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MANITOBA PUBLIC UTILITIES BOARD

Re: MANITOBA HYDRO
2004 GENERAL RATE APPLICATION

Before Board Panel:

- Graham Lane - Board Chairman
- Len Evans - Board Member
- Robert Mayer - Board Member

HELD AT:

Public Utilities Board
400, 330 Portage Avenue
Winnipeg, Manitoba
July 5th, 2004
Volume X
Pages 1761 to 2016

APPEARANCES

1
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7		bungalow, using electric space heat,	
8		compared to those who do not use electric	
9		space heat. And then layer on top of	
10		that their consumption levels with and	
11		without air conditioning, and with and	
12		without say a swimming pool, to	
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1 --- Upon commencing at 9:05 a.m.

2

3 THE CHAIRPERSON: Okay. Good morning,
4 everyone, welcome back. Sitting in for Mr. Williams right
5 now is Ms. Aimee Craft. I believe Mr. Williams will be back
6 at some point, thank you. And we'll return now to Mr. Peters
7 to complete his cross-examination of this Panel. Mr.
8 Peters...?

9 MR. BOB PETERS: Thank you. Good morning.

10

11

(PANEL RESUMES)

12

13 CROSS-EXAMINATION CONTINUED BY MR. BOB PETERS:

14

15 MR. BOB PETERS: Mr. Thomas, the purpose of
16 your preparing the Cost of Service Study is in an effort to
17 assist Manitoba Hydro in determining a fair sharing of the
18 costs and revenue requirements amongst the classes; is that
19 correct?

19

MR. CHIC THOMAS: Yes, sir.

20

21 MR. BOB PETERS: Am I correct that the Cost of
22 Service Study did not assist Manitoba Hydro in coming up with
23 a 3 percent average rate increase proposal for 2004, and a
24 2 + percent average rate increase for 2005?

24

MR. VINCE WARDEN: Yes, that's correct, Mr.

25

Peters.

1 MR. BOB PETERS: So, if I understand, Mr.
2 Warden, and let me paraphrase and have some fun with it, but
3 you and the Executive came up with some numbers using your
4 judgment, that you told me before of about three (3) and
5 2 + percent for rate increases, correct?

6 MR. VINCE WARDEN: That is correct.

7 MR. BOB PETERS: And then I presume, and I'll
8 suggest that you picked up the phone and talked to Robin
9 Wiens and said, Robin, here's what we have approval for. Now
10 figure out which classes are going to contribute what portion
11 of this -- this increase that we're going to be seeking,
12 would that still be correct?

13 MR. VINCE WARDEN: Yes, and maybe just to
14 elaborate on that a little bit. The -- the three (3) and the
15 two and a half (2 +) was derived as the amount that -- and
16 the judgment of the Executive and the Board of Manitoba Hydro
17 was the maximum amount we could ask ratepayers to contribute
18 to the situation we were confronting at this point in time.

19 We have, as I've stated before, a serious
20 issue with retained earnings being as low as they are at
21 Manitoba Hydro. They have to be rebuilt over the next number
22 of years, and it's just a question of what -- how much we can
23 ask ratepayers to contribute over what period of time.

24 The 3 percent indicated the relative urgency
25 of getting a contribution to reserves, 2 + percent allowed

1 some flexibility, in the event that water conditions improved
2 dramatically, and that we were able to do better than we
3 expected in our financial forecast.

4 I think though, there was always the proviso
5 in that, at least -- at least there was to the -- the Board
6 of Manitoba Hydro that if conditions in fact didn't improve,
7 we may very well be back before this Board, asking for an
8 amount greater than 2 + percent.

9 So, the -- so the 3 percent and the 2 +
10 percent in each of the next two (2) years was the -- what we
11 considered to be the -- the maximum amount that we could
12 impose on ratepayers at this time.

13 Ideally, if we could -- you know if that
14 wasn't a constraint, we'd be asking for much more in order to
15 get our retained earnings back up to the level that they --
16 they should be, to face the risks that Manitoba Hydro faces
17 in its business.

18 MR. BOB PETERS: But you don't expect to get
19 those retained earnings up in -- in only one (1) year or two
20 (2) years, Mr. Warden? It's a long term process, is it not?

21 MR. VINCE WARDEN: Well, it is long term, but
22 recognizing that over that term, there is a very serious risk
23 that if drought or some other major event should occur, we
24 would have to impose rate increases on consumers, that might
25 constitute rate shock.

1 So, we're in a period of time where -- where
2 we have to get those retained earnings up as quickly as
3 possible, recognizing that there is an impact on ratepayers
4 during that period of time.

5 MR. BOB PETERS: And it was a collective
6 judgment of Manitoba Hydro that as quickly as possible met a
7 3 percent increase for fiscal '04 and a 2 + percent increase
8 for fiscal '05?

9 MR. VINCE WARDEN: Yeah, subject to what I
10 just said that, you know, in the event that conditions turn
11 against we may be back asking for higher than 2 + percent in
12 the second year.

13 MR. BOB PETERS: All right. Just so the
14 Board is clear on that concept then, Mr. Warden, assuming
15 this Board was to approve your application at 3 percent for
16 fiscal '04 and 2 + percent for fiscal '05, what you're
17 telling the Board is, if between now and the commencement of
18 fiscal '05, you may be back if conditions don't -- turn
19 against you -- if conditions turn against you?

20 MR. VINCE WARDEN: Yes, that's correct.

21 MR. BOB PETERS: And I understood you to say
22 that the three (3) and the 2 + percent respective annual
23 increases that are proposed, Mr. Warden, was determined to be
24 the maximum that could be sought at this time using the
25 judgment of the Corporation.

1 MR. VINCE WARDEN: Yes, there is, you know, a
2 point at which, I think we've talked during this proceeding
3 as to whether or not that exceeds inflation or not and if you
4 look at it over the long term, since the last rate increase,
5 of course, it doesn't.

6 But, nevertheless, I don't think consumers
7 would look at it in that way. They're looking at what their
8 costs are today, what their -- their wages and salaries are
9 going up today and, so, I think consumers would generally
10 conclude that the rate increases we're asking for are greater
11 than the rate of inflation.

12 So, there's a limit as to how much above that
13 number -- that inflation number we can -- can reasonably
14 request.

15 MR. BOB PETERS: Staying with that concept,
16 Mr. Wiens and Mr. Thomas, I take it then that once the
17 decision had come from the Executive and the Board of
18 Directors it was the responsibility, Mr. Wiens, of you and
19 your group to spread out the rate increase requests amongst
20 the consumer classes, taking into account the rate objectives
21 that you've talked about earlier with My Friends.

22 MR. ROBIN WIENS: It was our responsibility,
23 yes, to -- to develop the proposal and have that proposal
24 further considered by -- considered internally by Manitoba
25 Hydro's Executive and Board.

1 MR. BOB PETERS: And I won't go through all
2 those rate objectives, but those were some of the guiding
3 principles that you used when you were preparing your
4 proposal?

5 MR. ROBIN WIENS: Yes.

6 MR. BOB PETERS: And would I be correct, sir,
7 that the gradual movement towards unity was one of the
8 overriding considerations given by you?

9 MR. ROBIN WIENS: Yes.

10 MR. BOB PETERS: And when we say "moving to
11 unity", that again, brings into play the -- the Cost of
12 Service study which would then measure the results of the
13 proposals that you were putting forward; would that be
14 correct?

15 MR. ROBIN WIENS: That's correct.

16 MR. BOB PETERS: Now, the Cost of Service
17 study that was performed, and I don't want to go through any
18 of the materials discussed with my colleagues for the
19 Intervenors but, Mr. Thomas, you would agree with me that it
20 was not in strict accordance with the Board's directives from
21 -- from past orders because it didn't include an export
22 class, correct?

23 MR. CHIC THOMAS: I believe in our -- in --
24 in Order 154 we were given the opportunity to study an export
25 class but, you're right, per 07/03 there was no Export Class

1 as directed by the Board.

2 MR. BOB PETERS: And the Cost of Service
3 study that you prepared, Mr. Thomas had -- excuse me, had as
4 its underlying financial information the materials provided
5 in Manitoba Hydro's integrated financial forecast 02-1?

6 MR. CHIC THOMAS: That's correct.

7 MR. BOB PETERS: Can you tell the Board, at
8 least directionally, what do you believe would be the
9 instance of the Cost of Service study if you used the
10 information in IFF 03-1?

11 MR. CHIC THOMAS: You're of course alluding
12 to the -- the net loss that was forecast by the Corporation
13 of some 350 million?

14 MR. BOB PETERS: Yes.

15 MR. CHIC THOMAS: We -- we had done some
16 initial runs with that, of course, just -- just to see what
17 the -- the results would be. Essentially what would happen
18 is that -- that -- that some of the RCCs would actually rise
19 as oppose to decline as -- because, as you know, our -- as we
20 say, the system is in unity in the sense that our total cost
21 is always equaling class revenue, our total revenue.

22 MR. BOB PETERS: When you say the RCCs would
23 rise, is that of all classes?

24 MR. CHIC THOMAS: In general, yes.

25 MR. BOB PETERS: And when you say rise, does

1 that mean for those that are above unity, they would get
2 further away from unity, and those that are below unity,
3 would become closer to unity?

4 MR. CHIC THOMAS: Actually I'm mistaken, Mr.
5 Peters, and when I look at the list right now, something for
6 -- now -- like now again, I'm just -- this is a preliminary
7 run, and -- and I don't want to put any hard weight on these
8 numbers, it was just some tests that we had done internally.

9 But something like the residential class, for
10 example, would rise approximately three (3) points, whereas
11 the industrial customers over a 100 kV would actually drop by
12 -- by about eight (8) points or so.

13 MR. BOB PETERS: Can you briefly explain to
14 the Board why that would be the result?

15 MR. CHIC THOMAS: As I just said, we always
16 have total cost equaling total revenue, so what happens is in
17 order to balance the system, or keep it in unity, as we say,
18 what we do is we reduce -- in the Cost of Service Study we
19 add finance expense with net income, as part of our total
20 cost.

21 And with the net loss of course, what happens
22 is your total cost is actually going to go down by what was
23 forecast in IFF-03 of some \$350 million dollars. So,
24 therefore as the total cost goes down, revenues on the
25 domestic classes are essentially the same, which gives rise

1 to the RCCs in some cases.

2 MR. BOB PETERS: So, in turning to the
3 schedule A-1, which was found -- it's now found in two (2)
4 places, I'm pleased to report. Document 30 of the book of
5 documents that I circulated, and this morning I put on
6 people's chair, just a photocopy of three (3) pages out of
7 your Cost of Service Study, Mr. Thomas, and Schedule A-1 can
8 also be found in that package.

9 But what I hear you telling the Board is that
10 if you were to have used revised financial information, the
11 RCCs in the column RCC Percentage Pre-export Allocation,
12 those numbers would be -- would be close to your final
13 numbers, because there wasn't going to be net export revenue
14 to allocate after the fact?

15 MR. CHIC THOMAS: Yeah, exactly.

16 MR. BOB PETERS: Mr. Thomas, I believe in your
17 direct evidence through Ms. Ramage, you explained your Cost
18 of Service Study was a -- an embedded Cost of Service Study;
19 is that correct?

20 MR. CHIC THOMAS: That's right.

21 MR. BOB PETERS: And that's another way of
22 saying that you took the average cost to serve all customers
23 in a rate class, and you based that -- those costs on the
24 historical costs of the plant in service?

25 MR. CHIC THOMAS: Of the accounting records,

1 yes.

2 MR. BOB PETERS: Could you turn, Mr. Thomas,
3 and Board Members, to Schedule A-2, which was attached to the
4 documents that I circulated this morning. And, Mr. Thomas,
5 for the record, you can identify Schedule A-2, as coming out
6 of the prospective Cost of Service Study for Fiscal March 31,
7 2004, that you've filed in this Application?

8 MR. CHIC THOMAS: Yes.

9 MR. BOB PETERS: And you have a summary page
10 on Schedule A-2; is that correct?

11 MR. CHIC THOMAS: Customer Demand and Energy
12 Summary page, yes.

13 MR. BOB PETERS: Yes. What are you trying to
14 show the Board in that -- in that document, sir?

15 MR. CHIC THOMAS: Basically what we're trying
16 to do in all these schedules, A-3 included, is that -- is
17 that Cost of Service Study is, you know, the process of
18 functionalising, classifying and allocation.

19 So, on Schedule A-2, what you're looking at is
20 the summary of the allocated cost, based on our -- based on
21 our all -- based on our allocators, which are customer,
22 demand and energy allocators.

23 So, what we do is we just run the results of
24 the model a different way, to show it according to the
25 allocators, as opposed to customer classes.

1 MR. BOB PETERS: All right, and what you're
2 telling the Board is that there's a three (3) step process,
3 and by looking at Schedule A-2, we're already looking at the
4 third and final stage of the -- of the process?

5 MR. CHIC THOMAS: That's right.

6 MR. BOB PETERS: So, the first step is that
7 you would functionalise your costs and when you functionalise
8 your costs, there are a number of different functions into
9 which every -- every accounting expense could be put,
10 correct?

11 MR. CHIC THOMAS: That's right.

12

13 (BRIEF PAUSE)

14

15 MR. BOB PETERS: I don't want to go into
16 these in great detail because they're -- they're set out in
17 your cost of service study but who decides whether an expense
18 becomes a generation function or a transmission function or a
19 sub-transmission function or a distribution; whose decision
20 is that?

21 MR. CHIC THOMAS: I wouldn't say it's
22 anybody's sole decision. It's, in general, a lot of the
23 costs are -- are quite easily put into their appropriate
24 buckets in terms of our accounting system at Manitoba Hydro
25 through what I call and what's alluded to in the document

1 there is settlement cost centres.

2 So, things like Limestones -- Limestone and
3 the generating station, that's -- that's fairly
4 straightforward. Some of the other costs, for example,
5 communication items that are functionalised. That would be a
6 decision that's made through communications -- and that's a
7 bad word to use, through -- through talking with the various
8 people that run our communications area who -- who will give
9 us an indication of, you know, where the majority of that use
10 is or -- and we'll make a decision based on those sort of
11 factors.

12 MR. BOB PETERS: And once you've gone through
13 the functionalisation, Mr. Thomas, you then classify those
14 costs that have been functionalised, correct?

15 MR. CHIC THOMAS: That's right.

16 MR. BOB PETERS: And, again, when you
17 classify these costs, your team, again, would get together
18 and decide which of the approximate six (6) classifications
19 the costs would fit into?

20 MR. CHIC THOMAS: Six (6) functions, three
21 (3) classifications do you mean to say?

22 MR. BOB PETERS: Yes.

23 MR. CHIC THOMAS: Yes, that's right.

24 MR. BOB PETERS: And at that point in time,
25 Mr. Wiens you had said in -- in your direct evidence that

1 there are, let me just refer to my notes -- the upshot of it,
2 Mr. Wiens was to the effect that there is some imprecision
3 when it comes time to performing the Cost of Service Study,
4 correct?

5 MR. ROBIN WIENS: Yeah, I -- I believe we've
6 had -- we had this discussion last week, for various reasons.
7 When we come to the final results of the Cost of Service
8 Study, the allocations of different customer classes, we
9 recognize there is some imprecision because we are trying to,
10 in many cases, deal with joint or common costs which we -- we
11 do have some conventions in terms of classifying and
12 allocating them, but we don't pretend that we -- those are
13 100 percent accurate.

14 MR. BOB PETERS: Can you tell the Board, Mr.
15 Wiens, looking at the schedules that have been circulated, as
16 to where some of that imprecision comes into the process? Is
17 it in the functionalisation state, is it in the
18 classification stage or would you say it's in the allocation
19 stage?

20 MR. ROBIN WIENS: Probably not too much in
21 the functionalisation stage. Manitoba Hydro's accounts which
22 Mr. Thomas can explain in further detail if necessary, are
23 pretty good in terms of identifying how costs are incurred
24 and what functions they're incurred for.

25 So we're pretty confident about the

1 functionalisation. When you get in to the classification,
2 this is where the issues of related to joint or common costs
3 come into play. We have, if you want to refer to Schedule A-
4 3 in the document that you placed before us this morning, we
5 have a significant portion of our total costs are in the
6 generation and transmission functions; probably 70 percent
7 overall of our total costs.

8 So, the decision as to which of these costs
9 are incurred to support capacity requirements of the system
10 and which are incurred to support the energy requirements of
11 the system is, to some considerable degree, judgmental.

12 So, because customer classes have -- have
13 different characteristics or different ratios of use for
14 capacity and energy, if as long as we're not certain about
15 what portion of our generation and transmission costs are
16 related to energy, and what portion are related to capacity,
17 because of those differences, we are going to be less certain
18 in terms of the precision of how those costs are allocated to
19 the different classes.

20 We have also adopted the convention, for
21 example, for sub-transmission, that sub-transmission is sized
22 and put in place to meet the capacity requirements of -- of
23 the system. In other words, that they're demand related.
24 And that is a reasonable convention that is used in most
25 parts of the continent.

1 But again, it's -- it's a convention that's
2 used to classify and then subsequently allocate costs to
3 customer classes.

4 In the distribution function -- most of the
5 costs in the distribution function are also treated as
6 capacity related, but some are treated as customer related.
7 And we have a convention in terms of how we assign those
8 costs between those which are demand related and those which
9 are customer related.

10 And as you can probably tell from some of the
11 discussions that were held between ourselves and the -- and
12 the consultant for TREE/RCM, we do have some disagreement
13 about whether -- where indeed some costs are or are not
14 customer related.

15 But those are fairly small, and not as
16 significant as the issue related to the classification of
17 generation and transmission.

18 And when you get into the distribution
19 customer service function, these costs tend to be fully or
20 almost fully customer related. They're related to providing
21 service to customers.

22 We're talking about -- we're talking about the
23 activities of customer service representative, the activities
24 in -- in billing and meter reading and so forth, that tend to
25 be incurred on the basis of the number of customers, perhaps

1 with some weighting given to larger customers because of the
2 facilities that they use and these functions are somewhat
3 marginal.

4 MR. BOB PETERS: Thank you, Mr. Wiens. Mr.
5 Thomas, back to Schedule A-2 then, in terms of these
6 allocated costs. If we look at the residential line, you --
7 you see that there are three (3) general columns, one (1) is
8 customer, one (1) is demand and one (1) is energy, and those
9 are the categories in which you put the costs, correct?

10 MR. CHIC THOMAS: The categories that we
11 allocate upon, yes.

12 MR. BOB PETERS: And when I look at the
13 residential customer, under the customer costs, there's a
14 \$100 million dollar of cost, approximately four hundred and
15 forty-seven thousand (447,000) customers, and you come up
16 with a unit cost of eighteen dollars and sixty-seven cents
17 (\$18.67) per month, correct?

18 MR. CHIC THOMAS: Yes.

19 MR. BOB PETERS: And we've earlier in this
20 hearing talked about that your actual basic monthly charge to
21 consumers of residential electric service is only in the area
22 of six dollars and ten cents (\$6.10) a month?

23 MR. CHIC THOMAS: I believe it's six twenty-
24 five (6.25), but yes, approximately right.

25 MR. BOB PETERS: And this is where -- can you

1 tell the Board, if you're only getting six twenty-five (6.25)
2 from each customer per month as a basic monthly charge, where
3 do you get the other twelve dollars (\$12) from?

4 MR. ROBIN WIENS: It comes from the charges to
5 energy. We have a -- and is indeed part of the rationale for
6 the current rate structure, which has a higher per kilowatt
7 hour charge for the first hundred and seventy-five (175)
8 kilowatt hours.

9 So, we recover some portion of that remainder,
10 eighteen sixty-five (18.65), minus six twenty-five (6.25) is
11 recovered in the difference between the first block and
12 second block charge, and the remainder is spread over all the
13 kilowatt hours.

14 MR. BOB PETERS: And on -- onward to the
15 middle of the page on Schedule A-2, in terms of the demand
16 items, again, is it showing that Manitoba Hydro has
17 determined that there's approximately a \$196 million dollars
18 of demand related costs to serve the residential class?

19 MR. CHIC THOMAS: That's right.

20 MR. BOB PETERS: But there's no unit charge
21 through on a monthly basis, on account of demand to this
22 customer class, is there?

23 MR. CHIC THOMAS: There is no demand charge on
24 residential customers, that's correct.

25 MR. BOB PETERS: And why is that?

1 MR. ROBIN WIENS: It's not common for electric
2 utilities to put demand meters on residential customer
3 accounts. Demand meters are more expensive, and generally
4 it's determined that the typical level of residential
5 customer usage is not large enough to merit the investment in
6 the larger facilities.

7 It's also true that -- well, some of our
8 customers who are -- who are subject to demand charges, have
9 difficulty understanding the rationale for demand charges,
10 but that would be even more the case, if they were applied to
11 residential customers.

12 MR. BOB PETERS: Generally, Mr. Wiens, your
13 rationale is that residential customers have similar demand,
14 maybe not identical, but similar enough to -- to not use it
15 as a way to differentiate between different customers in that
16 class.

17 MR. ROBIN WIENS: That is also true.

18 MR. BOB PETERS: And what happens to those
19 \$196 million dollars of demand costs? How do you recover
20 that money?

21 MR. ROBIN WIENS: They are recovered along
22 with the energy costs through the Unit Energy Charge.

23 MR. BOB PETERS: All right. And when we get
24 to the Unit Energy Charge on this sheet, we see that there's
25 a \$100 million dollars set for the energy component of the

1 cost incurred and based on the usage, you come up with the
2 unit cost in cents per kilowatt hour, correct?

3 MR. ROBIN WIENS: That's right.

4 MR. BOB PETERS: But in terms of what rate
5 you charge, this doesn't determine the rate you charge
6 because you have to add in some other factors as well,
7 including the customer costs and the demand costs.

8 MR. ROBIN WIENS: That's -- that's correct.
9 The five dollars (\$5) -- five point oh one (5.01) cents that
10 you see in the last column, first row there actually includes
11 both the 196 million of demand related costs and the hundred
12 (100) odd million of energy related costs summed and then
13 divided by the metered energy of -- of five point nine three
14 one (5.931) gigawatt hours.

15 MR. BOB PETERS: If we look down to -- let's
16 pick a general service large, and let's pick the greater than
17 a hundred (100) kV just to -- to run through that. We see
18 here that you -- you do incur customer costs, but you're not
19 charging them through to the customer; is that correct?

20 MR. ROBIN WIENS: Well they are charged
21 through to the customer, but not as a customer charge.

22 MR. BOB PETERS: All right. Thank you for
23 that clarification. Why -- why don't you charge the general
24 service large a customer charge monthly?

25 MR. ROBIN WIENS: Going back over the years,

1 it's been the case that the customer related costs were a
2 relatively small proportion of the total cost to serve these
3 customers and it was simply deemed a more simple and
4 understandable rate structure to roll those into the demand
5 related costs and recover them through demand charges.

6 MR. BOB PETERS: All right. So, you've maybe
7 answered my next question then, Mr. Wiens. When you go to
8 the demand component of -- of the general service large
9 customer greater than a hundred (100) kV, the demand costs
10 are shown, and in addition to those demand costs, you also
11 recover the customer costs in the unit cost of three point
12 eight (3.8) cents?

13 MR. ROBIN WIENS: Three point eight dollars
14 (\$3.8) that is.

15 MR. BOB PETERS: Yes. Does that include the
16 customer and the demand costs?

17 MR. ROBIN WIENS: We believe it does. I
18 don't see -- we don't have a footnote here that indicates
19 that, but I -- I -- I believe it is.

20 MR. BOB PETERS: And finally then, under the
21 energy columns, for the hundred (100) kV customer, the \$71
22 million dollars of energy costs is then recovered through a
23 unit cost of one point six one (1.61) cents per kilowatt
24 hour?

25 MR. ROBIN WIENS: Well that is the unit cost

1 that's derived from these numbers. The - the actual -- the
2 actual rates that recover -- that recover the costs are
3 different from the unit costs on here.

4 MR. BOB PETERS: Can you indicate, Mr. Wiens,
5 what the average billing is to the general service large,
6 greater than one hundred (100) kV class under the demand and
7 the energy --

8 MR. ROBIN WIENS: What the actual rate is?

9 MR. BOB PETERS: The average -- average rates
10 charged to those classes.

11 MR. ROBIN WIENS: Well the rates for demand
12 and energy are the same to all customers.

13 MR. BOB PETERS: Can you indicate, relative
14 to the three dollars and eight cents (\$3.08) per kV.A what
15 the -- what the billing is?

16

17 (BRIEF PAUSE)

18

19 MR. BOB PETERS: You have the rate schedule,
20 Mr. Wiens?

21 MR. ROBIN WIENS: The -- the current demand
22 charge for this class is five dollars and forty cents (\$5.40)
23 per kV.A. The current energy charge is one point nine seven
24 five (1.975) cents per kilowatt hour.

25 MR. BOB PETERS: Mr. Wiens, on the -- on the

1 costs that we have run through, and there was Schedules A-2
2 and A-3, can you or Mr. Thomas indicate which of those costs
3 lend themselves to direct allocation, and which ones do not?

4 MR. CHIC THOMAS: I don't know if lending
5 itself is -- is the best word, but some of the -- some of the
6 customer class are a little -- sometimes a little easier to
7 discern. For example, we have a department that works
8 exclusively with our large customers. So, it's -- you know,
9 it's easy to apportion those costs directly to classes such
10 as that.

11 And then there's some activities that -- that
12 we record on our accounting system that -- that relate
13 directly to a customer class; street lighting is one (1) that
14 comes to mind quite readily.

15 MR. BOB PETERS: And which costs are examples
16 of ones that cannot be -- is it demand and energy again, that
17 direct assignment doesn't work?

18 MR. CHIC THOMAS: Yeah.

19

20 (BRIEF PAUSE)

21

22 MR. CHIC THOMAS: Sorry, Mr. Peters, I just --
23 Mr. Wiens was kind enough to pull out a schedule from our
24 Cost of Service Study that shows our two (2) direct
25 allocation columns, and one (1) being the street lighting

1 that I mentioned, and the other one (1) is -- the other one
2 (1) is the diesel rate zone that we've had some discussions
3 about, which also is identified separately in our accounting
4 system.

5

6

(BRIEF PAUSE)

7

8 MR. BOB PETERS: When we started talking about
9 the Cost of Service Study, Mr. Thomas, and Mr. Wiens, I think
10 you agreed with me that one (1) of the purposes served is to
11 show the revenue to cost ratio at the end of the day, both
12 pre-export allocation, and then also after export allocation,
13 correct?

14

MR. CHIC THOMAS: Yes, that's right.

15

16 MR. BOB PETERS: Can you tell the Board why
17 the revenue to cost ratio is -- is considered important by
18 the Corporation?

19

20 MR. ROBIN WIENS: Well, simply, it's -- spoken
21 -- it's -- it's a measure of the extent to which the revenues
22 from that class recover the costs that have been allocated to
23 that class. And 100 percent being -- recovering no more and
24 no less. Less than a 100 percent, meaning that the class as
25 a whole, recovers less than the costs that's been allocated
to it.

25

MR. BOB PETERS: And, Mr. Wiens, when you --

1 when you talk about the various classes, it's been a long
2 time plan of Manitoba Hydro to move the classes closer to
3 unity; is that correct?

4 MR. ROBIN WIENS: That's correct.

5 MR. BOB PETERS: And at Tab 31 of the book of
6 documents that I've prepared, is a copy of page 48 from Board
7 Order 7/03, and it sets out some history of the various
8 customer class revenue to cost coverages from 1992 through to
9 2002, correct?

10 MR. BOB PETERS: Tab 31?

11 MR. CHIC THOMAS: Yes, that's right, Mr.
12 Peters.

13 MR. BOB PETERS: Mr. Thomas, in looking at Tab
14 31, the 2002 column is -- it included methodologies, which
15 were not accepted by the Board in its order, so 2002 column
16 was -- was done under a different methodology than the other
17 columns, correct?

18 MR. CHIC THOMAS: That's right.

19 MR. BOB PETERS: And the essential difference
20 in column 2002, was that the export revenues were allocated,
21 not just based on percentages of generation and transmission
22 costs paid by the class but also by the distribution costs
23 paid by the class?

24 MR. CHIC THOMAS: Total allocated costs would
25 be the best way to put that. But, yes, you're right, that

1 would be the major factor that caused those shifts.

2 MR. BOB PETERS: And, I think as the Board
3 has seen in some of the materials, the residential class has
4 the highest proportion of distribution costs and, therefore,
5 they would get additional export allocations under the
6 methodology that was proposed at the Status Update Hearing?

7 MR. CHIC THOMAS: I'm not sure of the exact
8 percentages in terms of the highest proportions but, yes, the
9 other customer classes other than the large customers are
10 taking service at a different voltage level. So -- so they
11 are incurring costs that, for example, the general service
12 large over a hundred (100) kV customers would not be taking.

13 So, again, their costs are higher in those
14 areas.

15 MR. BOB PETERS: You indicated to me this
16 morning, Mr. Thomas, that in terms of net export -- in terms
17 of an export class, that's something that Manitoba Hydro is
18 still working on and I think the last Board Order indicated
19 that there was an expectation that would be done by, is it
20 the end of the year -- end of 2004?

21 MR. ROBIN WIENS: Mr. Peters, we filed the,
22 I'll refer to as the, NERA Report on April 1st and that was
23 intended to include our discussion of an export class.

24 MR. BOB PETERS: But I also understood, Mr.
25 Wiens, from your previous evidence that you felt there was

1 still more work to do in that area before you were prepared
2 to come back to the Board with any concrete recommendations?
3 Did I read more into your answer than I should have?

4 MR. VINCE WARDEN: Well, I think, Mr. Peters,
5 maybe I'll answer that one, there are some internal processes
6 we have to go through; review by our rates review committee,
7 by executive committee, by board, before we incorporate any
8 of the recommendations of the NERA report in a -- in a rate
9 application before this Board.

10

11

(BRIEF PAUSE)

12

13

14

15

16

MR. BOB PETERS: Can you tell the Board, in
Manitoba Hydro's perspective -- well, first of all, Manitoba
Hydro worked with NERA in preparation of their report; would
that be correct?

17

MR. ROBIN WIENS: Yes.

18

19

20

21

MR. BOB PETERS: And you provided them with
information as they requested and presumably worked with them
on a number of the items that they were working on and
helping them to come to their understandings?

22

MR. ROBIN WIENS: Yes.

23

24

25

MR. BOB PETERS: And what type of Cost of
Service Study did NERA do to support the export class that
they included in some of their calculations?

1 MR. ROBIN WIENS: The example Cost of Service
2 allocations that were -- that appear in the -- in the report
3 were all undertaken by Mr. Thomas and his people, the results
4 provided to NERA for inclusion in the report.

5 MR. BOB PETERS: So, Mr. Thomas, can you then
6 explain to the Board how did you run the -- the NERA
7 recommendations and then apply your numbers to it?

8 MR. CHIC THOMAS: Specifically as they relate
9 to the export class or are you talking in general, Mr.
10 Peters?

11 MR. BOB PETERS: Well, let's start off in
12 general?

13 MR. CHIC THOMAS: I don't have the NERA
14 report in front of me but -- but basically they -- they set
15 out a bunch of areas that they wanted to go to. For example,
16 at a high level they wanted to look at -- they wanted to look
17 at two basic scenarios on the front end, low water and normal
18 water.

19 And then they went into the different factors
20 based on that; export class, no export class. And then
21 further, discerning down from the tree we got into the things
22 like system load factor with an export class, resource
23 specific and those sort of items and just generally as we --
24 so when you work that tree down to each result you end up
25 with a myriad of possible scenarios to run.

1 And -- and we had run those in sequence and --
2 and built up from there.

3 MR. BOB PETERS: Is there still additional
4 work that Manitoba Hydro wants to do with respect to the NERA
5 information, Mr. Thomas?

6 MR. CHIC THOMAS: Well, alluding to what Mr.
7 Warden had said, there's a lot of -- when we did the NERA
8 runs it was basically running it based on our '03/04 cost of
9 service results.

10 And in the interest of time and -- and then --
11 and knowing that more precision would have to be worked into
12 it, after going through internal review, we just did proxies
13 for a lot of these things, because directionally, it would
14 give us the indication of the various scenarios that NERA
15 wanted to run.

16 MR. BOB PETERS: And when you say the
17 different scenarios, you're referring to the schematic on
18 page 30 of the NERA Report, that has the -- all the -- it's
19 the decision tree or the various permutations and
20 combinations?

21 MR. CHIC THOMAS: Thank you. I would have got
22 there eventually.

23 MR. BOB PETERS: That's the -- that's the
24 various methodologies that you assisted them in -- in
25 preparing information on?

1 MR. CHIC THOMAS: Yeah, that's correct.

2 MR. BOB PETERS: And can you tell this Board
3 whether -- whether you used the same type of methodology that
4 you would use in preparing an embedded Cost of Service Study
5 for the existing classes, in terms of coming up with the
6 costs for the export class?

7 MR. CHIC THOMAS: Yes.

8 MR. BOB PETERS: So, you went through the
9 various expenses and determined how much of those expenses
10 related to export activity?

11 MR. CHIC THOMAS: The -- the export activity
12 was all -- all done via the allocation process, so there
13 wasn't expenses per se, that were directly allocated to the
14 export class.

15 MR. BOB PETERS: And instead of directly
16 allocating them, you let the -- how did you determine what
17 amount of expenses would then be attributed to the export
18 class?

19 MR. CHIC THOMAS: Again, it was through the
20 allocation process. So, for example, what we had done is
21 noting that there was an export class.

22 We -- we managed to have our load research
23 people run a report that showed us the top fifty (50) hours
24 that included an export class. So the relative energies and
25 demand would all be included, so, we would have those

1 indications as an allocator for that export class, when we
2 ran it through the cost of service model.

3 MR. BOB PETERS: As I understand Manitoba
4 Hydro's position, you're not putting the NERA recommendations
5 before this Board for approval at this time?

6 MR. CHIC THOMAS: The Cost of Service Study
7 that was filed, does not include the NERA recommendations.

8 MR. BOB PETERS: And you're putting the Cost
9 of Service Study before this Board for approval, as filed?

10 MR. VINCE WARDEN: Yes.

11 MR. BOB PETERS: But the -- if the -- if the
12 NERA recommendations were accepted by the Board, as a basis
13 for assisting in the setting of rates, would that have led
14 Manitoba Hydro to change the rate increases sought from the
15 various customer classes?

16 MR. ROBIN WIENS: Not in any substantial way,
17 Mr. Peters.

18 MR. BOB PETERS: And -- and perhaps we can
19 have this discussion by looking at Tab 32 of the Book of
20 Documents that was circulated.

21 First of all, Tab 32, Mr. Thomas, contains the
22 TREE-RCM-MH-II Interrogatory Number 13, and as I understand
23 it, the numbers on this page would have been prepared by
24 Manitoba Hydro and not by NERA?

25 MR. CHIC THOMAS: That's correct.

1 MR. BOB PETERS: And, Mr. Wiens, and Mr.
2 Warden, the examination of this methodology by MIPUG and
3 CAC/MSOS has focused on the RCCs, and my question was if this
4 was your Cost of Service model, Mr. Warden, would the
5 Corporation be seeking different rate increases than what are
6 presently before this Board?

7 MR. VINCE WARDEN: Are you referring
8 specifically, Mr. Peters, to the average rate increases
9 sought, or rate increases applicable to the customer classes?

10 MR. BOB PETERS: Well, let's start off with
11 the overall average, and it's 3 percent and 2 + percent.
12 Would that number have changed if the Cost of Service
13 methodology had been more in line with the results in Tab 31
14 of the book of -- Tab 32 of the Book of Documents?

15 MR. VINCE WARDEN: No. As I indicated
16 earlier, the three (3) and two and a half (2 +) was
17 established based on customer sensitivity.

18 I might just add though that if customer
19 sensitivity was not an issue, if we could simply implement
20 whatever rate increases we thought were required in order to
21 attain our financial targets, of course, those rate increases
22 would be very much higher.

23 And the way the net income then that would
24 flow there from Manitoba Hydro would be allocated to the
25 customer classes would very much affect the RCC. So, I think

1 that's something when we look at the RCC's for each of the
2 customer classes, we have to keep in mind that it's based on
3 a very modest contribution to retained earnings.

4 If that previous restraint wasn't there that I
5 referred to earlier and we were immediately allowed to go to
6 our seventy-five twenty-five (75/25) debt equity target then,
7 of course, our revenue requirement would be that much higher
8 and the RCC's would be substantially lower.

9 So, I think that's a qualification we have to
10 put on -- on the RCC's that they -- they do reflect a very
11 modest bottom-line for Manitoba Hydro.

12 MR. ROBERT MAYER: Mr. -- Mr. Warden, are you
13 telling us that but for customer sensitivity you would try to
14 recover all your losses from last year in one (1) year?

15 MR. VINCE WARDEN: No, I'm just stating a
16 hypothetical case, Mr. Mayer. And really, it's part of a
17 weakness of focussing too much on those RCC's because the
18 RCC's are based on the net-income which is incorporated in
19 part of the cost of Manitoba Hydro for allocation purposes
20 for Cost of Service Study purposes.

21 And that net income being as low as it is,
22 results in a lower costs than would otherwise be the case if
23 we had no restraints on the amount of net income we could
24 request before this Board.

25 MR. ROBERT MAYER: Mr. Warden, some of us at

1 this table are a little concerned about maybe you haven't
2 asked for enough. If you didn't have to worry about customer
3 sensitivity, but taking reasonable amounts as opposed to
4 trying to collect all the money back in one (1) year, what
5 would you really be looking for?

6 MR. VINCE WARDEN: Well, we do think that the
7 3 percent and 2 1/2 percent is reasonable. But would 5
8 percent be reasonable?

9 As you know, if implementing with a August 1st
10 date, the effective rate for -- for residential customers
11 works out to be 5 percent and at what point does that become
12 a, I hate to use the words 'rate shock', but that's commonly
13 used if rates are above what may be considered acceptable.

14 But, you know, Manitoba Hydro is reasonably
15 comfortable with the rate increase we've requested. As the
16 VP of Finance, I am somewhat uncomfortable though because I
17 know that our retained earnings are well below the level that
18 they should be in order to address some of the risks that the
19 Corporation faces.

20 So, if we were to encounter another drought or
21 some other event, and drought -- we focussed on drought, but
22 there are other risks the Corporation faces, so if we were to
23 encounter some other risk then we could be in a very, very
24 serious situation.

25 So, I'm not comfortable where we are. The

1 sooner we get back to a retained earnings that are above the
2 billion dollar mark at the very least, the better that will
3 be for me from a financial perspective.

4 MR. ROBERT MAYER: Well, we now know, or at
5 least have some indication, from the evidence we've heard so
6 far, that where you're dealing with a drought as severe as we
7 dealt with over the last, relatively short period of time,
8 you lost upwards of \$400 million dollars.

9 You tell us, the evidence we have before us to
10 this point, is that that should be a once in ten (10) year
11 occurrence. There's going to be some sort of drought once
12 every ten (10) years, but certainly maybe not as severe as
13 the one we had.

14 What kind of reasonable period of time would
15 the Corporation want to look at in order to recover the
16 losses for one (1) year in what should be a one (1) in ten
17 (10) year possible occurrence?

18 MR. VINCE WARDEN: Well, as Mr. Cormie has
19 testified, on average we do expect a drought about one (1) --
20 about once every ten (10) years. But that doesn't mean the
21 fact that we just had a drought that we can't expect another
22 one for another ten (10) years. We could -- we could go into
23 drought conditions tomorrow.

24 So, there's probably no good answer to your
25 question. We were fortunate over the last decade to have

1 been able to build up retained earnings to have -- to peak
2 1.3 billion dollars. They've been drawn down substantially
3 with the drought. We really do have to get them back up
4 there and as quickly as possible, given the customer
5 sensitivity that we just discussed.

6 MR. ROBERT MAYER: Well, Mr. Ward -- Mr.
7 Warden part of the reason that you had the retained earnings
8 up the way they are, is that if I recall correctly, I had a
9 thirty (30) year rain in Thompson one year and the next year
10 I had a hundred (100) year rain. So, I understand what you
11 mean, how the weather can't be predicted, sort of like that.

12 MR. VINCE WARDEN: And that's what makes
13 people in finance so uneasy.

14 MR. MAYER: Thank you.

15

16 (BRIEF PAUSE)

17

18 MR. LEN EVANS: Sorry. Mr. Warden, you talk
19 about consumer tolerance and the levels of sensitivity and
20 relating that to how much that you believe that Hydro can
21 tolerably impose on the Manitoba Hydro customers.

22 Do you base -- this to me seems to be very
23 qualitative and I don't know -- is there any basis for coming
24 to those numbers? I mean, have you done any focus groups, or
25 do you do any consumer surveys to assess the level of

1 tolerance by Manitoba Hydro consumers?

2 MR. VINCE WARDEN: No, Mr. Evans, it's based
3 strictly on judgment and with the knowledge that we haven't
4 had a rate increase in Manitoba for many years. So, it is
5 based on judgment as to what would be an acceptable level
6 increase.

7 MR. LEN EVANS: So, it's very -- can I use
8 the term, very qualitative. It's a qualitative assessment as
9 opposed to quantitative where you can't look at any survey
10 numbers and say, you know, this is where the bulk of
11 Manitobans will draw the line in terms of some kind of an
12 increase or this is the amount that Manitoba consumers would
13 probably express least displeasure.

14 It -- it's really a qualitative assessment. I
15 suspect it may be related to -- to what's going on in terms
16 of inflation currently. I have -- I just get that
17 impression, but I may be wrong.

18 MR. VINCE WARDEN: Oh, we definitely use
19 inflation as a benchmark so we know that inflation at
20 approximately 2 percent per year and 2 percent we felt, given
21 the fact that there has been no rate increases for a number
22 of years, we could probably exceed that -- that benchmark for
23 one (1) or more years.

24 Qualitative, yes it is. But quantitative to
25 the extent that we have before us, integrated financial

1 forecast that projects the future and -- and we know the
2 future is not going to be like the past.

3 That is, the past decade we have -- we -- we
4 attained record earnings for the Corporation. They're very,
5 very modest earnings if you look at our financial forecast
6 over the next ten (10) years.

7 MR. LEN EVANS: Yeah, thank you.

8

9 CONTINUED BY MR. BOB PETERS:

10 MR. BOB PETERS: I take from your answers,
11 Mr. Warden, that even if Mr. Thomas had prepared a Cost of
12 Service Study that came out looking like the document that
13 Tab 32 of the Book of Documents; your numbers of 3 percent
14 and 2 + percent would not have changed?

15 MR. VINCE WARDEN: That's correct.

16 MR. BOB PETERS: Then Mr. Wiens and Mr.
17 Thomas, assuming that three (3) and 2 + percent are still the
18 numbers that the -- in the judgment of the management and the
19 -- the Board of Directors of Manitoba Hydro is the correct
20 number, would there have been a different rate increases by
21 customer class if the Cost of Service Study came out looking
22 more like the -- the one done with the NERA recommendations
23 imbedded in it?

24 MR. ROBIN WIENS: Mr. Peters, I -- I'm hard
25 pressed to say that it would be different in any substantive

1 degree. I mean, what you're looking at with -- with the NERA
2 numbers as opposed to what we actually provided in -- in
3 Appendix 10 of our application, the 2003/'04 prospective Cost
4 of Service Study, showed a residential revenue cost coverage
5 around 91 percent.

6 In the case of the -- in the case of the
7 numbers using the NERA recommended approach, we were at 94
8 percent. Still the only substantive class that's less than a
9 hundred (100) or less than ninety-five (95) so we would still
10 be still be looking for somewhat higher than average increase
11 for the residential customer class.

12 If you go to the other end, our prospective
13 Study for 2003/'04 shows a general service large over a
14 hundred (100) kV; in around a hundred and fourteen (114).
15 NERA shows it in around a hundred and seven (107).

16 They're still above the zone of reasonableness
17 and I think, reasonably, our differentiation is in the order
18 of plus or minus 1 percent from the general consumers
19 average; that's probably where we would -- we would have gone
20 had we been using the numbers that are in your Tab 32.

21 We may have been a little less for the
22 residential, possibly. And possibly a little more for the
23 larger customers. But, materially, it wouldn't have been
24 much different than what we presented.

25 MR. BOB PETERS: Is it still a goal then, Mr.

1 Wiens, for the Corporation to achieve unity at some point in
2 time?

3 MR. ROBIN WIENS: I -- it's a goal to -- to
4 move toward unity. I don't know if you can ever actually
5 achieve unity just because of you're working on somewhat
6 shifting ground. But it is a goal to move toward unity and
7 to get there and stay as close as possible.

8 MR. BOB PETERS: That would be similar to
9 what you do on the gas side of your business?

10 MR. ROBIN WIENS: It -- it would be
11 comparable, yes.

12 MR. BOB PETERS: And on the gas side, most
13 classes are presently at unity; are they not?

14 MR. ROBIN WIENS: We're very close.

15 MR. ROBERT MAYER: But, Mr. Wiens, I think --
16 you say you're goal is to work towards unity, you may never
17 achieve unity. I think you recognize then that because Hydro
18 is as big as it is and because Hydro is such an important
19 piece of Manitoba's economy, I'm assuming you must recognize
20 that there will be public policy decisions that will affect
21 your ability to actually achieve unity?

22 MR. ROBIN WIENS: There may be public policy
23 decisions that affect it. There may be internal perspectives
24 to Manitoba Hydro that affect it and simply the fact that we
25 know that we are not 100 percent accurate when we allocate

1 costs.

2

3 CONTINUED BY MR. BOB PETERS:

4 MR. BOB PETERS: Are you any more accurate on
5 the gas side then you are on the electric side though, Mr.
6 Wiens?

7 MR. ROBIN WIENS: I'm going into some
8 troubled waters here when I respond to that but I believe
9 generally the answer is yes. And the reason for that is
10 simply that such a large proportion of the costs incurred to
11 serve gas customers is incurred for the cost of the gas
12 itself which is -- we have a benchmark and it's called 'the
13 market' that tells us how close we are.

14 On the electric side, we produce the commodity
15 and we produce it using a common -- common plant. The
16 allocation of which to different -- to different categories
17 such as energy and demand and then subsequently the different
18 classes is less certain.

19 MR. BOB PETERS: Fair enough. Thank you, Mr.
20 Wiens. Moving at my peril to document 34 in the Brief of
21 Documents, is -- is a table showing the RCC's but customer
22 class and sub-class for the past ten (10) years; you're
23 familiar with that are you Mr. Wiens and Mr. Thomas?

24 MR. CHIC THOMAS: Yes.

25 MR. BOB PETERS: And I know there's been

1 discussion in this hearing about the zones; would it be
2 correct though, Mr. Thomas, that the data that underlies your
3 determination of the zone RCC's weakens over time now that
4 you've moved away from zone rates?

5 MR. CHIC THOMAS: I think it's fair to say
6 that -- that -- that the accounting records and such that
7 track those costs will deteriorate over time, yes.

8 MR. BOB PETERS: And that's already started,
9 I would presume, since uniform rates have come into
10 existence?

11 MR. CHIC THOMAS: Yes, that's correct.

12 MR. BOB PETERS: And this -- this table does
13 show that the zone rates applied to the various other
14 customer classes; that's also correct, is it not?

15 MR. CHIC THOMAS: Yes.

16 MR. BOB PETERS: Other than residential?

17 MR. CHIC THOMAS: Yes, that's right.

18 MR. BOB PETERS: And -- but in terms of the
19 financial impact, and I don't have it at my fingertips, Mr.
20 Thomas, but the -- the total impact was approximately just
21 less than \$15 million dollars of which approximately \$3
22 million was attributable to the residential zones?

23 MR. CHIC THOMAS: Yeah, I think it's -- the
24 bulk has -- did come from the residential class. The exact
25 number I'm not aware of.

1 MR. BOB PETERS: Am I correct in this filing,
2 Mr. Wiens and Mr. Warden, that in terms of the uniform rates
3 legislation, Manitoba Hydro is not proposing any special
4 treatment as to how to deal with uniform rates impact?

5 MR. VINCE WARDEN: Yes, there's no -- there's
6 no reference to any special impact of the uniform rates
7 legislation in this Application, correct.

8 MR. BOB PETERS: Manitoba Hydro's not
9 proposing either expanding the zone of reasonableness for
10 residential classes or notionally imputing a credit to that
11 class on account of uniform rates?

12 MR. VINCE WARDEN: No.

13 MR. BOB PETERS: Just before I leave that --
14 that tab, there's a water heating class here that shows an
15 RCC of about a hundred and thirty four point two (134.2) in
16 prospective Cost of Service.

17 Mr. Thomas, can you just explain to the Board
18 what -- what that relates to?

19 MR. ROBIN WIENS: That's a pretty general
20 question, Mr. Peters. Did you have anything more specific
21 that you wanted us to work with?

22 MR. BOB PETERS: The water heating class that
23 you have here, Mr. Wiens, is -- approximately how many
24 customers in that class?

25 MR. ROBIN WIENS: It's probably about six

1 thousand (6,000). That's -- that would be subject to check,
2 but I'll say about six thousand (6,000).

3 MR. BOB PETERS: What you're telling the
4 Board is that this -- it does not include the residential
5 customers in the -- in the vast...

6 MR. ROBIN WIENS: Sorry?

7 MR. BOB PETERS: I'm sorry. The -- the water
8 heating class is a special class that the Corporation has.
9 Why -- can you explain to the Board why you even have that
10 class?

11 MR. ROBIN WIENS: This -- this class has
12 been, I guess, in existence for many, many years. I'm going
13 back into the 1960's. And what -- what it consists of is
14 customers who we installed flat rate -- what we -- flat rate
15 -- in other words it doesn't go through the meter.

16 The service is direct to the customer's water
17 heater and the rate is based on an expectant level of
18 consumption by that water heater.

19 So, it's -- it's a monthly rate that varies
20 with the size of the water heating element. That -- it --
21 service of that type is not available to new customers and
22 has not been for many, many years.

23 MR. BOB PETERS: Is there any issue as to why
24 it's always coming out at the -- well above unity?

25 MR. ROBIN WIENS: The rate to these customers

1 is based on the run-off rate -- the residential run-off rate,
2 so that we would calculate a -- we would calculate a -- an
3 expected level of consumption for each water heater size and
4 then apply the residential run-off rate to it.

5 Water heating typically has a higher load
6 factor than the average residential use and so for that
7 reason, the Cost of Service Study would impute a somewhat
8 lower demand related cost per kilowatt hour consumed to that
9 group. And that would account for the revenue cost coverage.

10 MR. BOB PETERS: It would -- also --

11 MR. ROBIN WIENS: It would --

12 MR. BOB PETERS: -- be accounted for because
13 you don't meter it separately? It's -- it's in essence --
14 it's an estimate or approximation?

15 MR. ROBIN WIENS: That -- that is a
16 possibility. We -- we do not have load research information
17 on that class. The -- the monthly consumption amounts that
18 -- that the rates are based on are directly taken from the
19 size of the element.

20 MR. ROBERT MAYER: Mr. Wiens, I understand
21 you are maintaining this class because you believe you are
22 legally obligated to maintain this class of -- of service?

23 MR. ROBIN WIENS: We've considered -- we've
24 considered this from time to time and I don't think our
25 perspective has been that we have a legal obligation to

1 maintain it.

2 However, to -- to end it -- to end this
3 treatment altogether would mean that we would be required to
4 go to each of these customers and say this rate is no longer
5 available to you. You now have to take service to your water
6 meter -- or to your water heater through the heater, and
7 therefore you have to reconfigure your service panel and the
8 wires that are within your house that distribute electricity
9 to your appliances.

10 And that can only be done at a cost. In some
11 cases, the cost is nominal, in some cases it may be quite
12 considerable and Manitoba Hydro isn't prepared to pay those
13 costs itself, nor is it prepared to go and -- and take steps
14 to require the customers to pay them.

15 So, what we have done and what we have done
16 for many years, is -- the -- the number of these customers is
17 gradually decreasing over time as the services become older
18 and older and time expired.

19 We were down, I think, well below two thousand
20 (2,000) in the year 2000 or 2001 and, of course, the
21 subsequent year we acquired Winnipeg Hydro and we acquired a
22 whole lot more of these customers in the old city centre of
23 Winnipeg.

24 So, we're now looking at about six thousand,
25 five hundred and eighty-seven (6,587) customers who -- who

1 are -- that -- that is our current estimate of the number of
2 customers who are taking service.

3 MR. ROBERT MAYER: I'll just, Mr. -- can --
4 because you're no longer offering it, the -- the numbers seem
5 to be reducing. What I don't understand then, if I purchase
6 a house from somebody who has that deal and the hot -- and
7 the water heater is not run through the system could I, in
8 fact, inherit that water treat -- sorry, water heating
9 special rate?

10 MR. ROBIN WIENS: You do, indeed.

11 MR. ROBERT MAYER: And if I wanted to, as a
12 customer, if I had one of these special water heater rates,
13 and looked, as Mr. Peters just did, and found out that --
14 that I was paying 134.2 percent of what it cost to provide
15 the service, could I say I would -- could I come to Hydro and
16 say, I'm going to hook this to the meter, can we forget about
17 that other rate?

18 MR. ROBIN WIENS: If the customer wanted to
19 undertake the improvements to their system that would be
20 required to take that hot water service through the meter,
21 they can certainly do that.

22 MR. ROBERT MAYER: The reason I ask that
23 question is because I suspect that not many residential
24 customers are likely to but it would appear that general
25 service small, the number's 139.9 percent and any reasonable

1 thinking businessman may want to have a look at that.

2 So, would that option be available to the
3 general service small customer as well, in other words, let
4 us re-route that through our meters and let's forget about
5 this special rate at 139 plus percent?

6 MR. ROBIN WIENS: It's -- it's available to
7 any customer who wants to undertake those improvements.

8 MR. ROBERT MAYER: Thank you, sir.

9 MR. LEN EVANS: Mr. Wiens, just as further
10 clarification, I think you mentioned something about the
11 number eventually declining or having declined -- the number
12 of water heating customers; is that correct?

13 MR. ROBIN WIENS: Yes, it does decline over
14 time.

15 MR. LEN EVANS: Yeah, so I guess my simple
16 question is; how does it decline because your answers to Mr.
17 Mayer, it seems to me that this is an ongoing class? Someone
18 buys a new house or buys an existing house and gets the
19 service, so there's no basis for it disappearing there.

20 So what -- what is the basis for a decline?
21 And I suspect that eventually it will disappear, I sort of
22 gathered that from your earlier comment.

23 MR. ROBIN WIENS: Well, the homes that these
24 services are in are generally older homes. They may some --
25 someday be taken down and replaced with newer homes. Others

1 may be expensively renovated and changes made in the
2 electrical distribution system.

3 And I suspect a number of them may be
4 converted to gas and all of those would contribute to the --
5 we're not adding any so any decline becomes permanent.

6 MR. LEN EVANS: Thank you.

7

8 CONTINUED BY MR. BOB PETERS:

9 MR. BOB PETERS: Mr. Wiens, if I can then
10 just finish up on the flat rate water heating rates issue.
11 You have before this Board a request to approve some rates,
12 correct?

13 MR. ROBIN WIENS: Yes. I'd almost forgotten
14 about that but, yes, we do.

15 MR. BOB PETERS: As did I until Mr. -- Mr.
16 Mayer reminded us. But I find at Tab 4 and Tab 5 of the Book
17 of Documents that I prepared, there are flat rate water
18 heating rates from two (2) sources that you're asking this
19 Board to approve, one that was contained in Order 153 of '03
20 was approved on an interim ex parte basis and you're now
21 asking for those rates to be finalized, correct?

22 MR. ROBIN WIENS: That's right.

23 MR. BOB PETERS: And then, in addition to
24 that, it appears in Tab 4 that while Manitoba Hydro was
25 transferring accounts from Winnipeg Hydro service territory

1 to Manitoba Hydro and their billing system you found that
2 there were approximately seven (7) other element sizes for
3 which you did not have PUB approved rates?

4 MR. ROBIN WIENS: That's correct. We didn't
5 have them on our system so we had never previously applied to
6 have rates approved for them.

7 MR. BOB PETERS: All right. And so, it is
8 both of those requests that you have before this Board to
9 approve the rates proposed for the flat rate water heating,
10 correct?

11 MR. ROBIN WIENS: Yes.

12 MR. BOB PETERS: And if I recall, which is not
13 a given, in Board Order 153 of '03, there were water heaters
14 of the kind that could be remotely turned off. Those are
15 called controlled water heaters?

16 MR. ROBIN WIENS: Controlled water heaters.

17 MR. BOB PETERS: And you don't offer that
18 service anymore, do you?

19 MR. ROBIN WIENS: No, we don't.

20 MR. BOB PETERS: And in fact, would I be
21 correct that Manitoba Hydro does not have the technology to
22 -- to control those water tanks anymore?

23 MR. ROBIN WIENS: Well, the technology could
24 always be replaced and put in place, but it's been determined
25 to be not cost effective.

1 MR. BOB PETERS: All right. And then why is
2 it that you are continuing to offer that rate to those
3 customers when -- when you're not able to control it?

4 MR. ROBIN WIENS: Again, it's -- it's a
5 question of customer sensitivity to -- to move the customers
6 off that rate to the higher rate for uncontrolled water
7 heater service, implies a sig -- fairly significant rate
8 increase, and although we -- we did consider that, we -- we
9 weren't prepared to request that at this time.

10 MR. BOB PETERS: The rate increase that you're
11 seeking, Mr. Wiens, is 2.88 percent for April 1st of '04, and
12 1.75 percent for April of 2005, if I understand the filing;
13 is that correct?

14 MR. ROBIN WIENS: Yes.

15 MR. BOB PETERS: And can you just indicate to
16 the Board how you arrived at those percentage increases, or
17 why you'd consider those appropriate for this class?

18

19 (BRIEF PAUSE)

20

21 THE CHAIRPERSON: Mr. Peters, while they're
22 looking, are you going to reach a point in which we could
23 have a break?

24 MR. BOB PETERS: This might be as good a time
25 as any.

1 THE CHAIRPERSON: Okay, we'll just have a
2 break now and come back in ten (10) minutes, thank you.

3
4 --- Upon recessing at 10:16 a.m.

5 --- Upon resuming at 10:34 a.m.

6
7 THE CHAIRPERSON: Okay. Mr. Peters, you can
8 resume.

9
10 CONTINUED BY MR. BOB PETERS:

11 MR. BOB PETERS: Thank you. Panel members,
12 back at the 2002 status update hearing, that was the first
13 time that Manitoba Hydro came forward to suggest that the GSL
14 rates were probably as low as Manitoba Hydro wanted them to
15 go. Would that -- would that be fair?

16 MR. ROBIN WIENS: We may have -- we may have
17 made a reference like that. Certainly we recognize that they
18 were low. They were the lowest in the country and I -- I
19 think we -- we would have probably noted that we -- we didn't
20 think it would be reasonable that they would be significantly
21 lower than what they were.

22 MR. BOB PETERS: And as a result of this
23 Application, you're proposing to increase those rates,
24 correct?

25 MR. ROBIN WIENS: That's correct.

1 MR. BOB PETERS: Has that ameliorated your
2 concern about how low the GSL rates are?

3 MR. ROBIN WIENS: Well, concern about how low
4 they are, I think the concern was more that we didn't think
5 that they should be significant -- any -- significantly lower
6 than they were.

7 MR. BOB PETERS: And they're not going to be
8 lower than they were back in 2002 if your Application's
9 approved.

10 MR. ROBIN WIENS: Well, the first year of the
11 proposed increase in the Application before the Board, I
12 believe is a 1.95 percent -- percentage points and that would
13 take us back to where to were in 2002.

14 And the second year, I think, is one point
15 four seven (1.47) so that gets us a little bit, one (1) to
16 1 + percent higher than we were in 2002.

17 MR. BOB PETERS: Mr. Wiens, is this a
18 conflict that the Corporation has in -- in trying to strive
19 for unity as well as competition from other provinces or why
20 -- why is this a concern for the Corporation?

21 MR. ROBIN WIENS: Well, it is a concern
22 partly because -- partly because we have a situation in which
23 the value of -- the value of the power that Manitoba Hydro is
24 producing and is able to sell in the export market is -- is
25 significantly higher, even through opportunity sales in many

1 months of the year than the rate that's being charged to
2 general service large customers.

3 MR. BOB PETERS: Ahh.

4 MR. ROBIN WIENS: You know, there -- there
5 are a host of reasons for that and it's not that we're
6 talking in any way that we need to have significant rate
7 increases.

8 I think our point is simply that the rates
9 are, to this class, are already very low and to go
10 significantly lower just doesn't seem reasonable in light of
11 the available benchmarks for the market or rates in other
12 provinces.

13 MR. BOB PETERS: But, isn't that exactly the
14 conflict then, Mr. Wiens; that you're -- you're tossed
15 between cost based rates on one side and then what is
16 happening in other jurisdictions on the other side?

17 MR. ROBIN WIENS: Well what is happening in
18 other jurisdictions and what is happening in the market.

19 MR. BOB PETERS: And the market is telling
20 you that the value of your power is greater in export than it
21 is selling to some of your domestic customers?

22 MR. ROBIN WIENS: That's correct.

23 MR. BOB PETERS: And does that -- does that
24 then mean Manitoba Hydro supports discouraging energy
25 intensive companies from setting up in Manitoba because it'll

1 take away power that would be available otherwise for export?

2 MR. ROBIN WIENS: I don't think Manitoba
3 Hydro is discouraging any customers. I think we're just
4 recognizing a fact.

5 MR. BOB PETERS: But Manitoba Hydro is still
6 of the belief that cost-based rates are appropriate for this
7 jurisdiction?

8 MR. ROBIN WIENS: Yes, cost-based are
9 appropriate for this jurisdiction. I think in our -- in our
10 application and in the subsequent material we've filed with
11 the Board, what we are suggesting is that where we have
12 export revenues and average prices at the significant levels
13 that they are now, that it is not necessarily cost-based to
14 rebate those export levels at that level in the manner that
15 we have done for these many years.

16 MR. BOB PETERS: I'm sorry, I --

17 MR. ROBIN WIENS: It doesn't mean that we have
18 abandoned, or are moving away from support for cost based
19 rates. I guess we -- we are questioning at the current
20 levels of export earnings, and the current unit prices that
21 are being received in the export market, whether to allocate
22 those back to customer classes, wholly on the basis of usage
23 is really -- continues to be cost based.

24 MR. BOB PETERS: And to some extent that --
25 that concern is alleviated if there was an export class

1 established?

2 MR. ROBIN WIENS: Well, it's not just the
3 establishment of an export class that alleviates it. The
4 establishment of the export class gives us some confidence
5 that indeed, our export revenues are recovering more, and
6 significantly more than their cost.

7 But the establishment of the export class, per
8 se, does not alleviate that concern. It's what you do with
9 the residual and how you treat the residual that -- that
10 alleviates that concern.

11 MR. BOB PETERS: Well, can you explain briefly
12 to the Board how the NERA recommendation was to treat that
13 residual or that surplus from export sales?

14 MR. ROBIN WIENS: Currently, and for a
15 longstanding practice, with the exception of the 2002 Cost of
16 Service Study that was filed with the Board during the Status
17 Update Proceeding, export revenues were allocated back to
18 customer classes on the same basis as they incurred
19 generation and transmission costs.

20 Technically they are allocated back on the
21 energy and demand usage of the customer classes, but that
22 energy and demand factor in the -- in the formula that
23 allocates back export revenues, are weighted on the same
24 basis as the energy and demand factors for the generation and
25 transmission system, historically.

1 So, what that means is that to the extent that
2 export revenues -- to the extent that a customer class's
3 allocated costs consist entirely of generation and
4 transmission function, which is pretty close to being the
5 case for the general service large class over one hundred
6 (100) kV, the percentage by which export revenues offset
7 generation transmission cost, is the percentage by which they
8 offset the cost to that class.

9 In the 2003/2004 study, that percentage is 47
10 percent. For the residential class, which has a substantial
11 portion of its costs incurred in sub-transmission,
12 distribution and customer service, the percentage by which
13 the export revenues offset their generation and transmission
14 costs is exactly the same as general service large, 47
15 percent.

16 But when you factor all of their other costs
17 into the equation, it's about 26 percent.

18 So, the reduction from the gross cost base
19 rate, that is accorded to the residential class, in the
20 2003/'04 study, due to export revenues, is about 26 percent
21 and it's about 47 percent for the general service large over
22 one hundred (100) kV class.

23 When we move to the creation of an export
24 class, which the NERA Report recommended, that is essentially
25 removing costs from each of the domestic customer classes in

1 exactly the same way as the -- as the current export
2 allocation mechanism does.

3 It assigns those costs which are generation
4 and transmission costs, to the export class, and therefore,
5 they do not have to be borne by the domestic classes of
6 Manitoba Hydro -- all of the domestic classes.

7 The residual, which is -- represents about a
8 \$165 million dollars, in the NERA recommendations, is
9 allocated back against customer classes, on the basis of
10 their total incurred costs.

11 So, that portion of -- of export revenue, the
12 165 million, which is over and above the allocated cost, is
13 also assigned back to customer classes, on the basis of
14 generation and transmission, but also on the basis of the
15 other costs; distribution and customer service costs.

16 The net effect, I believe, is that 90 percent
17 of the export revenues, as defined in the 2003/'04 Cost of
18 Service Study, in other words, without an export class, 90
19 percent is -- would continue to be allocated back to customer
20 classes on the basis of generation and transmission at
21 approximately 10 percent on the basis of distribution.

22 And there's no magic about assigning costs
23 back to classes, on the basis of total cost versus generation
24 and transmission. All that does is it's a method of
25 ameliorating that -- that impact in terms of the effect that

1 export revenues have on -- on cost allocation.

2 Rather than being purely on the basis of
3 usage, it's now defined, to a small extent, on the basis of
4 something else, which is the distribution costs.

5 It doesn't necessarily address, with any
6 degree of theoretical rigor, how you should treat what is,
7 essentially, an economic rent to the system. It simply says
8 let's not -- let's not allocate it all back strictly on the
9 basis of usage.

10 MR. BOB PETERS: Mr. Wiens, the initial
11 rationale for allocating the revenues from export back to the
12 classes based on generation and transmission costs was
13 premised, at least loosely, on the fact that those were the
14 assets used to generate the revenue, correct?

15 MR. ROBIN WIENS: That's correct, and I --
16 and I would say it's probably analogous to crediting the
17 revenue earned from the sale of a byproduct against the price
18 of the original product which, I think, is a reasonable way
19 of handling it, except when you're starting to earn more from
20 the byproduct than you earn from the main product it could
21 have these effects that we've become concerned about.

22 MR. BOB PETERS: And moving forward then with
23 the discussion. If the export class was set up and the costs
24 charged to it are taken into account before the surplus is
25 determined, it then becomes a policy decision as to how to

1 allocate the surplus at that point; would you agree?

2 MR. ROBIN WIENS: It -- it could become a
3 policy decision, yeah.

4 MR. BOB PETERS: Mr. Wiens, one of the
5 concerns raised by Manitoba Hydro were the price signals that
6 it -- that were being sent through the various rates that it
7 charges, correct?

8 MR. ROBIN WIENS: Yes.

9 MR. BOB PETERS: And I believe it was Mr.
10 Lazar who -- who wanted customers to face the marginal cost
11 for marginal cost consumption. I may have got his words
12 somewhat incorrect, but his premise was for that last block
13 of energy used, customers should be paying the marginal cost
14 for it, correct?

15 MR. ROBIN WIENS: That's what he was saying.

16 MR. BOB PETERS: And that --

17 MR. ROBIN WIENS: That's my understanding
18 also of what he was saying.

19 MR. BOB PETERS: And that underpinned his
20 suggestion for inverted rates, correct?

21 MR. ROBIN WIENS: Inverted rates for
22 residential and small general service and what he referred to
23 as rolling baseline rates for other classes of service.

24 MR. BOB PETERS: And we understand that
25 you're in the midst of preparing a study on inverted rates

1 and at this point it's premature to come back with any
2 conclusions; is that correct?

3 MR. ROBIN WIENS: It is premature.

4 MR. BOB PETERS: Has -- do you know if your
5 report will include consideration of the rolling baseline for
6 the industrial customers?

7 MR. ROBIN WIENS: It will.

8 MR. BOB PETERS: Does Manitoba Hydro have a
9 view on that at this point in time?

10 MR. ROBIN WIENS: Not an official view.

11 MR. BOB PETERS: What you're telling me is
12 it'll be perhaps mentioned in the study and where it goes
13 from there we'll have to wait and see?

14 MR. ROBIN WIENS: Like all reviews that have
15 this level of significance it -- it will be reviewed first by
16 us at the staff level and then it will move up to the
17 executive and finally the board of Manitoba Hydro.

18 MR. BOB PETERS: Mr. Wiens and Mr. Warden, is
19 it -- is it generally accepted by the Corporation that if
20 Manitoba Hydro was to become deregulated, in the sense that
21 that word is used in other jurisdictions, that would lead to
22 retail price increases?

23 MR. VINCE WARDEN: As has happened in other
24 jurisdictions, yes.

25 MR. BOB PETERS: And if we use other

1 jurisdictions as the model, deregulation in Manitoba would
2 result in rates increasing to market rates?

3 MR. VINCE WARDEN: Essentially, yes.

4 MR. BOB PETERS: And, at this point in time,
5 is that a position that Manitoba Hydro favours?

6 MR. VINCE WARDEN: No.

7 MR. BOB PETERS: Why is that, Mr. Warden?

8 MR. VINCE WARDEN: I think that the
9 functioning of Manitoba as a Crown Corporation has proven to
10 be very efficient and effective and a benefit to all
11 consumers and residents in the Province and with the lowest
12 rate structure in North America and perhaps the world, there
13 is no incentive for us to move to a different model.

14 MR. BOB PETERS: Do I take from that answer,
15 sir, that strengthening your balance sheet is not a primary
16 focus then of the Corporation, you would rather keep your
17 rates as low as they are for the benefit of Manitobans as
18 opposed to maximizing your retained earnings and perhaps
19 monies available to the shareholder?

20 MR. VINCE WARDEN: Yeah, that's the ultimate
21 objective of Manitoba Hydro, providing a secure, safe supply
22 of energy at the lowest possible cost.

23 MR. BOB PETERS: Mr. Wiens, just to assist the
24 Board in understanding the average monthly usage, perhaps in
25 kilowatt hours, I wonder if I could ask you to provide an

1 layer on top of that their
2 consumption levels with and
3 without air conditioning, and
4 with and without say a swimming
5 pool, to provide some general
6 numbers against which Manitoba
7 Hydro's rates can be multiplied
8 to get a monthly bill.
9

10 MR. BOB PETERS: Mr. Wiens can -- can state
11 any assumptions that he makes in -- in answering the
12 question, just to provide the Board with the parameters.

13 MR. ROBIN WIENS: It would be the average
14 pool.
15

16 CONTINUED BY MR. BOB PETERS:

17 MR. BOB PETERS: Mr. Wiens, has Manitoba Hydro
18 ever come before this Board and asked for retroactive rates,
19 prior to this Application?

20 MR. VINCE WARDEN: Not to our knowledge, no.

21 MR. BOB PETERS: And --

22 MR. VINCE WARDEN: The answer is no.

23 MR. BOB PETERS: Mr. Warden, in your direct
24 evidence to Ms. Ramage on June 23rd; if the increase that
25 you're asking for is approved, and that is the approximate

1 \$28 million dollars in fiscal '04, you want to recover that
2 -- I'm sorry, in fiscal '05, you want to recover that within
3 that fiscal period of time, correct?

4 MR. VINCE WARDEN: That is our proposal, yes.

5 MR. BOB PETERS: And that results in the
6 residential rate increasing to 5.52 percent, if August 1st
7 was the date of implementation of your Application?

8 MR. VINCE WARDEN: Correct.

9 MR. BOB PETERS: Has the Corporation
10 considered recovering that over a longer period of time; that
11 is the portion from August 1st back to April 1st?

12 MR. VINCE WARDEN: Yes, we have. And we
13 certainly wouldn't be adverse to recovering that over the two
14 (2) year period, provided that the rate increase requested
15 over that two (2) year period was equivalent to our
16 Application.

17 MR. BOB PETERS: So, that really means, Mr.
18 Warden, another way to accomplish that from -- from Hydro's
19 perspective, is to have one (1) rate increase over the next,
20 is it eighteen (18) months, as long as it recovers the
21 equivalent amount of -- of revenue that is being sought?

22 MR. VINCE WARDEN: Well, no. I -- I would
23 still expect we would have two (2) rate increases. The rate
24 increase effective August the 1st, could be such though to --
25 to recover that prospectively and the rate increase effective

1 April the 1st of 2005, could take into account any
2 adjustments that we would make to reflect the longer recovery
3 of the first rate increase, if that's clear?

4 MR. BOB PETERS: It is except for the numbers,
5 and I wonder if -- if your colleagues could maybe undertake
6 to get us what that would mean for an August 1st increase, to
7 recover the revenue requirement over a longer period of time;
8 I guess it's the twelve (12) months, and then have an
9 additional rate increase on April the 1st?

10 MR. VINCE WARDEN: Yes, we can -- we can
11 undertake to provide that information to you.

12 MR. BOB PETERS: You'd have to assume what the
13 -- what -- you'd have to calculate what the first increase
14 would be, to recover the \$28 million dollars over the twelve
15 (12) month period.

16 MR. ROBIN WIENS: Well, I guess we would have
17 to have what -- what parameters you would want to put around
18 how we would scope this. And you could do it in a number of
19 different ways, you could say, well, I believe that -- that
20 the Application is asking for \$28 million dollars in the
21 first year, and around twenty-two (22) or twenty-three (23)
22 in the second year. So, over the entire period it's looking
23 for about 75 million in additional revenue.

24

25 --- UNDERTAKING NO. 55: what that would mean for an

1 August 1st increase, to recover
2 the revenue requirement over a
3 longer period of time; twelve
4 (12) months, and then have an
5 additional rate increase on April
6 the 1st?
7

8 So, you could scope your question such that
9 what -- what rate increase would be required April 1st of '05
10 to recover that, given X percent rate increase in August.

11 You could specify that they be equal rate
12 increases in August and April; just some general direction as
13 to how -- how that would work.

14 MR. VINCE WARDEN: Mr. Peters, I think just
15 to elaborate a little bit on that, what we've considered is
16 if, in fact, we were to implement a 3 percent rate increase
17 effective August the 1st of 2004, what would the rate
18 increase have to be April the 1st of 2005 in order to recover
19 the same amount of revenue over that two (2) year period.

20 And that's a number that I -- close to
21 deriving but don't have that at this time and we can provide
22 that through an undertaking.

23 MR. BOB PETERS: If you could and then back
24 to Mr. Wiens. Mr. Wiens, maybe I'll just word it at this
25 point. What would be the -- the constant rate over the two

1 (2) fiscal years that would be needed starting August 1st,
2 Mr. Wiens, to recover the \$51 million dollars of addition
3 revenue, and not by class, but the overall increase?

4 MR. ROBIN WIENS: What would -- if they were
5 identical increases?

6 MR. BOB PETERS: No, if it was just one (1)
7 increase, sir, that was --

8 MR. ROBIN WIENS: What, just one (1)
9 increase?

10 MR. BOB PETERS: Yes.

11 MR. ROBIN WIENS: On what date?

12 MR. BOB PETERS: August the 1st of '04.

13 MR. ROBERT MAYER: If you're going to do
14 that, would you also, out of an abundance of caution,
15 calculate the possibility of September 1st, '04?

16 MR. VINCE WARDEN: I think, for guidance on
17 that though, Mr. Peters, you can refer to the integrated
18 financial forecast that was filed and is found -- I'll find
19 the reference.

20 But the rate increase over that period of time
21 -- cumulative rate increase is 5.6 percent over that
22 twenty-four (24) month period.

23 And, Mr. Mayer, yes, if you'd like a September
24 the 1st calculation we certainly can do that as well.

25 Or -- that reference was Volume 2, Appendix

1 4.1.

2

3

(BRIEF PAUSE)

4

5

MR. VINCE WARDEN: Mr. Peters, if I can just
6 further elaborate on that last answer. Apparently, we can
7 certainly calculate the average rate increases very quickly.
8 The allocation to the customer classes though will take a
9 little bit longer and it could be a couple of days before we
10 have that information.

11

12 CONTINUED BY MR. BOB PETERS:

13

MR. BOB PETERS: I think that would be
14 acceptable. I'm just thinking, and maybe I should have
15 thought this through further, but in looking at the revenue
16 that you're seeking to recover, Mr. Warden, it was \$28
17 million dollars in the first test year and then cumulatively,
18 51 million more in the second test year for a total of \$79
19 million dollars over those two (2) fiscal years.

20

MR. VINCE WARDEN: That's correct, yes.

21

MR. BOB PETERS: And -- and if there was one
22 constant rate to go into effect August 1st or September 1st
23 of '04, what would be the -- the rate that would be needed
24 over those -- over that time period, is -- is my question.

25

MR. VINCE WARDEN: We'll confirm that number

1 for you.

2 MR. BOB PETERS: Thank you for your help.
3 Mr. Wiens, maybe a small point but in your -- in your
4 evidence, both you and Mr. Warden have said on a number of
5 occasions the lowest rates in North America exist with
6 Manitoba Hydro; is that correct?

7 MR. ROBIN WIENS: That is not correct for
8 every one of Manitoba Hydro's customers, but it is generally
9 correct overall.

10 MR. BOB PETERS: And can you explain in the
11 Hydro Quebec study found at Volume 9, Appendix -- excuse me
12 nineteen (19) of your filing, and you don't need to turn to
13 it necessarily, but it was -- it was a comparison of
14 electricity prices in major North American cities for rates
15 in effect May 1st of 2003 done by Hydro Quebec.

16 Do you recall generally that study, sir?

17 MR. ROBIN WIENS: Yes, I do.

18 MR. BOB PETERS: And you would agree with me
19 that a number of cases -- the average prices, although
20 Manitoba Hydro's were -- were certainly low, they may not
21 have been the absolute lowest in -- in those comparisons?

22 MR. LEN EVANS: Excuse me, Mr. Peters, are you
23 referring to your Book of Documents.

24 MR. BOB PETERS: Mr. Evans, no, I'm not. I
25 was just drawing Mr. Wiens attention, in Volume IX of the

1 filing, at Appendix 19, there was a comparison of electricity
2 prices in major North American Cities, and I was just showing
3 Mr. Wiens the -- maybe starting on -- I have it here on page
4 -- page 19.

5

6

(BRIEF PAUSE)

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MR. ROBIN WIENS: I do have page 19.

9

10 CONTINUED BY MR. BOB PETERS:

11

MR. BOB PETERS: I'm just -- when I look --
12 when I hear what you say, Mr. Wiens, and then I look to see
13 what other people have concluded, and other data they've
14 prepared, there -- there's, albeit a small difference, there
15 is a difference, and here it shows that Vancouver, BC, under
16 the -- the general service customers, have a certain defined
17 load factor and consumption level, would end up having
18 monthly billings lower than Manitoba Hydro?

19

MR. ROBIN WIENS: Yes, and that's the general
20 point I was making earlier. We do recognize that it's not
21 the case for every single customer in Manitoba Hydro's
22 system, that they see the absolute lowest rate in North
23 America.

24

But for general consumers overall, and for --
25 within the individual classes, generally, overall, they are

1 the lowest. In this case you've identified a general service
2 medium customer, with a relatively low load factor, and that
3 is explained by the fact that the demand and energy rates are
4 different in BC, than in Manitoba.

5 MR. BOB PETERS: All right. And -- and not
6 much more on that, Mr. Wiens, but those kind of examples can
7 exist throughout the system, and they often end up being
8 customer specific?

9 MR. ROBIN WIENS: Or -- or smaller groups of
10 customers, yes.

11 MR. BOB PETERS: And when you were designing
12 the rates that are before the Board today, Mr. Wiens, you had
13 choices to make in terms of increasing the energy charge, or
14 perhaps decreasing the demand charge, or keeping the demand
15 charge constant; would you agree with that?

16 MR. ROBIN WIENS: We always have those
17 choices.

18 MR. BOB PETERS: And it -- it appears that
19 what you are choosing is -- you recognize that Manitoba Hydro
20 has low energy charges, so that's where you target your rate
21 increases primarily?

22 MR. ROBIN WIENS: We did target our rate
23 increases toward, I believe the last block, energy block in
24 the case of residential -- the -- the second energy block in
25 the case of general service small, which for non-demand

1 customers, is the tail block for the most part and the energy
2 charges as opposed to the demand charges, for the general
3 service, medium and large customers.

4 MR. BOB PETERS: Was the rationale for that,
5 Mr. Wiens, again, to send better price signals to the
6 consumers?

7 MR. ROBIN WIENS: Well, we believe that
8 accords with the relative marginal costs or marginal values
9 of capacity and energy. It also appeared to accord with the
10 concern that this Board had and expressed in Order 7/'03, so
11 we did decide to emphasize the tail energy blocks, and energy
12 as opposed to demand charges for larger customers.

13 MR. BOB PETERS: Maybe saying it another way,
14 Mr. Wiens, if the demand charges get too low, there's a risk
15 that there won't be conservation during peak usage by your
16 customers.

17 MR. ROBIN WIENS: If the demand charges are
18 too low, then that will affect peak usage and will affect
19 conservation during peak usage, yes.

20 MR. BOB PETERS: And Manitoba Hydro may find
21 itself needing additional capacity, as opposed to the energy
22 to serve them?

23 MR. ROBIN WIENS: Well, I -- I hesitate to say
24 that, because typically Manitoba Hydro is an energy
25 constraint system, so there would have to be a lot of change

1 in order for it to become capacity constrained.

2 But at certain times of the year, it could be
3 somewhat problematic. High peak usage in the summer of
4 course, cuts into the period of the -- of the highest value
5 export sales.

6 MR. BOB PETERS: Would time of use rates also
7 help conserve capacity, Mr. Wiens?

8 MR. ROBIN WIENS: If they were designed the
9 right way, yes.

10 MR. BOB PETERS: And where is Manitoba Hydro
11 at on the issue of time of use rates?

12 MR. ROBIN WIENS: Well, again we're reviewing
13 that as -- as part of our overall response to the directives
14 in Order 7/'03, and we're carrying out both the time of use
15 and an inverted rate study simultaneously.

16 MR. BOB PETERS: Thank you. At Tab 36 of the
17 Book of Documents that I prepared, is a copy of PUB-MH-I
18 question sixty-nine (69), dealing with the diesel issues.
19 Mr. Warden, I understand that the-- the diesel issues are
20 presently in a dispute resolution process; is that correct?

21 MR. VINCE WARDEN: Yes, that's right.

22 MR. BOB PETERS: And in looking at the
23 numbers provided in Document 36, which is PUB/MH-I-69, the
24 deficit that is being shown in the chart, Mr. Warden, is
25 approximately \$17 million, and that is without interest being

1 added to that; is that correct?

2

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(BRIEF PAUSE)

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MR. VINCE WARDEN: Well, the interest is inherent in -- in deriving that number. There's not interest -- it's not considered to be an amount in arrears. So, there -- there is no -- no additional interest that has to be added to that number.

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MR. BOB PETERS: This is a revenue shortfall that has accumulated over the years that has not been billed and it's not showing up as an account receivable?

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MR. BOB PETERS: How current is that update?

MR. VINCE WARDEN: That's at March 31st,

2004.

MR. BOB PETERS: Just so this Board has an understanding, Mr. Wiens and Mr. Warden, as a result of the issues that are being discussed in the dispute resolution process, are the results of that process going to be brought back to this Board?

MR. VINCE WARDEN: Yes. We have a directive

1 to do that and we fully intend to bring that back to the
2 Board at the appropriate time.

3 MR. BOB PETERS: And I think Mr. Anderson
4 covered most of my points here, but the increase being sought
5 in this application is -- is to the customers consistent with
6 the rates that would be charged if they were on the grid, at
7 least for their first block of energy; is that correct?

8 MR. VINCE WARDEN: For the first 2,000
9 kilowatt hours, that's correct, yes.

10

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(BRIEF PAUSE)

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MR. BOB PETERS: Mr. Warden, I want to
respect the process that's ongoing, so if this question is
out of bounds you're going to tell me that, or your lawyer
will, if the -- if the process doesn't yield the results that
Manitoba Hydro expects or hopes that it will, what will
become of this deficit number?

What happens to it?

MR. VINCE WARDEN: Well, I first want to say
that we're very optimistic that the process will be
successful. But in the event that it isn't, we would come
back before this Board with a rate application to recover
those amounts, that amount of 18 million -- 18.3 million in
future rates.

1 MR. BOB PETERS: In future diesel rates or in
2 -- future grid consumers' rates?

3 MR. VINCE WARDEN: No, future diesel rates.

4 MR. ROBERT MAYER: Or you might send Mr.
5 Bedford to court? Or we might take it all to court?

6 MS. PATTI RAMAGE: We have to get it into
7 rates before we can go to court.

8

9 CONTINUED BY MR. BOB PETERS:

10 MR. BOB PETERS: In turning to some of the
11 other rates, Mr. Wiens, the limited use billing demand rate
12 is one (1) in which you are also asking for rate increases
13 consistent with the general service medium and general
14 service large classes?

15 MR. ROBIN WIENS: Yes.

16 MR. BOB PETERS: And the limited use billing
17 demand rate is -- is not just utilized by those with high
18 winter demand; is it?

19 MR. ROBIN WIENS: No. In fact, it's a
20 relatively small number. They may have high winter demand
21 but it's still a relatively small number of limited use
22 billing demand customers are actually affected by the
23 application of the winter ratchet.

24 MR. BOB PETERS: Somewhere in the
25 neighbourhood of ninety-nine (99) customers in total?

1 MR. ROBIN WIENS: A hundred and twenty-three
2 (123) customers in total.

3 MR. BOB PETERS: And Manitoba Hydro is
4 considering what it -- what it's recommendation to this Board
5 will be about the continuation of this -- this rate option?

6 MR. ROBIN WIENS: Yes we are. We -- we have
7 -- we have prepared a review of it. We have not yet been
8 able to take this review through our own internal -- our own
9 internal review mechanisms.

10 MR. BOB PETERS: The time-line, if I haven't
11 asked it, Mr. Wiens, for getting that to this Board is
12 approximately what?

13 MR. ROBIN WIENS: I would expect now it would
14 be about the end of August, or possibly into September,
15 depending on whether it needs to go to the Board of Manitoba
16 Hydro.

17 MR. BOB PETERS: In this Application before
18 the Board, Mr. Wiens, there's, I think, two (2) curtailable
19 rates orders that have been approved on an intermex party
20 basis for which Manitoba Hydro is seeking final approval?

21 MR. ROBIN WIENS: Yes.

22 MR. BOB PETERS: And the curtailable rates
23 program is one where, if customers are curtailed, they can
24 buy replacement energy at market prices?

25 MR. ROBIN WIENS: No, that's not the case.

1 If they are curtailed, they are curtailed for capacity
2 reasons or for -- for either planning -- planning reserves or
3 -- or an actual contingency on the system. So, there's no
4 replacement energy available.

5 MR. BOB PETERS: There's no capacity to
6 provide them with any replacement energy?

7 MR. ROBIN WIENS: No.

8 MR. BOB PETERS: They have to revert to their
9 own self -- their alternate fuel sources?

10 MR. ROBIN WIENS: Assuming they have it.
11 They're not required to have it for the curtailable rate
12 program. That's for the surplus energy program.

13 MR. BOB PETERS: There's only four (4)
14 customers in the curtailable rates program, is there not?

15 MR. ROBIN WIENS: I believe that's right.

16 MR. BOB PETERS: And there was a considerable
17 curtailment of these customers in the drought period?

18 MR. ROBIN WIENS: Yes, that would be true.
19 The 2003/'04 fiscal year.

20 MR. BOB PETERS: Why is there no rate
21 increase sought from this -- on this rate, Mr. Wiens?

22 MR. ROBIN WIENS: These customers pay exactly
23 the same rate as the general service class to which they
24 would normally be a part. Usually general service large over
25 one hundred (100) kV and the curtailable provision offers a

1 discount for their agreeing to be curtailed depending on the
2 terms and conditions of the curtailment.

3 MR. BOB PETERS: Is the value of the discount
4 studied, or is -- is Manitoba Hydro confident that it remains
5 the same as it was when the program was started?

6 MR. ROBIN WIENS: We have not undertaken a
7 recent review of that, but the value of the discount which
8 was approved by this Board back in 2002, I believe, the
9 reference value was two seventy-five (275) per kilowatt.

10 MR. BOB PETERS: And without having done any
11 further review on it at this point in time, you believe it's
12 still appropriate?

13 MR. ROBIN WIENS: Yes, we do.

14 MR. BOB PETERS: All right. Turning to the
15 surplus energy rate program, Mr. Wiens, there were a series
16 of -- of ex parte Orders that this Board has approved for
17 which approval is also sought by Manitoba Hydro on a final
18 basis?

19 MR. ROBIN WIENS: That's correct. I -- I
20 don't recall the number but there are quite a few of them.

21 MR. BOB PETERS: And the other significant
22 point is that, in terms of the surplus energy program, it was
23 extended in its terms to March 31st of 2005 in Board Order 90
24 of 2000, correct?

25 MR. ROBIN WIENS: I -- I think 90 of 2000 was

1 the original Order approving the program. It would have been
2 a subsequent Order that would have approved the extension.

3 MR. BOB PETERS: I think it's one fifty three
4 (153) of zero three (03) which I have at Tab 5 of the Book of
5 Documents.

6 MR. ROBIN WIENS: That sounds right.

7 MR. BOB PETERS: But having said that, Mr.
8 Wiens, the point I'm trying to get at is, the terms and
9 conditions that existed and were approved on an ex parte
10 basis by the Board, I believe in Order 153 of '03; you now
11 want those extended for an additional two (2) years?

12 MR. ROBIN WIENS: Well I guess you were
13 originally right. The terms and conditions that -- that were
14 approved and still remain those in the ninety (90) of two
15 thousand (2000), one fifty-three (153) of oh three (03)
16 approve the extension to 2005 on an interim basis, I believe.

17 So, we're seeking to confirm that and to
18 extend an additional two (2) years with the original terms
19 and conditions.

20 MR. BOB PETERS: And -- and with the one
21 exception, Mr. Wiens, that in terms of option number one (1)
22 you want to reflect the Order 1/04 which would -- which would
23 reflect the reference to the highest measured demand being
24 now 70 percent and not 80 percent?

25 MR. ROBIN WIENS: That would be correct

1 except we don't have any Option 1 customers so it doesn't --
2 it doesn't affect anybody.

3 MR. BOB PETERS: But you're not asking for
4 that option to be removed from the terms and conditions?

5 MR. ROBIN WIENS: No, we're not.

6 MR. BOB PETERS: That implies somebody could
7 come and avail themselves of that option if there's --

8 MR. ROBIN WIENS: If there was such a
9 customer, yes. We still want to leave that open.

10 MR. BOB PETERS: And I think I asked one of
11 your colleagues on the previous Panel that, as long as
12 Manitoba Hydro is filing for surplus energy rates on an ex
13 parte basis, Hydro is seeking approval of all of those orders
14 up until this Board issues an order as a result of this
15 Hearing?

16 MR. ROBIN WIENS: That's -- that's correct
17 and I believe we did undertake to provide an update on the
18 order numbers that we were seeking confirmation of at the
19 close of these -- or close to the close of these proceedings
20 and I guess we would continue to provide such an update after
21 the close of these proceedings, until such time as an order
22 is issued.

23 MR. BOB PETERS: Mr. Wiens, I don't know that
24 I've got your position on one (1) of the recommendations from
25 Mr. Lazar to show export credits separately on the bill; do

1 you recall his -- his recommendation?

2 MR. ROBIN WIENS: Oh, I definitely recall
3 that.

4 MR. BOB PETERS: Is that something that finds
5 favour, at least in principle, with Manitoba Hydro?

6 MR. VINCE WARDEN: We haven't really spent a
7 lot of time talking about that but we, at this point, would
8 not see the value.

9 MR. BOB PETERS: Does Manitoba Hydro see the
10 value, Mr. Warden, in a hook up fee of approximately two
11 thousand dollars (\$2,000) per residential home or two hundred
12 dollars (\$200) per kilowatt for industrial or commercial
13 customers?

14 MR. VINCE WARDEN: I think the same answer.
15 We don't see the value of that.

16 MR. ROBERT MAYER: Mr. Warden, the expression
17 of the export value or the export credit on customer bills,
18 you say you don't see the value; I note with interest that
19 the Province of Manitoba has seen the value when it comes to
20 the issue of the 10 percent reduction in university tuition
21 fees.

22 And I'm sure their public relations people
23 have looked at that fairly seriously. What -- what would
24 make you say that that wouldn't be of some value to allow the
25 customer to see what his power is really worth and show that

1 -- the fact that probably, in almost every case, in almost
2 every year, it's being subsidized to some extent by -- by
3 power exports?

4 I don't understand why Hydro would be adverse
5 to telling what is basically, I think, relatively good news
6 to a consumer?

7 MR. VINCE WARDEN: Well, I think there would
8 be value only to the extent that it did affect that
9 customer's behaviour in terms of energy consumption. I think
10 what Mr. Lazar was proposing is that be withheld and actually
11 refunded at -- refunded or charged at one (1) point during
12 the year.

13 And I think that would impose considerable
14 hardship on -- on some customers. Actually displaying it as
15 a line item on the bill may have some merit. I think our
16 bills -- we're criticized for our bills being overly
17 complicated as it is and especially so now that we're going
18 with both gas and electricity charges on -- on one (1) bill.

19 So there's a lot of line items on the bill.
20 To add yet another line, a credit, again, I think it's
21 something we could consider and investigate, but on the
22 surface, I don't see -- I personally don't see the value of
23 that.

24 MR. ROBERT MAYER: Even something as -- as
25 simple as that you wouldn't have to adjust per bill but to

1 residential customers, for example, a note along the bottom
2 that says "your Hydro rates are subsidized by approximately X
3 number of percent -- as a result of export revenues"?

4 MR. VINCE WARDEN: We periodically do put
5 bill inserts into customers' bills informing them of the
6 export -- the value of the exports. There's also the
7 consideration, I think, that in the year we've just -- been
8 through in which we were a net importer of power, we couldn't
9 very well put an export credit on the bill in that year
10 unless we explain that it was being credited under average --
11 based on average flow conditions which, again, sends out a
12 mixed message to customers, when we're saying we're -- we're
13 in dire straits because of imports, and here's this export
14 credit on the bill.

15 So, you know, it's something we can certainly
16 talk about, but it would be adding yet another complication
17 to the customer's bill, that I -- I think it's a
18 communication issue, as you suggest, and maybe we have to do
19 a better job of -- of communicating to our customers, the
20 value of those exports.

21 But again, I -- I'm not in favour of a line
22 item on the bill at this point.

23 MR. ROBERT MAYER: Now, Mr. Warden, when you
24 mention -- why would you show an export credit for the last
25 year. Well, of course I wouldn't, I would -- I would tell

1 the customer how badly we got hurt by the fact that the water
2 was low, and we -- we've heard some of that through Hydro's
3 public announcements.

4 But, I think the more the consumer knows about
5 how their rates are arrived at, and -- and hat the problems
6 are that this Corporation faces, quite frankly, I think the
7 better off Hydro would be, the more people know exactly what
8 you're doing, and the more they understand how these numbers
9 are arrived at, I think that reflects favourably on the
10 Corporation.

11 I recognize that wasn't a question.

12 MR. VINCE WARDEN: This past year though, and
13 I certainly appreciate your point -- this past year we would
14 have been putting a progressively worse number on the bill,
15 as the conditions deteriorated.

16 And as you know, we have a forecast number
17 that's out in the public forum right now with -- that's the
18 actual number tended -- or ended up being quite a bit worse
19 than -- than our forecast.

20 So, it becomes a real communication challenge,
21 but I agree, we have an issue there.

22 MR. BOB PETERS: With that, Mr. Chairman, I
23 want to thank Mr. Warden, Mr. Wiens, Mr. Thomas, and in
24 absentia, Mr. Kuzcek. Those complete my questions of this
25 Panel. Thank you.

1 THE CHAIRPERSON: Thank you, Mr. Peters.
2 We'll be turning now back to MIPUG and Ms. McCaffrey, and her
3 two (2) witnesses.

4 To begin with, while we decide whether we want
5 to start now or not, perhaps Mr. Barron could swear Mr. --
6 Mr. Osler and Mr. Bowman.

7 Ms. McCaffrey...?

8 MS. TAMARA McCAFFREY: I also just wanted to
9 add that at the break I did distribute a revised Table 2.4,
10 which comes from Mr. Osler and Mr. Bowman's evidence.

11 I left the copies for the Public Utility Board
12 on Mr. Barron's chair.

13 This is a -- this table is essentially
14 revising what is already in -- in their evidence, but it's
15 revising it -- taking into account comments that Manitoba
16 Hydro made in their rebuttal evidence, with respect to the
17 affect of the reduction in the Government payment.

18 THE CHAIRPERSON: Why don't we ask Ms. Ramage
19 to look at this over the lunch, and then if she hasn't got a
20 problem with it, we can give it an exhibit number then?

21 MS. TAMARA McCAFFREY: Okay, that's fine. I
22 did distribute it at the break, so certainly we can do that.

23 THE CHAIRPERSON: Mr. Barron, would you swear
24 the two (2) witnesses.

25 MS. TAMARA McCAFFREY: As Mr. Barron

1 approaches, Mr. Chair, it may be easier for you, Members of
2 the Board, to have Mr. Osler and Mr. Bowman move to Hydro's
3 chairs. We've done that in the past, simply to avoid the --
4 the crick in your neck, as -- as you're watching them. Would
5 that be acceptable?

6 I did speak to Ms. Ramage about that, and she
7 has no problem with uprooting a little bit, so we will --

8 THE CHAIRPERSON: We appreciate your concern
9 for our physical well-being. We really do. And if that is
10 okay with Ms. Ramage and her group, we'll do that.

11 So, perhaps what we'll do is we will swear in
12 the two (2) witnesses and then have an early lunch and start
13 at 1:00. Is that okay with everyone?

14 MS. TAMARA McCAFFREY: That's -- that's fine.
15 I guess my concern is that Mr. Bowman will be out of the
16 Province after today. He has other Hearings or matters to
17 deal with, I believe in the Yukon or Northwest Territories,
18 but -- if I'm correct. So, he just is not going to be
19 available beyond today, and so my concern is of course that
20 we have enough time.

21 I expect that direct evidence shouldn't take
22 more than an hour. At the outside, I'm not sure how long My
23 Friends plan to be in cross-examination, but just with that
24 caveat, I do want to ensure that -- that we can deal with
25 these witnesses today.

1 THE CHAIRPERSON: Yes, that -- that is our
2 expectation, but we normally break from 12:00 to 1:30, so if
3 we break at 11:30, come back at 1:00, we won't have lost any
4 time.

5 And I'm sure with everyone's cooperation,
6 we'll make sure we fit it all in. Mr. Barron...?

7

8 JOHN OSLER; Sworn,
9 PATRICK BOWMAN; Sworn

10

11 THE CHAIRPERSON: Thank you very much and we
12 look forward to your evidence and we'll adjourn until one
13 o'clock. Thank you.

14 MS. TAMARA MCCAFFREY: Thank you.

15

16 --- Upon recessing at 11:30 p.m.

17 --- Upon reconvening at 1:05 p.m.

18

19 THE CHAIRPERSON: Okay, welcome back. Ms.
20 McCaffrey do you want to -- oh, you're over there.

21 MS. TAMARA MCCAFFREY: Here I am.

22 THE CHAIRPERSON: Do you want to again
23 introduce your witnesses and we'll get underway?

24 MS. TAMARA MCCAFFREY: Yes, I -- I'd be
25 delighted. With me --

1 THE CHAIRPERSON: Excuse me, before we begin.
2 Ms. Ramage did you have any problems with this potential
3 exhibit from MIPUG; Overview of Apparent Factors Influencing
4 Hydro's Forecast Reserve Levels?

5 MS. PATTI RAMAGE: Not with entering it as an
6 exhibit.

7 THE CHAIRPERSON: Okay, Ms. McCaffrey what --
8 with that very strong reservation, do you -- do you have an
9 exhibit for this?

10 MS. PATTI RAMAGE: I do. I believe it's
11 MIPUG 10.

12 THE CHAIRPERSON: Ten (10). Thank you very
13 much. Please begin.

14

15 --- EXHIBIT NO. MIPUG-10: Overview of Apparent Factors
16 Influencing Hydro's Forecast
17 Reserve Levels?
18

19 MS. TAMARA MCCAFFREY: Thank you. With me, I
20 have Mr. John Osler, and Mr. Patrick Bowman. Both of them
21 are consultants with Intergroup Consultants and both of these
22 gentlemen had the opportunity to give evidence before the
23 Public Utility Board of Manitoba at the 2002 Status Update
24 Hearing.

25 Their qualifications were canvassed at that

1 time and they're also available at the end of the evidence at
2 Appendix E; both of their curriculum vitae.

3 I don't know whether the Board's had an
4 opportunity to review that, but I would like to take just,
5 perhaps, even two (2) minutes just to quickly allow them an
6 opportunity just to hit the highlights in terms of their
7 work, in terms of the regulated utility background, just so
8 that the Board has some familiarity with their experience on
9 these issues, because I will be seeking to have them accepted
10 as an expert for this Tribunal to give evidence on the
11 revenue requirement, rate design and cost of service, Mr.
12 Chairman.

13 So, with your permission, I --

14 THE CHAIRPERSON: Please.

15 MS. TAMARA MCCAFFREY: -- I'll continue. Mr.
16 Osler, I see, sir, you have among your degrees, a Masters of
17 Business Administration Finance and Marketing which you
18 received from the University of Sheffield in England in 1991
19 and you have an undergraduate Honours Degree in Economics.
20 Is that right, sir?

21 MR. JOHN OSLER: Yes.

22 MS. TAMARA MCCAFFREY: Your experience in
23 utility regulation is highlighted in your curriculum vitae
24 but can you please summarize just the high points for the
25 Board with respect to your experience in this jurisdiction?

1 MR. JOHN OSLER: Sure. My experience with
2 utility regulation within Manitoba began in 1990 with my
3 participation in the Manitoba Hydro Capital Plans Hearing
4 Review.

5 That was before this Public Utilities Board.
6 I assisted -- I have assisted since then with the
7 coordination of MIPUGs participation at each of the
8 1991/'92/'94/'96 General Rate Applications.

9 In 2002 I participated in the Status Update
10 hearing before this Public Utilities Board.

11 In addition Hydro General Rate Application or
12 electricity issues, I've also participated in the Centra Gas
13 Acquisition Hearing, the Curtailable Rates Hearing and the
14 Limited Use Billing Demand Application.

15 Outside Manitoba my participation includes
16 work with Yukon Energy Corporation, Yukon Development
17 Corporation in early 1990's where I assisted with the
18 analysis and regulatory support to various General Rate
19 Applications including a rate design, Cost of Service
20 hearing, Capital plans Hearing and this included, of course,
21 the support and the development of the Corporation's first
22 demand side management plan.

23 I've done work for the Government of the
24 Northwest Territories before the Northwest Territories Power
25 Corporation and we continue to provide services to other

1 industrial and government groups on this matter.

2 MS. TAMARA MCCAFFREY: Thank you, Mr. Osler.
3 I'm going to actually give you an opportunity to speak to the
4 approach that you took when retained by the Manitoba
5 Industrial Power Use group with respect to this intervention,
6 but before I do that, I'm going to ask Mr. Bowman to go to
7 his curriculum vitae and briefly summarize for us his
8 experience in utility regulation.

9 Just at the outset, though, Mr. Bowman, I note
10 that you do have a Masters in Natural Resource Management,
11 specializing in resource economics and land use policy that
12 you obtained from the University of Manitoba.

13 Is that correct, sir?

14 MR. PATRICK BOWMAN: Yes.

15 MS. TAMARA MCCAFFREY: Now, if you could
16 highlight for the Board what your experience and background
17 is in the field of utility regulations.

18 MR. PATRICK BOWMAN: For the last number of
19 years, the -- the bulk of my work has been in the area of
20 utility regulation with respect to rates as well as revenue
21 requirement, cost of service matters.

22 I've been working on a continuous basis with
23 Yukon Energy Corporation since 1998 with -- with the
24 Corporation, particularly in respect of regulatory matters
25 and capital planning as well as Northwest Territories Power

1 Corporation since 2000 and with the industrial customers of
2 Newfoundland Hydro through two (2) General Rate Applications
3 in Newfoundland in 2001 and 2003.

4 I've also provided counsel to both Governments
5 and municipalities in respect of -- of rate applications but
6 the bulk of my work has been with utilities or industrial
7 customers.

8 In Manitoba my involvement with the regulation
9 of Manitoba Hydro goes back to 1998 with the Curtailable
10 Rates Hearing and I was involved in reviewing materials for
11 -- for that hearing and assisting in preparation of -- of
12 filing evidence.

13 And that extended to the 1999 hearing on the
14 Centra acquisition, the paper hearings in the year 2000 with
15 respect to the SEP Program and the limited use billing demand
16 program and then, of course, appearing here in 2000 for the
17 Status Update Hearing for both the revenue requirement and
18 the cost of service sections.

19 Along with this Board, I've appeared as an
20 expert before the Newfoundland Board of Commissioners of
21 Public Utilities and the Northwest Territories Public
22 Utilities Board.

23 MS. TAMARA MCCAFFREY: Thank you very much.
24 That summarizes the qualification of these gentlemen. With
25 your permission, Mr. Chair, I'd like to ask that they be

1 accepted as experts for the purpose of giving their evidence
2 on the matters in this Hearing?

3 THE CHAIRPERSON: Ms. Ramage, do you have a
4 view?

5 MS. PATTI RAMAGE: We have no objection.

6 THE CHAIRPERSON: Mr. Feldschmid...?

7 MR. JURGEN FELDSCHMID: No objection.

8 THE CHAIRPERSON: Mr. Williams...?

9 MS. PATTI RAMAGE: Don't even think -- no.

10 MR. BYRON WILLIAMS: Without prejudice to our
11 position in other hearings, no objections in this one.

12 THE CHAIRPERSON: Then it's -- we're fine
13 too.

14 MS. TAMARA MCCAFFREY: All right, thanks very
15 much.

16

17 EXAMINATION-IN-CHIEF BY MS. TAMARA MCCAFFREY:

18 MS. TAMARA MCCAFFREY: Mr. Osler, let's start
19 with you, can you please describe the approach that you took
20 with respect to this intervention.

21 MR. JOHN OSLER: Of course. InterGroup was
22 retained by the Manitoba Industrial Power Users Group to
23 identify and evaluate issues arising from Hydro's filed
24 material that are of interest to industrial customers.

25 In particular, the scope of review takes into

1 account normal regulatory review procedures and principles
2 appropriate for electric -- Canadian electric power
3 utilities. And it's of interest to note that this is the
4 same terms of reference that has -- that has guided us in all
5 previous MIPUG participations before the Public Utilities
6 Board.

7 This testimony's been prepared for the
8 Manitoba Industrial Power Users Group by InterGroup
9 Consultants Ltd.; by myself and Mr. Bowman. My role was that
10 of oversight and Mr. Bowman's was responsible for the
11 technical analysis and review.

12 In preparing this testimony the following
13 information has been reviewed; the Hydro General Rates
14 Application that was filed in January 2004, including its
15 appendices, the responses to the first and second round
16 Interrogatories or Information Requests to Hydro, to a
17 limited extent Hydro's evidence in the 2002 Status Update
18 Proceedings and previous rate hearings and, to a limited
19 extent, materials filed April 1st, 2004 by Hydro in response
20 to directives from Public Utilities Board 7/03 and 154/03.

21 Mr. Turner, Chairman of MIPUG has an
22 opportunity to -- earlier to make a separate presentation too
23 about the long term interests of Hydro's -- their long term
24 interests in Hydro's domestic -- Hydro's domestic customers
25 and these include five (5) items I'd like to highlight.

1 The first one is the need for stability and
2 predictability of domestic rates over the long as well as
3 short term.

4 The second is the need for strong regulatory
5 oversight and approval of all rates charged by Manitoba
6 Hydro.

7 The third is the protection for domestic
8 customers against higher rates or risks caused by Hydro's
9 investments.

10 The fourth, protection for domestic customers
11 against changes in government charges.

12 And the fifth, assurance that general rate --
13 general consumer rates are reasonable within the context of
14 long term cost projections and provision of financial
15 reserves that are appropriate in light of Hydro's past
16 practice and the specifics of the Manitoba market.

17 I'm referencing these points, and they're
18 summarized in pages 3 and 4 of our evidence, because these --
19 in particular because this application was reviewed by both
20 Mr. Bowman and myself with the knowledge of these concerns.

21 In terms of the material we have prepared, the
22 information that's before you today, Section 1 provides an
23 overview of the filing, Section 2 a comparison of the actual
24 and forecast performance between 2002 and what is forecast
25 today.

1 Section 3 looks at cost of service and rate
2 design issues. And finally, Section 4 looks at two (2)
3 points in particular, related to demand side management.

4 MS. TAMARA MCCAFFREY: Thank you, Mr. Osler.
5 Can you summarize for the conclusions that you've reached in
6 the first section of your ev -- of your evidence, that is the
7 overview of your conclusions with respect to first, revenue
8 requirement and then dealing with cost of service and rate
9 design?

10 MR. JOHN OSLER: The summary of our
11 conclusions on our evidence is found on page 2 of our
12 evidence, but can best be summarized in three (3) major
13 headings, those of Revenue Requirement, Cost of Service Rate
14 Design, and what I'm referring to as Price Signals.

15 With regards to revenue requirement, Manitoba
16 Hydro's Application indicates a major deterioration of
17 Hydro's financial forecasts, since it was last before the
18 Public Utilities Board in 2002.

19 We recognize there has been and potentially
20 continues to be drought, and this has had a financial
21 substantial impact on the utility.

22 There is then a basis for some level of rate
23 increases to help recover from this drought.

24 We note increasing domestic rates, however, is
25 not the only mechanism available to Hydro, to rebuild

1 retained earnings for the Corporation.

2 As well, any increases that this Board may
3 approve to rebuild retained earnings, should focus on this
4 very objective, rather than continuing to finance other
5 expenditure increases.

6 With respect to cost of service and rate
7 design, Manitoba Hydro is not proposing any major changes
8 with this Application. The prospective Cost of Service Study
9 '04, filed with this Application is reasonable, and reflects
10 the directives contained in PUB Order 7/'03.

11 As well, we've seen various sensitivities to
12 this analysis, including various scenarios, documented in the
13 NERA Study, and that has been filed.

14 Hydro's evidence shows, however, that certain
15 customer classes, including industrials, continue to face
16 rates well above their costs.

17 Hydro's own calculation shows that with the
18 projected rate increases, Hydro will fail to solve a problem,
19 first identified in the 1980s, with even -- within even
20 twenty (20) to twenty-five (25) years.

21 It is on this basis that the Board should not
22 consider rate increases -- are to be adopted for the general
23 service large over a 100 kV class at this time.

24 Finally, with regard to rate design -- sorry,
25 with regard to price signals; there has been considerable

1 discussion to date on price signals, the distortion affect
2 this has, or the impacts of below market pricing.

3 The discussion is focused on how much power is
4 worth, and reflects a market approach to rate setting.

5 Manitoba Hydro is, however, a cost based,
6 regulated utility, with regulation and rates designed to
7 reflect utility costs.

8 Market pricing is therefore an inappropriate
9 way to value power for setting domestic rates.

10 Those conclude my summary comments.

11 MS. TAMARA McCAFFREY: Thank you, Mr. Osler,
12 for that overview of your evidence.

13 Mr. Bowman, let's turn to you now, and dealing
14 with the substance of your evidence itself. First on the
15 subject of revenue requirement, can you outline for the
16 Board, the approach that you took in testing Manitoba Hydro's
17 revenue requirement in the Application?

18 MR. PATRICK BOWMAN: Yes, our review of
19 Hydro's revenue requirement in this Application, is set out
20 in Section 2 of our submission, and this starts at about page
21 13.

22 And in general, it's organized into two (2)
23 sections, but the first section focuses on the specifics of
24 this -- this Application, and the approach that we took,
25 generally, to assessing the revenue requirement with respect

1 to the test years.

2 And in general, we noted that in 2002, we were
3 in the same room looking at financial forecasts for Hydro,
4 and it relative -- reflecting quite fortuitous circumstances
5 at that time, and progress ahead of what anyone would have
6 expected they were able to make towards certain financial
7 targets. And now we're here two (2) years later and -- and
8 looking at quite a -- quite a different picture.

9 And so, the key question that arose to us is,
10 you know, what -- what happened and how do we make sense of
11 the -- the different things that have gone on. Clearly
12 drought has been flagged, but is drought the full
13 explanation, or -- or what other factors may be involved in
14 that.

15 Our -- our first review indicated that -- that
16 a simple high level summary of that type wasn't available
17 from the materials filed by Hydro and so it start -- it
18 became a bit of a -- of a -- you know, hunt -- hunt and peck
19 mission to find the various factors and to see the extent to
20 which we could compare the one in apples to apples basis.

21 We -- we determined it would be necessary to
22 try to find some consistent measure, some consistent apples
23 to apples basis to look at -- at the numbers and focused
24 particularly on the longer term.

25 Our conclusion, looking at the materials, was

1 that -- was quite different than -- that what's filed -- what
2 Hydro responded in their rebuttal evidence that the longer
3 term is only tangentially relevant and that -- that at this
4 time we need to look at the shorter term.

5 Our conclusion, in fact -- basically the
6 opposite that the shorter term -- the difference between the
7 -- the few million dollars of rate increases up or down is --
8 is not materially changing their ability to achieve short
9 term financial targets but it's in fact the longer term that
10 provides us a more useful guide at this time to seeing how --
11 how one can proceed back towards appropriate financial
12 targets.

13 So, in -- in that light, the -- the single
14 measure against which we could look at all the different
15 variables, we look -- we chose was the level of retained
16 earnings at 2012 which was the last year of the ten (10) year
17 forecast filed at the 2002 Status Update.

18 So, we know starting from the 2002 filing,
19 what we're calling the -- the baseline that was effectively
20 incorporated all the different things we talked about at that
21 time, plus the rate decrease that was ordered by this Board
22 that we have a -- an IFF filed in -- in response to one of
23 the MIPUG questions; MIPUG 1 I believe it is which sets out
24 that -- that 2002 forecast and against which we can measure
25 the different -- the different factors.

1 And the key thing is we weren't -- we weren't
2 in -- by approaching it this way, we weren't looking for
3 individual line items; any sort of bottom up way of trying to
4 find the individual cost item that -- that seemed to be too
5 high.

6 It was more of a -- a longer term top down
7 approach, looking at the -- the broader picture which is more
8 consistent with the way regulation needs to occur for Hydro
9 in this -- in this province, both given the sort of past
10 practice and the -- the particular jurisdiction that this
11 Board has compared to the regulations of other utilities
12 which are -- can -- maybe more -- far more focused on an --
13 an annual revenue requirement, determining the exact number
14 of dollars that need to be recovered in any given year, and
15 then determining the rates to recover that.

16 With respect to Hydro that -- that step of
17 determining the actual annual revenue requirement is not --
18 not part of the -- the practice or part of the -- the way the
19 regulation is done under the legislation in this province.

20 It's much more focused on long -- the longer
21 term just via -- via the forced restriction of a rates.

22 So, we -- we -- this -- our look at each of
23 the different factors is set out from pages 13 proceeding on
24 through, I'd say, through to Table 2.4 which is set out at
25 page 19 and before I go there, I'll just note that, at page

1 16, there's a -- we set our Table 2.2 in the middle -- about
2 the middle of the page.

3 The comparison between what we're generally
4 terming the baseline that the numbers that this Board would
5 have seen in 2002 which would have led to, at the far right
6 hand side of the page about 1.65 billion in retained earnings
7 by the end of 2012, compared to the current forecast which
8 puts it at more like 1.1 billion, with the sum total of all
9 factors thrown in there; different rate increase assumptions,
10 different financial assumptions, different capital spending
11 and O&M spending, Wuskwatim, the drought -- all these
12 different factors -- Winnipeg Hydro.

13 So, there's all of these different factors
14 that go into it, but we know the sum total impact is a -- is
15 a move from about 1.65 billion to about 1.12 billion looking
16 at their forecasts.

17 MS. TAMARA MCCAFFREY: And have you been able
18 to analyze and come to some conclusions as to what accounts
19 for this difference, Mr. Bowman?

20 MR. PATRICK BOWMAN: Well, we -- we couldn't
21 do that in total, because not all of the -- the information
22 is necessary to look at all the individual line items and
23 we'd -- we'd hoped that something like that might be filed by
24 Hydro to help, you know, present the picture on a consistent
25 basis.

1 What we do note is between -- from the pages
2 seventeen (17) to eighteen (18) there's a number of -- of
3 bullets there that set out those individual aspects, those
4 individual changes that we are able to -- to quantify to some
5 degree.

6 And then the sum of all that quantification is
7 set out at -- at Table 2.4 and as I noted, a few of the
8 numbers in there, thankfully, Hydro was able to update to
9 some extent in their rebuttal evidence and so we have filed a
10 revised Table 2.4 that -- that is more -- more properly
11 portrays that -- that --

12 MS. TAMARA MCCAFFREY: That's Exhibit --
13 sorry to interrupt you, that's Exhibit 10, just to be clear.

14 MR. PATRICK BOWMAN: That's Exhibit 10 that
15 was just handed out earlier today. And to go to that table,
16 we'll see the -- the original numbers which are the same as
17 at page 19 of our -- of our evidence are set out on the --
18 the left-hand column where it says "original".

19 And in the box is the revised numbers that
20 reflect three (3) individual changes that arise from -- from
21 Hydro's rebuttal evidence where they were able to provide
22 additional information. And I -- I'll just go through those
23 quickly.

24 The three (3) changes, the first is in regards
25 to the reduction in special payment to the Province. One of

1 the things we noted that had changed since the 2002 was that
2 the payment to the Province did not in the end, end up being
3 288 million as was forecast at that time.

4 It only ended up being two hundred and four
5 (204). And when you carry out that lesser payment along with
6 associated cumulative interest impacts, it -- it would --
7 would have had -- by 2012 would have had about \$150 million
8 dollar impact on reserves.

9 However, in one of the questions we asked
10 Hydro to run a no drought scenario of IFF and it turns out
11 that they also included that aspect in the no drought. So,
12 the original version we did basically double-counted that.
13 We we've now taken that out and that's -- the reference is to
14 page 8 in their rebuttal evidence.

15 Similarly, their rebuttal evidence noted that
16 the no drought scenario they ran focused specifically on the
17 2003/'04 drought and it didn't necessarily pick up that there
18 was some additional impacts from 2002/'3.

19 And so further down that column we'll see that
20 we had originally put the drought summarized from that --
21 that filing -- that IFF that they filed, that -- that the sum
22 total of the drought impact upon reserves by the time we
23 reach 2012 was 650 million and now it's noted at 700 million
24 or .7 billion in order to address that additional loss from
25 two three (2/3). It's just so that we could portray the sum

1 total effect of the drought.

2 And the final one is that we had, based on a
3 response that they'd provided, we had looked at the exposure
4 management program changes as having a \$100 million dollar
5 impact on the reserve levels as they were stated at 2012.

6 After we filed our evidence I guess there was
7 a second look at that IFF and Hydro realized there was an
8 error and has since filed their corrected version which says
9 that there will not be that impact. So we've -- we've
10 removed that as well just to make sure that we pick -- pick
11 up all the -- the related information in this revised column.

12 So, very simply, what this is doing is
13 starting from the one point six five (1.65) at the top of the
14 page which is termed the baseline, but that was the numbers
15 that we would have seen in 2002 incorporating the rate
16 decreases at that time, forecasting out the reserves by -- by
17 2012 and we compared it at the bottom to the current IFF
18 which is forecasting 1.1 billion.

19 Those are the numbers I went through earlier
20 and -- and looked at the factors in between and said that we
21 know certain factors have had -- will have a positive impact,
22 advancing Wuskwatim over that period has a small positive
23 impact of about 50 million, changing the depreciation rates
24 would have a small positive impact, again, rounded to about
25 50 million or point oh-five (.05) billion.

1 The drought is now quantified as a 700 million
2 hit and we know, jumping further down the page, that the
3 added rate increases compared to the earlier IFF are having
4 an impact -- an increase -- are resulting in an increased
5 reserve levels by the end of 2012 of about 350 million or
6 point three five (.35) billion.

7 So the residual that we -- that, based on
8 information that's available, that we can't necessarily
9 quantify or explain and it may include some rounding errors
10 or rounding factors, is the -- the roughly 300 million that's
11 listed there under unexplained.

12 And this would pick up capital spending --
13 increased capital spending, increased operating costs and --
14 and other factors that we haven't been able to -- to
15 otherwise quantity.

16 We know that Winnipeg Hydro had no impact
17 based on the two -- the IFF that Hydro filed. So, it's not
18 Winnipeg Hydro.

19 MS. TAMARA MCCAFFREY: All right. So, this
20 300 million then is over and above the drought. This is not
21 related to the drought; is that right, sir?

22 MR. PATRICK BOWMAN: That's correct. And
23 just to -- just to do a quick check as to whether that made
24 sense to us, we did look to one additional piece of
25 information that was available which was a PUB IR and I

1 believe was round one (1) question sixty-two (62) which asked
2 about the impact on Hydro's financial position by the end of
3 about 2012 due to the increased capital spending occurring
4 between the '03/'04 -- or the -- the last capital expenditure
5 forecast and this one.

6 So it won't be the sum total from the last
7 hearing because, of course, there was a two (2) year gap.
8 It's just the last year of the changes. And that -- that IR
9 set out a fair number of individual factors not related to
10 Wuskwatim that -- that's changed over that period and it --
11 it totals up to almost -- almost 200 million in impacts,
12 large parts of which are related to Conawapa licensing, wind
13 generation, some HVDC programs, a Halon systems phase out,
14 and -- and a number of other small factors, but the sum total
15 is about 200 million.

16 So, it didn't seem surprising to us that --
17 that given that was only one (1) year of capital changes,
18 that -- that the second year of capital changes, plus
19 operating costs and the like, would -- would total about, you
20 know, 300 million on this consistently viewed basis, of the
21 2012 year-end retained earnings.

22 MS. TAMARA McCAFFREY: You've commented a
23 little bit on Manitoba Hydro's forecasted spending. Can you
24 relate back to Manitoba Hydro's financial targets, as you've
25 done in Section 2.2 of your evidence, Mr. Bowman, that

1 commences on page 20?

2 MR. PATRICK BOWMAN: Yes, I -- I would just --
3 I would not that based on sort of our -- our conclusions,
4 going through that Table 2.4, it generally appeared to us
5 that although the drought is -- is clearly a -- a major
6 impact on Hydro, it's not the only impact that we're facing
7 today.

8 And that the various other factors, like the
9 increased capital spending, and -- and to some extent the
10 increased -- what appeared to be increased operating costs
11 are -- are consuming a considerable part of -- of additional
12 resources, that to -- to our mind, end up meaning that this
13 rate increase is not, in the end, aiding to any great extent
14 in recovery from a drought, that it's aiding in the end to --
15 to be able to finance increased spending within Hydro.

16 And -- and that's a concern to us given --
17 given the overall picture of financial targets and the
18 drought. So, on the financial targets, we do see a clear
19 need to -- to rebuild from the drought, and assuming it's
20 over. If it's not over then to rebuild once we sort of move
21 past that. I don't want to imply that it's over.

22 But to -- to rebuild from the drought, we note
23 that Hydro's financial forecast put it down to about 750
24 million in equity. I suppose it may end up being a little
25 lower than that, based on the last numbers we heard for the

1 net income for -- for this year.

2 And clearly that is down quite a bit from when
3 we were sitting here in 2002.

4 We do note, however, that it's -- it is quite
5 consistent with the longer term forecasts that were filed at
6 the last GRA in 1996, as to where we would be today.

7 At that time the IFF put -- put the 2004
8 equity at seven ninety-five (795) as what would be required.
9 So, we're not that far off of that course. And in fact, the
10 first time that Hydro actually got above 700 million on the
11 way up, was -- was March 31st, 2000.

12 So if -- if we're back down to 700 million,
13 one (1) way to think about that is we've been knocked back
14 about four (4) years in terms of our ability to keep
15 progressing towards higher levels of -- of retained earnings.

16 And I would suppose that had the question been
17 asked in 2000, that would have been thought of as a pretty
18 strong Manitoba Hydro, compared to where it had come from,
19 and so within that context, we -- our -- the main other
20 question that we had other than to what extent is this rate
21 increase helping -- helping actually rebuild from the
22 drought, as opposed to finance other cost increases is -- is
23 how far to be aiming to rebuild.

24 And -- and this Section 2.2, which starts
25 about page 20, is more looking at the need to have the long

1 term targets and the reasonable financial targets with
2 respect to recovery from ratepayers, which may not
3 necessarily in the end be the same as financial targets that
4 Hydro may set for itself at its corporate or Board level.

5 The -- you know, the amounts of that that gets
6 recovered from ratepayers is something that needs to be
7 considered based on the risks that -- that are faced to
8 ratepayers and the extent to which building higher reserves
9 of that type, is in the end going to benefit ratepayers.

10 But in general, on financial targets, I think
11 the key conclusion is that there's an increasing concern on
12 our part that we're pursuing a bit of a -- of a mugs game
13 with respect to Hydro's reserve levels.

14 And what I mean by that is, one (1) set of --
15 one (1) set of justification or approach that's been set out
16 is to try to -- Hydro's desire to build towards the
17 seventy/twenty-five (70/25) debt equity ratio. But we're
18 getting to some extent, knocked off of that road by various
19 other things that are going on. And it's making it
20 increasingly difficult to try to reach that road.

21 Building Wuskwatim alone, for example, would
22 knock that by as rate quotes as two (2) points. We -- our
23 quick math would put it more closer to three (3). But that
24 -- that would knock it -- that -- that type of level,
25 Winnipeg Hydro was noted as being two (2) points. That's

1 before we add sort of Bi-Poles and Gulls and Conawapa, which
2 would be much bigger.

3 And -- and our concern is that to the extent
4 that a seventy-five/twenty-five (75/25) becomes the target,
5 the incentive becomes not to necessarily pursue those other
6 projects that -- that may in the end have -- have quite
7 strong merits on their own, that we may be -- they -- they
8 may be moving the financial targets in the -- in the wrong
9 direction based on trying to measure equity -- proceeding as
10 a percentage of debt.

11 On the other -- the other measure that tends
12 to be used is the absolute dollar value of reserves that's
13 required or retained earnings that are required. And -- and
14 similarly on that factor, we've seen that we may be chasing a
15 bit of a moving target or -- or quite a moving target.

16 In 1996 the type of numbers that were talked
17 about were about 650 million. By 2002 we were talking about
18 1.1 billion and now the number that's sort of tossed about is
19 around -- around 2 billion and those -- those numbers aren't
20 surprising to us.

21 It's quite a dramatic change and they're not
22 surprising to us but it leads us more and more to be
23 concerned that what was originally a fairly middle of the
24 road and coarse approach to addressing risks via higher
25 retained earnings.

1 Now that other risks have dropped and I'll
2 address that in a minute, and -- and the drought risk has
3 become more focused and more easily quantified and more --
4 more apparent as the individual risk, addressing that
5 strictly through retained earnings or -- or reserves or
6 equity and -- and a bit of fuzziness around just what we're
7 dealing with, whether they are reserves, whether they are
8 some form of self-insurance type of thinking or whether
9 they're in fact shareholders' equity, that it may not be the
10 right tool.

11 And in general, when we read the Board's Order
12 7/03, our inclination is to say that -- that there is some
13 wisdom in that that similarly we -- we pick up which is where
14 the term reserve provision amount is more -- more the focus;
15 that clearly the Board was thinking about something different
16 than retained earnings and equity or equity when it -- when
17 it started to talk about risks that need to be carefully
18 measured and carefully defined and said things like, there
19 has to be rules on how it can be built up or drawn down.

20 Those wouldn't be meaningful comments if you
21 were just talking about retained earnings because it's pretty
22 obvious how retained earnings go up and down. I think that
23 it was a -- it's fair to say that it was meant to be
24 something that said, if drought is going to become the
25 overriding risk and these other types of risks that we talked

1 about are going to, to some extent, be reduced, then maybe we
2 need to find something a little bit more -- a little bit more
3 clear and sacrosanct than just using a retained earnings
4 target in order to address drought.

5 That it may be something more that would be
6 borrowed from -- from perhaps an insurance industry type of
7 thinking or something along those lines. But whatever it is,
8 there needs to be more progress on this front than -- than
9 the, sort of, coarse tool of retained earnings.

10 Within all of that, we would have liked to
11 seen more thinking at this hearing from Hydro in regards to
12 how to deal with that stuff and particularly based on the
13 directives that came out of 7/03.

14 But, in the end, we don't have a lot of
15 confidence that -- that the Hydro's financial targets, the
16 way they're set out now, whether they're based on 75/25 or
17 whether they're based on, in the end, finding enough retained
18 earnings that we can survive any drought that we're able to
19 dream up, is -- is potentially ever reachable.

20 Clearly the target keeps growing. In the end,
21 to the extent that that's just retained earnings, it also
22 gets undermined by things like increased spending by Hydro on
23 operating or capital with the capital bringing along its
24 associated interest and depreciation costs.

25 And, of course, we also read into the lack of

1 clarity between what is -- what is a customer funded reserve
2 specifically for drought and what is retained earnings or
3 shareholders' equity for -- for other purposes that -- that
4 in other jurisdictions people have even seen those sort of
5 things turn into equity that customers should pay a return on
6 to the shareholder; that would be -- that would be troubling
7 given that the language and the evolution here has been still
8 to be thinking about those as reserves that are put there for
9 the benefit of the customers, not that they would be a return
10 on for -- for the privilege of having available.

11 MS. TAMARA MCCAFFREY: Thank you for that.
12 So I have in your -- in your comments then, just to, sort of,
13 distill the key points I think, Mr. Bowman, if you can help
14 me, you have -- are not disagreeing with the fact that the
15 drought had a significant financial impact on Manitoba Hydro.

16 You're not disagreeing that there should be
17 some recovery to deal with that; but I take it your position
18 is that one shouldn't solely look at the number in the
19 retained earnings and/or recovery from ratepayers in terms of
20 overall rate increases in order to deal with that; am I
21 correct in understanding your evidence?

22 MR. PATRICK BOWMAN: Yes. I would note you
23 say, "The number in the retained earnings" and I would say a
24 bit of discomfort arises whether you're talking about that
25 number as a percentage of Hydro's debt via debt equity ratio

1 or that number at an absolute value that is somehow targeted
2 to be greater than the -- than the risks of drought.

3 That would be our -- our key conclusion and --
4 and given that, and some -- some concern about these -- this
5 whole area of financial targets and the extent to which they
6 -- given that they are mixed in with retained earnings that
7 we do mix the concepts, to some extent, of retained earnings
8 and -- and reserves.

9 There's some concern on our part that -- that
10 the only tool, or the main tool that's being looked at to
11 recover from the drought is, in fact, just rate increases
12 from rate payers and not necessarily a corresponding
13 restraint or sharing of the pain or something to that -- that
14 nature within -- within Hydro's own operations.

15 I would just also note that on the risks
16 topic, I -- I made a quick comment that hydro's drought risk
17 has become clarified as the -- the main, if not only, risk
18 facing the Corporation that's of -- of that type of magnitude
19 or seriousness.

20 I know that there's a risk assessment file by
21 Hydro that's -- that's a -- that's a work in progress, as I
22 understand it. But from our perspective, there were some
23 very real, very concerning risks that were upwards of the
24 type of drought risks that were talked about at some -- at --
25 you know, when these hearings were going on in the early 90s.

1 And at one (1) point there was a fair bit of
2 debate as to whether natural gas prices might drop to the
3 point that Hydro was getting undercut on its export markets.
4 I don't think anyone calls that a reasonable risk today, but
5 that would -- that would likely be something we would put way
6 up there with, sort of, high impact type of risks.

7 The -- there are a number of other things seem
8 to have happened that -- things that would have called risks
9 at that time are -- are no longer -- you know, there to the
10 same extent.

11 So that -- that -- but -- but yet the drought
12 risk sort of get -- gets heightened both as export market
13 prices generally seem to have -- have grown and -- and
14 although they may be forecasted to decline somewhat from
15 here, not decline far.

16 And also clearly as Hydro's system has become
17 somewhat reconfigured so that there is more, if anything,
18 apparently more exposure to water flows and I can go into
19 that in a bit more detail if it's -- if it's useful, but --
20 but I think it's a fairly easy conclusion.

21 MS. TAMARA MCCAFFREY: And speaking of
22 conclusions then, can you summarize for us your conclusion
23 with respect to the overall revenue requirement portion of
24 Manitoba Hydro's Application?

25 And of course, I'd like you to comment also

1 specifically on whether you would recommend to this Board
2 approval of the rate increases of 3 percent and 2.5 percent
3 for the next two (2) years respectively that Hydro is
4 seeking.

5 MR. PATRICK BOWMAN: Well, our -- our
6 conclusion with respect to the overall level of -- of rate
7 increases that should be approved takes into account
8 everything I've just said and -- and views it from one (1)
9 additional perspective which is what is -- what is the -- the
10 history and the benchmarks, the goal posts that have been set
11 out with respect to regulating this utility over time in this
12 province?

13 And -- and we set out a bit of this in -- in
14 our Appendix A where we showed the rate increases that have
15 been applied for by Hydro versus approved, and compares them
16 to the level of -- of inflation.

17 And -- and we particularly note that -- that
18 since it's become fully regulated, despite droughts and
19 despite bringing -- into service and various other things
20 that would have happened that would have had fairly big
21 swings on Hydro's overall financial picture, including the
22 80's -- late 80's early 90's drought which was as -- as --
23 apparently larger than the one (1) we just had.

24 This Board has worked within a -- a framework
25 and set out some -- some benchmarks that I think are useful

1 to continue to guide all of us with respect to in -- rate
2 increases of -- overall and above inflation in any given
3 year.

4 And -- and we -- when we're talking about
5 inflation in the range of two (2) -- two (2) to 2.5 percent
6 or something in that order, in this Application, the -- that
7 would seem a useful guide in terms of the -- the maximum rate
8 increase that would be -- that should be approved for Hydro
9 at this time in light of everything I just laid out.

10 MS. TAMARA MCCAFFREY: Okay, thank you for
11 that. And also I -- I make note you refer to Appendix A. I
12 take it you're referring to Table A-1 of that Appendix, at
13 Page 47 of your evidence?

14 MR. PATRICK BOWMAN: Yes, that's right. It's
15 -- it's -- this is a two (2) page table that looks back
16 through all of the rate applications that were filed by Hydro
17 under this current approach to regulation that -- that exist.

18 Prior to 1989 they -- that -- any review by
19 this Board were done under quite a different framework. But
20 starting in 1989 and moving forward, this table would set out
21 the -- in -- it's a series of three (3) columns for each tier
22 rate, the first being the forecast CPI at -- at that time,
23 the second being the rate increases that Hydro in bold asked
24 for. And then following out from that, forecast in its IFF
25 as -- as the -- the place holders, but I would call them the

1 place holders that are needed to make the whole IFF balance.
2 And then finally under the third column, the
3 rate increase that was approved by this Board, and -- and we
4 could see that in the various years how -- how the Rate
5 Applications versus the rate increases unfolded.

6 MS. TAMARA McCAFFREY: Thank you for that.
7 Now, moving on to the Cost of Service portion of your
8 evidence then, Mr. Bowman, which commences at page 25 of your
9 evidence.

10 Can you tell us what approach you took to this
11 portion of Manitoba Hydro's filing, in terms of your testing
12 analysis and review?

13 MR. PATRICK BOWMAN: Sorry, I just caught up
14 with you. Can you repeat the question?

15 MS. TAMARA McCAFFREY: Well, I'm talking about
16 Cost of Service now, and I note that it commences in your
17 evidence at page 25. But I want you to first of all tell the
18 Board what approach you took, in terms of testing Manitoba
19 Hydro's cost of service evidence in this filing?

20 MR. PATRICK BOWMAN: Yes, with respect to cost
21 of service we started with looking at Hydro's Cost of Service
22 Study, the PICASSO-4 that was filed, and of course later,
23 received the -- what I will call the -- the various other
24 cases, these sensitivities or other options run by NERA.

25 So those -- those we considered to some

1 extent. And we looked at the proposed rate increases to each
2 of the various customer classes, in -- in light of -- of that
3 Cost of Service Study, and the results therein, and as well
4 as the sensitivities.

5 But in particular in light of -- of what has
6 been a longstanding goal by the various people in this room,
7 Hydro and -- and the Board, to get all customer classes
8 moving towards unity, varying to some degree about unity, and
9 ideally within a range that's called a Zone of
10 Reasonableness, ninety-five (95) to one-o-five (105), at this
11 -- at this point in time.

12 It had been ninety (90) to one ten (110) in
13 the past, when the data available was somewhat poorer, and --
14 but the -- it has been narrowed over time, particularly by
15 the Board in 1996 to this ninety-five/one-o-five (95/105)
16 range, reflecting the improvements in the Cost of Service
17 Study.

18 So, we looked at it with respect to that, and
19 with respect to what -- what we would consider a
20 reasonable, long term goal, or a medium term goal, of
21 Hydro's, to get all customer classes towards us on a
22 reasonableness and unity within five (5) to seven (7) years.

23 And that was -- we had some information on
24 that set out at MIPUG-I-28-), question.

25 MS. TAMARA McCAFFREY: Sorry, and whose goal

1 was that, in terms of that time frame?

2 MR. PATRICK BOWMAN: Well, the five (5) to
3 seven (7) year. Hydro stated that their objective would be
4 to move customer classes to the zone of reasonableness and
5 towards unity within five (5) to seven (7) years.

6 Well, within a reasonable period of time, and
7 in that interrogatory, we -- it was clarified that that
8 reasonable period of time was -- in their view, was the five
9 (5) to seven (7) years, and we think that -- that seems
10 pretty reasonable, where we're starting from.

11 But the key is not just moving towards, it's
12 that the eventual goal with respect to revenue cost coverages
13 is that any customer class within the bounds of sort of
14 normal variability in any given year, would -- would vary
15 about unity.

16 Some years they would be above or below
17 various changes, and -- and the factors would lead to them
18 bouncing around, and we wouldn't necessarily have to do
19 dramatic rate increases. But that zone of reasonableness
20 gives us some room to -- to balance it over time.

21 MS. TAMARA McCAFFREY: All right, so having
22 described the approach that you took to this portion of the
23 evidence, where did your analysis lead you?

24 MR. PATRICK BOWMAN: Well, the key data that
25 we looked at is set out at page 27, which shows a fairly long

1 term perspective on the revenue cost coverages for the
2 various customer classes.

3 And it's -- it's probably useful to note that
4 we're viewing this in the perspective that for a regulated
5 utility, there's no basis to maintain customer classes
6 continually above or below the cost that they impose on the
7 system. So they're continually over contributing or failing
8 to contribute to the reserves as one (1) way of looking at it
9 that I guess has now been described as the dated way of
10 looking at it. But it's factually correct.

11 So, if these are costs that are properly
12 allocated to other classes, and that's what the cost of
13 service study is doing. Then there's no basis to be having
14 over time, one (1) customer class continually paying costs
15 that are related to serving another class.

16 And those are -- that's a sort of normal
17 principle, whether we're talking about Manitoba or elsewhere.
18 And the -- what we see in Table 3.1, is more of a -- a fairly
19 longstanding problem. And I think that was the Board's words
20 of having customer classes being out -- you know, above or
21 below the Zone of Reasonableness, and above or below paying a
22 fair share of their cost.

23 And it's -- it's -- it includes years of
24 different performance, and includes years of higher and lower
25 exports and -- and yet the numbers, in particular for the

1 industrial costs, are -- are quite stable over time.

2 Actually, the numbers for many of the classes
3 are quite stubbornly stable over time. And -- and this is
4 shown in the chart on page 28. I'm not sure --

5 MS. TAMARA MCCAFFREY: Figure, that the graph
6 -- figure 3.1?

7 MR. PATRICK BOWMAN: Figure 3.1, yeah. I'm
8 not sure if everyone has colour so I put -- I put symbols on
9 it so that hopefully we can -- we can follow. But, in
10 general, that chart in the dark black bold lines shows that
11 zone of reasonableness and how it narrowed from ninety-one
12 ten (91.10) to ninety-five one oh five (95.105) in the -- in
13 the '96/'97 GRA.

14 And it shows for -- for the line at the bottom
15 of that page with the X's where the residential classes has
16 been residing and then at the top is a -- is a group of --
17 quite a cluster of the other classes with general service
18 small being the longer dashes -- they're in green if you have
19 colour.

20 As well as the -- the solid line with
21 triangles depending if you're talking about the demand billed
22 component or the non-demand billed component.

23 Medium is in there with the short dashes, in
24 pink, again, if you have colour. And then for the general
25 service large class the -- it's a solid line and it's purple,

1 I suppose, if you have colour. If not, it's the only solid
2 line on the page that's not bold.

3 And then we particularly noted the -- the
4 class that -- that we've been dealing with, the general
5 service large over one hundred (100) kV as the line with the
6 hollow dots. And that one is the one that's, sort of, high
7 -- highest on the page.

8 So, that's -- that sets out, to some extent,
9 the -- the stubborn problem that we've been dealing with and
10 -- and, of course, it also sets out the progresses made since
11 2002 with many customer classes starting to move back toward
12 the zone of reasonableness, all -- all but one (1) actually.

13 MS. TAMARA MCCAFFREY: So, in terms of the
14 impacts of Hydro's proposal in this Application on the
15 progress of certain customer classes towards the zone of
16 reasonableness, you start to deal with that in your written
17 evidence, commencing at page 29; can you summarize your
18 conclusions with respect to that? Is there progress made as
19 a result of this Application?

20 MR. PATRICK BOWMAN: Yeah. This is -- this
21 is a bit of a new section that we haven't tried to deal with
22 before. The -- the key problem that we've always had to deal
23 with in the type of charts that's on page 28 is that this is
24 very much a rearview mirror picture.

25 It doesn't necessarily tell us where we're

1 going and so we -- we got some interrogatory responses filed
2 about what it would take to actually meet the type of rate
3 objectives that Hydro set out; the five (5) to seven (7) year
4 tests to get customer classes back towards the zone of
5 reasonableness.

6 And this is set out -- we call them, just for
7 simplicity, Approach A and Approach B and they're set out at
8 page 30. And this is table 3.3 and -- and just for
9 simplicity, the -- the approach we're calling Approach A is,
10 what it would take for year over year rating -- rate changes,
11 assuming that Hydro got all of the average rate increases it
12 was requesting the 3 percent in the first year and two and a
13 half (2 +) thereafter.

14 What the year over year rate changes to the
15 customer class would be in order to get each customer class
16 to the zone of reasonableness within five (5) years. And
17 then approach B as doing the same thing but saying, what it
18 would take to get them to unity or 100 percent, within seven
19 (7) years.

20 And -- and so tho -- each of those percentages
21 there and they're shown in -- in comparison to the -- the
22 current GRA proposal. And these are set out in -- in better,
23 I think, for -- for the key customer classes we're talking
24 who are well outside the zone of reasonableness, set out in a
25 little better detail at page 32 in -- in another figure.

1 This is figure 3.2

2

3 MS. TAMARA MCCAFFREY: And I'm going to give
4 you a chance to -- to highlight your conclusions from that,
5 but I just note, right at the outset, in both your Table 3.3
6 and your Figure 3.2 that with respect to GS large sub-class
7 of customers, that is greater than 100 Kilovolts and GS large
8 curtailable, you're noting that rate decreases in the order
9 of .23 percent with respect to GS large 100 Kilovolt -- and
10 I'm looking at page 30, the table, now, and also with respect
11 to GS large curtailable decimal 49 percent would be required
12 in order to bring those sub-classes to within the zone of
13 reasonableness within five (5) years.

14 Similarly, Approach B which looks at getting
15 to unity within seven (7) years has rate decreases again for
16 those two (2) sub-classes of a slightly higher magnitude but
17 just under 1 percent.

18 Is your position going forward that rate
19 decreases are appropriate for the industrial sub-class at
20 this time?

21 MR. PATRICK BOWMAN: Oh no. That's not what
22 we're proposing at this time. We -- we're -- we -- these are
23 -- these are mathematical results that come out of tables
24 that Hydro filed. They're just -- they're just the -- the
25 number that one would need to have as year over year rate

1 changes in order to get these customer classes on the path
2 and probably to best explain that I can go to Figure 3.2
3 which was at page 32.

4 MS. TAMARA MCCAFFREY: All right, let's do
5 that now.

6 MR. PATRICK BOWMAN: Which -- which again is
7 in colour and for those of you who don't have -- have to go
8 through the symbols.

9 And this shows, looking forward from the
10 current 2003/'4. For the solid lines it shows the rate --
11 current rate proposals from Hydro with respect to residential
12 customers at the bottom in the -- the purple or with the
13 triangles respect to general service small demand at the --
14 in the red with the -- the squares and for general service
15 large greater than a hundred (100) kV and this is the
16 combined curtailable and non-curtailable group, with the
17 triangles at the very -- very top in green.

18 And it compares each of them to the path that
19 would be necessary based on the -- the numbers that were
20 calculated by Hydro in that earlier table in order to have
21 the customer classes on the path.

22 And we can just generally see graphically that
23 the residential classes is on -- with the rate increases
24 proposed in this Application, is very close to being on the
25 path to heading towards the 95 percent revenue cost coverage

1 over -- over time -- over the five (5) year period.

2 Particularly the first year, the second year
3 is a little bit -- a little bit below the line. But as you
4 look up towards the general service small demand and the
5 industrial, the rate increases are very -- the rate increases
6 proposed today are -- are insufficient to get them even on
7 the -- the less aggressive path which is five (5) years to
8 the zone of reasonableness compared to the -- the more
9 aggressive would be seven (7) years to unity.

10 And that's the -- the mathematic result of --
11 of those earlier rate increases or rate decrease issue what
12 would be wouldn't be necessary to each of those respective
13 paths.

14 MS. TAMARA MCCAFFREY: Mr. Bowman, did you
15 want to comment with respect to -- you've indicated that
16 you're not recommending rate decreases even though you've
17 given us your analysis with respect to what would be required
18 if those sub-classes, that is certain sub-classes and I'm
19 speaking specifically about the industrial here, in order to
20 get those classes to the zone of reasonableness, although
21 you're not advocating rate decreases at this time, I take it
22 you're advocating a slightly different approach.

23 Can you summarize for us what your conclusions
24 are arising from this analysis?

25 MR. PATRICK BOWMAN: Well, based on what we

1 went through, we -- we set out our conclusions at Page 33 and
2 what this -- what this table looks at, particularly for
3 2004/'5, the first test year, although it also has the data
4 in it for the second test year, but what it -- it looks at is
5 what -- what would be the maximum rate increases that could
6 be approved today without looking at rate decreases or
7 anything of the sort, but what are the maximum rate increases
8 that -- that could be dealt with today -- approved today, in
9 order to actually get those customer classes on the path and
10 how much of a different overall rate -- rate increase are we
11 talking about on -- on total?

12 Like, how much does it cost to forgo those
13 rate increases that would otherwise -- are pushing people
14 well above this five (5) to seven (7) year path?

15 And that's set out in -- in -- at Table 3.4
16 and in particular looking at the first column there -- the --
17 the first column of each of these sub-sets we set that --
18 that the rate increases proposed for residential and the
19 small GS -- small non-demand, the GS medium and the smaller
20 GS large customers is less than thirty (30) kilovolts are --
21 are fine from that perspective, but there are five (5) that
22 are -- that are too high.

23 One is the GS small demand which would have to
24 come down to some degree. The GS large thirty (30) to one
25 hundred (100) and the GS large greater than one hundred (100)

1 kV and the curtailable.

2 And then also area and roadway lighting
3 although we do note that there is some concerns about the
4 data availability for that class so it may be that it's --
5 it's not as much as a -- of an outside the -- the zone as is
6 implied here.

7 Looking at specifically that first column,
8 what we've done is -- is run that through the overall revenue
9 -- the rate determinance, as we call them or the -- revenue
10 determinance, and this is in Appendix D and we don't need to
11 go there.

12 But the end conclusion is, compared to the 27
13 million that Hydro is looking for in -- in 2004/'5 all of
14 these customer class could be brought onto the path if the
15 rate increase were -- were 23.6 million rather than twenty-
16 seven (27).

17 So, a difference of about 3.7 million. And in
18 terms of percentages that's -- that's a decrease from the --
19 the overall 3 percent that Hydro requested to about 2.6
20 percent overall from general consumer revenues.

21 So, from that perspective, and what we're
22 suggesting is that any move from the 3 percent requested by
23 Hydro would ideally first be focused on getting these --
24 these particular customer classes on the path.

25 And the only last thing I would note is, we

1 did the math for the 2005/'6 and, again, there's certain
2 customer classes that similarly would -- would not be able to
3 bear the rate increases that Hydro is showing if they were to
4 remain on the path.

5 And -- and we did calculate, although we're
6 not proposing, that, in fact, the residential rate increase
7 shown for 5/6 for Hydro is not -- not high enough to have it
8 on the path. But, again, we're not proposing a larger
9 increase for residential than Hydro has set out in its
10 Application.

11 MS. TAMARA MCCAFFREY: Thank you, very much
12 for that, Mr. Bowman. With respect to the next section of
13 your evidence that starts on page 34, and that's section 3.2,
14 you've flagged some problems that have been cited in this
15 Application with respect to the current cost of service
16 approach.

17 I'm going to give you an opportunity to
18 comment on that now. How have you responded to the concerns
19 that have been raised by Hydro? And I think it would be
20 useful, first of all, for you to highlight what those
21 concerns are as you've identified them and then provide us
22 with your response.

23 MR. PATRICK BOWMAN: Well, this -- this
24 section goes through what we -- what we see flagged,
25 identified in -- in the filing and in the various materials

1 that we put before the Board with respect to concerns with
2 the current level of rates and the current price signals that
3 -- that customers are experiencing.

4 We -- we go through, in section 3.2 and I
5 don't -- I'm not going to go through them in any detail, but
6 address five (5) key points with respect to industrial
7 customers and assertions that seem to be made with respect to
8 industrial customers and -- and why there is this distortion
9 or -- or incorrect price signal assertion being made and --
10 and our conclusions in each of the five (5) cases, the -- the
11 conclusions don't bear out -- or the assertions don't bear
12 out under -- under scrutiny.

13 The only one there I would note, I haven't
14 talked about it otherwise and I don't know we'll otherwise
15 touch on it, is -- is under bullet 3 at page 35 with respect
16 to non-utility generation that somehow the current rates
17 discourage non-utility generation and -- and we have a
18 concern that we haven't spent as much time on it as we
19 probably should have in this Application.

20 But we have a concern that the -- that non-
21 utility generation or lack thereof from current customers in
22 Manitoba is far more driven by the -- the current policy that
23 Hydro uses with respect to its -- its willingness to buy
24 power from -- from its -- its current customers versus new
25 customers who would show up in Manitoba or new wind turbine

1 developers or the like, rather than the rates.

2 Outside of that individual comment, I'm not
3 going to dwell on that section. But the other -- the other
4 piece that -- where problems are cited with -- was with
5 respect to the cost of service methodology and this is what
6 I'm referring to is the NERA section and it starts about page
7 38.

8 And in general, our -- the key things that
9 we've -- we've seen with respect to the NERA filing is --
10 well, the first is that it's not part of any proposal by
11 Hydro today so the -- the need to scrutinize it, to some
12 extent, is a little bit less than -- than was the case with
13 their -- their current PCOSS or with the cost of service
14 proposal changes that were -- were filed in 2002.

15 But that -- and despite the fact that there
16 is, what we would consider to be, insufficient information to
17 really understand the details of how they tried to go about
18 doing this and -- and a lot of -- a lot of cases that they
19 looked at, the -- the end conclusions are somewhat useful.

20 I was looking at sensitivities on the cost of
21 service assessment and -- and our -- our conclusion, looking
22 at that, is that they -- they don't, in the end, change our
23 conclusions with respect to the zone of reasonableness; that
24 some of the NERA cases show the zone -- the RCC's to be
25 somewhat further outside the zone of reasonableness.

1 Some show them to be somewhat closer in. The
2 approach that they've recommended has it closer in but not --
3 in no cases does it change materially which customers are --
4 are above or below or, indeed, out -- inside or outside the
5 zone of reasonableness.

6 So, as a sensitivity analysis, it's actually
7 useful in helping to confirm what's already in PCOSS '04.
8 The -- the only one aspect in here that it may be worth
9 making a quick comment on is this export class.

10 The development of the export class is not a
11 new idea here. It was talked about, as we review the
12 materials as far back as the late 1980s where people were
13 concerned about the exact opposite thing that we're talking
14 about today, which is that customer classes paying primarily
15 generation and transmission costs are, in fact, subsidizing
16 exports. We're failing to pay a fair share of their variable
17 plus -- plus fixed costs.

18 And that -- that comes straight out of the
19 Board's decisions in 1989/1988 period. And -- and was
20 summarized in Order 703.

21 At that time there was an interest in having
22 an export class developed just in order to be able to track
23 the extent to which exports were -- were for sure covering
24 their variable costs and hopefully contributing to fixed
25 costs, although probably not paying a fair share of fixed

1 costs.

2 It kind of -- kind of fell by the wayside for
3 some period and -- and we -- we included it back in our 2002
4 evidence saying that, before anyone talks about re-allocating
5 net export revenues, we better make sure that those exports
6 are truly net, meaning net of fixed costs.

7 We didn't necessarily recommend export classes
8 as a way to do that. We thought it was a little more
9 complicated than necessary, but -- but certainly some
10 principle for doing export classes if -- if someone's willing
11 to go through the complications is fine.

12 The -- the key thing is that NERA -- NERA's
13 conclusions, so far, is that the net out of PCOSS '04 -- the
14 net export revenues may be somewhere in the order of a 170
15 million.

16 Our quick review in 2002 had it closer to
17 maybe a 100 million and Mr. Lazar suggested it may be lower
18 than NERA's come to. And so there's some -- there's some
19 room for debate there.

20 But I think the key thing is we all agree that
21 the type of numbers that Hydro included in its earlier
22 Exhibit 39 or the like, where -- where we're talking about
23 people paying 67 percent of their costs before exports is not
24 -- not a reasonable number.

25 I don't -- I don't care if that's NERA or

1 Lazar or ourselves. But that -- those type of numbers are --
2 are -- are quite -- quite meaningless given that they assign
3 all of the costs of the plant to domestic customers but then
4 a -- domestic customers only make up a proportion of the load
5 that' served by that plant.

6 MR. ROBERT MAYER: Let's not do revisionist
7 as history. I have a very clear recollection of MIPUG's
8 opinion with respect to export class and it was no, no, no,
9 under any circumstances, no.

10 And I asked that question specifically when --
11 about Wuskwatim and, if I recall correctly, you still weren't
12 wildly excited about the idea.

13 And if I recall correctly, the only people
14 that were interested in export class at that time were the
15 three (3) Board panelists and the only person who wasn't
16 wildly opposed to it, if I recall correctly, was Mr. Wiens
17 who said he -- it can be done, although he wasn't
18 recommending it.

19 He certainly seemed to be less adamantly
20 opposed to it than the rest of the people in the room.

21 MR. PATRICK BOWMAN: You're - you're correct
22 Mr. Mayer. Our -- our recommendation was not to develop an
23 export class although our evidence certainly did set out that
24 it was -- some approach needed to be considered for assigning
25 fixed costs to exports.

1 We didn't recommend an export class to do
2 that, we recommended something quite a bit simpler if -- we
3 didn't the class in the end provided that much more useful
4 information, although it may in the end add a fair bit of
5 complexity.

6 But we -- we're certain -- we're certainly
7 concerned, we remain concerned that there's a lot of focus
8 and a lot of talk about -- about exports and net exports and
9 the extent to which exports are subsidizing domestic
10 customers and that customers are only paying 67 percent of
11 their costs when all of that talk, whether it's for being --
12 for the purposes of setting rates or for being reported on
13 bills or for any number of things is -- is based on this very
14 -- very, very small allocation of strictly variable costs to
15 exports and not the fixed costs.

16 So, it -- before -- before we start talking
17 about the gravy of exports, we should probably make sure that
18 -- that we're paying the mortgage. That -- that's the type
19 of thinking that -- that we would agree with and if an export
20 cost is the way to do that, that's fine.

21 I do -- I do note that this is -- this is a
22 difficult issue. It's been talked about a bunch of times and
23 -- and from our perspective, it's helpful that the Board has
24 been consistent in it's -- in it's conclusions on it.

25 You know, comments are made that there's not

1 something -- no magic to how to allocate exports and that --
2 that's true. There is no magic but there certainly are --
3 are principles and cost causation is one -- the one that's
4 been set out and it's led to talking about having an equal
5 allocation of exports which some people talk about a
6 generation of transmission but mathematically, it's more --
7 more accurate, in my view, to call it equal allocation to
8 each kilowatt hour and each kilowatt.

9 If you follow the mathematics of how exports
10 are allocated, each kilowatt hour of a system and each
11 kilowatt on the system receive an equal share of them, given
12 that each of them are produced at the bulk power level from
13 the same plant --

14

15 CONTINUED BY MS. TAMARA MCCAFFREY:

16 MS. TAMARA MCCAFFREY: And this is under the
17 current approach, Mr. Bowman?

18 MR. PATRICK BOWMAN: That -- that's correct.
19 That's under the current approach and -- and our concern
20 becomes when you -- and of course, there's no alternate
21 proposal on the table today.

22 But our concern becomes when you leave that
23 path, it -- it's not just a matter of finding where the right
24 path is, it's -- you're -- you're very much lost all -- all
25 guideposts or guidance and you could as easily end up on --

1 on any number of things and there's no -- there's a real
2 concern that there's no principle basis on which to guide
3 you.

4 And -- and I -- that -- that was our position
5 in '02 and it would still be our position today, although
6 there's no alternate proposal on the table.

7 MS. TAMARA MCCAFFREY: I --

8 MR. ROBERT MAYER: I think Mr. Lazar put an
9 alternate proposal on the table but in terms of where the
10 export -- whatever profit, no matter what you call net export
11 revenue, whether -- and he suggests you call it the smaller
12 number after attributing the costs.

13 If I understand his proposal on the table, is
14 you take it out of the mix and treat it as a dividend to be
15 distributed as you see fit to whoever and over whatever
16 circumstances the utility, or more precisely, the -- it's one
17 (1) and only shareholder decides.

18 MR. PATRICK BOWMAN: I -- I think that's
19 correct, and as a matter of fact, in Mr. Lazar's evidence
20 there's a number of what he calls options, as far as I could
21 see thrown out, including providing an equal share for each
22 customer, which presumably would lead to me receiving a
23 thousand dollar (\$1,000) piece and INCO receiving a thousand
24 dollar (\$1,000) piece, which is a bit of a strange way of
25 thinking about allocating it if you ask me.

1 And -- and I think that the point is we could
2 come up with any of a thousand (1,000) different ways, based
3 on anyone's, you know, consumption of electricity, or
4 consumption of BTUs of -- of energy, whether that's
5 electricity or gas, or how far north or south they are, or
6 any number of factors.

7 But -- but the ability to weigh between those
8 is -- is -- completely leaves the road of -- of saying, what
9 -- what link do we have to a principle basis along the lines
10 that Utility Boards get guided in -- in other jurisdictions,
11 or in -- or under normal cost principles.

12 We're into very much a -- a very fuzzy area of
13 -- of pure judgment, and I think that was the phrase that the
14 Board chose to use in 1996.

15

16 CONTINUED BY MS. TAMARA McCAFFREY:

17 MS. TAMARA McCAFFREY: Thank you, Mr. Bowman.
18 For summarizing your position then with respect to the cost
19 of service approach. I'd like to give you also an
20 opportunity to comment on the rate design portion of the
21 Application, and specifically to address Hydro's concern --
22 stated concerns with respect to the price signal?

23 MR. PATRICK BOWMAN: Well, I don't -- this is
24 set out in some detail in the section, and I'd like to -- I
25 think we should be mindful of the time. It's Section 4 of

1 our -- of our materials -- oh, sorry, Section 3 point --

2 MS. TAMARA McCAFFREY: two point one (2.1),
3 page 34?

4 MR. PATRICK BOWMAN: I've lost it. Yeah, I'm
5 sorry, it does start at page 34.

6 In general though, it's troubling to hear talk
7 of -- of the concept of these distortion or what powers are
8 worth on markets, and it's -- it's troubling, because it's
9 not the test that Manitoba uses, and were it the test that
10 Manitoba used, we would very quickly be into a market based
11 pricing.

12 We don't have a policy framework for market
13 based pricing. It's one (1) of the reasons we have power
14 available to people at cost. It's why we have a Crown
15 utility that's been developed and built over the years, to
16 provide Manitobans with -- with power at --at cost. And it's
17 a different decision historically, than is made by other
18 places.

19 If we are -- we're thankful, and I would say
20 it's probably a fair conclusion that the -- the MIPUG members
21 would tell us that they're thankful that Hydro does have a
22 focus on export markets, in the way that it can maximize
23 those export markets.

24 But it's a very fine balance between making
25 the most of export markets for the benefit of Manitobans and

1 taking the next step to find a way to -- to discourage or
2 scare off or get concerned about the level of consumption in
3 Manitoba, because it means there's less money available in
4 export markets.

5 That's -- that's in our view, a step too far,
6 and isn't consistent with -- with the reason for having a
7 utility of this type in this Province.

8 The -- just to sum up on overall, that
9 section, then I -- very simply we -- we, you know -- we
10 continue to support the -- the type of cost of service
11 approaches that has been used and -- and to the extent that
12 -- that there's a need to address distortion or something's
13 asserted to be distortion, which is something that we were
14 that sceptical exists.

15 But to the extent there is, distortion is
16 really a price signal issue, it is really a -- a -- what is
17 the price that someone pays on their -- on their consumption,
18 because distortion is an impact on whether it is changing the
19 amount of -- of electricity consumed by someone, because the
20 price does not send the correct signal.

21 These are all topics that relate to rate
22 design, not cost of service, and yet most of the debates and
23 focus and issues that have been talked about here in the last
24 hearing and this one (1), have actually been cost of service
25 and not rate design. There's been very little progress on

1 rate design, outside of the -- the inverted rates study
2 that's still -- still coming.

3 We do note that in 1996, Hydro came forward
4 with a -- a fairly different -- changed rate design that had
5 seasonal time of use components and it -- it was rejected by
6 this Board and it was primarily rejected not -- not on the
7 technical merits, as best I read the Order, it was rejected
8 because there was a lack of -- customers before they came
9 before the Board and flopped it on the table and said, now we
10 need to deal with it.

11 And our concern today is very similar to what
12 MIPUG would have expressed in 1996 that -- that these --
13 these are -- there's complicated details -- a lot of the
14 devil's in the detail, to use -- to be colloquial.

15 And that a lot of useful matters can be worked
16 out long before we get to this Board if there's some level of
17 discussion and communication and consultation with customers.
18 And a good example of that is the development of the
19 curtailable rate where -- where Hydro worked with the
20 industrial customers and MIPUG to develop the curtailable
21 rate that's still one of -- one of the most successful DSM
22 programs and it's -- it's used to -- it's quite an important
23 part of determining how much for -- customers pay on this
24 system.

25 MS. TAMARA MCCAFFREY: Thank you, Mr. Bowman,

1 for summarizing your conclusions. Just with respect to the
2 rate increase being sought by Hydro with respect to the
3 industrial subclasses, is there a recommendation that -- that
4 you can make at this time to assist the Board?

5 MR. PATRICK BOWMAN: That was -- that was the
6 topic that I dealt with back at about page 33 where we would
7 see, in combination with our suggestion that -- that the --
8 the current rate increase is being proposed overall, 3
9 percent, and it's followed by the two and a half (2 +) seems
10 insufficiently aimed at recovering from a drought and too
11 much being consumed by general increases in -- in operating,
12 particularly capital expenditures, that that rate increase
13 should not be approved at the level requested.

14 It should be approved closer to the level of
15 inflation which is the two (2) to 2 + percent range for those
16 years and our -- our conclusion out of that section of cost
17 of service is that, to the extent that that type of -- of
18 reduction is -- is considered, the -- the first priority
19 would get getting the customer classes who are not currently
20 on the path towards the zone of reasonableness back on the
21 path towards the zone of reasonableness.

22 And that would lead to the type of rate
23 increases that we set out at page 33 which -- which includes
24 no increase to industrial customers at this time.

25 THE CHAIRPERSON: Mr. Bowman, frequently you

1 referenced expenses of O&M nature, I -- I assume you're
2 taking into account the fact that a significant amount of
3 those expenses are capitalized awaiting the in-plant service
4 states or the depreciated later for the DSM plants?

5 MR. PATRICK BOWMAN: Well, Mr. Chairman, when
6 I'm -- when I'm using those -- those terms, I'm, in
7 particularly, looking at our Exhibit 10 and that there
8 remains some -- some gap that hasn't been quantified, that is
9 having a -- an adverse impact on Hydro's reserve levels
10 compared to when we were here in 2002 and rates were able to
11 cover the level of expenses, plus some, over that period.

12 We can -- our -- our best estimate, based on
13 the -- the uncertainties and the rounding that's present in
14 that table, is that that's having a relatively material
15 impact and, in fact, makes up the majority of the rate
16 increases being requested today.

17 And we can, to some extent, identify that a --
18 a major part of that is capital -- is capital cost increases.
19 We haven't spent as much time on operating costs, in part,
20 because we've been trying to not have overlap with the
21 Consumers' Association who have spent more time on that -- on
22 that topic.

23 But also, I'm just generally talking about
24 that -- that topic of cost increases which would be, I'm
25 generically calling, operating and capital. We haven't

1 further quantified whether it is, in fact, an impact due to
2 operating or due to capital.

3 But that -- that level of -- of unexplained
4 cost increases that -- that ends up consuming the better part
5 of this -- these additional rate increases rather than them
6 going towards a -- paying off the impacts of the drought.

7 MS. TAMARA MCCAFFREY: Thank you, Mr. Bowman.
8 There's a final section of your evidence, Section 4,
9 beginning at page 43 that deals with dem -- demand side
10 management. And can you just briefly summarize your
11 conclusions and recommendations with respect to Manitoba
12 Hydro's demand side management approach?

13 MR. PATRICK BOWMAN: Well, this is -- this is
14 a section we did very -- quite -- quite -- at quite a summary
15 level given the information that's available. There's not --
16 not much there that's -- that's radical.

17 Our conclusion is just based -- based on the
18 studies that are available that are somewhat dated. The
19 targets seem somewhat low and -- and, in general, the RIM
20 test which is the more business case analysis for Hydro is
21 the one that probably should, in more general, guide demand
22 side management.

23 But even that shouldn't be strictly adhered to
24 given that it may not capture all the various aspects of
25 demand side management.

1 Sticking more specifically to the RIM Test as
2 opposed to the -- the other tests that -- that measure
3 whether the customer is necessarily better off or has a
4 business case which -- which are the more the TR3 and other
5 types of tests also cuts Hydro off from doing a lot of area
6 of DSM related to fuel switching which would seem to have
7 promise from the perspective of electricity customers and
8 may, in fact, in the end, be something that -- that other
9 customers appreciate, even though we can't guarantee to a 100
10 percent certainty that they're going , in the end, pay -- pay
11 less over the long term.

12 MS. TAMARA MCCAFFREY: Thank you for that.
13 Now, just to conclude, I'm going to give you an opportunity
14 to comment on about three (3) brief points in Manitoba
15 Hydro's rebuttal evidence that haven't been dealt with so
16 far.

17 First of all, I'm going to take you to page 4
18 of Manitoba Hydro's rebuttal evidence. There's a table there
19 that's a comparison of the Manitoba consumer price index
20 versus GS large greater than one hundred (100) Kilovolts and
21 there is an assertion that one should look at the cumulative
22 rates of inflation and cumulative price increases to that
23 customer class.

24 And then there's the assertion, when you do
25 that, the current price increase being requested are actually

1 below -- significantly below the rate of inflation; can you
2 comment on that?

3 MR. PATRICK BOWMAN: Well, that table is a --
4 corresponds also to the table on page 3 of that rebuttal
5 evidence that -- that does the same thing for general
6 consumers' rates.

7 And just, very simply put, we have no problem
8 with the math in that -- in that table. However, I think it
9 -- it misses the point that -- that Mr. Warden put quite well
10 this morning that -- that in each -- in each annual rate
11 change, inflation should provide a guide.

12 I think we have a difference of opinion as the
13 extent to which Hydro is able to live within that guide
14 versus needs to exceed that guide right now, but when we
15 looked at that Appendix A in our evidence, the table at page
16 47 and 48, and the long history of applying that type of
17 benchmark before this Board, even in droughts, even in -- in
18 other situations, large capital programs coming online, we
19 just don't imagine we should be looking to lose such an
20 important guidepost at -- at this point in time.

21 We're -- we think they're still quite
22 relevant.

23 MS. TAMARA MCCAFFREY: Thank you. Moving on
24 now to the next page of Manitoba Hydro's rebuttal, there's a
25 section dealing with financial targets and there's an

1 assertion beginning at line 20 that states:

2 "As to the complete lack of discussion of
3 the interest coverage target, one can only
4 assume that the Intervenors agree with
5 Manitoba Hydro and the PUB that this target
6 is reasonable and that it is important to
7 the Utility to produce sufficient earnings
8 and cash flow to meet its interest payment
9 obligation..."

10 It goes on to the end of that paragraph.

11 Would you like to comment on that?

12 MR. PATRICK BOWMAN: Well, you know, we can't
13 disagree that an interest coverage type target is
14 appropriate. It's -- it measures an underlying factor within
15 the Utility which is its ability to pay its interest costs
16 plus what -- what additional margin above those interest
17 costs in any given year.

18 Our --our only comment would be that, you
19 know, the evidence is quite clear that whether you're talking
20 about rate increases at inflation or at the levels proposed
21 by Hydro, there is a minimal difference to the interest
22 coverage ratios.

23 So, they're -- they're not particularly useful
24 as a guide when we're looking at -- at assessing the rate
25 increases today. And that the more useful guide from our

1 perspective is looking at the longer term.

2 This -- given that we don't regulate Hydro on
3 a -- on a specific annual revenue requirement basis, the --
4 the rate increases proposed -- approved by this Board are
5 much more a long term guidance and steering over the long
6 term, the utility in terms of its financial performance.

7 It's not necessarily -- it can't necessarily
8 quantify each individual year and find a million dollars here
9 and a million dollars there in the line items. It doesn't,
10 in the end, make it particularly useful for telling what the
11 overall level of rate increases need to be.

12 MS. TAMARA MCCAFFREY: Now, finally, at page
13 13 of Manitoba Hydro's rebuttal evidence there's an
14 assertion, and you've already touched on this in your
15 testimony, but just so that the point is clear on the record,
16 there's an assertion commencing at line 21 and going down to
17 line 29 on page 13 of Manitoba Hydro's rebuttal evidence and
18 if I could summarize it, Manitoba Hydro seems to be
19 suggesting that it may not be appropriate any longer to
20 allocate export revenues to the gener -- generation and
21 transmission side and the rationale for that being suggested
22 by Hydro seems to be that there's been such a substantial
23 increase in export revenues over the past ten (10) years that
24 it's no longer appropriate to continue to do this.

25 Please comment on that for the Board.

1 MR. PATRICK BOWMAN: Well, I think -- I hope
2 I've addressed this pretty much already, but, you know,
3 there's -- there is no -- Hydro is not putting forward any
4 alternative proposal with respect to treatment of exports in
5 -- in this Application.

6 We can't disagree that the export revenues
7 have grown but, of course, in a corresponding way so have
8 costs of serving exports. There is more -- the costs of
9 importing power that's going to be exported later have grown
10 -- we've built brand new turbine that, at least in 2002, we
11 talked about as being almost exclusively, if not exclusively
12 for exports. That -- that story seems to have changed a bit.

13 And the fuel costs for when exports are served
14 are considerably higher. So it may not tell the whole
15 picture just to look at the -- the sum value of exports.

16 But the other thing we would note, in
17 particular, is that the risks related to exports and the
18 risks arising from exports have grown and they're a good part
19 of what gives rise to the drought risk we face today, is the
20 swing in export revenues.

21 And to the extent that those risks are
22 addressed by financing -- by building reserves, it's -- you
23 know, it's -- it's the same customer costs as we've talked
24 about. The industrials and -- and in this case, the general
25 service small and those that are above 100 percent unity that

1 are making the large contributions towards those reserves
2 that are necessary to deal with that risk.

3 MS. TAMARA MCCAFFREY: Is -- in your view is
4 there another credible alternative approach to allocating the
5 export revenues that would be consistent with cost causation
6 principles?

7 MR. PATRICK BOWMAN: Well, we haven't spent
8 the -- the time in this -- this Hearing to look through every
9 possible alternative that's been put on the table or that
10 could be put on the table, but this is not the first one
11 that's been looked it. It was talked about in -- basically
12 every hearing going back that I'm aware of, '94, '96, 2002
13 and in each case, whether it was us or whether it was
14 previous experts from MIPUG and in each case the PUB's come
15 to the same conclusion, that there isn't -- that's -- that's
16 where we would be coming from.

17 MS. TAMARA MCCAFFREY: Sorry, that there is
18 not?

19 MR. PATRICK BOWMAN: That there is not an
20 alternative that is -- that has any -- any principled basis
21 related to cost causation or -- or any other factor that as
22 soon as you -- that outside of that path you're into a -- a
23 world of sort of pure mere judgment with no -- no useful
24 guideposts and -- and, you know, judgment is that the word
25 "pure judgement" is a -- I think is the exact phrase out of

1 the earlier Board Order.

2 MS. TAMARA MCCAFFREY: Thank you very much.
3 I'd like to thank Mr. Bowman and Mr. Osler. That completes
4 the direct evidence of the -- of the Intervenors.

5 THE CHAIRPERSON: Thank you, Ms. McCaffrey
6 and thank you, Mr. Osler and Mr. Bowman. Before we get into
7 cross-examination, we'll have a ten (10) minute break. Thank
8 you.

9

10 --- Upon recessing at 2:26 p.m.

11 --- Upon reconvening at 2:40 p.m.

12

13 THE CHAIRPERSON: Mr. Feldschmid, will your
14 mic work, do you think, from there?

15 MR. JURGEN FELDSCHMID: Yes, it's just fine.

16 THE CHAIRPERSON: Mr. Bowman, just to let you
17 know I now follow you okay. I -- I apologize, I missed the
18 reference to your other exhibit on that document. What
19 you're basically saying in the end is that you can account
20 for all of the factors in the difference between the two (2)
21 retained earning levels, except for around 400 million.

22 And that 400 million apparently comprises a
23 host of other possible variables, it could be DSM, it could
24 be general expenses, it could even be capitalized expenses
25 that are already into the depreciation period.

1 MR. PATRICK BOWMAN: Yes.

2 THE CHAIRPERSON: But in -- but in saying
3 that, you have identified your estimate of what the cost of
4 the drought is, and assume the drought is over?

5 MR. PATRICK BOWMAN: No. The -- the first
6 thing I say is you've -- the \$400 million figure you found
7 has -- is in the revised version, is 300 million, based on
8 the changes that Hydro filed in their revised evidence, so
9 that's in the Exhibit 10 in the box. You'll see the four
10 hundred (400) move to three (300). So that --
11 that's my first comment. And the second is that it doesn't
12 make -- the -- because it's the differential between the top
13 and the bottom, all that we're concerned about is that the
14 top represents a base line that was reviewed by this Board in
15 the past, and the bottom represents the IFF that's before
16 this Board.

17 So, we make no particular assumption different
18 than the IFF at the bottom makes. And -- and respect to the
19 cost of the drought, seven hundred (700) isn't -- isn't
20 something we calculated, it's something that comes out of an
21 interrogatory that was filed by Hydro.

22 And when we set out the detail on that in one
23 (1) of our appendices, six fifty (650) is actually what comes
24 out of the IFF, but since then they've suggested there was an
25 additional amount related to the previous year. And I

1 believe that the additional amount was something like thirty
2 (30), but we're not in that order of -- of magnitude here.

3 And -- and of course, as a final comment,
4 we're not saying, to any stretch of the imagination, that 300
5 million is -- is the right number, what we're saying is that
6 it's unfortunate that we needed to go through this exercise
7 and sort of get down to this relatively large unexplained
8 factor, when it would have been convenient for the Applicant
9 to put this type of information forward. So that the various
10 factors could be -- could be weighed rather than us -- us
11 sort of focusing, potentially over focusing on a single
12 factor.

13 THE CHAIRPERSON: Okay, thanks, I'll -- I'll
14 think

15

16 (BRIEF PAUSE)

17

18 Well, we're back together again, now, and I'm
19 wondering, Mr. Feldschmid, for CCEP, would you mind starting
20 your cross-examination now.

21 MR. JURGEN FELDSCHMID: I'd be happy to, Mr.
22 Chair. And I won't be terribly long, just a couple of points
23 I wanted to canvass with Mr. Bowman and Mr. Osler.

24 I expect I'll be directing the majority of my
25 questions to Mr. Bowman, that Mr. Osler may want to amplify,

1 or...

2

3 CROSS-EXAMINATION BY MR. JURGEN FELDSCHMID:

4 MR. JURGEN FELDSCHMID: Mr. Bowman, as a
5 general principle, when you're undertaking any sort of
6 analysis, or particularly the sorts of analysis that we're
7 doing here, you would agree with me, I take it, that if you
8 have a primary motive analysis, it's often helpful to have
9 perhaps a secondary method or mode, to double check your
10 results?

11 MR. PATRICK BOWMAN: It's a bit of a general
12 question, I'm afraid I might have to answer it depends.

13 MR. JURGEN FELDSCHMID: If -- if -- all things
14 being equal, if you had two (2) ways of -- of assessing
15 something, or -- or analyzing something, where if you
16 obtained similar results using both methods, and it could
17 increase your confidence in the ultimate result, that would
18 -- all things being equal, that would be a preferable
19 scenario to a situation where you used only one (1) method,
20 or perhaps where only one (1) method was available, correct?

21 MR. PATRICK BOWMAN: I'm afraid I can't
22 necessarily agree with that. It would depend on whether
23 you're talking about one (1) reliable method and -- and two
24 (2) weak methods. I would sooner take the reliable method.

25 So, you know, given -- I'm just not sure it's

1 -- it's as simple -- or that I can answer this high level
2 question.

3 MR. JURGEN FELDSCHMID: Well, let's take for
4 instance, and I -- and I hope I'm not straying too far out of
5 your areas of expertise. I noticed that there was some
6 reference to you having a degree, dealing with the issue of
7 land use. So, I'm assuming that there must have been some
8 study at some point in your professional or academic career,
9 with respect to land value or evaluation of land, or even
10 land appraisal.

11 And if that's the case, let me draw the
12 following analogy. If you were to do an appraisal of a piece
13 of land, you would use more than one (1) method preferably,
14 you might use, for instance, a combination of market
15 comparison analysis, and then to back that up you might also
16 check your work by using a depreciated cost approach as well,
17 is that not correct?

18 MR. PATRICK BOWMAN: I'm not an expert in
19 land appraisal but there may be certain techniques like that.
20 But I think the best example out of regulatory work is when,
21 not from Manitoba Hydro, but for other types of utilities
22 that are regulated on a rate of return on equity basis, the
23 experts who work in that field, when I read their evidence,
24 they tend to look at three (3) tests, and -- and -- and
25 determine the weighting that they want to put on them.

1 And different experts will put different
2 weights on different tests. But if I remember them
3 correctly, there's an equity risk premium type of way of
4 looking at the world and there's a discounted cash flow way
5 of looking at the world and there's a third one (1) of
6 comparable trading multiples or something like that that --
7 that those types of experts would go through.

8 So in -- in a land of that type of uncertainty
9 where -- where an expert needs to weigh a bunch of different
10 things, people may -- may use a, sort of, cross-check like
11 that, but it doesn't necessarily mean, at the end of the day,
12 it will carry the day.

13 And keeping with that ROE example, the more
14 modern example for setting ROE's exclusively focus on the
15 equity risk premium test and figure out what long Canada
16 bonds are and what the risk is and we run a formula and it
17 spits out our ROE and there are these formulaic approaches
18 used all over the place.

19 Whether it's for the National Energy Board or
20 BCUC. So, sometimes people will use that, sometimes they
21 won't. But I'm not sure that that's terribly helpful to
22 answering your question.

23 MR. JURGEN FELDSCHMID: Well, but I did hear
24 you referring to in a -- in a case of looking at rate base
25 rate of return analysis for utility regulation that there --

1 there are at least three (3) methods I think I heard you
2 refer to.

3 And that there are often analysts who will use
4 one or more -- two or more of them in combination to, you
5 know, assess the same -- the same piece of data to -- to --
6 as a checking method; that is --

7 MR. PATRICK BOWMAN: It's not unheard of.

8 MR. JURGEN FELDSCHMID: Not unheard of, thank
9 you. And, in fact, I think even in your direct evidence
10 earlier you were using -- you were using some information out
11 of a PUB IR-I-62 to check some of the calculations that
12 you've represented in -- in MIPUG Exhibit 10; do you recall
13 that?

14 MR. PATRICK BOWMAN: In -- in MIPUG Exhibit
15 10 we looked through a bunch of factors where we had
16 consistent information that we considered quite -- fairly
17 complete or, at least, useful in quantifying the different
18 impacts to a reasonable level of certainty.

19 And given the type of numbers we're talking
20 about that's a pretty -- still a pretty big margin but to
21 some level of certainty.

22 One (1) thing that we didn't have complete
23 information on was capital spending but we did have a subset
24 of information on capital spending and so we used that to
25 confirm for ourselves whether that \$300 million shown in --

1 as the unexplained variance, though which we know includes
2 normal capital spending.

3 We -- we confirmed for ourselves that almost
4 200 million of that alone is explained by one (1) factor
5 which is that one (1) year increase in capital spending
6 related to Conawapa licensing and some -- some HVDC
7 improvements to some substations, I don't quite remember the
8 exact factors, wind generation that's assumed in there, some
9 PCB capacitor replacements, transformer replacements. A
10 number of different pieces.

11 So it was a way of confirming for ourselves
12 that the 300 million number didn't seem completely out -- out
13 to lunch given that 200 million of can be explained by this
14 alone.

15 MR. JURGEN FELDSCHMID: So what you're
16 saying, in effect, that the information in that IR, even
17 though it gave you, and you knew it only gave you, a -- a
18 portion of the picture, although perhaps the majority of the
19 picture, you had some confidence in it to use it to confirm
20 what you were analyzing in MIPUG Exhibit 10; correct?

21 MR. PATRICK BOWMAN: Well, yeah. I may have
22 been a little bit simplistic but it -- it helped us confirm
23 that probably that number isn't completely unreasonable or
24 out to lunch.

25 MR. JURGEN FELDSCHMID: So you're using two

1 (2) pieces of analysis, two (2) pieces of information to --
2 to confirm or get at this -- the -- the same conclusion;
3 correct?

4 MR. PATRICK BOWMAN: Sure.

5 MR. JURGEN FELDSCHMID: Moving on to a
6 slightly different area, we've heard from Manitoba Hydro that
7 in recent years the magnitude of net export revenue in
8 crediting that back in accordance with generation and
9 transmission costs as has been done recently and was ordered
10 to be done in the last PUB Order 703 that the export
11 revenues, net export revenues have become so large that it's
12 creating a distorting effect on the cost of service analysis.

13 What -- what is your view of that?

14 MR. PATRICK BOWMAN: Well, I was -- we -- we
15 didn't spend a lot of time looking at it in 2004 and the
16 reason was there's no alternate proposal put forward by the
17 Applicant with respect to the way that export revenues are
18 treated.

19 We did spend a fair bit of time looking at
20 this in 2002 and I'm speaking from recollection here, but I
21 recall us asking an interrogatory that said re-run your cost
22 of service study showing us what would happen if the export
23 revenues hadn't grown so dramatically but were back at the
24 level of 1996.

25 And my recollection is, it didn't change then

1 in conclusion with respect to revenue class coverage ratios.
2 So with respect to distortions or somehow the revenue class
3 coverage ratios being out of line or being driven to extreme
4 levels by the higher export revenues, that just didn't seem
5 to bear out when we had that -- that re-run of the cost of
6 service done.

7 I -- I'd -- I'm afraid I can't point you to
8 the IR or anything that -- that did that in 2002.

9 MR. JURGEN FELDSCHMID: Would it be possible
10 for me to have an undertaking from you to provide that later
11 on?

12 MR. PATRICK BOWMAN: Yes.

13 MR. JURGEN FELDSCHMID: Thank you.

14

15 --- UNDERTAKING NO. 56: Mr. Bowman to provide cost of
16 service study showing what would
17 happen if the export revenues
18 hadn't grown so dramatically but
19 were back at the level of 1996.

20

21

22 MR. JURGEN FELDSCHMID: So is it -- Mr.
23 Bowman is it your position then, that Hydro's position that
24 the magnitude of net export revenue at this time is
25 distorting the cost of service analysis?

1 You -- do I take it that you reject that --
2 that position or that conclusion? Is that correct?

3
4 (BRIEF PAUSE)

5
6 MR. PATRICK BOWMAN: It -- it's a bit tricky
7 for an answer, Mr. Feldschmid, because distortion is -- is in
8 our view, or the way that we would normally look at the world
9 is a pricing question. It's not a cost allocation question
10 to the same extent.

11 And so if -- if someone talks about
12 distortion, it would be distortion in the consumption as a
13 result of having incorrect price signals, which is a not a
14 cost of service issue. It's a rate design issue.

15 It's clear that the export revenues get
16 allocated back through the cost of service study and that
17 they're larger than they were and that, as a result, all --
18 all customers see some level of reduction to their bulk power
19 costs compared to what they had to pay for this entire system
20 with no export revenues.

21 The trick is we -- you start to get into the -
22 - the more difficult questions is: what if there were no
23 export revenues? You know, what -- what if the world looked
24 different?

25 I think that's the key if someone wants to try

1 to show that there's a distortion and -- and we get into a
2 very hypothetical -- question of what the system would look
3 like and -- and to what extent we might have the same
4 resources brought on line and the same generation and all --
5 all sorts of -- of -- of troubles.

6 So distortion within the cost of service study
7 is a pretty -- it -- it's very difficult to answer that
8 simply, I'm sorry.

9 MR. JURGEN FELDSCHMID: When I'm talking about
10 distortion, essentially what I'm looking at or what I'm --
11 what I'm describing is that currently we have revenue cost
12 ratios that suggest that just to take taking (audio
13 distortion) charge more than it costs to serve them by a
14 certain percentage. I don't have that immediately in front
15 of me but it's -- they're paying about a 114 percent of their
16 actual cost to serve them, I recall.

17 MR. PATRICK BOWMAN: That sounds right.

18 MR. JURGEN FELDSCHMID: All right. In my --
19 when I say "distortion", what I'm saying is that the cost of
20 service study, once the net exports are put back in, may
21 suggest that but, in fact, in reality it's not the case.
22 It's a flaw or a -- or something that could be perhaps set up
23 better within the cost of service study that makes it look
24 that way but in reality it's not actually -- actually -- it's
25 not actually the case that they're over-contributing.

1 That's what I'm suggesting as a distortion.

2 MR. PATRICK BOWMAN: Mr. Feldschmid, I'm
3 assuming this goes to the question of: Are we using the
4 right cost of service study and I think our position is quite
5 clear that -- that we are.

6 We agreed with what the Board put out in 2002
7 as its Order. We think that PCOS 04 fairly represents the
8 cost to the -- to the -- different customer costs.

9 I -- I thought we were clear on that.

10 MR. JURGEN FELDSCHMID: Well, if you weren't
11 before, you are now.

12 Now, as I'm sure you're aware, Manitoba Hydro
13 has, first of all, within their normal presentation of their
14 cost of service results has always included revenue to cost
15 coverage ratios prior to the inclusion of net exports.

16 Is that correct?

17 MR. PATRICK BOWMAN: I don't know about
18 always but it certainly was included in PCOS 04 in a column
19 entitled almost -- almost exactly that.

20 MR. JURGEN FELDSCHMID: And I would suggest
21 to you, not much turns on this and you may have a different
22 view, but it seems to me that Manitoba Hydro has placed
23 somewhat more emphasis on looking at revenue to cost ratios
24 prior to crediting back of net exports; would you agree with
25 that?

1 MR. PATRICK BOWMAN: Yeah, I -- my
2 recollection looking back through the papers that are
3 available, would suggest that these numbers were not a major
4 focus at all. When we go well back in the past and more
5 recently, there's been additional focus placed on those
6 numbers.

7 So, yes, I can agree with that.

8 MR. JURGEN FELDSCHMID: And getting back to
9 my initial attempt to set up a, sort of, a premise or -- or a
10 prologue to my line of questioning, I -- I would suggest to
11 you that particularly -- to the extent that there may be
12 concerns about distortion effects from net exports or perhaps
13 from -- some other source within the cost of service study,
14 that looking at these revenue to cost ratios prior to net
15 exports being included may be a reasonable and -- effective,
16 sort of, rough and ready check to see if various classes are,
17 in fact, paying more than that ought to, in terms of the
18 costs; would you agree?

19 MR. PATRICK BOWMAN: No, I think that's where
20 we differ, Mr. Feldschmid. The -- ratios that are shown
21 there are something that we consider to be quite fictional.
22 It's quite fictional in that it portrays what if we took the
23 costs of a system, all the costs of a -- effectively all the
24 costs of the system, and allocated them out among a subset of
25 the people who are served by that system.

1 Meaning all of the domestic customers but none
2 of the ability to -- sell that to export customers. And, in
3 general, we consider that quite a fictional result. So we --
4 we haven't placed a lot of weight on this.

5 MR. JURGEN FELDSCHMID: Okay, well, let's --
6 I'm glad you raised the issue of fiction because I think
7 there may be other areas of fiction in the cost of service.

8 The costs that we deal with, the generation
9 and transmission costs, essentially the -- the denominator in
10 the cost of service ratio, those costs are, what we call,
11 embedded costs; correct?

12

13

(BRIEF PAUSE)

14

15

16 MR. PATRICK BOWMAN: The denominator in the
17 cost of service ratio is the embedded costs to serve each
18 customer class, yes.

19

20 MR. JURGEN FELDSCHMID: And these embedded
21 costs, at least -- well, they -- another way of looking at --
22 referring to them from a perhaps accounting terminology, is
23 to look at them as -- as book costs; that is, for capital
24 assets we're looking at the depreciated value based on
25 straight line or some sort of declining balance, depreciation
over time.

1 It's not necessarily based on fair market
2 value or anything tied to a market. It's a bit of a fiction,
3 if you will, in terms of somebody's best estimate of the life
4 of use of a particular asset and how much you cost against
5 it, year after year, correct?

6 MR. PATRICK BOWMAN: I think you're going to
7 have a hard time convincing a lot of people in this room that
8 accounting is a fiction. I don't agree that it's fictional.
9 I think it is the sum of the costs that have been invested
10 over time by Hydro and that it reflects the costs to provide
11 the power which is the basis on which this utility is
12 regulated.

13 It's not regulated or rates aren't set based
14 on the value of power, whether that's fair market value of
15 assets or the value that could be received elsewhere. It's
16 regulated on a cost basis and those are the costs.

17 MR. JURGEN FELDSCHMID: But you'll agree with
18 me that there are different types of costs you could have,
19 market based costs, you could have costs that are done based
20 on a -- on a -- on an accounting analysis which is
21 essentially what the -- the embedded costs are; correct?

22 MR. PATRICK BOWMAN: Well, I guess it depends
23 on if you're talking to an economist or to an accountant or
24 to any number of other disciplines. But costs in this light
25 means accounting costs.

1 MR. JURGEN FELDSCHMID: Well, certainly in my
2 career I've never been involved in a more -- inter-
3 disciplinary undertaking than these -- these hearings, but
4 looking at numerator just -- looking at the numerator just
5 for a second, Mr. Bowman, the numerator then is the -- the
6 revenues that are attributed back to these various classes,
7 whether they come from the domestic rates or net export
8 revenues attributed back, correct?

9 MR. PATRICK BOWMAN: In the ratios that are
10 presented in the final column of the Cost of Service Study,
11 if you can envision the page, the far right hand side as --
12 is the sum of the revenues received from that class, plus
13 their share of their allocation of the export revenues,
14 divided by the total costs allocated to that class.

15 Where in the current Cost of Service Study,
16 PCOSS 04, that total cost is based on the -- it's actually
17 taking the total cost of Hydro's plant, and allocating out to
18 the customer cost, without creating an export class.

19 MR. JURGEN FELDSCHMID: And just so that we're
20 not sort of just dealing strictly with a couple of imaginary
21 blackboards in your mind and my mind, that we can refer
22 people to Schedule A-1 of the cost of service, and it's at
23 least there. It's probably in a number of other spots as
24 well.

25 MR. PATRICK BOWMAN: Yes, and again, it's on

1 the far right hand column.

2 MR. JURGEN FELDSCHMID: Another handy spot
3 would be Mr. Peters' book of documents at Tab 30.

4 In any event, but in terms of the revenue
5 stream coming from net exports, isn't it true that that
6 revenue stream is not based on allocated costs. That is
7 based -- or sorry, on -- on embedded costs. That is based on
8 what might be termed as marginal cost, a market based cost.

9 Or another way to look at it from an economic
10 perspective, is to say that stream of revenue incorporates an
11 economic rent associated with the value of electricity on
12 export markets, correct?

13 MR. PATRICK BOWMAN: Well, the rates that are
14 charged for that power are not based on embedded costs. So,
15 when you take a ratio that sums the revenues collected from
16 the customers, plus the costs recovered from export
17 customers, and divide it by the total cost of the plant
18 allocated to that customer, whether that plant is actually
19 serving them or serving the export customer, you come up with
20 the ratios on the right hand side of the page.

21 You could equally do that ratio by, instead of
22 adding the export revenues to the top of the ratio, you could
23 subtract them from the bottom of the ratio.

24 And I suspect that similar thing is done for
25 other types of revenues that Hydro can receive from assets

1 that provide more than one (1) service, like when they rent
2 out space on their poles to the cable companies.

3 My understanding would be that they would take
4 those revenues and net them off of the cost.

5 MR. JURGEN FELDSCHMID: The point I'm trying
6 to suggest to you is that you -- you've earlier indicated
7 that the approach of looking at revenue to cost ratio before
8 inclusion of net exports that that's inappropriate, because
9 in the denominator, you're attributing all sorts of costs,
10 particularly on the generation and transmission side, that
11 actually go to service export.

12 Yet you're not including back to the benefit
13 of those various classes the -- the revenue that's derived
14 from the exports, correct?

15 MR. PATRICK BOWMAN: Yes, you're charging them
16 for the plant that is actually serving export customers.

17 MR. JURGEN FELDSCHMID: But what I'm
18 suggesting, and -- and that to you is -- is an analytically
19 inappropriate way of going about it, is that correct?

20 MR. PATRICK BOWMAN: I don't know if
21 analytically's the right word, I think it's inappropriate no
22 matter how you look at it, that assigning costs to serving
23 customers, based on a plant that is not in fact serving them,
24 it's serving exports, but not in fact allocating any of that
25 export revenue back, I would say is -- I don't know if the

1 word analytically is necessary, it's simply inappropriate.

2 MR. JURGEN FELDSCHMID: What I'm trying to
3 suggest to you though, is as well, is that it -- it is
4 equally inappropriate to credit back into the numerator,
5 revenues that are based on a -- a free export market, based
6 on supply and demand, and including an economic rent value,
7 when you're netting that out against costs that are
8 determined on an embedded basis.

9 MR. PATRICK BOWMAN: I'm not sure I agree with
10 you, Mr. Feldschmid, and -- and it may just be that I'm not
11 entirely following. But if the customers are paying for
12 assets that can generate a revenue, and as a result help pay
13 for themselves, you would need to credit that revenue back in
14 order to fairly determine the cost to that customer class.

15 The concept of economic rents suggest that
16 somehow those assets are -- are capturing an inherent value
17 of the resource that is not related to the investment that
18 Hydro made.

19 And that's the part that I think we have a bit
20 of concern about, because the economic rents are what we see
21 captured through things like water rentals. That is where
22 the economic rent is captured for the people who own the
23 resources.

24 MR. JURGEN FELDSCHMID: But we have no
25 information before us, that I'm aware, that puts any sort of

1 analysis on whether the water rental is equal to the economic
2 rent, or -- or greater than it, or less than it -- we simply
3 -- nobody's undertaking that sort of a study that I'm aware
4 of, are you aware of one?

5 MR. PATRICK BOWMAN: Well, I certainly
6 wouldn't expect it to be done in this room, because water
7 rentals aren't set in this room. But I'm sure somebody has
8 done something other than pick a number out of the air for
9 water rentals.

10 MR. JURGEN FELDSCHMID: You may be sure, I'm
11 not as sure. But in any event...

12 MR. PATRICK BOWMAN: I would just say that I
13 think there was some discussion of this, and when a budget --
14 when it was approved, and I'm -- it's not something I
15 followed carefully, it's the rationales that are put in place
16 for the -- for raising water rentals.

17 But -- but it's -- it's not unlike when you
18 talk about -- to go back to the -- the sort of natural
19 resource, back where that come from, when you talk about
20 royalties for minerals.

21 The capture of the rents for the owner of the
22 resource is -- is the business of the person who sets the
23 royalties, and they -- they've dealt with that, and beyond
24 that it's not necessarily a rents question that comes before
25 this Board.

1 That -- that would -- that's been dealt with
2 elsewhere.

3 MR. JURGEN FELDSCHMID: Is your position then
4 that when I express to you a concern that the revenues we're
5 crediting back include, among other things, a -- the portion
6 for economic rent, that your response to that is, well, Mr.
7 Feldschmid don't worry about that, because the Government
8 collects water rentals, and they are roughly equal to the
9 economic rent.

10 MR. PATRICK BOWMAN: No, I'm just saying that
11 if you start by saying, the only costs of exports are their
12 accounting costs, and everything above that is economic rent.
13 I think you are missing the complexities that go into
14 thinking about exports and how to allocate them.

15 Economic rent is one word that's used, but
16 economic rents is normally a concept that's applied to
17 royalties, and the takes of Government, not in the rate
18 setting process.

19 The other piece that's missed is the fact that
20 these -- the fact that we participate in the exports, brings
21 about significant risks, and it's the contributions to
22 reserves to build up, so that we can deal with these risks,
23 that is a clear and important factor that comes from exports.

24 When we just talk about assigning a share of
25 the accounting costs, we haven't talked about anything that

1 allows them to be building up the reserves that are necessary
2 to deal with them as a particularly risky type of service
3 that Hydro provides.

4 So, there's a number of factors that go into
5 it, and I think it will be a useful debate to be -- to have,
6 once there's a proposal put forward out of NERA or anything
7 else.

8 But I -- I haven't seen Hydro put forward a
9 proposal in this Hearing to do anything different with
10 exports.

11 MR. JURGEN FELDSCHMID: But if we're going to
12 be talking about risk as one of the elements that we're
13 looking at here, shouldn't then we -- we go back to what was
14 originally proposed by Hydro in 2002.

15 Which is to have net export revenue be
16 allocated back to -- to full allocated costs, as opposed to
17 just focusing on generation and -- and transmission, in the
18 sense that the risk that you're talking about is faced by all
19 of Hydro's ratepayers, equally. Or certainly you know, in
20 relation to their -- to their participation in the system.

21 I mean, obviously my wife and I don't pay the
22 same electric bill that -- that Nexxon does, but we would
23 have a -- a commensurate impact if suddenly you know, the
24 export market fell into difficulty, or there was another
25 drought, and we were having to pay more for our electricity,

1 wouldn't you agree?

2 THE CHAIRPERSON: Mr. Feldschmid, if I could
3 just break in for a minute.

4 If your line of questioning is intended to
5 help the Board understand the -- the approach taken for
6 developing the RCC percentages and the allocation of net
7 export, and the -- the NERA recommendations that came along,
8 which run contrary to the current approach, and all the
9 discussions that preceded that in their cross-examination of
10 the Panel and earlier with this particular witness. I think
11 we -- we understand that.

12 If you're going to help yourself in closing
13 argument, that's -- it's sort of a different matter. But if
14 you're trying to help the Board understand the vagaries of
15 accounting, and the different optional approaches to dividing
16 up export revenue, I think we have it.

17 MR. JURGEN FELDSCHMID: Thank you, Mr. Chair.
18 Let me move on then to a slightly different issue.

19

20 CONTINUED BY MR. JURGEN FELDSCHMID:

21 MR. JURGEN FELDSCHMID: Mr. Bowman, are you
22 saying then that the -- the RCCs prior to the inclusion of
23 net exports, are of no value at all?

24 MR. PATRICK BOWMAN: I think that's exactly
25 what we're saying, and in particular, we would say that about

1 the RCCs prior to the allocation of net exports that are
2 shown in Hydro's PCOSS '04. It's based on a particular way
3 of developing ratios that if you -- if you look through what
4 the -- is in the numerator and the denominator of that ratio,
5 it is, in our view, quite -- quite meaningless.

6 It may be more useful were one to someday find
7 the right way to do an export class and -- and look at a fair
8 allocation of -- of costs to the export class, then it may be
9 useful to -- to start to have a discussion on that sort of
10 thing.

11 But in the -- in the context where we're in
12 right now, it -- it effectively takes, I'm looking at the
13 table from -- from the -- the tab -- or the -- of the book
14 that Board Counsel put together, it effectively takes \$421
15 million dollars out of the mix and then develops some ratios
16 based on that.

17 And -- or 419 million and nobody here in this
18 room is saying that 419 is the net export revenues. Whether
19 that's NERA or whether that's us, whether that's Mr. Lazar.
20 So I don't think they're particularly useful.

21 MR. JURGEN FELDSCHMID: So, while you might
22 -- looking at the PCOSS-04 as it is presented, for example,
23 at Tab 30 of the book of documents, and if I point out to you
24 that general service non-demand is at 104.9 percent and
25 demand is 109.7 percent, I take it you would say, well, Mr.

1 Feldschmid, that's an indication that those two (2) classes
2 are -- one is barely contributing within the zone of
3 reasonableness to it's costs and the other one is clearly
4 over-contributing; is that correct?

5 MR. PATRICK BOWMAN: I'm sorry, that if one
6 is at basically one-oh-five (105) and one is at basically
7 one, ten (110) than I would say that one is at the edge of
8 the zone of reasonableness so they're likely over-
9 contributing but within the type of margin of error that we
10 talk about.

11 And one is within the margin of error that
12 we're used to dealing with is -- is over-contributing to the
13 -- to the reserves.

14 And on a combined level, I think that that's
15 confirmed by running some sensitivities looking at the type
16 of thing that NERA put together, that they similarly conclude
17 that that group has -- has -- is on -- in total, above the
18 zone of reasonableness and they don't --

19 I don't have the data where they break it out
20 between non-demand or demand but they seem to similarly
21 confirm that -- that the group of customers you're
22 representing is likely above the zone of reasonableness --
23 I'm sorry, is above the zone of reasonableness.

24 MR. JURGEN FELDSCHMID: Yes, thank you. And
25 turning to page -- or Tab 32 of the book of documents which

1 is originally TREE/MH-II-13.

2 MS. TAMARA MCCAFFREY: We may have left it on
3 our other -- Thank you, Mr. Peters.

4 THE CHAIRPERSON: While he's looking, Mr.
5 Feldschmid, correct me if I'm wrong, Mr. Bowman, but I think
6 Mr. Bowman is saying that he accepts this approach as it is
7 the only approach that he deems has had sufficient discussion
8 to be in play?

9 MR. JURGEN FELDSCHMID: Yes.

10 THE CHAIRPERSON: I think that's about it.

11 MR. JURGEN FELDSCHMID: I -- well, I think
12 that's what he's saying. I think I just have one or two more
13 questions to see if I can assist myself for argument --

14 THE CHAIRPERSON: Thanks.

15 MR. JURGEN FELDSCHMID: -- and I'll be done,
16 Mr. Chair.

17 MR. PATRICK BOWMAN: I have Tab 32 now.

18 MR. JURGEN FELDSCHMID: Thank you.

19

20 CONTINUED BY MR. JURGEN FELDSCHMID:

21 MR. JURGEN FELDSCHMID: And so, in that case,
22 we see for non-demand 108.1 percent for demand, 110.2 percent
23 and would you say that, of course, this is a summary analysis
24 incorporating all of the NERA suggestions, as I understand
25 it, but seeing those results for general service small demand

1 and non-demand; does that give you any more or less
2 confidence that what is in the PCOSS-04 is generally correct
3 or not correct in terms of those two (2) classes being above
4 or just -- just slightly -- or just at the zone of
5 reasonableness?

6 MR. PATRICK BOWMAN: Well, as we discussed
7 this in our direct evidence, we would consider that the range
8 of cases that NERA ran using all sorts of different
9 approaches as useful sensitivities, this is one of them.
10 This may be the one that they recommend but it's -- it's just
11 one of many. And -- and whether you look at this one (1) or
12 whether you look at all of them, we come to generally the
13 same conclusion with respect to that group of customers, that
14 they be outside the zone of reasonableness.

15 Some of the other NERA cases put them higher,
16 some put them lower. But as a group of sensitivities, they
17 would seem to not undermine PCOSS-04.

18

19

(BRIEF PAUSE)

20

21 MR. JURGEN FELDSCHMID: Thank you very much,
22 Mr. Bowman. Those are all my questions, Mr. Chair, thank
23 you.

24 THE CHAIRPERSON: Thank you, Mr. Feldschmid.
25 Mr. Williams, from CAC/MSOS...?

1 MR. BYRON WILLIAMS: Mr. Chairman, just, I may
2 be seeking some guidance from this Panel. Mindful of your
3 comments to Mr. Feldschmid, the -- probably I'm guessing that
4 I'll be about forty-five (45) minutes in terms of cross. The
5 first thirty (30) minutes do relate to some general
6 principles of cost causation, as well as to our understanding
7 of the witnesses before you, in terms of their evidence in
8 the Status Update, in terms of the export class. And from my
9 perspective, they're relevant in assisting Mr. Harper in his
10 evidence, which will be coming forward on Thursday, as well
11 as in terms of our -- our argument.

12 So, I'm -- I'm not anxious to be admonished by
13 the Panel, but I want to give you some sense of why they
14 consider them relevant, before I embark upon them.

15 THE CHAIRPERSON: We're not admonishing, I
16 think we're simply saying that if part of the -- the purpose
17 of the whole process is to help the Panel come to a
18 conclusion as to what represents the right way to go or the
19 public interest.

20 And all we're saying from our perspective, is
21 we've had a lot of discussion on the RCC, how it's
22 calculated, in a variety of different ways that the costs can
23 be spread and allocated and the various ways that export
24 revenue could be arrayed, and the different results that that
25 could provide.

1 And to this date and time, I think -- I'm not
2 saying what our view is, but I think we have a fairly good
3 understanding, I think, of the basic elements in this. The
4 nature of accounting, if you like, the nature of estimation,
5 and also the significance of the export revenue, particularly
6 as it is relative to the costs of the various classes, and
7 what's being assigned to one (1) class as opposed to another
8 class.

9 But given all of that, please proceed.

10
11 (BRIEF PAUSE)

12
13 THE CHAIRPERSON: If that helped at all?

14 MR. KEITH WILSON: Well, it made things
15 somewhat shorter, Mr. Chairman, if -- if that's -- I've
16 shortened it about half as much as I -- as I might have. But
17 with some trepidation.

18 I am going to ask My Friends from Intergroup,
19 I do want to refer them to the -- their evidence that they
20 presented in -- in the Status Update Hearing, and I've
21 prepared -- I've given to Mr. Barron, some excerpts --
22 excerpts from the -- from the Status Update Hearing, and I'll
23 ask my junior, Mr. Feldschmid, to -- to share them with
24 others in the room as well.

25

1 (BRIEF PAUSE)

2
3 CROSS-EXAMINATION BY MR. BYRON WILLIAMS:

4 MR. BYRON WILLIAMS: Mr. Bowman and Mr.
5 Osler, our discussion may also -- you had a discussion
6 earlier with the Vice Chair on your testimony in the Status
7 Update and this may also assist in clarifying that
8 discussion.

9 And what I want to do in a few minutes is take
10 you back to your evidence from the Status Update Hearing
11 relating to the issues of an export class and also to the
12 words "a true surplus" that was used by you in your evidence.

13 And before I do that, I want to make it clear,
14 and given the time constraints I think that's appropriate,
15 I'm not interested in getting into a debate about the --
16 whether the existing methodology is -- is correct or whether
17 it's the NERA methodology that might be preferable, I want to
18 understand your -- the thinking behind your -- your
19 discussion of the export class and the true surplus in the
20 context of the Status Update Hearing; does that sound all
21 right, gentlemen?

22 MR. PATRICK BOWMAN: Sure.

23 MR. BYRON WILLIAMS: And I think a good
24 starting point might be at page 4633 of the -- of the
25 transcript which is about the third page in and I'll be

1 referring initially to a comment by Mr. Osler starting at
2 around line 20.

3 But, Mr. Osler, if you'll recall from that
4 proceeding -- in that proceeding in Appendix E to the
5 InterGroup testimony on the Cost of Service you -- you set
6 out some evidence to essentially, from your perspective, to
7 try and determine whether the surplus revenues actually
8 existed; do you recall that? Surplus revenues associated
9 with exports; do you recall that?

10 MR. JOHN OSLER: Yes.

11 MR. BYRON WILLIAMS: And in terms of your
12 discussion, and I just want to go through at a very high
13 level, what you were trying to do, first of all in your
14 evidence, was to provide kind of a high level calculation of
15 whether surplus revenues actually existed and by that I
16 believe you defined them as revenues over and above
17 incremental cost providing that -- that there was also a fair
18 and reasonable allocation of embedded costs; is that right,
19 sir?

20 MR. JOHN OSLER: We actually have the
21 evidence with us.

22 MR. BYRON WILLIAMS: Well, and, Mr. Osler, if
23 that will -- if it will assist you, I'm referring to your --
24 your actual written evidence or your oral evidence at 463 --
25 33 of the transcript.

1 MR. PATRICK BOWMAN: Well, Mr. Williams, I
2 think we may be saying the same thing but just to make sure
3 that it's clear, our evidence in that case was the April 15th
4 -- there were two (2) pieces of evidence, so let's make sure
5 we're talking about the right one; the April 15th evidence.

6 And it was at -- I'm looking at page 37 where
7 we have -- been in an Appendix that's talking about overall
8 allocation of export revenues and -- and our position there
9 is that there was no basis to change from the previous
10 practice.

11 However, we have an additional section there
12 called 'Alternative Approach to Export Revenue Assignment'
13 and what we say in that section is that although the approach
14 used since 1988 to assign gross export revenues to the
15 various customer classes appears to be the simplest and most
16 principled approach to treatment of these revenues, that were
17 someone to want to do something else with a net export
18 revenue, first, there would need to be recognition that there
19 are -- and now I'm reading:

20 "That there are embedded costs associated
21 with serving export loads much the same as
22 the embedded costs to serve domestic loads.
23 Under this approach ..."

24 Meaning the approach that we were proposing.

25 "and until these costs are considered and

1 netted off of revenues received, there is
2 no basis to discuss assignment of the gross
3 export revenues."

4 Meaning the gross before assignment of fixed
5 costs.

6 MR. BYRON WILLIAMS: Okay. And thank you for
7 that, Mr. Bowman. I think we are talking essentially at the
8 same level. And perhaps we could agree as well, that -- I
9 want to see what your evidence was in that proceeding on this
10 specific subject rather than get into the merits of whether
11 the existing approach approved by the PUB currently is the
12 appropriate one.

13 So, what you -- once in -- in your evidence,
14 once you -- and I'm referring you to page 4634 or your oral
15 evidence, line 10 through 14, once you'd done, kind of, a
16 high level calculation of what the -- a fair and reasonable
17 allocation of embedded costs were, that left -- left you with
18 something which you described as -- or Mr. Osler does here,
19 as the "true surplus"; is that right?

20 MR. PATRICK BOWMAN: Well, recognizing we
21 were talking about a simple approach to allocating costs to
22 export customers, the net export revenue was something much
23 closer to it.

24 And the figure that's in here is a 100 million
25 rather than the, as I recall, four hundredish million that --

1 that would be in the -- in the Cost of Service Study quoted
2 as net, but meaning only net of certain variable costs.

3 MR. BYRON WILLIAMS: Yes, thank you Mr. --
4 Mr. Bowman, but what I'm asking is, once you'd performed a
5 calculation -- you know, and we -- you could just agree or
6 disagree on the appropriate methodology, but you'd agree that
7 the approach that you set out in Appendix E characterized at
8 the end of that allocation of embedded costs there would be
9 something left which Mr. Osler described as a true surplus;
10 is that right?

11

12

(BRIEF PAUSE)

13

14 MR. PATRICK BOWMAN: Yes, although I -- I do
15 want to note that what -- what we're talking about here is a
16 proposal that Hydro put forward to allocate what we would
17 nowadays call, not net export revenues, meaning nowadays we
18 tend to talk about net as -- I mean, net of fixed costs, but
19 something only net of their variable costs, and re-allocate
20 that as if it's a -- a surplus or a -- there -- there were
21 some other words used for it, but I -- I don't -- I don't
22 quite remember but the implication being that it's -- it's
23 sort of found money

24

25 And our concern was that that -- even if
someone was to go down that road which we were not

1 comfortable with that road, but even if someone was to go
2 down that road for goodness sakes, the first thing you need
3 to do is make sure you're talking about net and not gross.

4 And so in -- in recognizing we're into
5 Appendix E now and a latter section of Appendix E of -- of a
6 fairly long piece of evidence, we said, even if you were to
7 go down that road, there's no basis to talk about anything
8 over a 100 million.

9 And even once you can identify a 100 million,
10 you run into problem number two (2) which is now what do you
11 do with it, and that -- but that's, I think, where you're
12 going.

13 MR. BYRON WILLIAMS: Actually, Mr. Bowman,
14 and let's just be clear. I'm not interested in talking about
15 Hydro's approach in the last year and I want to talk about
16 your approach set out in Appendix E. Do you understand that,
17 sir?

18 MR. PATRICK BOWMAN: Yes, our approach in
19 Appendix E said, if you're going to talk about a net, if
20 we're going to in this Hearing based on the -- the -- and it
21 was very much based on the Application filed by Hydro, we
22 wouldn't have put out such an approach unless, in our view,
23 there was a misunderstanding of what net meant.

24 But based on a -- a -- if someone wanted to go
25 down the road that was proposed by Hydro for goodness sakes

1 let's first make sure we're talking about net.

2 MR. BYRON WILLIAMS: And that would be
3 something that, in your view, you also described as the true
4 surplus; is that right?

5 MR. PATRICK BOWMAN: That -- that's the
6 phrase we used for it, yes.

7 MR. BYRON WILLIAMS: Now in trying to
8 determine why your analysis here -- I wonder if you could
9 turn back to -- or actually turn up to page 4639 of the
10 transcript. Do you have that, sir? That's still in the
11 little handout that I provided to you.

12 MR. PATRICK BOWMAN: I'm sorry, can you give
13 the number again?

14 MR. BYRON WILLIAMS: Page 4639 which is --
15 and in the top right hand corner of the fourth page in. Do
16 you have that?

17 MR. PATRICK BOWMAN: Yes.

18 MR. BYRON WILLIAMS: And I'm referring you
19 specifically, to lines 14 through 18 and you're -- you're
20 talking about if we ran these numbers in the past, we
21 wouldn't have had a surplus show up as a positive number.

22 Do you see that, sir?

23 MR. PATRICK BOWMAN: Yes.

24 MR. BYRON WILLIAMS: And by that I take it to
25 mean that you were suggesting that one (1) of the reasons why

1 this analysis might not have been embarked upon in the past
2 was that prior to let's say 1996 or so, the -- the average
3 price per kilowatt for export revenues was probably less than
4 the average cost of generation and transmission.

5 Would that be fair, sir?

6

7

(BRIEF PAUSE)

8

9 MR. PATRICK BOWMAN: Well I'm not sure that's
10 why it wasn't embarked upon in the past. In fact I think the
11 evidence, and I'm -- I'm again going back to the sort of late
12 80's, was that it was embarked upon and, in fact, as best I
13 recall it, not to dig up skeletons or something but, as I
14 best I recall it, there was something on the record saying
15 Mr. Brennan was going to back and take a look at it and bring
16 something back to the Board.

17 And as best I recall it never showed up, in --
18 at least in the -- the paper that I've seen filed.

19 The concern at that time, though, was exactly
20 what you were saying, that were one to do an allocation of
21 embedded costs of exports to the export class that -- that
22 the likely conclusion would be that exports were not, in the
23 end, paying all of the variable costs plus a full share of
24 the fixed costs to serve them and then, in the end, those
25 customers being served -- being dealt with at the generation

1 and transmission level were probably paying a share of the
2 fixed cost to serve exports.

3 That was the concern that was voiced then.

4 Having said that, if I remember the -- the summary and think
5 this quote is requoted in Order 703, it also says that should
6 sometime in the future this thing turn around, and exports go
7 the other way, it'll be useful to know this, because it might
8 help guide us in what we do with exports.

9 MR. BYRON WILLIAMS: So, just using your
10 words of true surplus; probably in the late '80s or early
11 '90s, no such true surplus would have existed, correct?

12 MR. PATRICK BOWMAN: Yeah, that's right, I
13 think the -- if -- if an export customer class had been
14 developed at that time, and it may be a good reason why it
15 wasn't, the debate wouldn't be what to do with the gravy, the
16 debate would be who pays for the shortfall, if you follow
17 what I'm saying?

18 MR. BYRON WILLIAMS: And -- and back in those
19 days, just so I understand this, even though there was a
20 shortfall, it was still deemed prudent to try and earn some
21 export revenues, because there was excess capacity and
22 production capability in the system; would that be right?

23 MR. PATRICK BOWMAN: Oh goodness, yes. The --
24 the clear evidence is that -- and if this is -- you can see
25 this looking across Canada, is that those jurisdictions that

1 have had the benefit of being able to develop Hydro almost
2 exclusively, if not predominantly a Hydro system, because
3 they're interconnected to export markets where they can sell
4 that power, have been able to develop, you know, ver -- very
5 solid, low cost, reliable systems that are -- that are paying
6 dividends today for their -- their customers and by that I
7 mean, you know, British Columbia, or Manitoba, or Hydro
8 Quebec.

9 And -- and of course the corollary is those
10 jurisdictions that have Hydro available, but don't have
11 export markets for whatever reason, find that they could not
12 pursue Hydro to the same extent, and -- and the examples of
13 kinds that we work with, whether that's Yukon or Northwest
14 Territories, have plentiful Hydro resources, but yet their
15 systems use a substantial amount of diesel generation,
16 because you cannot always commit to the type of resources
17 necessary to develop a system that's 80 or 90 or 95 percent
18 hydro, if you don't have those export markets, because hydro
19 is not a particularly attractive type of -- of development on
20 its own, it needs those -- a place to sell the surplus.

21 I hope that answers the question.

22 MR. BYRON WILLIAMS: Perhaps even more so than
23 I expected, Mr. Bowman. So, I'll see if I can just shorten
24 it up just a little bit.

25 So, even in the pre 1996/1997, if exports

1 weren't recovering their embedded costs, it was still
2 worthwhile, and they were salvaging something in terms of
3 recovering -- or making use of some of that excess capacity
4 and production capability; is that right?

5 MR. PATRICK BOWMAN: Well, I wouldn't
6 criticize a decision back then to sell exports, if that's
7 what you mean or develop the system the way it was developed.

8 MR. BYRON WILLIAMS: And in fact, it was a way
9 to salvage some -- some of the value in terms of excess
10 capacity or production capability, correct?

11 MR. PATRICK BOWMAN: That's correct.

12

13 (BRIEF PAUSE)

14

15 Very general, but correct.

16 MR. BYRON WILLIAMS: And just, I think we've
17 got agreement on this; and what has changed since that era,
18 is now we have a situation where the average price per
19 kilowatt per export revenues, is greater than the average
20 cost of generation and transmission, calculated as total cost
21 divided by the total kWh produced, be it export or domestic;
22 is that right?

23 MR. PATRICK BOWMAN: Can you repeat that
24 question?

25 MR. BYRON WILLIAMS: I can, and I think I

1 wrote it down, so I would repeat it exactly.

2 What we have and what's changed since the days
3 when we were salvaging something is that the average price
4 per kilowatt hour from exports, is greater than the average
5 cost of generation and transmission, as a whole; is that
6 right, sir?

7 MR. PATRICK BOWMAN: I would say based on
8 sitting in this room through 2002 and 2004 that a heck of a
9 lot of things have changed since back then and it's not just
10 the price.

11 As a matter of fact, the price may be one (1)
12 of the -- only one (1) of many factors. And in that I would
13 note, you know, there's been a significant reconfiguration of
14 Hydro's system, or work on Hydro's system that -- that
15 recognizes the ability to have export and import capability.

16 There's been a significant change in their
17 ability to sell to the neighbours, versus people further out,
18 by the changes in the US market, but -- but when we're
19 talking about specifically cost of service, that is one (1)
20 change is that exports are worth more now.

21 MR. BYRON WILLIAMS: And just to confirm that
22 the average price is greater than the average cost of
23 generation and transmission though; you'd agree with that.

24 MR. PATRICK BOWMAN: Based on -- based on our
25 earlier calculation in 2002, that we called 'simple', that

1 was true based on NERA's running of an export class, that's
2 true. I don't -- so I'm -- I'm inclined to say 99 percent,
3 yes, I would -- I would sure like to see the detail on how
4 NERA ran that class to feel comfortable.

5 But I don't expect it'll change it to the --
6 to the tune that it would 170 million or whatever they came
7 up with.

8 MR. BYRON WILLIAMS: And I thank you for
9 that. The 99 percent works for me, Mr. Bowman. If we go
10 just on a couple pages, again in the excerpt from the -- your
11 cross-examination by Mr. Peters in the 2002 status update.
12 I'll direct you to page 4643 and, you know, you can read
13 along with the question that starts at the bottom of 4642 but
14 it's your answer between lines 12 and 16 that I'm interested
15 in.

16 And basically I think, you know, and I'll
17 paraphrase and you can tell me if I've paraphrased
18 accurately, one of the questions Mr. Peters was asking was:
19 "Is there a level of export sales relative to domestic load
20 where it might be appropriate to start doing this
21 accounting?"

22 And what it seems to me you answered is:
23 "As long as we have a way of determining
24 what is a surplus versus whether there is
25 no surplus so we can have a way of ensuring

1 that the mortgage is getting paid down
2 appropriately and that -- that's when we
3 can talk -- start talking in an intelligent
4 way about that being a surplus".

5 Is that accurate, sir?

6 MR. PATRICK BOWMAN: Yes, you read that
7 accurately.

8 MR. BYRON WILLIAMS: And it's at that point
9 and stage and time where the -- based upon your analysis in
10 Appendix E that the Board could start looking at appropriate
11 ways to allocate that surplus, whether upon principles of
12 cost causation or other principles; would that be fair, sir?

13 MR. PATRICK BOWMAN: Well, like I was saying
14 within Appendix E, we went through an exercise to say what --
15 what is that level -- that surplus. And then -- but then
16 step two is, in fact, the more problematic step that says,
17 whether you come up with 100 million like we did or a hundred
18 and seventy (170) like NERA it's -- what do we do with it
19 then?

20 And what sort of regulatory principles or
21 precedent or -- or guideposts or practice in other places or
22 any number of things can we look to, to guide us into what to
23 do with the residual.

24 And that's, in fact, the -- it's the harder
25 case to say that we should do anything with the residual,

1 anything different than we did with the first part which was,
2 use it for generation and transmission. Use it equally on
3 the basis of the kilowatt hours and the kilowatts so that
4 every -- every customer's usage, every kilowatt hour -- every
5 kilowatt gets an equal share of it to reflect the fact that
6 that's the way that the costs -- to provide that.

7 Whether it's -- whether it's a cost of
8 providing it or whether it's a surplus arise.

9 MR. BYRON WILLIAMS: I want to thank you, Mr.
10 Bowman, and you were coming along with me reluctantly, so I
11 had to give you a chance to make a little speech there at
12 that section.

13 Now, we're just almost moving off this topic,
14 Mr. Chair and Vice Chair, I do have a few more questions in
15 terms of your current evidence and I'd just draw your
16 attention to page 58 of your pre-filed testimony of May 28th,
17 2004.

18 MR. PATRICK BOWMAN: Page 58?

19 MR. BYRON WILLIAMS: Yes, Mr. Bowman.

20 MR. PATRICK BOWMAN: Yes.

21 MR. BYRON WILLIAMS: And specifically I'm
22 drawing your attention to lines 11 through 13 and what I am
23 -- what I'm understanding you to be saying in this line is
24 that when you're looking for, kind of, guidance in terms of
25 current principles, and, again, I'm not inviting a speech,

1 it's set out in your evidence.

2 But one place where you do find guidance is
3 from, in terms of the current practice, is that it is
4 basically consistent with normal practice for other utilities
5 as noted in the 1992 electric utilities cost allocation
6 manual; is that right, sir?

7 MR. PATRICK BOWMAN: I think that's a fair
8 place to find guidance.

9 MR. BYRON WILLIAMS: Now, when I look to that
10 -- that manual, it has sections on, you'll agree with me, and
11 I'm -- you have -- you've looked at the manual yourself;
12 correct, sir?

13 MR. PATRICK BOWMAN: Yes, I have a copy of
14 it. It's been sometime since I've read it in detail but I do
15 have a copy.

16 MR. BYRON WILLIAMS: I don't think I'm
17 looking for a level of memorization but when one looks at it
18 there's sections referring to the components of the revenue
19 requirement, sections referring to the cost of service from
20 an embedded cost perspective and sections referring to cost
21 of service from a marginal cost perspective; is that right,
22 sir?

23 MR. PATRICK BOWMAN: I -- I seem to recall
24 that.

25 MR. BYRON WILLIAMS: And the quote that you've

1 drawn from NARUC on this point, is from the revenue
2 requirement section of that -- that NARUC manual, correct,
3 sir?

4 MR. PATRICK BOWMAN: I'm afraid I don't know
5 what chapter -- which chapter Chapter 3 is, but I wouldn't be
6 surprised, because it really goes to the question of -- of
7 revenue requirement, common to whether you're dealing with
8 embedded costs or whether you're dealing with marginal costs.
9 But -- but I think -- so I think it's probably from that
10 section, but I don't have the title of the chapter in front
11 of me.

12 MR. BYRON WILLIAMS: If it will just assist
13 you when you look at your evidence it says:

14 "Review the steps in developing a utilities
15 revenue requirement."

16 MR. PATRICK BOWMAN: Okay, yeah, there it is.

17 MR. BYRON WILLIAMS: And I wonder if you would
18 agree with me that the cost allocation sections of the NARUC
19 manual do not speak whatsoever to the -- this specific issue,
20 in terms of the cost allocation section, in terms of embedded
21 costs, or in terms of marginal costs.

22 Would you agree with that, sir?

23 MR. PATRICK BOWMAN: Well, they wouldn't need
24 to. If this section is netting those out, so that they're
25 not part of the revenue requirement, they wouldn't need to

1 speak to it.

2 MR. BYRON WILLIAMS: So, your position is that
3 as long as it's addressed in the revenue requirement, there
4 would be no need to address it in the Cost of Service
5 positions of the manual?

6 MR. PATRICK BOWMAN: Well, that was what I was
7 generally talking about before with Mr. Feldschmid, is the
8 way that Hydro does cost of service, export revenues are
9 treated as an addition to the numerator, in coming up with
10 the revenue cost coverage ratios.

11 I said the alternative was there could be a
12 subtraction from the denominator. We're talking about the
13 same thing, that they would be netted off of the cost, before
14 you ever got to that level.

15 MR. BYRON WILLIAMS: And I'll leave that to
16 Mr. Harper I guess to discuss with you further, or with the
17 Panel, Mr. Bowman.

18 Realizing you haven't read this document for
19 some time, would it be -- you'll agree with me that it was
20 published in 1992?

21 MR. PATRICK BOWMAN: I seem to recall that
22 1992 may have been an update and it may have been first
23 published quite a bit before that, but 1992 is the version
24 that I was citing.

25 MR. BYRON WILLIAMS: And at that point in

1 time, that would be prior -- that would be when we were at a
2 point in time when the average price per kilowatt hours from
3 exports would be lower than the embedded costs, in terms of
4 generation and transmission, you'll agree with me with that,
5 sir?

6 MR. PATRICK BOWMAN: I'm not sure we're
7 talking about the same geographic application. The NARUC
8 manual is sort of a North American Regulators manual, I think
9 what you're talking about is a hydro specific factor, and I
10 don't think Manitoba Hydro in the end drives how NARUC would
11 write their manual, if that's what you mean?

12 MR. BYRON WILLIAMS: Well -- well let me put
13 it this way, you've spoken about a number of changes to the
14 export market in the last seven (7) or eight (8) years, is
15 that not correct, sir?

16 MR. PATRICK BOWMAN: Well, it's -- it's not
17 just us, I think the whole room is focused quite a bit on --
18 on what's happened since the last GRA.

19 MR. BYRON WILLIAMS: And those have been
20 material substantial changes in the export market, not just
21 for Hydro, Manitoba Hydro per se, but for the market
22 throughout North America, correct?

23 MR. PATRICK BOWMAN: As best I understand it,
24 yes.

25 MR. BYRON WILLIAMS: And this manual was

1 written at -- in a different time in a different place, when
2 generally export sales were more for salvage than for profit,
3 meaning profit in the true surplus usage of the word that you
4 refer to, correct?

5 MR. PATRICK BOWMAN: I'm afraid the NARUC
6 manual would be more focused on US utilities, that I just
7 don't have enough knowledge of for certain to say, Mr.
8 Williams.

9 MR. BYRON WILLIAMS: Mr. Bowman, just to
10 pursue this one (1) last step, in terms of a regulatory
11 precedent in Canada now, through your work with the utilities
12 in the Yukon, I presume that you've developed some degree of
13 experience in terms of the cost of service, methodology and
14 approach in British Columbia, is that right?

15 MR. PATRICK BOWMAN: No, not to any great
16 degree, as a matter of fact, even -- even the Yukon is
17 somewhat dated in terms of doing cost of service, and we
18 certainly haven't looked to -- to British Columbia.

19 MR. BYRON WILLIAMS: Okay, so just so -- and
20 we can move off this area. Just so that I'm clear then, you
21 -- you don't have any current knowledge of the Cost of
22 Service methodology or history in British Columbia, is that
23 correct?

24 MR. BYRON WILLIAMS: Well, we have some
25 knowledge of the history, given that a good portion of

1 Manitoba Hydro's current cost of service methodology was --
2 was based off of some comparable studies. Some fairly
3 detailed studies that were done a while ago, with respect to
4 cost of service, it wasn't just developed to -- to suit, you
5 know, the Manitoba market.

6 There was some comparative reviews and I
7 believe Ernst & Young, if I remember correctly, would have
8 done a study of costs in certain other jurisdictions and BC
9 would have been one of the ones it spent some time on.

10 But given that the -- the major cost of
11 service debates with respect to things like functionalisation
12 and allocation and how to treat HVDC lines and system load
13 factors and the like really occurred quite some time ago,
14 other than our 2002 debate.

15 It was -- it would have been based on the BC
16 information available at that time.

17 MR. BYRON WILLIAMS: Just based upon your
18 knowledge of history then, you can confirm that the last cost
19 of service study reviewed by regulator in British Columbia
20 was done in the early 1990s; would that be right?

21 MR. PATRICK BOWMAN: Well, they're in some
22 form of review now, but I'm not sure whether they've made it
23 to cost of service yet. But, otherwise, it would have been
24 probably early 1990s.

25 MR. BYRON WILLIAMS: And you'll agree that

1 there's no cost of service review in the current BCUC
2 proceeding?

3 MR. PATRICK BOWMAN: That's the part that I'm
4 not certain of, Mr. Williams. But I wouldn't be surprised to
5 learn they haven't made it that far yet. This is a fairly
6 slow process for them to become re-regulated after ten (10)
7 years.

8 MR. BYRON WILLIAMS: Would it surprise you or
9 do you have any knowledge of when the last cost of service
10 review of generation in terms of Ontario Hydro was
11 undertaken, sir?

12 MR. PATRICK BOWMAN: I would expect it was
13 quite some time ago given that the changes in the market
14 there would not have cost based generation rates at this
15 time.

16 MR. BYRON WILLIAMS: So if you were told that
17 it was in the late 1980s that would not surprise you in terms
18 of cost of service in terms of generation in Ontario Hydro?

19 MR. PATRICK BOWMAN: No, that wouldn't
20 surprise me.

21 MR. BYRON WILLIAMS: And would you agree with
22 me that if you look to the Regis in Quebec that there is no
23 regulatory precedent available in terms of the treatment of
24 export revenues and that is set explicitly by legislation; is
25 that right, sir?

1 MR. PATRICK BOWMAN: That -- that may be
2 right. I always have trouble translating their decisions.
3 But I know that -- that there is a significantly different
4 regulatory framework in Quebec.

5 MR. BYRON WILLIAMS: You see, that was
6 relatively quick. I just have a few more matters to cover.

7 Mr. Bowman, this is probably to you as well
8 and perhaps I could direct you to page 41 of your evidence of
9 May 28th, 2004 and to the top six (6) lines please. Do you
10 have that, sir?

11 MR. PATRICK BOWMAN: Page 41, top six (6)
12 lines; I have it.

13 MR. BYRON WILLIAMS: And you -- you talked
14 about this in some detail -- or, at least, a brief detail in
15 terms of your direct evidence if I recall correctly, so I'm
16 going to just try and summarize it and get you to confirm
17 that without a great deal of elaboration.

18 And basically, if I understand this -- these
19 first few lines, what you're saying is that the cost of
20 service approach as highlighted by NERA are, in no way, a
21 requirement for considering time of use proposals.

22 And the example you used was proposals
23 brought forward by Manitoba Hydro in the -- almost a decade
24 ago which were in the rate design area and not the cost of
25 service area; is that basically it, sir?

1 MR. PATRICK BOWMAN: Yes, time of use is a --
2 is really a rate design type of issue. I should clarify,
3 time of use aimed at addressing price signals or something of
4 that nature is a rate design issue. It doesn't mean that
5 someone couldn't use cost of service to try to build some
6 foundation for time of use. But it certainly wouldn't be
7 necessary and I think this emphasizes the case.

8 MR. BYRON WILLIAMS: And, Mr. Bowman, I just
9 want to follow through with you an example and get you to
10 comment on -- on -- and perhaps your caveat will assist us.

11 But if we introduced -- or if the Public
12 Utilities Board and Manitoba Hydro, in their wisdom,
13 introduced time of use rates with peak, off-peak differential
14 for GSL as a rate design measure that weren't reflected in
15 the cost of service.

16 I wonder if you'd agree with me, that if all
17 industrial customers reacted to the price signals, and
18 shifted their load to the off peaks period, system costs
19 would go down?

20 MR. PATRICK BOWMAN: Well, I think if the rate
21 was designed properly, that's exactly what it would be
22 intended to do.

23 But the point is, it's a price signal, you're
24 sending a signal for a customer to do something. So the
25 signal has to be designed properly so that you're either, and

1 this -- this is one (1) of the key things within rate design,
2 is you're either, (a), designing a different type of rate,
3 because you're trying to encourage some other type of use, or
4 (b), simply designing a different type of rate, because
5 you're trying to track fairly, the cost on the system.

6 So, that even if people don't shift load, at
7 least they're paying the fair cost for their particular load
8 pattern, as opposed to someone else's particular load
9 pattern.

10 MR. BYRON WILLIAMS: And I appreciate your
11 reference to fairness. Let's just follow this through.
12 Let's assume that the rate -- there's a time of use, peak/off
13 peak differential introduced, and industrial customers react
14 to that price signal, by shifting their loads accordingly, to
15 off peak periods. That will result, I believe your concern
16 -- you confirmed, with system costs going down, is that
17 right?

18 MR. PATRICK BOWMAN: As long as the rate is
19 designed appropriately, and it's based on charging -- it's
20 based on moving load from higher cost periods to lower cost
21 periods, and it reflects a differential that's appropriate
22 for what Hydro can actually do with the power at those
23 various times so, that you're -- you're capturing some sort
24 of cost savings, then the key thing would be you would be
25 lowering the cost to those customers.

1 So, a time of use rate would -- for customers
2 that did not shift load, need not mean they get allocated
3 more costs. The point about a time of use rate is that it
4 allows those customers who can shift load, to capture lower
5 costs.

6 MR. BYRON WILLIAMS: Let me just follow that
7 point through, and I'm perhaps approaching it from the
8 opposite direction that you are, where we've accepted that
9 system costs will go down. But if those costs are still
10 allocated to a class -- classes based simply on the total
11 energy use then the benefits created by the industrial
12 customer's load shift, will be shared with all customer
13 classes, as opposed to being attributed to the class that
14 created them; isn't that true, sir?

15 That would be unfair to the industrial class?

16 MR. PATRICK BOWMAN: Mr. Williams, I -- I get
17 a bit nervous about talking things that have trickle through
18 effects within a Cost of Service Study, while sitting up here
19 trying to do the math in my head. I'm -- I'm not convinced
20 that that would in fact be the case.

21 I think that the point would be if you
22 designed a time of use rate, so that the industrial shifted
23 load, and as a result, ended up with a lower cost load
24 pattern, that would to some degree, whether you design time
25 use rates in the class of service or not, be captured by the

1 fact that when you did load research on that class, you've
2 now found that they peaked, or that they -- at a different
3 time in the system their coincidence factors would change and
4 various other things.

5 So, it's -- it's not necessarily intuitive
6 math, as to the degree to which it would be captured or not
7 captured. I just want to be cautious about that.

8 MR. BYRON WILLIAMS: I'm not talking degrees
9 though, Mr. Bowman, just as a -- there would be savings to
10 the system that would be as a result of actions taken by the
11 industrial class, that would be shared among all classes,
12 correct?

13 MR. PATRICK BOWMAN: There -- if there were
14 savings to the system, I think that those would at least in
15 part, if not in total, be captured by changes in the load
16 profile used in the Cost of Service Study.

17 Remember that it has one (1) -- one (1) major
18 input being the loads, and not just the total number of
19 kilowatt hours or the total peak, but the extent to which
20 those are coincident with the rest of the system and various
21 other factors.

22 So, it -- it may be that what you're saying is
23 true, that without a time of use weighting in the Cost of
24 Service Study, you wouldn't be able to capture the benefits,
25 but it may not be true, and I would like to see some cases

1 run or sit in front of a computer for a bit to try to see
2 where -- where I would come down on that.

3 MR. BYRON WILLIAMS: Thank you for that
4 thoughtful answer.

5 Mr. Bowman, turning to page 26 of your
6 evidence, and, Mr. Osler, if you're feeling neglected, feel
7 free to chip in at any point in time.

8

9

(BRIEF PAUSE)

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11

I'm not asking again for extensive detail, but
12 in your evidence at page 26, starting around line 29, you
13 note that the RC ratio can change for a number of reasons,
14 including changes in the relative level of rates, changes in
15 the Cost of Service method -- methodology and changes in the
16 utility costs and variables that are used to allocate costs;
17 is that right, sir?

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MR. PATRICK BOWMAN: Yeah, that's exactly
what I was referring to before if someone changed their load
pattern or if a group of customers changed their load
pattern, it would change those variables that are used to
allocate costs, but, yes.

MR. BYRON WILLIAMS: Okay, so that would go
to load research results which will vary from year to year
and as a consequence, will also affect the -- the calculation

1 as well. Is that what you were saying?

2 MR. PATRICK BOWMAN: I don't know the extent
3 to which it's an annual thing or -- or whatever. But load --
4 the load research -- the loads that show not only how much
5 each customer uses but the extent to which their usage
6 coincides with the other usage going on in the system is
7 captured in a fairly detailed load section of the Cost of
8 Service Study that I -- I understand a considerable amount of
9 work goes into, in a load research program.

10 And it would, to some degree, capture things
11 like, if a customer group shifted to a lower cost load
12 profile.

13 MR. BYRON WILLIAMS: I wonder if another
14 reason that these RCCs may vary, at least to a certain
15 degree, is that the utility costs that may -- in a particular
16 year, that may place relatively more or less emphasis on
17 distribution versus transmission OM&A in a given year.

18 Is that another variable that might affect the
19 RCCs? I can give you an example if you'd like, sir?

20 MR. PATRICK BOWMAN: That would be helpful.

21 MR. BYRON WILLIAMS: Well, let's say in one
22 (1) year a utility may put more budget or actual spending
23 emphasis on distribution facilities and then the next year
24 the emphasis could swing more to transmission facilities.

25 That could have an effect on a year to year

1 basis, on the RCCs; is that correct?

2 MR. PATRICK BOWMAN: I suppose if that were
3 to occur, it could have an impact on the RCCs. I'd be very
4 surprised if in a large utility like Manitoba Hydro there was
5 any material shifting going on between those two.

6 I know in the small utilities that I worked
7 for, a change in brushing this year versus next is a -- of a
8 transmission line is a -- is a massive cost shift, but I
9 think it's relatively a blip for what Manitoba Hydro has to
10 deal with in terms of the relative areas.

11 MR. BYRON WILLIAMS: I just have one (1) more
12 question for you, Mr. Bowman. I -- I hope it's one more
13 question.

14 At page 29 of your evidence, lines 15 to 21.
15 Do you have that, sir?

16 MR. PATRICK BOWMAN: Yes.

17 MR. BYRON WILLIAMS: Now, as I understand it
18 a -- a -- what you're referring to in this -- and I -- we'll
19 go through this slowly but in Hydro's original application,
20 Tab 9, page 2, it stated that its long term target is to have
21 all revenue costs coverage ratios in the range of ninety-five
22 (95) to 105 percent and further that all classes should be
23 gradually moved towards RCCs of unity.

24 And then, Intergroup or MIPUG -- excuse me --
25 asked what Hydro meant by long term and Hydro's response in

1 MIPUG MH-20-I-28-) was that long term should be taken to mean
2 five (5) to seven (7) years; is that right?

3 MR. PATRICK BOWMAN: That's right. That's
4 what it says there.

5 MR. BYRON WILLIAMS: And again, we don't need
6 a considerably degree of elaboration, but in your direct
7 today, you interpreted that to mean -- long term to mean five
8 (5) years to ZOR, seven (7) years to unity; is that correct,
9 sir?

10 And that's set out in the table on the next
11 page.

12 MR. PATRICK BOWMAN: Yeah, that's where I was
13 going to look to was Table 32. It -- it says -- we -- we
14 looked at to -- five (5) years to the zone of reasonableness,
15 thus seven (7) years to unity.

16 I suppose we could looked at five (5) years to
17 unity or -- or alternatively, seven (7) years to the zone of
18 reasonableness. The -- the concern there is just the extent
19 to which -- to which we're talking about very long time
20 periods to address very long standing problems.

21 MR. BYRON WILLIAMS: And I appreciate you
22 jumping to my conclusion. So you'll accept that one
23 interpretation or one approach would be to look to achieving
24 ZOR within a range of five (5) -- five (5) years to seven (7)
25 years and that's another interpretation you could put to the

1 response to Manitoba Hydro 128-C.

2 Is that right?

3 MR. PATRICK BOWMAN: Well, yeah, there's --
4 if you have two (2) variables, you could come up with four
5 (4) combinations or permutations and we chose the two (2)
6 that were sort of in the middle, rather than either of the
7 extremes.

8 MR. BYRON WILLIAMS: Okay. And Mr. Chairman,
9 those are my questions. Thank you.

10 THE CHAIRPERSON: Thank you Mr. Williams. I
11 don't believe Mr. Boyd is with us. I don't think we have Mr.
12 Anderson with us either, or Professor Miller.

13 Ms. Ramage...?

14 MS. PATTI RAMAGE: Before I begin, there's a
15 handout that has been distributed to Mr. Osler and Mr. Bowman
16 and Ms. McCaffrey but if it could perhaps be distributed to
17 the rest of the room?

18

19 (BRIEF PAUSE)

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21 And, during this down time, I'd also simply
22 indicate that Manitoba Hydro has two (2) other undertakings
23 to file but I don't have them at hand right now but we would
24 like to get them in before the close of today. So --

25 THE CHAIRPERSON: Okay, sure.

1 MS. PATTI RAMAGE: -- when we're rushing out
2 the door if we could get those out.

3 THE CHAIRPERSON: That's fine, Ms. Ramage.
4 When you're ready, we're ready.

5

6 CROSS-EXAMINATION BY MS. PATTI RAMAGE:

7 MS. PATTI RAMAGE: I'll begin by directing my
8 first question to Mr. Bowman. You indicated this afternoon,
9 several times, a strong preference or even suggested a
10 guideline be that rate increases not be in -- or be kept to
11 equal to or less than the rate of inflation.

12 You also -- you also in your evidence referred
13 to Manitoba Hydro's various rate applications since 1989, not
14 -- not going above that rate. Am I correct in saying that
15 you were not able to point, however, to a specific Public
16 Utility Board directive prohibiting or, at least, limiting
17 Manitoba Hydro rate increases to being less than or equal to
18 the rate of inflation; is that correct?

19 MR. PATRICK BOWMAN: No, we're not talking
20 about a rule. I -- I -- it was in one of the early decisions
21 and I believe it would have been the 1989 decision where the
22 Board brought the rate increase from what was proposed down
23 to something that they -- in their words was something more
24 in line with inflation, I believe -- I believe, was the term
25 used.

1 So, it's -- it's not as a benchmark, I think
2 it's been established as a -- as a rule. I can't point to
3 any -- any place where it's written down.

4 MS. PATTI RAMAGE: Thank you. Could I have
5 you turn to page 3 of Manitoba Hydro's rebuttal evidence?

6 MR. PATRICK BOWMAN: Yes, we have it.

7 MS. PATTI RAMAGE: You're one step ahead of
8 me. Now, based on the table found at page 3, can you confirm
9 that the cumulative rate of inflation over the period shown
10 is 37.2 percent?

11 MR. PATRICK BOWMAN: Oh yeah, this was
12 something we addressed in our -- our direct evidence, that we
13 have no -- no issue with the mathematics that are shown in
14 that table.

15 MS. PATTI RAMAGE: So, you don't disagree
16 that the average rate increase over the same period was 15.1
17 percent?

18 MR. PATRICK BOWMAN: Again, I haven't -- I
19 haven't double checked it, but I -- I don't suspect that the
20 mathematics are wrong.

21 MS. PATTI RAMAGE: And, again, that the --
22 the 15.1 percent increase was not something experienced by
23 the customer class you represent but rather that would be
24 found at page 4 of Manitoba Hydro's rebuttal evidence being
25 6.6 percent?

1 MR. PATRICK BOWMAN: Yeah, that's right. A
2 number of those rate increases shown on page 3 are rate
3 increases that occurred for -- or decreases that occurred for
4 other customer classes out -- outside of industrials, all of
5 them since 1992 and, in particular, also the -- the decrease
6 in 2001/2 which was, I take it, the uniform rates at 1.9
7 percent.

8 So, that whole group did not apply to
9 industrials and the others need to be amended. So, I take it
10 Table 2 is doing that and, again, we have no issue with the
11 mathematics.

12 MS. PATTI RAMAGE: Thank you. Now, would you
13 agree that had Manitoba Hydro applied for increases equal to
14 the rate of inflation throughout this period the need for the
15 rate increase today would be significantly less urgent?

16 MR. PATRICK BOWMAN: I -- I have trouble
17 agreeing with that given that I think in every GRA since 1992
18 Hydro has applied for rate increases from the GS large
19 greater than 100 KV class and they -- they weren't granted.

20 So I think, had they been applied and -- and
21 improved, that we would be looking at Hydro with -- with
22 greater financial results today, all other things being
23 equal, no -- no additional capital projects having been
24 undertaken or operating spending, looking at that one factor
25 alone.

1 MS. PATTI RAMAGE: But if increases were to
2 be limited to at or below inflation; would you not agree a
3 utility would have an incentive to not want to skip a year as
4 Manitoba Hydro has done. There wouldn't be years left for
5 fear that next year there could be a downturn and the
6 utility's missed its opportunity?

7 MR. PATRICK BOWMAN: I -- I think that they
8 would -- the utility would have to weigh in each case in each
9 year whether it needed a rate increase. If it couldn't
10 convince itself that it needed a rate increase, it probably
11 wouldn't submit an Application, because it didn't stand a lot
12 of chance of convincing it forward.

13 Once it comes back and applies for a rate
14 increase, if it doesn't get the full increase granted, then
15 it would need to go back and review whether there are other
16 things it can do to live within that level granted, or
17 whether it needs to come back again.

18 And I think that's the normal to and fro that
19 we talk about with -- with regulation.

20 MS. PATTI RAMAGE: So, you would agree then, a
21 rate increase should be based on these circumstances,
22 specific to the utility in the year, that the -- the rate
23 increase is sought.

24 MR. PATRICK BOWMAN: Well, it should be based
25 on the information the utility provides at that time, which

1 -- which is not necessarily the one (1) year, it would be in
2 each case, the -- the performance to that time, the forecasts
3 and all the factors that go into all of that -- like it's a
4 big filing.

5 MS. PATTI RAMAGE: And in the case of the --
6 the general service large, greater than one hundred (100)
7 kVs, the rate increases being sought for the '04/'05 year,
8 the rate increase is two point two (2.2) and 2 percent for
9 the '05/'06; that's correct.

10 MR. PATRICK BOWMAN: I'm sorry, can you repeat
11 that, I --

12 MS. PATTI RAMAGE: I'm just trying to confirm
13 that the rate increase sought is two point two (2.2) and two
14 point zero (2.0) for the customer cla --

15 MR. PATRICK BOWMAN: I don't believe that's
16 correct.

17 MS. PATTI RAMAGE: I'm sorry, I'm on the wrong
18 number of my -- I flipped too soon, it's one point nine five
19 (1.95) and one point four seven (1.47).

20 MR. PATRICK BOWMAN: That's the numbers I
21 recall from Volume I of the Application.

22 MS. PATTI RAMAGE: Yes, but the projected rate
23 of inflation is 2.2 percent and two point oh (2.0)?

24 MR. PATRICK BOWMAN: Correct.

25 MS. PATTI RAMAGE: So, that even if the

1 principles that you've referred to are applied to the rate
2 class, the rate increases are in fact below the forecasted
3 rate of inflation?

4 MR. PATRICK BOWMAN: Yes, that's correct. And
5 actually I should just note, two point two (2.2) is what's
6 shown in this table here. I recall us talking about an
7 Interrogatory, which was CAC/MSOS-I, which I believe had rate
8 increases, what were intended to be the rate of inflation; it
9 used two point four (2.4) in the first year.

10 So -- so, I'm not sure what the difference in
11 the two point two (2.2) and the two point four (2.4). It may
12 even be higher than what's shown here in the consistent basis
13 on the economic forecast that Hydro filed.

14 But -- but, yes, in either case we're talking
15 about industrial rate increases proposals, that's below the
16 level of inflation.

17 MS. PATTI RAMAGE: And finally, in -- on this
18 line, in any one (1) year, looking at the Consumer Price
19 Index, would you agree that that's a -- a very focused short
20 term measure?

21 MR. PATRICK BOWMAN: I think that there's a
22 lot of factors that go into it. It's an annual measurement,
23 but I think how inflation arises over time is beyond anything
24 I can speak to.

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1 (BRIEF PAUSE)

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MS. PATTI RAMAGE: During the course of the Hearing, you heard evidence on drought risk from Manitoba Hydro's witnesses, including Mr. Surminski's estimate that a combination of low flows and high import prices could cost the Corporation \$2 billion dollars, in fact, I believe you referenced that this afternoon.

Would you agree, in light of this, that the \$830 million dollar forecast for retained earnings by March 31st, 2006 is still not nearly enough to provide a buffer against those two (2) major risks; the low flows and high import prices?

MR. PATRICK BOWMAN: Well, if you're asking if that 830 million is below 2 billion, I can confirm that.

MS. PATTI RAMAGE: That's all I needed to know.

MR. ROBERT MAYER: We could have figured that out.

MS. PATTI RAMAGE: I'm not an accountant, Mr. Mayer, that's my problem.

MR. ROBERT MAYER: We're assuming you can count?

1 CONTINUED BY MS. PATTI RAMAGE:

2 MS. PATTI RAMAGE: I again think this is for
3 Mr. Bowman. Mr. Bowman, could you -- I'm looking at your
4 MIPUG Exhibit 10, I wonder if you could put that in front of
5 you?

6 MR. PATRICK BOWMAN: Yes, it's here.

7 MS. PATTI RAMAGE: Now, would you agree that
8 the drought impacts of the .7 billion which you calculate in
9 Exhibit 10, which was, in fact, updated from the .65 billion,
10 are based on an -- on Interrogatory MIPUG/MH-I-3(I) where
11 Manitoba Hydro provided a scenario in which median rather
12 than low water flows were assumed for 2003/2004?

13 MR. PATRICK BOWMAN: Can you repeat the
14 Interrogatory number again?

15 MS. PATTI RAMAGE: It was MIPUG/MH-I-3(I)?

16 MR. PATRICK BOWMAN: Yes, that's the one
17 we're referring to and this -- this is set out at page 51 of
18 our evidence. It's Appendix B where we go through a little
19 bit of detail on each of these factors. And for the drought
20 case, it was a comparison to what -- to the IFF MH-03-1, what
21 would have happened if there were no drought as -- as best I
22 recall the question was asked.

23 MS. PATTI RAMAGE: And would you agree that
24 in this Interrogatory Manitoba Hydro was only asked to
25 normalize water flows not export or import prices?

1 (BRIEF PAUSE)

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MR. PATRICK BOWMAN: Yes.

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MS. PATTI RAMAGE: So this sensitivity wasn't intended to show the combined impact of low water flows and high import prices; that's -- you've agreed with that, correct?

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MR. PATRICK BOWMAN: We just asked to run a no drought IFF.

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MS. PATTI RAMAGE: Now, over the past few weeks, we've talked about numerous factors impact -- impacting Manitoba Hydro's cost of drought, reservoir management, import prices and such but instead of isolating that one item, I'm suggesting we look at what actually happened.

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And in that regard, I'd like you to look at the handout Manitoba Hydro just distributed with 'Change in Forecast Reserve Levels Due Primarily to Recent Drought and Import Prices' at the heading?

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MR. PATRICK BOWMAN: Yes, I have that.

MS. PATTI RAMAGE: Now, I can advise this is -- this handout isn't based on any new information, it's just comparison -- it's from the IFF comparisons.

And I'd like to walk you through that. If we could turn to the -- from -- the first page is page 1 of 1

1 but if we could turn to the IFF which we have attached for
2 reference purposes. It's the comparison of Manitoba 03-1 to
3 Manitoba Hydro 02-1?

4 MR. PATRICK BOWMAN: Yes.

5 MS. PATTI RAMAGE: Now, I'd like to confirm
6 that extra-provincial revenue decreased by 126 million
7 according to -- to this comparison; is that correct?

8 MR. PATRICK BOWMAN: One twenty-six (126) is
9 the number shown there.

10 MS. PATTI RAMAGE: Thank you. And if you
11 flip the page to the next page and these are the factors that
12 affect export revenues; water rentals decreased by \$27
13 million dollars whereas fuel and power purchased increased by
14 \$377 million dollars; do those numbers appear correct to you?

15 MR. PATRICK BOWMAN: Yes, those are there. I
16 see them.

17 MS. PATTI RAMAGE: And would you agree,
18 subject to check, that those numbers add up to \$474 million
19 dollars which is the amount shown at the bottom line on page
20 1 of this document?

21 MR. PATRICK BOWMAN: Subject to check, yes.

22 MS. PATTI RAMAGE: Now, I'm going to turn to
23 the forecast -- the portion of IFF 02-1 where it compares to
24 IFF 01-1 in attempt to get down to the numbers for -- of --
25 of the drought impact for that part year.

1 And there we see extra-provincial revenues
2 having decreased by \$75 million dollars; is that correct?

3 MR. PATRICK BOWMAN: Yes. And I also note my
4 check on the top numbers indicates that I think it's off by
5 \$2 million dollars although that may be a rounding error.

6 I think it comes out to four seventy-six
7 (476), but it's -- it's immaterial.

8 MS. PATTI RAMAGE: Thank you. I'm going to
9 ask you to flip one (1) more page, and just confirm that
10 water rentals increased in the IFF-02, or the comparison, by
11 5 million, whereas -- and fuel and power purchased were up by
12 \$13 million dollars; is that correct?

13 MR. PATRICK BOWMAN: Yes, those figures are
14 there.

15 MS. PATTI RAMAGE: And again, back to the
16 front page, we'll see \$57 million dollars is the impact on
17 net extra-Provincial revenue.

18 MR. PATRICK BOWMAN: Yes, I'll take that,
19 subject to check.

20 MS. PATTI RAMAGE: And again, for a total of
21 -- you see at the bottom of that page, \$541 million dollars
22 could be, or it sounds like it's \$543 million dollars.

23 MR. PATRICK BOWMAN: Yes.

24 MS. PATTI RAMAGE: Now, I want to back up for
25 a minute. Would you agree that if we wanted to calculate the

1 impact to Manitoba Hydro reserves, at Manitoba Hydro's
2 interest rate of 7.35 percent, over eight (8) years for the
3 474 million figure, and this is subject to check, and over
4 nine (9) years for the five hundred (500) or the \$57 million
5 dollar figure, the total change amounts to \$944 million
6 dollars?

7 MR. PATRICK BOWMAN: That sounds about right,
8 so I'll accept that subject to -- to check, but I don't think
9 it'll -- noting material would be different.

10 MS. PATTI RAMAGE: So, that's \$244 million
11 dollars more than the \$700 million dollars assumed in MIPUG
12 Exhibit 10, correct?

13 MR. PATRICK BOWMAN: Yes.

14 MS. PATTI RAMAGE: So, we're starting to solve
15 part of the mystery here.

16 MR. PATRICK BOWMAN: Well, I would note that
17 the exhibit -- the numbers in MIPUG-10, the seven hundred
18 (700) shown there, comes from that -- that IR that was -- was
19 requested, and clearly one (1) of the factors that's in there
20 -- that you're noting now that isn't captured in the way that
21 IFF has run the changes in -- in ex -- import/export prices.

22 I would -- I would also note though that that
23 IFF also deals with the reduction in the special payment, and
24 I don't presume that's caught in the table that you just did
25 here, and that was about a hundred and fifty (150) of the

1 difference, so I -- I believe that nine fifty (950) is --
2 we're talking more like eight hundred (800) compared to the
3 -- the seven hundred (700). I may be wrong, but I think
4 that's not caught.

5 And there may be other factors, because this
6 is very much a sum total, like the water rentals would have
7 swung -- I note that the change in water rentals, for
8 example, notes acquisition of Winnipeg Hydro's generation.

9 So -- so when you look at -- our concern was
10 that when you look at these cumulative factors, all the
11 things that go on, you sometimes miss just what extent each
12 of the different components as contributing, and that was why
13 we wanted just to have a simple consistent picture portrayed.

14 MS. PATTI RAMAGE: But you would agree that
15 import prices did make a substantial difference?

16 MR. PATRICK BOWMAN: I'm not sure what -- how
17 you're defining substantial. This table would come to
18 something like eight hundred (800), the other table would
19 come to something like -- like seven hundred (700). I
20 wouldn't be -- had that IR ran a number that showed more like
21 eight hundred (800), I don't think we would have been
22 surprised by that.

23 If I was to revise the table as a result, the
24 -- the sort of what I'm calling the unexplained category,
25 that it would be useful to have some clarification on, comes

1 down to something like 200 million.

2 However, we can already explain almost 200
3 million of that alone, from those responses in PUB-62, which
4 is 72 million for Conawapa licensing, and 32 million for wind
5 generation, and a bunch of other things, that are -- are
6 difficult to look at as -- as the factors that are being
7 funded by this rate increase, as opposed to actually getting
8 on with recovering from the drought.

9 MS. PATTI RAMAGE: Okay, I want to look at
10 another -- when you -- when you talk about other factors and
11 the unexplained, when I look at the list under unexplained,
12 on MIPUG Exhibit 10, one (1) of the things I don't see having
13 been included is impacts or changes to the load forecast.

14 MR. PATRICK BOWMAN: Yeah, there's lot --
15 there's probably a lot of factors we could list there, and I
16 recall a MIPUG Interrogatory in the second round, that asked
17 -- I think it went up to about Part J or something, asking
18 all these different things that -- so we could have a
19 consistent picture of what they all meant, and -- and it
20 wasn't answered.

21 I would have thought load forecast would be
22 one (1) that was listed there, changes in the accounting for
23 Centra Gas, based on the Board's last order, may be included
24 in there somewhere, but we haven't seen an apples to apples
25 comparison of what that meant.

1 And it's probably a good number other. I
2 could dig up the IR if it's helpful.

3 MS. PATTI RAMAGE: I'm going to focus on the
4 load forecast for a minute, though. And there I would like
5 you to again to turn to page 35; that's the second page of
6 that handout.

7

8 (BRIEF PAUSE)

9

10 MR. PATRICK BOWMAN: Yes, we have it.

11

12 (BRIEF PAUSE)

13

14 MS. PATTI RAMAGE: If I could just have a
15 minute.

16 THE CHAIRPERSON: While Ms. Ramage is doing
17 that, Mr. Osler and Mr. Bowman, are you available on the
18 15th? It wouldn't be for very long, I don't think.

19 MS. TAMARA MCCAFFREY: I know -- Mr. Bowman I
20 canvassed this with him earlier and he'd indicated he's not
21 scheduled to return. He's -- he's away this week and then
22 he's away next week as well and I believe he wasn't scheduled
23 to return until -- until the 15th. Is that right, Mr.
24 Bowman? I'm not sure how much flexibility is involved in
25 that. Maybe you could speak to that directly?

1 MR. PATRICK BOWMAN: If it's required, I'll
2 -- we'll find a way to be here on that day. It may be the
3 afternoon if that's workable.

4 THE CHAIRPERSON: Okay, we'll think on it,
5 thanks.

6

7 CONTINUED BY MS. PATTI RAMAGE:

8 MS. PATTI RAMAGE: Okay, if -- if we're at
9 Page 35 now. In -- it appears that Manitoba Hydro is
10 projecting to receive 277 million dollars more from general
11 consumers over the 2004/2013 time period and that's at
12 approved rates; is that correct?

13 MR. PATRICK BOWMAN: Twenty-one (21) is the
14 number that I see on that page.

15 MS. PATTI RAMAGE: I -- I'm talking the cum
16 -- cumulative effect to 2013.

17 MR. PATRICK BOWMAN: Oh, I'm sorry. Two
18 seven seven (277)?

19 MS. PATTI RAMAGE: That's right. And would
20 you agree that if the load forecast projects \$277 million
21 dollars more without projected increases presumably there
22 would be less energy available for sale in the export market?

23 MR. PATRICK BOWMAN: Less than had been
24 assumed in MH/02-I. I guess that's the basis for this
25 comparison, so, yes.

1 MS. PATTI RAMAGE: And if we assume that a
2 very conservative figure of -- of selling those -- that
3 export at a one (1) -- one point two (1.2) factor as compared
4 to the domestic rate, that 277 million dollar increase in
5 load would result in decreased revenues from exports of 332
6 million.

7 Can you accept that, subject to check?

8 MR. PATRICK BOWMAN: I can probably accept
9 the math subject to check. I'm -- the one point two (1.2)
10 figure maybe something that's routinely used by Hydro
11 internally but it would of course depend on which load is --
12 is growing and -- and what the incremental revenues from that
13 is.

14 And in particular, the -- for example, if the
15 residential rate growing and the rate increases we're talking
16 about today are -- are approved on that upper block due to
17 things we heard about like large screens TVs or something,
18 the revenues may be quite a bit different than if we talk
19 about revenues from other classes growing.

20 But -- so I would -- I can accept the math.
21 I'm not sure if I can accept the one point two (1.2) figure
22 without some more basis for it.

23 MS. PATTI RAMAGE: I -- I think it's just a
24 conservative -- conservative attempt to -- to show the value
25 of the power in the export market is greater than that

1 received in the domestic market when we're selling at cost.

2 But -- but all I need you to do is accept the
3 math for the purposes of this.

4 MR. PATRICK BOWMAN: Okay, I'll accept the
5 math.

6 MS. PATTI RAMAGE: So, given the decreased
7 revenues in exports of 332 million, we'd of course then have
8 to --it wouldn't be purely that we de -- decrease the export
9 revenues, because that would be offset by a \$277 million
10 dollar increase in domestic revenue.

11 But the ultimate impact would be to the
12 Corporation would be 55 million dollars with these --
13 assuming these numbers?

14 MR. PATRICK BOWMAN: I'm okay accepting the
15 math. I -- I'm not sure that I have any basis to be saying
16 that's the right conclusion.

17 MS. PATTI RAMAGE: Would you agree then that
18 -- though, that MIPUG Exhibit 10 is -- is very limited, at
19 best, in terms of what it's able to illustrate about the
20 Corporation's costs, going out to the year 2011/2012?

21 It hasn't taken into account numerous factors,
22 as you've already acknowledged?

23 MR. PATRICK BOWMAN: Absolutely, that's been
24 our -- our portrayal of -- of this type of table, or this
25 table, since we started here, that it would have been very

1 useful to have a table like this, or something that at least
2 give us on an apples to apples, consistently across a number
3 -- a number of different factors, looking at one (1)
4 variable, whether that variable is the reserves of 2012,
5 whether that variable is the debt equity ratio, whether that
6 variable is the net level of rate increases needed.

7 But looking at each of those, and having some
8 level of -- of description and quantification from Hydro, as
9 to how all the pieces fit together, that's the piece that was
10 missing. And so we had to do our best to put it together.

11 And is it course, yes. And our conclusions
12 are to some extent based on it.

13 But we don't have a lot else to go on, and
14 that's -- that's high, if not number one (1) on the list of
15 our concerns that we set out with the materials that were
16 filed.

17 I'm sorry, it's number B on the list at page
18 5.

19

20

(BRIEF PAUSE)

21

22 THE CHAIRPERSON: Ms. Ramage, we appreciate
23 your efforts to try and clarify the differences. I imagine
24 here that -- I'm not quite sure if I can still count, but
25 we're talking about a period in time in which the gross

1 revenues of Hydro would be something like \$15 billion
2 dollars; this difference is developing?

3 MS. PATTI RAMAGE: That's fair. I'll be
4 moving off this.

5 MR. PATRICK BOWMAN: I think I made that exact
6 same quote very cautiously at the last Hearing.

7 MS. PATTI RAMAGE: It might be helpful, just
8 for the record, before I move on, to assign the -- the table
9 that Manitoba Hydro distributed, an exhibit number?

10 THE CHAIRPERSON: Please.

11 MS. PATTI RAMAGE: And I believe it's -- we're
12 on Exhibit number 61.

13 THE CHAIRPERSON: Mr. Barron acknowledges the
14 61.

15

16 --- EXHIBIT NO. MH-61: Table that Manitoba Hydro
17 distributed.

18

19 CONTINUED BY MS. PATTI RAMAGE:

20 MS. PATTI RAMAGE: Again, I'm feeling bad for
21 Mr. Osler here, because I'm not doing much with him. But
22 this afternoon you appeared to agree that the Manitoba Hydro
23 current rates to industrials are affordable. Certainly you
24 didn't propose -- you indicated that you weren't proposing
25 decreases at this time?

1 MR. JOHN OSLER: Yes.

2 MS. PATTI RAMAGE: Do you still believe
3 they'll be affordable after increases of 1.95 percent and
4 1.47 percent?

5 OBJ MS. TAMARA McCAFFREY: Well, I -- if I might
6 interject, Mr. Osler may be able to give you some kind of
7 answer, but in terms of the its value, when you ask about
8 affordable rates, you're asking him to comment on -- budget
9 the different companies which information he's not generally
10 privy to. It's a diff -- it's a problematic question, given
11 that he's here as a consultant.

12 So, in terms of commenting on the
13 affordability with respect to industrial customers, limited
14 to the extent that he can respond to that.

15 MS. PATTI RAMAGE: I guess the concern is he
16 talks about affordability in his evidence, hence we're just
17 trying to follow up what is affordable, what is not
18 affordable.

19 MS. TAMARA McCAFFREY: Yeah, perhaps in a very
20 general way Mr. Osler can comment on what he meant by -- by
21 using that term in his evidence.

22 MS. PATTI RAMAGE: Maybe --

23 MS. TAMARA McCAFFREY: My -- my concern is
24 you're asking him a pretty specific question about whether --
25 whether, I suppose, the members of MIPUG can or cannot afford

1 the rate increases proposed.

2 I don't think that's an appropriate question
3 to ask Mr. Osler. And perhaps the question at least as far
4 as Nexus -- or Nexen was concerned, might have been directed
5 to Mr. Turner. But it's problematic from the point of view,
6 if we have a consultant here as an expert witness, it's not
7 really the type of thing I think we can comment on.

8 MR. JOHN OSLER: Ms. Ramage, perhaps Mr.
9 Bowman can review the information that we presented earlier
10 in direct again.

11

12 CONTINUED BY MS. PATTI RAMAGE:

13 MS. PATTI RAMAGE: No, it may be helpful if I
14 just move on and -- and just ask; are these -- these are more
15 affordable than, say, industrial rates in Minnesota where
16 Manitoba Hydro's selling into the export market?

17 MS. TAMARA MCCAFFREY: Well, again, if you're
18 asking whether the prices are lower than what is found in
19 Minnesota; that's one question that one could answer, I
20 think, objectively if one had the information before it.

21 If you're commenting on affordability, again,
22 that's problematic for the reasons that I've stated earlier.

23 MR. ROBERT MAYER: Then, maybe Mr. Osler
24 better tell us what he meant by "affordable" when he used the
25 terminology in the evidence?

1 CONTINUED BY MS. PATTI RAMAGE:

2 MS. PATTI RAMAGE: It begins at page 34?

3 MR. PATRICK BOWMAN: We discussed the aspects
4 of the current level of rates and how they relate to the
5 price environment and aspects such as affordability and
6 distortion and all sorts of other terms that are used at
7 certain times, both at page 10 and into page 11 with respect
8 to the summary level conclusions and in more detail at page
9 34 and on into page 38.

10 The word "affordable" as best I understand it
11 is -- is generally implied, if not exactly used, and I
12 haven't scanned the entire page.

13 At page 10 with respect to concerns that we
14 have with regard to the types of discussions or types of
15 comments that are made when looking at -- at rates with --
16 industrial rates in this province; that there's a tendency to
17 want to apply standards such as affordability or -- or, you
18 know, comparison to other jurisdictions or something as some
19 form of test as to whether rates are at the right level or
20 too high or too low.

21 And that is not -- our concern is that that's
22 not the test for setting rates in this province. The test
23 for setting rates is are they -- are they reflective of cost.

24 And so at the top of page 10 we note some --
25 some phrases that we saw earlier in the 2002 hearing that

1 things like hydro being really concerned that, you know, the
2 rates that are there now are lower rates may encourage more
3 domestic consumption and that would be -- that would, you
4 know, reduce revenues as profitable export sales are
5 foregone.

6 And then at the next bullet that given that
7 energy intensive industry seems to be attracted to Manitoba
8 which is a bit of a strange comment, then industrial rates
9 for power are as low as they need to be to attract industry,
10 which are -- and that rate of cost of service study which is
11 presumably meant to be a technical analysis of costs, not a
12 judgment as to whether costs are low enough so we don't need
13 to worry about getting on with making them actually reflect
14 costs.

15 So the word "affordable" again arises in -- in
16 actual -- the actual word of it, more in page 34 to 37 where
17 we spend a bit of time doing a bit more of a, if I can be
18 blunt, a bit more of a debunking of these type of assertions
19 that are made.

20 Although I'm not necessarily quoting, it's --
21 it's meant to try to summarize at a high level the types of
22 things that are said by people like, you know, like those
23 comments from Hydro or other things we've heard from -- from,
24 say, Mr. Lazar where this assertion is that somehow we get
25 these industrial customers from outside and they show up here

1 and they use up all our power and they raise our rates and
2 that's such a terrible thing because we're subsidizing them.

3 And -- and -- and it's terrible because,
4 number one, because they're going to -- they're going to give
5 -- they're going to have no incentive to conserve which we
6 spent a bit of time on and, number two, because these rates
7 are so affordable they're not going to make the right fuel
8 choices and, number three, because they're so affordable,
9 we're not going to have thugs and, number four, because
10 they're so affordable industrial customers will be flocking
11 to Manitoba and, number five, that -- that it represents this
12 unfair use of the province's resources.

13 So I think in that regard, affordable, is, if
14 anything, more of a summary of the types of things we hear
15 from other people but we think it's the wrong assessment or
16 test of -- of the -- the level of rates.

17 It is; are they reflective of the cost, that's
18 what power at cost means.

19 MR. ROBERT MAYER: Mr. Bowman, your lawyer
20 objected to the question that compared the affordability of
21 Manitoba rates to Minnesota. On page -- page 10 of your
22 evidence:

23 "Hydro's filing continues to reflect their
24 stated concern that the price
25 environment..."

1 And then it's bracketed
2 "...(which results in affordable power
3 rates in Manitoba in comparison to other
4 jurisdictions such as Ontario or Alberta)."
5 Whose words are those in the brackets; yours
6 or Hydro's?

7 MR. PATRICK BOWMAN: Mr. Mayer, it's our
8 attempt to summarize what the -- the position that Hydro was
9 putting forward.

10 MR. ROBERT MAYER: But you used the term
11 "affordability" in relation to comparison of prices between
12 Manitoba and Ontario and Alberta; right?

13 MR. PATRICK BOWMAN: Yes, that was our
14 summary of the position that Hydro was putting forward.

15 MR. ROBERT MAYER: Then I'd now like to know
16 what Ms. McCaffrey's objection to the question that was asked
17 by Manitoba Hydro really is?

18 MS. TAMARA MCCAFFREY: Well, again, I think
19 what we're talking about here is that when it's used by Mr.
20 Osler and Mr. Bowman, the term affordability is basically
21 stating back what Manitoba Hydro has said.

22 That -- they're not commenting on whether
23 their clients can afford it, that's I think the difficulty
24 I'm having with Ms. Ramage's question.

25 MR. ROBERT MAYER: Mr. Bowman jut admitted

1 that the phrase, which is in the brackets on page 10, at line
2 5 and 6, is their terminology, not Hydro's.

3 MS. TAMARA McCAFFREY: Mr. Bowman indicated,
4 Mr. Mayer, that they were trying to summarize Hydro's
5 position. I don't take that as a -- as a comment on the
6 interpret -- on interpretation as to whether a particular
7 industrial customer can or cannot afford it to the extent to
8 which they can, I don't think that is what Mr. Bowman has
9 responded to, and I believe his answer was that they were
10 trying to summarize Manitoba Hydro's position.

11 So, unless I'm mistaken, the question being
12 asked -- and it may be that my objection is going on a
13 misapprehension regarding the question from Ms. Ramage, to be
14 a comment on -- on whether industrial customers can afford a
15 certain rate increase or not, and that -- that's where my
16 objection's coming from, sir.

17 THE CHAIRPERSON: I -- I think we've had a
18 good run at this, I understand that MIPUG's position is, is
19 that you're not debating the word affordable, the rates that
20 you're seeking are ones based on cost of service. You have
21 used those words in the testimony, you're not saying you
22 haven't, and Ms. Ramage is just pointing out the fact that --
23 that Manitoba Hydro's rates are affordable, in comparison
24 with a lot of other jurisdictions.

25 So, I think what we'll do is leave it all over

1 for final argument, if there's anything to be said on it.
2 Ms. Ramage...?

3

4 CONTINUED BY MS. PATTI RAMAGE:

5 MS. PATTI RAMAGE: Thank you, Mr. Chair. I'll
6 follow up on this line by asking parties to turn to the
7 survey of Canadian Electricity bills that was distributed
8 this afternoon.

9 I can advise that this is an update of what
10 was filed in the Application, so I thought it would be
11 helpful just to use the most recent information.

12 If you could turn to page 29 of this document,
13 you see that this refers to a benchmark industrial customer,
14 with a demand of 20,000 kW.As and monthly usage of 12 million
15 kilowatt hours. And this -- this would represent a load
16 factor of 82.2 percent.

17 Would you agree that this is reasonably
18 typical of the customers you represent?

19 MR. PATRICK BOWMAN: To the best of our
20 knowledge, there's a bit of a range of their -- of their
21 loads, I haven't done a lot of analysis of it, but this would
22 be typical of -- of at least a subset of them, some may be
23 larger, some may be lower load factor.

24 MS. PATTI RAMAGE: And can you look at the
25 last two (2) rows in this table, those which compared the

1 monthly bills for the customer in Manitoba, and in British
2 Columbia?

3 MR. PATRICK BOWMAN: Yes, I see those.

4 MS. PATTI RAMAGE: And do you see that the
5 customer in British Columbia would pay approximately three
6 point five seven five (3.575) cents per kilowatt hour?

7 MR. PATRICK BOWMAN: Yes.

8 MS. PATTI RAMAGE: And that compares to two
9 point eight seven five (2.875) cents per kilowatt hour for
10 the Manitoba Hydro customer?

11 MR. PATRICK BOWMAN: Yes.

12 MS. PATTI RAMAGE: And would you agree,
13 subject to check, that the Manitoba Hydro customer, at
14 current rates, is shown to be paying about 19 or 20 percent
15 less than the BC customer?

16 MR. PATRICK BOWMAN: That two eight seven five
17 (2.875) is 19 or 20 percent less than three five seven five
18 (3.575), I can accept that, subject to check.

19 MS. PATTI RAMAGE: Thank you. And if you
20 could check the fourth last row in the table, and that would
21 be the row dealing with Hydro Quebec. That rate's four point
22 zero two seven (4.027) cents per kilowatt hour. Would you
23 agree again, subject to check, that the Manitoba Hydro
24 customer pays about 28 to 29 percent less than that?

25 MR. PATRICK BOWMAN: I -- I can accept that,

1 subject to check. These are -- I just have wanted to -- just
2 so I'm sure what this is looking at, because I'm not
3 positive.

4 I'm -- I'm assuming that these are firm power
5 rates for the normal schedule of service, and don't -- don't
6 address any -- any optional rates or load management type
7 programs or the like, and -- and if that's correct, then you
8 know, the math you've set out is -- is there.

9 My concern is that these don't necessarily
10 always tell the entire story with respect to the amounts that
11 people pay for their bills. There was a time back in the
12 early '90s when Alberta would have been at the bottom of that
13 list, or would have -- I'm sorry, Manitoba would have been at
14 the bottom of the list, and Alberta would have been
15 considerably higher, but we had -- there was evidence at the
16 time from -- from Nexen our predecessor, that in fact they
17 knew that their power bills in Alberta were lower, and it was
18 because they had access to all sorts of other types of
19 programs and the like.

20 We -- Alberta's of course gone -- gone way up
21 since then and as a result they've -- they've vacated that
22 jurisdiction but -- so these don't necessarily always tell
23 the entire stories in respect of firm rates, but those --
24 those percentages look accurate.

25 MS. PATTI RAMAGE: Thank you for that

1 --- Upon recessing at 4:46 p.m.

2 --- Upon resuming at 4:49 p.m.

3

4 THE CHAIRPERSON: We'll finish up the
5 paperwork and then they've agreed to come back for the -- the
6 afternoon of the 15th, so we'll deal with the conclusion with
7 Mr. Peters' cross-examination at that time.

8

9 (BRIEF PAUSE)

10

11 THE CHAIRPERSON: Okay we have three (3)
12 exhibits here for Manitoba Hydro. Ms. Ramage, which one do
13 you want to start with?

14 MS. PATTI RAMAGE: The survey of Canadian
15 electricity bills that I referred to in my cross-examination,
16 I'd suggest be marked as Manitoba Hydro Exhibit 62.

17 THE CHAIRPERSON: Fine.

18

19 --- EXHIBIT NO. MH-62: Survey of Canadian Electricity
20 Bills

21

22 MS. PATTI RAMAGE: The clarification to
23 Undertaking Number 46, or Exhibit 53, I'd suggest be marked
24 Exhibit Number 63. And we're hoping that this -- this will
25 meet Counsel for PUB's approval and we can put this one to

1 bed.

2

3 --- EXHIBIT NO. MH-63: Clarification to Undertaking
4 Number 46/Exhibit 53.

5

6 MS. PATTI RAMAGE: And finally, the
7 clarification to Undertakings 37 and 38. This was as a
8 result of off-line discussions with Mr. Williams and we were
9 hoping that we could shorten the need for cross-examination
10 on these points by filing this clarification with respect to
11 our OMN costs or Manitoba Hydro's OMN --OM&A costs.

12 And I suggest that be assigned Exhibit Number
13 64.

14

15 --- EXHIBIT NO. MH-64: Clarification to Undertakings 37
16 and 38

17

18 THE CHAIRPERSON: Okay, thank you very much,
19 Ms. Ramage. So thank you everyone. We'll adjourn for the
20 day. Particular thanks to Mr. Bowman for a long session. We
21 greatly appreciate it and look forward to seeing you back
22 with the rest of your group for the 15th.

23

24 And Mr. Peters, do you want to just remind
25 everyone what the schedule is now?

25

MR. BOB PETERS: Yes, sir. This Thursday,

1 the 8th of July, Mr. Williams will have his consultant on
2 behalf of CAC/MSOS before the Board, Mr. Harper.

3 And Mr. Harper will give his direct evidence
4 and be cross-examined by all parties and we expect that will
5 be concluded on that date.

6 THE CHAIRPERSON: Okay, we're adjourned.
7 Thank you.

8
9 --- Upon adjourning at 4:50 p.m.

10
11 Certified Correct,

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Carol Wilkinson, Ms.

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