Section:	**2.2 Scope of Review**	**Page No.:**	**7 to 8**
Topic:	**Hydro's Three Notional Points of Justification of the Proposed 3.5% Rate Increase**		
Subtopic:	**Consideration of Drought Risk for Rate-Setting Purposes**		
Issue:			

PREAMBLE TO IR (IF ANY):

On pages 6 and 7 of Mr. Bowman's testimony, he states:

"Hydro indicates: "Waiting until low water flows occur and providing rate relief after the fact would result in permanent incremental debt and associated financing costs that must be passed through to customers"…

"In short, the idea that customers need to pay more in current rates for this one year because otherwise Hydro would have to seek future rate relief, when reserves of more than $2.862 billion have been accrued, is inconsistent with the facts."

QUESTION:

a) Please explain if Mr. Bowman is of the view that the Manitoba Hydro point of justification quoted in the first part of the preamble is consistent with the PUB findings with respect to financial reserves on pages 64 to 66 of Order 59/18?

RESPONSE:

(a)

Pages 64 to 66 sets out 3 findings, generally as follows:

1) That Hydro's Retained Earnings are best thought of as reserves funded by ratepayers for the purpose of addressing certain (but not all) risks faced by the Corporation.
2) That building up reserves to $6.56 billion as a target is not appropriate as a justification for a 7.9% rate increase (as was then requested).

3) Consideration of the appropriate level of reserves (including a minimum target) is best set through a collaborative approach with stakeholders. Although the specific collaborative approach sought by the Board did not occur in 2018, it does not appear this finding or principle was meant to be discarded simply because the 2018 process did not occur.
4) Finally, and most relevant to the question, the Board found: "that Retained Earnings should be used to manage drought risk in combination with regulatory action by the Board"

In this regard,

(a) Hydro's implication that the sole solution to drought when it occurs will be solely from rate "relief" to Hydro is incorrect (ignoring that "rate relief" is typically a term associated with relief to customers, not added burdens on customers) – the Board has determined that Retained Earnings are part of the solution to drought risk, and

(b) the idea that rate response to drought is something to be avoided, as suggested by Hydro, is specifically addressed by the Board in this section in complete contrast to Hydro – the Board not only acknowledges, but embraces "regulatory action" to help address drought. Obviously much more analysis is required to determine the degree of action (i.e., it would be inconceivable to recover from a drought by way of a single rate increase to fund the entire shortfall, but it may not be problematic if the long-term rate path were increased to some modest degree if retained earnings fell below the minimum target due to a drought – further modelling, in the form of iterative work such as might be part of a technical conference as discussed by the Board at page 66 of Order 59/18 would be needed to refine the values for such an exercise).

Section:	**3.0 Comparison of the Updated ERA Forecast to Exhibit 93**	**Page No.:**	**9 to 13**
Topic:	**Near Term Financial Metrics**		
Subtopic:	**Manitoba Hydro's Overall Financial Position**		
Issue:			

PREAMBLE TO IR (IF ANY):

On pages 9 to 14 of Mr. Bowman's testimony, he analyzes the changes in a number of near-term financial metrics based on a comparison of the current forecast to MH Exhibit #93:

"**Debt Levels**:…$0.580 billion improvement…**Retained Earnings**: erosion of…$0.127 billion absent a rate increase in 2019/20…**Drought Risk**:…the current risk profile from Hydro's historical water flows, shows a markedly reduced revenue variation…**Cash Flows:**…Hydro is able to internally finance all normal capital spending (and then some) from Operating Activities…The only metric which Hydro shows some erosion is the cumulative Retained Earnings"

QUESTION:

a) Please explain if Mr. Bowman has made an assessment if there is a material change (deterioration or improvement) in the financial position of Manitoba Hydro since the 2017/18 & 2018/19 GRA based on the current 2019/20 forecast contained in the updated application and considering all of the above noted financial metrics on an overall basis?

RESPONSE:

(a)

There has been a material improvement in the financial position of Manitoba Hydro since the 2017/18 & 2018/19 GRA based on the current 2019/20 forecast contained in the updated application, on an overall basis. Some of this improvement is unquantifiable given Hydro has not provided basic long-term forecasts, but qualitatively is of high importance; for example, by lengthening the WATM (Weighted Average Term to Maturity) compared to forecasts in the previous GRA, Hydro has reduced refinancing risks in future years (as well as likely interest costs compared to previous forecasts, given an assumption that rates will generally rise through the next few years), but this is presently unquantified in the materials before the Board. Similarly the completion of Bipole III at a materially reduced cost means future savings in depreciation and interest expense that has not been built into any long-term forecast presently available to the Board.

Section:	**3.0 Comparison of the Updated ERA Forecast to Exhibit 93**	**Page No.:**	**14 to 23**
Topic:	**Longer Term Financial Trends or Indications**		
Subtopic:	**Operating & Administrative Costs**		
Issue:			

PREAMBLE TO IR (IF ANY):

On pages 14 to 23 of Mr. Bowman's testimony, he analyzes a number of longer-term financial trends or indications regarding MH Exhibit #93:

"3.1) **Long-term Interest Rates**…3.2) **Demand Side Management**…3.3) **Impacts of Bipole III Costs and Keeyask Forecasts**…3.4) **Capacity Values and Dependability Premiums on Export Sales**…"

QUESTION:

a) Please explain if Mr. Bowman has evaluated the long-term financial and rate impacts of Manitoba Hydro's assumption of 2% escalation in O&A costs in 2018/19 and beyond as outlined on page 28 of the original application and the reduced estimates of labor savings from the VDP and sourcing savings from the Supply Chain Initiative outlined in the response to Coalition/MH I-13 g?

b) If not, please explain why, given that O&A costs form a significant portion of Manitoba Hydro's revenue requirement (currently close to 30%)?

RESPONSE:

(a)

No.

(b)

Mr. Bowman's focus was on the status of 2019/20 forecasts in relation to the financial and rate path reviewed by the Board in the previous GRA. This includes qualitative information on the long-term financial projections.

Mr. Bowman accepts Hydro's assertion that "MHEB is undertaking a comprehensive review of Manitoba Hydro's operations, forecasts and financial plan", and indeed supports such a process – particularly given basically every stakeholder group summarily rejected Hydro's previous plans with the exception of the Business Council of Manitoba. Such a review has the potential to materially alter (hopefully in a beneficial way) the trajectory of O&M costs or future capital spending. As a result, the current O&M forecasts are at best an incomplete portrayal and a transient status in the context of Hydro's rate path. At the same time, however, nothing in the comprehensive review will change the significant beneficial effects of known factors, such as a lower cost Bipole III, or lower cost long-term debt already in place, or long-term new export contracts, such as recent deals to Saskatchewan that likely were not included in the previous GRA forecast.

For these reasons, Mr. Bowman concluded it was not necessary to attempt to test or quantify the potential for O&M reductions to arrive at a recommendation on rate levels. The evidence was already clear that based on Hydro's financial position, no rate increase was merited.

Section:	**4.0 Ratepayer Considerations**	**Page No.:**	**23**
Topic:	**Rate Increase Considerations**		
Subtopic:			
Issue:			

PREAMBLE TO IR (IF ANY):

On page 23 of Mr. Bowman's testimony, he outlines three ratepayer perspectives on the requested 3.5% rate increase and states:

"Based on these perspectives, the Board will need to weigh whether a 0% rate increase is the appropriate response, or whether customer interests may be served by approving a modest inflationary rate increase"

QUESTION:

a) Please outline the most important considerations or factors that the PUB should consider in weighing the appropriate overall rate determination for 2019/20?

b) Please outline how the PUB should consider or factor in the risks of Manitoba Hydro into the appropriate overall rate determination for 2019/20?

RESPONSE:

(a) And (b)

The most important factor that the Board should consider is the broad public interest. As the Manitoba Court of Appeal held in *Consumers' Association of Canada (Manitoba) Inc v Manitoba Hydro Electric Board*, 2005 MBCA, this requires the Board to balance two concerns: "the interests of the utility's ratepayers, and the financial health of the utility. Together, and in the broadest interpretation, these interests represent the general public interest."

This public interest in this respect is not a competition between these two interests (Hydro versus ratepayers), the interests are complementary.

In respect of the public interest in the financial health of the utility, the evidence supports a rate increase of 0%. This includes consideration of risk, in that the financial targets underlying the basic financial trajectory (Exhibit MH93) already incorporated the concept of reserves and risk.

In respect of the public interest in respect of the utility's ratepayers, Mr. Bowman views that all normal ratemaking objectives are of relevance, including an interest of customers in the stability and predictability of rates over the long-term, and the lowest level of rates consistent with reliable service and reflective of the utility's cost structure. There should be a reasonable expectation among Manitoba ratepayers that some level of rate transition is required over the next few years to reach the level of rates that appropriately sustains major new plant such as Keeyask. There should also be a reasonable expectation and prediction among ratepayers that annual increases may be required in the next few years (at least among any ratepayer that follows PUB determinations or the public press broadly). For this reason, Mr. Bowman suggests that the public interest may be served by sustaining the annual upward rate trajectory towards the level that will be required once Keeyask is in service, in a manner that would be more gradual to ratepayers than might be required if the strict 0% conclusion noted above was followed today followed by larger increases in future.

For this reason, Mr. Bowman concluded that a rate increase in the range of 0% to 1.5% (approximately equal to inflation) would be appropriate.

Section:		**Page No.:**	
Topic:	**Manitoba Hydro Cost of Service & Rate Design Proposals**		
Subtopic:			
Issue:			

PREAMBLE TO IR (IF ANY):

Manitoba Hydro has requested in its application that any rate increase approved by the PUB for 2019/20 be on an across-the-board basis to all customer classes and applied across all components of the rate structure (with a few exceptions).

QUESTION:

a) Please provide Mr. Bowman's assessment of Manitoba Hydro's cost of service and rate design proposals for 2019/20?

RESPONSE:

(a)

Mr. Bowman was not able to review a Cost of Service study from Manitoba Hydro.

Mr. Bowman notes Manitoba Hydro's assertion that addition of Bipole III will yield disproportionate impacts on transmission served customers, and as such the next properly prepared cost of service study should, all other things being equal, reduce the degree to which large classes such as GSL >100 kV have been persistently above 100% RCC. There is no obvious flaw to this logic.

However, Mr. Bowman notes similar logic was used to conclude that the GSL>100 kV RCC would be reduced a number of years ago when Wuskwatim came on line, and assertions by Hydro at that time that GSL>100kV rates should not be reduced since the RCC would be naturally self-correcting. This was not what ultimately occurred. For this reason, Mr. Bowman notes caution regarding Hydro's hypothetical Cost of Service analyses that have not been prepared will all appropriate up to date data. Among the issues with Hydro's coarse estimating approach is that it adjusts a known baseline for capital spending on Bipole, for example, but does not adjust for known capital spending on major investments such as the unprecedented spending planned on the distribution system (which does not affect industrials).

In the absence of a proper GRA, and with rate impacts in the range of 0% to 1.5%, it did not appear to Mr. Bowman to be the top priority at this time to attempt to expand the proceeding focus to also include differentiated rate impacts arising from Hydro's Cost of Service coarse assessment.

For this reason, Mr. Bowman has not suggested differentiated rate adjustments be used at this time.