Section:	**1.0**	**Page No.:**	**1**
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PREAMBLE TO IR (IF ANY):

QUESTION:

a) Please provide a copy of any retainer letter, if received. Please also provide any instructions received with respect to the retainer. If no retainer has been provided, please identify how InterGroup Consultants is retained by MIPUG to provide consulting advice on behalf of this Intervenor Group.
b) Please advise whether the consultant met with the membership of MIPUG. If so, what information did the membership provide? If in written or electronic format, please file.
c) Please advise which areas raised in the evidence were identified by the consultant and which areas were identified by MIPUG members.
d) Are all issues the same for all customers (GSL 0-30kV, GSL 30-100 kV and GSL>100kV)? If not, please identify which customers are concerned about which issues.

RESPONSE:

(a)

InterGroup Consultants acts in 2 roles for MIPUG.

First InterGroup acts as secretariat for the group, arranging and coordinating the group's meetings and administrative activities (such as billing, note taking, booking meeting locations, etc.).

Second, InterGroup has provided independent expert witnesses to support MIPUG's intervention in rate hearings. In meeting this MIPUG need, InterGroup provides MIPUG with access to independent expert witness such as Mr. Bowman who routinely practice through Canada and internationally as utility rate experts for utilities, small consumer groups, large industrial groups and regulators.

InterGroup has acted as secretariat for MIPUG continuously since the group was created. InterGroup's provision of independent expert witnesses only occurs from time-to-time as deemed appropriate by the members.

InterGroup has no specific retainer with MIPUG for this proceeding, or generally.

(b)

MIPUG is an ongoing association of large industrials power users, and as such has a longstanding and diverse set of activities. Many of the ongoing MIPUG issues and concerns are discussed through such venues as an annual meeting (last held May 2018), occasional conference calls and in person meetings among members, and among the executive committee which holds periodic conference calls.

In respect of the specific application, Mr. Bowman participated in a conference call with the MIPUG members in March for a briefing on the rate application. Mr. Bowman also met with the MIPUG executive in December partly in regard to the application. In neither case did the members provide written or electronic information to Mr. Bowman in respect of matters specific to the pre-filed testimony in this proceeding.

(c)

All areas of the pre-filed testimony were identified and developed by Mr. Bowman. There was no specific direction from the members in regard to any topic area addressed, though the concept of rate increases at or below inflation has been discussed both generally and specifically by the members multiple times since the group was first created.

(d)

Mr. Bowman's pre-filed testimony addressed only one specific recommendation – the imposition of a rate increase lower than that proposed by Hydro (in the range from 0% to no more than 1.5%), ideally with all new revenues targeted to a deferral account. This issue is understood to be of concern to all industrial power users, without distinction. The entirety of the evidence is in support of this single recommendation.

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PREAMBLE TO IR (IF ANY):

On page 13 and 14, the evidence states ”… but the updated cash flow information indicates that even without a rate increase, Hydro is able to internally finance all normal capital spending (and then some) from Operating Activities, which Hydro asserted in the previous GRA was at that time not possible. Each of these are achieved even assuming no rate increase for 2019/20.”

QUESTION:

a) Please confirm the projected $478 million in Electric Business Operations Capital spending for 2019/20 found in Figure 8 of the Supplement to the 2019/20 Electric Rate Application includes the portion of the capital spending that is projected to be funded by customer contributions.

b) Please confirm that the determination of surplus cash projected for 2019/20 would be:

Cash flow from operations (MIPUG/MH I-8c)	$571 million
Less: Proposed revenues from the 3.5% rate increase	$50 million
Less: Electric Business Operations Capital spending	$478 million
Less: Investment in DSM (Figure 8 of the Supplement)	$61 million
Cash Surplus/(Deficiency):	($18 million)

RESPONSE:

(a)

Mr. Bowman interprets the term “includes” in this question to mean that the capital spending of $468 million is the gross spending, not the net spending after deducting customer funded portion. This would appear consistent with Figure 8 of the Supplement to the 2019/20 Electric Rate Application, which showed a reduction in electric business operations capital spending from $511 million to $478 million. The previous $511 million figure reconciled with the 2019/20 capital spending from CEF18 precisely. For this reason, Mr. Bowman expects the $478 million figure is of the same nature at the CEF estimates.

Mr. Bowman was not able to readily identify a definitive answer as to whether the CEF estimates of capital spending are gross or are net of customer contributions. Based on experience with typical utility practice, and the tendency under IFRS to specifically identify and track contributions in a different manner than an offset to capital costs, Mr. Bowman expects that the CEF is likely gross spending.

For this reason, Mr. Bowman expects that the $478 million at Figure 8 of the Supplement to the 2019/20 Electric Rate Application is gross spending, and is not net of capital contributions from customers.

(b)

Not confirmed.

First, as noted in part (a) of this question, Mr. Bowman understands that the $478 million capital spend is not net of customer contributions. For this reason, there is likely an additional $13 million in cash to fund capital activities.

Second, the calculation shown assumes DSM should be fully cash financed in the year in which it occurs. This is not a reasonable assumption consistent with Hydro's portrayal of DSM as a long-term benefit which pays for itself through savings spread over many years. For this reason, DSM is more akin to "growth" capital, like Keeyask or other projects which are pursued for economic reasons, and not like "sustaining" capital which are about system reinvestment and maintenance.

Taking these two factors into account, the following is noted:

Cash flow from operations (MIPUG/MH I-8c)	$571 million
Additional cash from customer capital contributions	<u>$13 million</u>
Total cash	$584 million
Less: Proposed revenues from the 3.5% rate increase	$50 million
Less: Electric Business Operations Capital spending	<u>$478 million</u>
Cash Surplus/(Deficiency):	$56 million

In the event Mr. Bowman is incorrect about his assumption regarding customer contributions, per part (a) of this response, the surplus cash (with a 0% rate increase) would be only $43 million and not $56 million.

Finally, this ignores the issue as to whether some small subset of projects included in the CEF are appropriately thought of as long-term investments that are reasonably financed by long-term capital rather than internally generated cash.