three (3)

1 rates for this class. It generates one (1) rate for
2 the class, because it goes back and just meshes it
3 together. MS. HELGA VAN IDERSTINE: So --
4 MR. PATRICK BOWMAN: That's where we
5 lose the period of ELG, so --
6 MS. HELGA VAN IDERSTINE: -- so I --
7 I'm just going to object a little bit. I've been
8 letting Mr. Bowman go for quite some time on this,
9 because I'm -- I'm really conscious of the time, but he
10 was not qualified as a depreciation expert, quite
11 clearly, and now he's answering questions on
12 depreciation theory and how it's applied.
13 And -- and while I appreciate he
14 understands it, perhaps it's going a little beyond his
15 expertise.
16 MS. PATRICIA LEE: Well, I can answer
17 that. And that -- and that is Mr. Bowman is absolutely
18 correct. On the VG procedure, at the end of three (3)
19 years, you will be 100 percent depreciated. You are
20 dealing with averages. Under ELG, the theoretical ELG
21 -- the academic ELG would set up a separate rate for
22 Item A, for Item B, for Item C, for every single
23 vintage. You have the compounding effect of the number
24 of rates that you have to maintain.
25 What is being implemented is taking all

1 those individual rates and then compositing it to one
2 (1). It's a simplified approach. I don't blame them,
3 because the other way is very -- is impractical, but
4 it's just -- you know, let's call it what it is, and
5 that's not the theoretical ELG.
6
7 CONTINUED BY MR. BOB PETERS:
8 MR. BOB PETERS: Ms. Lee, is it correct
9 that Manitoba Hydro would be held whole under either
10 average service life or equal life group methodologies?
11 MS. PATRICIA LEE: With reserve
12 corrections along the way, yes, that is correct.
13 MR. BOB PETERS: And both methodologies
14 would have reserve corrections?
15 MS. PATRICIA LEE: They should, yes,
16 sir.
17 MR. BOB PETERS: And by the way, you
18 made the same correction of yourself that Mr. Kennedy
19 made of me a year or two (2) ago when I said something
20 was over-depreciated, giving rise to the -- to the
21 reserve account. And he said, No, it's just that we
22 looked at things differently this day than we did a
23 previous day.
24 So -- so I think he was saying that
25 depreciation experts can never be wrong. I think

1 that's the answer. While we have this table up, Ms.
2 Lee, if -- if a company kept adding assets, and
3 extending this table, equal life group would provide
4 the higher depreciation rate, because it would be fully
5 depreciating the short-term assets quicker than would
6 the average service life methodology?
7 MS. PATRICIA LEE: Absolutely.
8 MR. BOB PETERS: I wanted to make sure
9 the panel understood better one (1) of the matters in
10 your evidence, Ms. Lee, and that had to do with, if for
11 any reason, this Board determined that it would adopt
12 equal life group, your recommendation was to adopt it
13 only for new additions.
14 Have I got that correct?
15 MS. PATRICIA LEE: That is correct.
16 MR. BOB PETERS: And you cited, I
17 think, a court case in your materials. Should the
18 Board take from that court case that it was accepted
19 methodology in the United States to -- to adopt ELG for
20 new additions only?
21 MS. PATRICIA LEE: Can you point me to
22 the specific part of my testimony so I can look at it?
23 MR. BOB PETERS: Yes. I have it
24 marked, and I think Ms. Van Iderstine referred to it as
25 MIPUG Exhibit 8, even though Mr. Williams is going to

1 want some credit for having this as a Coalition
2 document, but I think it's marked for the record as
3 MIPUG Exhibit 8.
4 And --
5 MS. PATRICIA LEE: Which page?
6 MR. BOB PETERS: Well, page 12 is where
7 I noted your recommendations to the Board. And...
8
9 (BRIEF PAUSE)
10
11 MR. BOB PETERS: And then on page 5,
12 line 17, is where I noted, Ms. Lee, that with respect
13 to applying ELG to new additions only, there was a US
14 court case. And in that particular case, I take it it
15 was -- it was permitted to use ELG only on the new
16 additions as opposed to the existing embedded
17 investments?
18 MS. PATRICIA LEE: That is correct.
19 MR. BOB PETERS: All right, then I've
20 understood your point.
21 MS. PATRICIA LEE: It was -- I'm sorry,
22 I just wanted to add to it. This was upholding an FCC
23 Federal Communications initial decision to apply it on
24 a going-forward basis for new additions.
25 MR. BOB PETERS: Thank you. Back on

page 12. If this Board, for any reason, adopted equal life group methodology, whether for new additions or for all of Manitoba Hydro's capital, is the recommendation to phase in that approach over three (3) years?

MS. PATRICIA LEE: I would suggest yes. And there are a number of ways that it cou -- it -- it could be phased in. One (1) alternative would be to phase in -- apply ELG to distribution first. And then the following year, you could do it for transmission, and then finally distribution, or any of those combinations. It just would smooth out the increase in expenses a little bit better than applying it all at one (1) time, but at -- there is certainly a decision that the Board would make.

THE CHAIRPERSON: It seems a contradiction, doesn't it, at the heart of it? You know, on the one (1) hand you say you shouldn't adopt ELG, because you've got this increase in investment coming up, and then a recommendation that we should only adopt ELG for -- it seems to be a contradiction I'm having a really tough time resolving in my head.

MS. PATRICIA LEE: Oh, I -- what I was trying to say is that, if -- my recommendation is not to -- to adopt ELG. But if you were -- if you decide

1 the ELG is the way to go, then I would suggest a phase-
2 in approach.
3 THE CHAIRPERSON: No, but, I -- I --
4 you know, the -- the -- I -- I think fun -- one (1) of
5 the -- one (1) of the thesis or your opposition to the
6 use of ELG is because it -- it requires significant
7 depreciation to be taken in the early years.
8 MS. PATRICIA LEE: Absolutely.
9 THE CHAIRPERSON: And now you're
10 recommending that you only adopt ELG for new additions
11 only. So it seems to be a contradiction in -- in logic
12 there.
13 MS. PATRICIA LEE: I understand what
14 you're saying. And it may seem like a contradiction.
15 It's just a matter of -- it's a way to keep the -- the
16 increase associated with ELG down to a minimum. And
17 the theory -- and -- and also practicality-wise, if you
18 apply it to new additions, you are implementing a brand
19 new procedure.
20 And instead of exposing your imbedded
21 plant that's been depreciated under average service
22 life all these years, and instead of going back and
23 saying, But you should have had ELG applied to you,
24 okay, you're -- you're foregoing that, and you're just
25 saying, Okay, we're going to start off with a fresh

1 slate. We're going to do it on a going-forward basis,
2 which makes sense. You set depreciation rates on a
3 going-forward basis, so why wouldn't you implement a
4 new procedure on a going-forward basis?
5
6 (BRIEF PAUSE)
7
8 CONTINUED BY MR. BOB PETERS:
9 MR. BOB PETERS: Just before I leave
10 that topic, Ms. Lee, following up with your comments
11 with the Chairman, does the phase-in approach have any
12 impact on the book-accumulated surplus and how that's
13 to be dealt with?
14 MS. PATRICIA LEE: I would suggest no.
15 MR. BOB PETERS: And if the ELG only
16 applied to new additions, would there be any -- any
17 change in the way how book-accumulated surplus should
18 be dealt with?
19 MS. PATRICIA LEE: No, because your new
20 additions are starting out as brand new plant, and they
21 would depreciated on a going-forward basis with the new
22 rate, so, no. They -- that would not have any -- any -
23 - the new additions have absolutely nothing to do with
24 the surplus that's built up to date.
25 MR. BOB PETERS: The last area is on

1 slide 20 of Ms. Lee's MIPUG Coalition Exhibit 1.
2 On page 20, you repeated the four (4)
3 reasons for the ASL approach to be continued, and you
4 added from your pre-filed evidence the fifth one of
5 industry standard, correct?
6 MS. PATRICIA LEE: I will take your
7 word for that.
8 MR. BOB PETERS: The point on industry
9 standard is that -- what Mr. Bowman had indicated is
10 that there weren't any Crown hydro utilities in Canada
11 using ELG that he could find.
12 MS. PATRICIA LEE: That is -- that is
13 true, yes.
14 MR. BOB PETERS: Although, in the
15 United States you've indicated to the chairman that
16 there are utilities using equal life group; and do you
17 know if any of those are predominantly hydro?
18 MS. PATRICIA LEE: No, I -- I'm not
19 aware of that, sir.
20 MR. BOB PETERS: And while we're
21 looking at this slide, when you say "matching costs
22 with benefits," and I take a one (1) year asset that we
23 saw on that example that gets depreciated over more
24 than one (1) year, is that matching costs with
25 benefits, or is that a mismatch?

1 MS. PATRICIA LEE: If you -- the way
2 that I look at it, and I'm a firm believer in group
3 depreciation and group accounting, that on the average
4 you are matching costs with benefits.
5 From my perspective, sir, I know that I
6 cannot 100 percent tell you that I have a subgroup
7 that's going to live one (1) year, or two (2) years, or
8 three (3) years. But I can tell you with some
9 certainty that over the life of that group what that
10 life is going to be, and with that certainty I can say
11 that that matches costs with benefits.
12 MR. BOB PETERS: When you're avoiding
13 intergenerational equity issues, that's a suggestion
14 that once you've started down the ASL road it should
15 continue?
16 MS. PATRICIA LEE: The avoiding
17 intergenerational equity issues is if you apply ELG to
18 the embedded base.
19 MR. BOB PETERS: Which means the
20 embedded base that Manitoba Hydro has been depreciated
21 under average service life methodology?
22 MS. PATRICIA LEE: Correct. And you're
23 starting a new procedure and if you apply ELG to the
24 embedded plant, then you're assuming that that embedded
25 plant has always been exposed and depreciated using

1 ELG, which is not correct.
2 MR. BOB PETERS: That would depend on
3 the quality of the data to determine whether you could
4 make that switch midstream?
5 MS. PATRICIA LEE: No, it's a function
6 of -- I'm sorry, I'm not sure I understand your quality
7 of data?
8 MR. BOB PETERS: Well, you're saying
9 that intergenerational equity issues arise when you
10 start using average service life and then switch in
11 mid-life of an asset to equal life group, as I
12 understood your evidence.
13 MS. PATRICIA LEE: If you're applying
14 it to the embedded base. If you apply ELG to the
15 embedded base, you are causing intergeneration -- more
16 intergenerational equity issues than applying it on a
17 going forward basis for new additions.
18 MR. BOB PETERS: If the data --
19 MS. PATRICIA LEE: And -- I'm sorry.
20 And let me just add, you are right that -- that is
21 another criteria, or another reason for the
22 intergenerational equity issues is because you are
23 applying a new procedure midstream. And that does in
24 and of itself cause intergenerational equity issues,
25 but it increases when you apply it to the embedded

1 base.

2 MR. BOB PETERS: But my point was if

3 the data is sufficient quality to support equal life

4 group, couldn't that same data be used for average

5 service life methodology?

6 MS. PATRICIA LEE: It certainly could.

7 MR. BOB PETERS: And so if the -- if

8 the data is good enough for equal life group, even if

9 you had previously been using average service life,

10 would switching to ELG still raise intergenerational

11 equity issues?

12 MS. PATRICIA LEE: It would because

13 it's a different procedure, and the -- and the

14 mechanics are different in deriving or developing your

15 life and your rate.

16

17 (BRIEF PAUSE)

18

19 MR. BOB PETERS: Mr. Chairman, I'd like

20 to thank Ms. Lee and Mr. Bowman for their answers to my

21 questions. Those complete my questions. Thank you.

22 THE CHAIRPERSON: Okay. I -- I just

23 want to take a few minutes, just for my benefit at

24 least, to -- to understand what -- what Mr. Bowman is

25 recommending to this panel.

1 And -- and as I take it, I think I
2 understood that the 2.75 percent interim rate increase
3 should be made a final rate.
4 MR. PATRICK BOWMAN: In -- in my
5 opinion, Mr. Chairman, that's a -- that's a sensible
6 decision.
7 THE CHAIRPERSON: Okay. And then
8 you're also suggesting that the rate for '15/'16 be set
9 anywhere between 2 and 3 percent?
10 MR. PATRICK BOWMAN: Yes, Mr. Chairman.
11 I think that would be -- based on the facts that are
12 here, I think that would be a -- a reasonable
13 conclusion while, you know -- while the -- the other
14 changes are adopted and some -- some work is done to
15 figure out how to pace and prioritize the other issues
16 we talked about.
17 THE CHAIRPERSON: Okay. So -- so
18 you're also suggesting that Manitoba Hydro could opt to
19 go to IFRS statements and set up regulatory deferral
20 accounts for their financial reporting purposes.
21 Did I understand you correctly?
22 MR. PATRICK BOWMAN: Well, Mr.
23 Chairman, I -- I would have framed the recommendation
24 that -- that the statements that are used for this
25 Board should reflect consistency in respect of things

1 like overheads and -- and depreciation. How Hydro
2 treats that for its financial reporting is a -- is a
3 different question, and -- and I would say it -- it's
4 up to them.
5 It'd be nice if the -- if the trailer
6 followed the bus, if you say, but -- but I think we
7 need to make the decision here about -- about what's
8 the right way to deal with it for setting rates. And I
9 think, in respect of setting rates, you would --
10 THE CHAIRPERSON: So -- so --
11 MR. PATRICK BOWMAN: -- you would make
12 these decisions.
13 THE CHAIRPERSON: So you are suggesting
14 that we use alternative method for setting rates than -
15 - than whatever system or approach Manitoba Hydro uses
16 for its financial reporting purposes?
17 MR. PATRICK BOWMAN: I think IF -- IFRS
18 14 has allowed a lot of opportunity to bridge the
19 difference. When we were sitting here in 2012, if the
20 Board had wanted to strike out on a different approach,
21 I think you were -- you were crystallizing that it was
22 going to be two (2) sets of books forever.
23 I don't think we face that today. If
24 you were to decide that -- that Hydro should not
25 capitalize the overheads that are only now being

1 implemented as a result of IFRS, they can go ahead and
2 reflect that exact same thing into their statements, as
3 I understand it, with IFRS 14, and -- and move on, and
4 you don't -- you -- you haven't caused it -- a two (2)
5 sets of books problem or -- or, more accurately, they
6 haven't caused a two (2) sets of books problem.
7 THE CHAIRPERSON: Okay. Of course,
8 that would be an accounting decision that they -- you
9 know, what was acceptable for financial reporting
10 purposes would have to be done in a way that's
11 acceptable to the accounting community?
12 MR. PATRICK BOWMAN: It would -- yes,
13 absolutely. It's --
14 THE CHAIRPERSON: I just want to make
15 sure I understand your position.
16 MR. PATRICK BOWMAN: That -- that's
17 correct. That's correct.
18 THE CHAIRPERSON: Okay. So -- so,
19 fundamentally, I think what you're asking us is set
20 rates based on the following. And correct me if I'm
21 wrong. I want to make sure I've got it right. So we
22 would stay with ASL, we wouldn't adopt ELG?
23 MR. PATRICK BOWMAN: Yes, correct.
24 THE CHAIRPERSON: Okay. And we
25 wouldn't be capitalizing as much -- as much overhead as

1 we're doing --

2 MR. PATRICK BOWMAN: I -- other way

3 around. We'd be capitalizing more overhead. We

4 wouldn't do the final step. The first 60 million a

5 year or so of accounting -- of accounting changes could

6 be crystallized. It's the last 60 or so million that -

7 - that you wouldn't -- would -- that you would

8 capitalize. Not -- I'll just get that correct. You --

9 under -- you would recommend that they capitalize.

10 THE CHAIRPERSON: Okay. And your

11 recommendation -- the nearby recommendation on DSM

12 would be to continue capitalizing DSM at the same rate

13 they've been doing in the past?

14 MR. PATRICK BOWMAN: They should

15 continue to capitalize DSM. I think there should be

16 some thought as to whether a ten (10) year amortization

17 is right if the benefits are going beyond ten (10)

18 years for some programs. And -- and I would -- I would

19 include DSM in the overall category of pacing and prior

20 -- prioritization work before -- before Hydro comes

21 back at the next hearing.

22 THE CHAIRPERSON: Okay. So you're also

23 suggesting that -- that the sustaining capital is not

24 justified? The proposed level of increase that they're

25 proposing on sustaining capital is not justified?

1 MR. PATRICK BOWMAN: I want to be
2 careful on that one, Mr. Chairman. You know, I'm
3 sitting here with the same concerns about safety and
4 reliability that you are, okay -- or that you would
5 have for -- and -- and renewing assets. And I -- I've
6 been very clear that it's not possible for me in this
7 room to read a bunch of asset condition assessment
8 reports and tell you they say 422 million, I say 396
9 million. It's -- it's just not -- can't -- can't be
10 done at that level.
11 And so we -- we looked at it two (2)
12 ways. One (1) is -- the evidence looked at it what if
13 -- what if this is the right level and what if it
14 doesn't change? And the answer is you can still
15 sustain the rate increases I'm proposing.
16 But the other piece is I'm encouraging -
17 - I'm -- I'm encouraging you, I'm offering you the best
18 of -- of what I know about how other people have had to
19 deal with this topic. And I think there are some
20 thoughts and processes that don't -- don't lead to the
21 Board needing an even better understanding of cedar
22 poles, but lead the Board to have -- having some other
23 means to make sense of the sustaining capital. That
24 may lead to the sustaining capital going down, that my
25 lead to both leading to different targets, but I don't

1 want to -- I don't want to suggest that I'm -- I
2 presume that or that I want people to yield or safety
3 or reliability.
4 THE CHAIRPERSON: Now, with respect to
5 the issue of operating and maintenance, you -- you
6 advocate -- you're an advocate for lowering of
7 operating and maintenance costs; are you suggesting
8 that a 1 percent increase that Manitoba Hydro has
9 submitted before this Board is too high?
10 MR. PATRICK BOWMAN: I'm --
11 THE CHAIRPERSON: Are you -- are you
12 seeking more than a 1 percent -- less than a 1 percent
13 increase?
14 MR. PATRICK BOWMAN: Well, Mr.
15 Chairman, as -- as I think the Board did a good job in
16 its last order, you know, you don't -- you don't have a
17 lot of levers of control over Hydro. You have one (1)
18 which is rates, basically, other than some directives.
19 And I think in -- within the considerations I wouldn't
20 only be -- be looking at the 1 percent, I'd be looking
21 at picture of what's assumed within the next decade.
22 And it's not one (1) percent for a
23 decade. It's -- it's quite a big ramp up after that if
24 anyone extends some graphs. Yes, there is some -- some
25 numbers that they've come up with that show 1 percent.

1 Whether they achieve that or not, it's not the most
2 ambitious target, given the -- the challenge that
3 they're facing. But I think it -- the -- the entire
4 operating and maintenance category is one that -- on
5 top of vacancies with the vintage entire operating and
6 maintenance category would be part of the -- part of
7 the items to reconsider as to whether -- whether we've
8 really made the most of facing the difficult decade.
9 THE CHAIRPERSON: But fundamentally
10 what you're proposing is a step wise -- you know,
11 you're say -- saying, let's do two point seven-five
12 (2.75) for the last interim rate, cover that off, and
13 then two point -- no, two point -- 2 -- 2 or 3 percent
14 for the next -- for this current year and make a
15 decision later on about what happens after that?
16 MR. PATRICK BOWMAN: Well, once we get
17 to some -- the opportunity to go through the study on
18 financial targets, right, and -- and, you know, if
19 we've been persuasive today, once we get the Board to
20 provide some direction to Hydro to -- to go, you know,
21 review how it's dealing with this -- this challenging
22 next decade that is -- that is not the end of the
23 world. It's the way that things look when you're
24 building lots of stuff.
25 And -- and put that back to Hydro, look

1 for some creativity. Whether that's -- you know, we
2 can't make the government do things, but certainly a
3 lot of other people don't try to load this onto the
4 utility. And there's a few other -- a few other
5 options that would be available to them. And -- and
6 see how -- how well we can do about -- about looking at
7 those other options before we just assume we're going
8 to -- we're going to load it on ratepayers.
9 THE CHAIRPERSON: I understand that
10 part, but -- but I think you've acknowledged that
11 there's a problem staring us in the face with respect
12 to Manitoba Hydro's financial situation starting in
13 2020. And is that also -- you've also, I think,
14 acknowledged a cashflow problem.
15 And let me -- let me try to get at what
16 I'm -- my point. You -- you've recommended to this
17 panel that we should time the DSM expenditures? I -- I
18 think what you're suggesting is that we should throw
19 them out later. You're also saying we should time the
20 sustaining capital and throw that out later as well if
21 we can?
22 MR. PATRICK BOWMAN: I -- I think Hydro
23 should be asked to -- to look into that. Like I said,
24 I -- I won't say it's right. I want to know that
25 they're meeting safety and reliability, but I think

1 that would be part of the tools that one would look at,
2 yeah.
3 THE CHAIRPERSON: Okay. And then
4 you're also suggesting that by being careful on the
5 operating and maintenance expenditures that we could
6 probably punch some of that problem later on -- I'm
7 sorry, we could -- we could defer the need for cashflow
8 or borrowing at some later date?
9 MR. PATRICK BOWMAN: No, I -- I don't
10 agree with the last point. The only reason I -- I say
11 I -- I don't is I don't think any of those things are
12 needed to -- to make it through the next decade in --
13 in a fashion I described as -- as spectacularly good,
14 considering what people are trying to take on.
15 None of -- even if none of those come to
16 pass -- remember those lines that we drew were IFF
17 lines. They were not IFF plus a whole bunch of upside.
18 The only adjustment made was vacancy, because I think
19 that one is quite patently unreasonable, where they put
20 in. Outside of that everything else there is IFF
21 assumptions. It's all the capital they say they need.
22 It's all of the -- the cost of absorbing Bipole. It's
23 all the government charges. It's all the O&M that's in
24 their -- their forecast is in there. And even with
25 that, the next decade we're -- we're surviving

1 positively on cash.

2 So I don't -- I don't want to presume

3 that those things are needed, that if you -- if you

4 were to say, No, I think the O&M estimates are fine,

5 then so be it, the -- the graph that I drew is still

6 there, it hasn't changed.

7 THE CHAIRPERSON: Have I forgotten

8 something, you know, 'cause you did say that you think

9 that interest rates may provide some relief? You've

10 indicated that the government could provide some

11 relief?

12 MR. PATRICK BOWMAN: I -- I -- I've it

13 -- you know, the -- the government is what it is, Mr.

14 Chairman. They're -- they're going to do something or

15 they're not. Thi -- this Board may encourage, other

16 people may get creative, but it's going to be what it's

17 going to be.

18 The issue is a little bit different.

19 The issue in interest rates is -- is that a lot of the

20 IFF is run on an assumption about interest rates and

21 where they're going and going up. But if we're back

22 here a year from now, according to your schedule that

23 said you get a one (1) year future adjustment, we're

24 going to have locked in a bunch, we're going to know

25 more. And not this NFAT version of we'll -- we'll know

1 more about what we don't know, you know, that we're
2 always going to have major uncertainties. No, we'll
3 actually have locked in a whole bunch of debt, and two
4 (2) -- two (2) or three (3) years from now we'll have
5 locked in a whole bunch of debt, and a lot of these
6 options will still be -- be available to us. But that
7 one -- that one is going to get resolved. We will know
8 the interest at all -- that wor -- that bor -- that
9 massive borrowing occurs.
10 So that one is not -- I'm not saying
11 it's going to be greater. I know better than to try to
12 sit here and forecast interest rates. And I'm not
13 saying their -- their interest rate forecast is right
14 or wrong, but -- but it's uncertain and it's going to
15 become certain.
16 THE CHAIRPERSON: But the approach
17 you're proposing is a stepwise approach, basically
18 saying, Let's deal with next year -- oh, pardon me,
19 deal with the current year -- let's wait and see what
20 happens after that before we make any decisions about
21 rates going forward?
22 MR. PATRICK BOWMAN: Let's -- let's
23 deal with the current year, but let's do it in a way
24 that doesn't have blinders to the next decade. And
25 let's not make a decision that puts us in a hole that

1 we're going to have to dig out of later. I'm not
2 suggesting lower now for higher later. I'm suggesting
3 let's do something lower now that can be reasonably
4 sustainable. That graph shows you two and a half (2
5 1/2) for four (4) years. It keeps your cash in a ver -
6 - in a very sustainable position.
7 And if you -- I'm -- I'm not going to
8 present it any other way than saying one (1) of Hydro's
9 big financial assets is that -- and it's -- and it's
10 page 1 of Moody's report of them, is that it has
11 relatively low rates at this point. That's a financial
12 resource. It could always come back and raise them, we
13 know that. There's going to be impacts, adverse
14 impacts on companies and on people, but it has that
15 option and other people have done it.
16 The question is: Are we -- do we need
17 to pull the pin on that in a big way now, or do we have
18 a bit of time to do that in a little bit of a way that
19 keeps it in the kitty. We always can to the three
20 point nine fives (3.95s) later while some of things
21 unfold, interest rates get locked in and people and get
22 creative and get used to the idea of how they've
23 managed a decade of this type of investment.
24 THE CHAIRPERSON: And what is your
25 position on the level of equity that Manitoba Hydro

1 should have?

2 MR. PATRICK BOWMAN: Mr. Chairman, we -

3 - I -- I'm not taking a position on that in any way at

4 -- at this hearing. I look forward to the study that

5 they do. I -- I've only done -- looked at the

6 projections that they have and -- and can tell you that

7 after sitting in this room for -- for fifteen (15)

8 years, if -- if somebody told me they can go through a

9 very challenging decade and never dip below a equity

10 level that's the cost of a five (5) year drought, I

11 think that's spectacular.

12 THE CHAIRPERSON: You do acknowledge

13 though that this Board, perhaps in previous

14 incarnations, has conceded that there must be adequate

15 reserves to allow Manitoba Hydro to have -- be able to

16 weather drought, be able to weather construction plans,

17 and so on, poor export markets, low water conditions,

18 and so on?

19 MR. PATRICK BOWMAN: I more than

20 conceded. I -- I also recommended that, Mr. Chairman,

21 and -- and I still do. And -- and we -- we're very

22 impressed by the evidence of Morrison Park and the NFAT

23 who said, Let's run some probabilistic scenarios

24 against their future pieces and see whether, if you

25 were to put some basic assumptions about what you could

1 withstand as -- as rate impacts and throw some adverse
2 conditions at it, does the system break?
3 They ran all sorts of spaghetti graphs,
4 if you recall, with different -- different assumptions
5 of floods and droughts and building scenarios and
6 capital costs going up. And they showed, in a -- in a
7 number of the examples, that -- that Hydro could --
8 could carry the -- the Preferred Development Plan and -
9 - and not be driven into -- into sort of financial ruin
10 or 20 percent rate increases year over year.
11 It's not in the -- it's not in the
12 client's I work with interest to put off rate increases
13 that are going to turn into something that's going to -
14 - going to, you know, shock the -- the head office and
15 you're going to phone them up one (1) day and say,
16 Sorry it stopped raining, our -- our bills just went up
17 10 percent. That -- that doesn't help anybody. It
18 doesn't help you. It doesn't help me.
19 THE CHAIRPERSON: So Manitoba Hydro has
20 given us an IFF which suggests that if they don't get a
21 rate increase now, substantive enough to address the
22 future picture, Manitobans will be faced with a much
23 more important rate increase three (3) years down the
24 pipe.
25 MR. PATRICK BOWMAN: Go on. Yes --

1 THE CHAIRPERSON: Given the IFF that
2 you've seen -- that you and I have both seen, do you
3 dispute that projection? I mean, you -- I realize that
4 you -- you have some views about how Manitoba Hydro
5 could deal with this, but if -- if these measures are
6 not taken, do you agree that Manitoba need -- Manitoba
7 Hydro will need a 6 or 7 percent rate increase three
8 (3) years -- three (3) years from now?
9 MR. PATRICK BOWMAN: No.
10 THE CHAIRPERSON: You --
11 MR. PATRICK BOWMAN: No, I -- I don't -
12 - I --
13 THE CHAIRPERSON: -- agreement on that
14 point? I mean --
15 MR. PATRICK BOWMAN: Mr. Chairman, I --
16 I don't agree with that, and I think you will have
17 better information to also see that in -- as some of
18 these other processes unfold, including the -- the
19 study on financial targets.
20 But I -- I just want to emphasize, part
21 of the reason I don't agree with that conclusion is
22 because that conclusion starts from looking at IFF the
23 way people looked at IFFs for the last decade when they
24 weren't building things, and export markets were good,
25 and loads were growing, and -- and interest rates were

1 dropping, and -- and reserves were being built up, and
2 financial targets were being exceeded and raised all
3 the time, other than a spike of a drought. That's not
4 where we are, and we need to deal with the realities
5 that are here.
6 THE CHAIRPERSON: I think those are all
7 the questions. Thank you very much. I believe that
8 this is the last we hear from both you and Ms. Lee, so
9 thank you very much for your work on this application,
10 and thank you very much for your contribution to the --
11 our deliberations. I want to wish Ms. Lee a happy
12 return to -- to Florida.
13 MS. PATRICIA LEE: Thank you, Mr.
14 Chair.
15 THE CHAIRPERSON: And all the best to
16 you and yours.
17 So with that, I will adjourn today's
18 proceedings. We are gathered again -- I'm sorry, Mr.
19 Peters?
20 MR. BOB PETERS: Yes, if I could just
21 preempt your last thought, Mr. Chairman.
22 And my understanding of the Board's
23 procedure and I'll put it on the record for those who
24 are following the transcript, is that tomorrow, being
25 Tuesday, June 16th, the panel and the Board will not be

1 -- will not be sitting.

2 On Wednesday, June 17th, starting at

3 9:00 a.m., the Public Utilities Board, advisors, and

4 all Intervenors except MIPUG will be providing closing

5 submissions to the panel.

6 And then on Thursday, June 18th at 9:00

7 a.m. MIPUG will be providing closing submissions to the

8 panel.

9 And then on Friday, June the 19th at

10 1:00 p.m. Manitoba Hydro will be providing its closing

11 submission to the panel.

12 I believe I have stated what I

13 understood had been arranged, and I -- if that doesn't

14 meet concurrence with the panel, please, let me know.

15 Thank you.

16 THE CHAIRPERSON: Thank you, Mr.

17 Peters. I think that describes what we had planned, so

18 thank you very much for that.

19 So with that, I wish everybody a good

20 evening, and we'll see each other -- those of us who

21 will be here, we'll see each other again on Wednesday.

22 Thank you very much. Nine o'clock.

23

24 (PANEL STANDS DOWN)

25

1 --- Upon adjourning at 5:49 p.m.
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6 Certified correct,
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10 Cheryl Lavigne, Ms.
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