



“When You Talk - We Listen!”



MANITOBA PUBLIC UTILITIES BOARD

re:

MANITOBA HYDRO

2019/20

ELECTRIC RATE APPLICATION

Before Board Panel:

Robert Gabor	- Board Chairperson
Marilyn Kapitany	- Board Vice Chair
Larry Ring, QC	- Board Member
Shawn McCutcheon	- Board Member
Hugh Grant	- Board Member

HELD AT:

Public Utilities Board
400, 330 Portage Avenue

Winnipeg, Manitoba

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Pages 520 to 692

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

2

3 THE CHAIRPERSON: Good morning,
4 everyone. We'll resume with Mr. Luk. Before you
5 start, I just indicate the time constraints we have
6 today. We have a member of the panel who needs to be
7 away at a meeting, so we're going to adjourn for the
8 lunch break from 11:30 to 1:30, so I'll just advise
9 everybody.

10 And we need to complete by 5:00 p.m.
11 today. So, welcome, Mr. Luk.

12

13 MANITOBA HYDRO PANEL, Resumed

14 SHAWNA PACHAL, Previously Sworn

15 LIZ CARRIERE, Previously Sworn

16 SANDY BAUERLEIN, Previously Sworn

17 GREG EPP, Previously Sworn

18 SUSAN STEPHEN, Previously Sworn

19 LOIS MORRISON, Previously Sworn

20 DAVID CORMIE, Previously Sworn

21

22 CROSS-EXAMINATION BY MR. SENWUNG LUK:

23 MR. SENWUNG LUK: Thank you very much,
24 Chair Gabor. I thank you for -- the note about the
25 timing. I -- I do hope that will be short.

1 We have -- we're here on behalf of the
2 Assembly of Manitoba Chiefs, which represents sixty-
3 one (61) out of the sixty-three (63) First Nations of
4 Manitoba. We -- this is our first physical presence
5 in this hearing, but we have been monitoring and
6 joining by video conference. And so we -- we have
7 noted that a lot of the topics that we are interested
8 in have already been covered by my Learned Friend, so
9 we won't -- we'll endeavour to -- to not repeat what
10 has been said, so we do hope to be brief.

11 So I would just like to begin by
12 thanking the panel for answering the questions that
13 I'm about to pose to you. So I -- I'd just like to
14 begin by a little bit of context.

15 So at the at the -- at the -- the last
16 GRA, AMC asked some questions of the CEO at the time,
17 Mr. Kelvin Shepherd. And in -- in particular, AMC
18 asked about bill affordabil -- bill affordability
19 programming, especially as it relates to customers who
20 are located on first Nations reserves. And I -- I
21 believe Mr. Shepherd's answer -- and I -- I have his
22 quote here, it's from page 96 of the transcript from
23 the previous GRA.

24 Mr. Shepherd said -- with respect to
25 bill affordability programming on reserve, he said,

1 "I don't have a solution today, but
2 I believe we do need to find one."

3 Could I just ask at whoever -- whatever
4 member of this panel is most appropriate to answer
5 this question, is that -- is that still Hydro's belief
6 today, that there still needs to be a solution to the
7 issue of affordability on reserve?

8 MS. SHAWNA PACHAL: I would say that
9 that would still be Manitoba Hydro's view.

10 MR. SENWUNG LUK: And in the year and
11 a half since Mr. Shepherd said those words, what --
12 what are the steps that Manitoba Hydro has taken
13 towards finding a solution?

14

15 (BRIEF PAUSE)

16

17 MS. LOIS MORRISON: In terms of bill
18 affordability programming, we have continued our
19 initiatives, not specifically -- sorry, we continued
20 our initiatives for supporting energy efficiency
21 programming, as we discussed yesterday.

22 And then in terms of, although not
23 specifically implementing in the last eighteen (18)
24 months, a program for First Nation customers or
25 customers on First Nation communities, we have been

1 piloting a program to assist customers with arrears
2 management.

3 We introduced that in -- I think it was
4 in November 2018 to assist customers with outstanding
5 arrears in managing those arrears going forward,
6 helping them create more of a budget plan long-term
7 and allowing them to pay off arrears with no late
8 payment charges, or, basically, no late payment
9 charges occurring on those arrears over up to thirty-
10 six (36) month period.

11 MR. SENWUNG LUK: Thank you. And I
12 believe we heard from Mr. Shepherd at the last hearing
13 that he had endeavoured to visit every First Nation
14 and had succeeded in visiting most or almost all of
15 the communities that are the membership of AMC.

16 And I -- I do understand that there is
17 a new CEO for Manitoba Hydro. Has new CEO been able
18 to do the same, of visiting First Nations in this
19 province?

20 MS. SHAWNA PACHAL: Our -- our new CEO
21 has only been at the Corporation for, I think, nine
22 (9) weeks now. I think she's into her third month.
23 And I believe she has been to Gillam, but I would have
24 to -- subject to check, we'd have to check that -- if
25 she has made any visits yet.

1 MR. SENWUNG LUK: Is there a goal of
2 seeking to visit more communities?

3 MS. SHAWNA PACHAL: I would have to
4 check on that, as well.

5 MR. SENWUNG LUK: Thank you. So I
6 just -- I'd like to move on to the specific
7 application before the board today. And I understand
8 that Manitoba Hydro is applying to this board to
9 approve a 3.5 percent rate increase for the First
10 Nations on reserve customer class. Is that correct?

11 MS. LIZ CARRIERE: Yes, the
12 application requests on an across-the-board basis,
13 which would include First Nation on reserve.

14 MR. SENWUNG LUK: And is it correct
15 that Manitoba Hydro's financial forecast predicts,
16 based on the 3.5 percent increase across the board,
17 that it will have a net revenue -- net income, I'm
18 sorry, of \$150 million for 2019 and 2020?

19 MS. LIZ CARRIERE: That's correct.

20 MR. SENWUNG LUK: And, Ms. Schubert,
21 if I could asked to pull up the IR AMC-MH Round 1
22 number 3B. I'd just like to confirm that the proposed
23 3.5 percent rate increase for the First Nations on
24 reserve customer class represents \$1.4 million of
25 revenue for Manitoba Hydro?

1 MS. LIZ CARRIERE: That's correct.

2 MR. SENWUNG LUK: And that equates --
3 according to the -- the IR, that equates to .08
4 percent of the total domestic revenue of Manitoba
5 Hydro?

6 MS. LIZ CARRIERE: That's correct.

7 MR. SENWUNG LUK: And if I could ask
8 Ms. Schubert to pull up the IR MH-AMC-1-3. So
9 Manitoba Hydro posed this question to Mr. Raphals, the
10 expert retained by AMC. And Mr. Raphals responded
11 that, with respect to the -- the figure of the 1.4
12 million, that:

13 "1.4 million in revenue referred to
14 in the response represents the
15 anticipated additional revenues from
16 the residential on-reserve class
17 that MH would expect to receive the
18 3.5 percent rate increase were
19 approved."

20 Is there any -- does Hydro take issue
21 with this statement at all? Is this statement
22 correct?

23

24 (BRIEF PAUSE)

25

1 MS. LIZ CARRIERE: It seems
2 straightforward, yeah.

3 MR. SENWUNG LUK: Okay. Thank you.
4 Now, even if the 3.5 percent rate increase was not
5 granted for the FNOR, what I'll call the FNOR class,
6 the First Nations on reserve class, if -- if it was
7 not granted to that class, as long as that -- the
8 burden of that 1.4 million was shared by other
9 ratepayers, Manitoba Hydro would be kept whole.

10 Is that fair?

11 MS. LIZ CARRIERE: Yes. But in order
12 to get the full \$50 million revenue require -- or
13 additional revenue requirement, we would have to
14 recover those from other rate classes, yes.

15 MR. SENWUNG LUK: And on that
16 eventuality, Hydro's net income would still be \$115
17 million for 2019 and 2020?

18 MS. LIZ CARRIERE: That's correct.

19 MR. SENWUNG LUK: Thank you. So I'd
20 like to move on to the residential end user's survey -
21 - or energy use survey, I'm sorry, which is Attachment
22 1 to AMC-MH Round 1 Question 7.

23 Now, I understand that this is a survey
24 that Manitoba Hydro puts out to its customer base in
25 order to find out more about its customers. Is that a

1 fair assessment of -- of what this study consists of?

2 MS. LIZ CARRIERE: That is correct.

3 MR. SENWUNG LUK: And if I could asked

4 Ms. Schubert to pull up page 10 of this attachment.

5 And just scroll down to Sample 2.02. So I understand

6 that from -- from this REUS, what I'll -- the -- the

7 acronym I'll use for the residential energy use

8 survey, the reuse describes that:

9 "Fifteen thousand three hundred and
10 seventy-five (15,375) surveys were
11 mailed to residential customers
12 reser -- residing on First Nation
13 reserve land in order to increase
14 the representation of this customer
15 segment within the -- within the
16 analysis."

17 So is that -- is that more or less the
18 entirety of the customer base that Manitoba Hydro has
19 residing on reserve?

20 MS. LOIS MORRISON: Yes.

21 MR. SENWUNG LUK: Thank you. And is
22 it accurate that, in previous years, a random sample
23 of that set of customers was sent this REUS survey?

24 MS. LOIS MORRISON: That is correct.

25 In previous years, we would pull a random sample

1 across the entire province, and which would include
2 customers residing on reserve lands.

3 MR. SENWUNG LUK: And is it fair to
4 say that the results from the previous REUS studies
5 did not yield as many responses as REUS 2017?

6 MS. LOIS MORRISON: Yes. There -- we
7 what we saw is, when we were starting to do subsector
8 analysis, we were not getting -- we didn't have enough
9 respondents within that group of customers to provide
10 infor -- responses that we felt were more
11 representative.

12 MR. SENWUNG LUK: So is it fair to say
13 that Manitoba night -- Hydro, based on the 2017 REUS,
14 has better data on its First Nations on reserve
15 customers than it ever has had before?

16 MS. LOIS MORRISON: I would say, in
17 terms this survey, we are much more -- we feel the
18 responses more appropriately reflect -- are more
19 representative of that subsector.

20 MR. SENWUNG LUK: Thank you. Ms.
21 Schubert, could I ask you to pull up AMC Exhibit 3,
22 please? Now, this Exhibit 3 is a report by Mr. Philip
23 Raphals which was commissioned by the Assembly of
24 Manitoba Chiefs, and it reviewed data generated in the
25 2017 REUS.

1 It has been tendered as an expert
2 report by AMC and is an exhibit in this proceeding.
3 May ask the panel, have you had a chance to review
4 this report?

5 MS. LOIS MORRISON: Yes.

6 MR. SENWUNG LUK: And, Ms. Schubert,
7 could we go to page 6, please?

8 Mr. Raphals, at page 6 of the report,
9 reaches the conclusion that the average annual
10 consumption of an -- just, yeah, the chart is where
11 I'd like to be, Ms. Schubert. Thank you -- that the
12 average annual consumption of an on-reserve customer
13 is about three (3) times that of the Winnipeg city
14 customer and about 33 to 55 percent higher than the
15 Winnipeg City LICO-125 values.

16 Has -- since Hydro has that had this
17 REUS 2017 data, has Hydro done similar work analyzing
18 the numbers as you -- as Mr. Raphals has done here?

19 MS. LOIS MORRISON: I'm not sure if I
20 understand the question. We've prepared the survey
21 results. All of the data that Ms. -- is presented
22 here is from our survey outcome, so I'm not sure what
23 you mean by "analysis".

24 MR. SENWUNG LUK: Well, the -- the
25 survey tabulates certain numbers. But to aggregate --

1 I think what Mr. Raphals has done here is to aggregate
2 those numbers into -- to observe the patterns and the
3 data to -- to arrive at certain inferences from that
4 date.

5 My question is whether Hydro has done
6 the similar kind of work of aggregating that data
7 making those inferences to arrive at these kinds of
8 conclusions?

9 MS. LOIS MORRISON: So in terms of the
10 conclusions that are -- that I would draw from the
11 chart presented here -- and I think we've testified
12 before the board previously that customers residing on
13 reserve heat with electricity, the vast majority,
14 except for the four (4) identified sites or
15 communities that are supported to diesel generation.

16 And the information that's being
17 presented here is -- has to be taken into
18 consideration of the fact that the Winnipeg city data
19 is for all of the city of Winnipeg, which includes all
20 heating types and all housing types.

21 So you will have everything from single
22 detached houses to apartment style housing which has
23 maybe only lights and plug load on their electricity
24 bill. And you also have people who heat with other
25 sources.

1 So it's difficult in this situation to
2 do a direct comparison. And in this case, it's
3 probably showing a more wider range than if you were
4 to compare the average annual energy consumption for
5 an electrically heated single detached home in
6 Winnipeg or in -- in rural Manitoba to a First Nation
7 home or at home on First Nation community.

8 So although I will say that the data
9 presented here is from our report, as with any survey
10 rate re -- results you get, you always have to look at
11 what you're comparing to and try to, as best possible,
12 use like to like when you're making comparisons.

13 MR. SENWUNG LUK: Thank you. Ms.
14 Schubert, can we go to page 7 of this exhibit?

15 Now, Mr. Raphals did do this analysis
16 and compared electricity consumption for single
17 detached dwellings on and off reserve. And he reached
18 the conclusion that on-reserve single detached house -
19 - houses consume about 9.8 to -- around 9.8 percent
20 more electricity than the off re -- their off reserve
21 comparators.

22 Is this a conclusion that Hydro's
23 internal work has arrived at, as well?

24 MS. LOIS MORRISON: Yes. This is from
25 our survey. And this information is information

1 that's similar to what we've presented in the past.
2 There are a number of factors that come into energy-
3 use patterns.

4 One (1) of them that also influences
5 the amount of energy used in the home is the number of
6 people per home. And we've also looked at the fact
7 that there is a higher number of people per home in
8 homes that are on First Nation on-reserve housing
9 versus housing outside of -- that is off reserve, so.

10 But I am very confident that these
11 numbers are very -- that are a representative of these
12 customer groups.

13 MR. SENWUNG LUK: Now, when Manitoba
14 Hydro decided to apply for a 3.5 percent rate increase
15 to the First Nations on reserve class, did -- did
16 these numbers factor into that decision?

17

18 (BRIEF PAUSE)

19

20 MS. LIZ CARRIERE: The application was
21 made on the basis of an across-the-board rate
22 increase, so we didn't look at any differentiation
23 between any of the customer classes.

24 MR. SENWUNG LUK: Thank you. And
25 just, Ms. Schubert, can we go to the bottom of the

1 same page? And I'll -- I'll note that Mr. Raphals
2 concludes that, based on the REUS 2017 data, the
3 dwelling square footage of an on-reserve house is
4 about 78 percent of that of an off reserve single
5 detached house and that, based on the average annual
6 kilowatt hour per square foot data, that per -- on a
7 per square footage basis, an on-reserve house uses
8 about 40 percent more electricity than an off-reserve
9 house.

10 Was this date also -- I -- I take it
11 from your previous answer that you didn't consider any
12 differences between the characteristics of different
13 customer classes in the applying for that 3.5 percent
14 across-the-board rate increase.

15 So I'll take from your answer that this
16 data was also not considered when Manitoba Hydro
17 decided to seek this increase of 3.5 percent to the
18 First Nations on reserve class?

19

20 (BRIEF PAUSE)

21

22 MS. LIZ CARRIERE: When we made the
23 application on the basis of an across-the-board basis,
24 we didn't take into consideration consumption
25 patterns. You know, we haven't -- we are -- we still

1 have to do the work to do a cost of service update
2 and -- and further rate looking -- looking at rate
3 design and revenue cost coverage ratios. So no, we
4 didn't take that into consideration.

5 MR. SENWUNG LUK: Thank you. And
6 Ms. Schubert, can we go to page 10 of the same
7 exhibit, please, at the bottom of the page 10.

8 And I'll note that Mr. Raphals
9 concludes that, based on the 2017 REUS, that around 72
10 percent of on-reserve First Nations customers spend 6
11 percent or more of their total annual income on
12 electricity bills, and about 49 percent of those same
13 on-reserve First Nations customers spend 10 percent or
14 more of their total annual income on electricity
15 bills.

16 So based on your previous answer,
17 I'll -- I'll take it that this data was also not in
18 contemplation when Hydro decided to apply for a
19 3.5 percent across-the-board rate increase.

20 MS. LIZ CARRIERE: Sorry. I'm having
21 difficulty concentrating this morning. But it was --
22 we had apply -- made an application for the
23 3 1/2 percent, and in determining that, we didn't --
24 did not consider any differentiation in the rates.

25 MR. SENWUNG LUK: Okay. And I'll just

1 take you to one last part of this exhibit on page 11,
2 the chart in the middle of the page.

3 And this is also from the 2017 REUS,
4 and Mr. Rafoles concludes in his report that the -- in
5 the -- the proportion of people living on reserve who
6 had reduced spending on food in order to pay Manitoba
7 Hydro bills in the past two years is much, much higher
8 than for off-reserve residents, as well as for
9 off-reserve low income people.

10 So I'll take it from your previous
11 answers that this also was not a factor in that
12 Manitoba Hydro considered in applying for the
13 across-the-board rate increase.

14 MS. LIZ CARRIERE: You're correct.

15 MR. SENWUNG LUK: Thank you.

16 Ms. Schubert, can we go to the IR AMC-MH Round 1,
17 number 4, page 5 of 6. Of course. That's AMC-MH
18 Round 1, question 4, page 5 of 6.

19 Now this -- this answer that Manitoba
20 Hydro gives is about the dedicated indigenous energy
21 advisor. Can -- can you just tell us a bit -- give us
22 a bit of a refresher on what this role was.

23 MS. LOIS MORRISON: So under the
24 Indigenous Energy Efficiency Program, Manitoba Hydro
25 works with -- directly with the communities to

1 identify where the communities have identified housing
2 that needs additional insulation upgrades and works
3 with communities where we have opportunities to
4 install low-cost, no-cost measures.

5 Now, under the design of the program,
6 we had had an individual with the indigenous energy
7 advisor who would work directly with the
8 representatives within those council areas -- sorry --
9 within those communities.

10 And as Ms. Bauerlein mentioned in her
11 direct evidence, we did go through a voluntary
12 departure program as part of -- and a significant
13 staffing reduction. And that staffing reduction hit
14 all areas of the Corporation, including the energy
15 efficiency programming area.

16 And as a result of that, we have
17 reallocated work, not just within the energy
18 efficiency -- the Indigenous Energy Efficiency Program
19 but within other areas within other programming. We
20 have done work to consolidate different programs under
21 different people in order to maintain our offering.

22 And so the individual did retire.
23 However, what we have done is we have taken those
24 responsibilities and consolidated them under the area
25 that serves other First Nation-focused programming,

1 such as our community geothermal program and some of
2 our community energy-planned efforts.

3 MR. SENWUNG LUK: And so based on
4 this -- the IR answer we have in front of us -- it
5 appears that the responsibility for the portfolio of
6 work that was undertaken by the indigenous energy
7 advisor is now assigned to the residential program
8 supervisor within the energy efficiency programs
9 department.

10 MS. LOIS MORRISON: The -- the overall
11 work actually -- and even since then, as Ms. Bauerlein
12 mentioned -- were in a period of transition, whereas
13 we are moving work around to see how it best fits.

14 Originally we were moving that in under
15 the residential energy program supervisor, but we've
16 since taken the part that focuses on serving our
17 indigenous communities and moved it into work with, as
18 I mentioned, our staff person who are specialists who
19 works with -- on the community geothermal program
20 because saw we -- an alignment because that individual
21 works very closely with communities in order to
22 increase the penetration of geothermal heating systems
23 in -- in First Nation communities.

24 And so this allowed us to -- to have a
25 better connection with the communities, talk to them

1 about more than one thing at a time. And so as we are
2 going to this period of transition, we are shifting
3 work.

4 And although originally we were putting
5 this position -- this responsibility under the
6 residential sector, we've actually moved it to work
7 under our -- in our emerging technologies group, which
8 also has -- which has the geothermal programming group
9 and has the -- so now we're focused on First Nation
10 communities in that area.

11 MR. SENWUNG LUK: So were any of the
12 following people -- the indigenous energy advisor or
13 the residential program supervisor or any of the other
14 people that took over that portfolio of work -- were
15 any of those people consulted or -- as part of Hydro's
16 decision to apply for the 3.5 percent rate increase to
17 the FNOR class?

18

19 (BRIEF PAUSE)

20

21 MS. LOIS MORRISON: So no, there was
22 not a direct consultation with staff in the area that
23 support our First Nation initiatives about the
24 3.5 percent and how that should be applied.

25 MR. SENWUNG LUK: Is -- does Manitoba

1 Hydro intend to hire another indigenous energy
2 advisor?

3 MS. LOIS MORRISON: So at this time
4 because we're not only in a -- so we're in a period of
5 transition also because of the DSM function moving
6 over to Efficiency, Manitoba.

7 And one of the things that we have
8 looked at as a result of some of these changes is this
9 program has run for ten (10) years. It's a very
10 effective program. We seen a significant number of
11 houses insulated under this program.

12 However, as with all programs, there
13 does come a point in time were you may want to revisit
14 and -- and look at a different delivery mechanism.
15 And so with this work moving over to Efficiency
16 Manitoba, what we -- at this time we don't intend to
17 hire an indigenous energy advisor because we are not
18 certain as to what type of evolution this program will
19 take when it goes to Efficiency Manitoba.

20 What we have been using in the interim
21 for houses that have been identified as being --
22 needing insulation upgrades, our staff person is still
23 working with them. And then for any verifications, we
24 are working -- we use a contract service that we use
25 for our home and insulation program to do

1 verifications on the insulation when they're -- after
2 they're in place or any technical review that needs to
3 be done. We have that contract in place to utilize
4 those resources, and that's what we've been using in
5 the communities

6 MR. SENWUNG LUK: And you mentioned
7 the transition over to Efficiency Manitoba. Is there
8 a plan in place for how these functions that -- that
9 used to reside with the indigenous energy advisor, how
10 those functions will be transitioned over to
11 Efficiency Manitoba?

12 MS. LOIS MORRISON: As I discussed
13 yesterday, we are working to support Efficiency
14 Manitoba as they set up and start running. At this
15 point in time, they are focused on developing their
16 three-year plan and getting their operations up and
17 running. In the interim, we are providing the ongoing
18 support for the legacy programs or what we are deeming
19 to be the legacy programs.

20 We expect that they will come up with a
21 decision on -- or recommendations on how they will
22 serve the different markets. We'll continue to
23 support them as they did so.

24 I do not at this point in time have any
25 information on how the programs will transition over,

1 what programs will transition over, and what they will
2 look like as they transition over. We're still in the
3 process of doing that, but we are working together to
4 make sure that what they do decide to bring forward is
5 supported.

6 MR. SENWUNG LUK: Thank you. I'd just
7 like to move on to a slightly different topic within
8 the -- the REUS 2017. And if I could ask Ms. Schubert
9 to put up attachment 1 to AMC MH round 1, number 7,
10 page 18.

11 So I'd -- I'd just like to ask the
12 panel about the data in this survey under the rubric
13 of building code construction era. And that's --
14 that's the heading to this table. And in the dark
15 green, there is a -- a set of years, and my -- my
16 interpretation of this chart is that, for instance,
17 for the row labeled "overall", that 7.8 percent of
18 houses are in the building code construction era of
19 2010 and 2017 and eighteen point four (18.4) is from
20 1990 to 2009.

21 And if, Ms. Schubert, we could scroll
22 down just to the bottom part of the page to the First
23 Nation on-reserve, that row. And I know we -- we
24 can't -- we probably can't see both the heading and
25 the -- and the numbers at the same time, or if zoom

1 out far enough, the numbers will be so small that we
2 may not be able to see, but maybe that's worth a try
3 anyway.

4 Well, I -- I'm a partisan of the -- the
5 portrait orientation for screens which would solve
6 this problem, but alas, we are where we are.

7 So I -- I see that -- I sort of see
8 that the building code era for the First Nation
9 on-reserve respondents has 10.7 percent as 2010 to
10 2017 and 56.7 percent as to that -- whatever that
11 second column was. I think 2000 -- or 1990 to 2009.

12 So just to -- I'd like to ask a
13 question about where this data comes from. If I -- if
14 we could go to page 191 of the same document.

15 Now, I understand that the REUS 2017
16 data comes from surveys filled out by individual
17 customers. Is that fair?

18 MS. LOIS MORRISON: That is correct.

19 MR. SENWUNG LUK: And so this -- what
20 we see here is the survey itself that was presented to
21 the customers that they filled out and from which the
22 data that we saw in the previous chart was built.

23 MS. LOIS MORRISON: That is correct.

24 MR. SENWUNG LUK: So Question 4 on
25 page 191 asks: When was this residence originally

1 built? And we have the same categories, 2010 to the
2 present, and I presume that's 2017 because it's the
3 2017 REUS. And the second checkbox is 2000 and 2009.

4 So is it -- is it accurate that -- to
5 say that the data that we saw in the previous chart
6 came from this question?

7 MS. LOIS MORRISON: Yes. We would
8 take the data as provided by the customers and then
9 group it, based on what we understand -- what we know
10 to be the timing for when different energy code
11 requirements were brought in.

12 MR. SENWUNG LUK: Now, the question
13 itself doesn't actually ask about building code. It
14 asks about when the residence was built.

15 MS. LOIS MORRISON: That is correct.
16 Most customers would not know if we were to ask them
17 whether or not their housing was built during a
18 certain building code period.

19 MR. SENWUNG LUK: So the building code
20 era data that we saw on page 18, that's Hydro's gloss
21 on this response about when the house was built.

22 MS. LOIS MORRISON: As I mentioned,
23 the building codes are public record, and so we would
24 layer or -- or overlay customer's responses when their
25 houses were built to when those code requirements were

1 brought in.

2 MR. SENWUNG LUK: And, Ms. Schubert,
3 can we go to page 11 of this document. And if we
4 scroll down, I think, all the way to the bottom.

5 The building code era, this -- the
6 report itself describes the building code era category
7 of data as referring to:

8 "The periods when significant
9 dwelling construction codes were
10 introduced, available tax assessment
11 data was used to verify responses
12 and to fill in any missing responses
13 pertaining to year built."

14 Is it fair to say that that's -- based
15 on the response to the survey about when the residence
16 was built that Hydro verified that, based on tax
17 assessment data to arrive at the building code era
18 data that is in that chart that we saw before?

19 MS. LOIS MORRISON: So we use the
20 customer's response, and if there were missing pieces
21 of information, then -- and if we -- there was tax
22 assessment data available, then we would validate
23 that --

24 MR. SENWUNG LUK: So --

25 MS. LOIS MORRISON: -- or find -- fill

1 in the blanks that were missing. So we rely on the
2 customer's response, and then if there is missing
3 data, we would look to the tax assessment data to see
4 if we could fill in the blanks.

5 MR. SENWUNG LUK: So is it fair to say
6 that because there is no property tax on reserve, that
7 tax assessment data was not available for Hydro to
8 verify the responses given by people who -- people
9 in -- living on First Nations who responded to the
10 survey?

11 MS. LOIS MORRISON: Yes. But as I
12 mentioned, we didn't verify every response. We only
13 verified responses where there was missing data and
14 tax available -- tax information. So for the -- the
15 most part, we're using customer's reported
16 information.

17 MR. SENWUNG LUK: Okay. Thank you. I
18 just have a -- a couple of topics left, so I hope to
19 be done soon, and I'm sure you'll be glad to hear of
20 that.

21 So my next questions relate to Charter
22 values and the role that those values had in the
23 Manitoba Hydro-Electric Board's decision to make this
24 application that's before this Public Utilities Board.

25 Now, the -- the idea that substance --

1 substance of equality is a Charter value has been
2 recognized by the Courts. Did the Manitoba Hydro-
3 Electric Board consider equality as a Charter value
4 when deciding to apply for a 3.5 percent rate increase
5 on the First Nations on-reserve class?

6 MS. MARLA BOYD: I don't think this is
7 the appropriate forum for a Charter argument. I don't
8 think this is an appropriate forum for a Charter
9 argument.

10 THE CHAIRPERSON: This isn't a Charter
11 argument. He asked the question. The panel can say
12 they don't know what the Board considered. We've had
13 to -- we had the discussion of Charter values last
14 time. It's not a Charter argument.

15 So if -- if the panel knows if the
16 Board considered it, they can answer. If they don't
17 know, they can answer that they don't know.

18 MS. SHAWNA PACHAL: I had the
19 opportunity to be at the Board meetings where it was
20 discussed in regards to the 3.5 percent rate increase.
21 And to my recollection, there was no discussion.

22 MR. SENWUNG LUK: Okay. Thank you.
23 And I -- I think it'll come as no surprise to -- to
24 this body that reconciliation has been an important
25 value that Canadian society has embraced with respect

1 to the relationship between indigenous peoples and
2 non-indigenous communities and that it has been
3 recognized as a goal of the provincial government in
4 the Path to Reconciliation Act, which is a statute of
5 Manitoba.

6 Did the Manitoba Hydro-Electric Board
7 consider reconciliation between indigenous peoples and
8 the Crown in making the application for a 3.5 percent
9 rate increase to the First Nations on-reserve class?

10 MS. SHAWNA PACHAL: Again, that's --
11 it is my recollection that that was not part of the
12 discussion.

13 MR. SENWUNG LUK: Thank you. Those --
14 those are all of my questions. I thank you very much
15 for taking the time to answer them.

16 THE CHAIRPERSON: Thank you, Mr. Luk.

17 Ms. Boyd, is there -- sorry. Ms. Boyd,
18 is there any redirect?

19 MS. MARLA BOYD: There's not, Mr.
20 Chair. Thank you.

21

22 (PANEL STANDS DOWN)

23

24 THE CHAIRPERSON: Mr. Hacault, I guess
25 we will proceed with Mr. Bowman?

1 MR. ANTOINE HACAULT: Yes,
2 Mr. Chairman. I don't know what the desire of the
3 panel is with respect to how we set up.

4 THE CHAIRPERSON: I -- I think we can
5 proceed on this on the basis where you're sitting
6 right now.

7 MR. ANTOINE HACAULT: Okay.

8 THE CHAIRPERSON: I don't think
9 there's a problem. Yeah. Why don't we -- why don't
10 we just proceed in that way. Mr. Simonsen can swear
11 in the -- the witness.

12 Sorry. I guess at this point I should
13 ask if that concludes the -- the case for Manitoba
14 Hydro.

15 MS. MARLA BOYD: It does. Thank you.

16 THE CHAIRPERSON: You know what? I
17 guess this isn't going to work very well because we've
18 got cross-examination. We need to be able to have the
19 other parties cross-examine.

20 You know, let's take a ten (10) minute
21 break, and we'll -- we'll just move people around.
22 We'll take the morning break now. Thank you.

23

24 --- Upon recessing at 9:46 a.m.

25 --- Upon resuming at 9:59 a.m.

1

2 THE CHAIRPERSON: Ms. Hacault?

3

4 MR. ANTOINE HACAULT: Yes. Good
5 morning, Mr. Chairman, members of the panel. Bon
6 jour. On behalf of the Manitoba industrial Power
7 Users Group, we thank you for the opportunity to make
8 this presentation.

8

9 I believe the presentation and slide
10 decks have been circulated, and that the next MIPUG
11 exhibit for that slide deck would be number 7.

11

12 --- EXHIBIT NO. MIPUG-7: Presentation and slide
13 decks

14

15 MR. ANTOINE HACAULT: If that's the
16 case, I'm not too sure whether Mr. Simonsen had the
17 opportunity to swear the Witness in before I start
18 presenting Mr. Bowman.

19

20 And behind me, for the information of
21 the panel, is Melissa Davies, also from InterGroup.

21

22

PATRICK BOWMAN, Sworn

23

24 EXAMINATION-IN-CHIEF BY MR. ANTOINE HACAULT:

25

MR. ANTOINE HACAULT: Now, Mr. Bowman

1 before you start your presentation, I have a couple
2 quick introductory questions. Firstly, was the
3 evidence of InterGroup, including the report and
4 responses to IRs and this PowerPoint prepared by you
5 or under your direction, sir?

6 MR. PATRICK BOWMAN: Yes.

7 MR. ANTOINE HACAULT: And do adopt
8 that evidence, sir?

9 MR. PATRICK BOWMAN: Yes.

10 MR. ANTOINE HACAULT: And can you
11 confirm that you, firstly, acknowledge that it is your
12 duty to provide evidence in relation to this
13 proceeding as follows:

14 a) To provide opinion evidence that is
15 fair, objective, and nonpartisan, and

16 b) to provide such additional
17 assistance as the Public Utilities Board may
18 reasonably require to determine matters in issue.

19 MR. PATRICK BOWMAN: Yes.

20 MR. ANTOINE HACAULT: And can also
21 confirm that you acknowledge that this duty to the
22 Public Utilities Board prevails over any obligation
23 which you may owe to any party by whom or on whose
24 behalf you are engaged, sir?

25 MR. PATRICK BOWMAN: Yes.

1 MR. ANTOINE HACAULT: Your CV which has
2 been filed in evidence indicates that you're engaged
3 both by utilities and by consumers in utility
4 regulatory matters. Am I correct that this regulatory
5 work spans across various provinces and recently
6 internationally?

7 MR. PATRICK BOWMAN: Yes. And we also
8 -- or I also work with regulators and -- and
9 governments in respect of the utility policy.

10 MR. ANTOINE HACAULT: By the way, I'm
11 jealous that you go -- get to go to places like
12 Jamaica do this work. Finally, for approximately how
13 many years have you been providing evidence at -- at
14 Public Utility Board hearings with respect to Manitoba
15 Hydro rate hearings?

16 MR. PATRICK BOWMAN: The first hearing
17 I appeared as an expert was the status update hearing
18 in -- hearing that occurred in 2002.

19 MR. ANTOINE HACAULT: Thank you, sir.
20 With those introductory questions, I would ask you to
21 please that proceed with your presentation this
22 morning.

23 MR. PATRICK BOWMAN: Yes, good
24 morning, Mr. Chair, members of the panel. The exhibit
25 MH -- or MIPUG-7, sorry, before you was prepared to

1 walk you through the -- the submission that was filed
2 -- pre-filed testimony March 29th.

3 Yeah. We can go ahead and go to slide
4 2 now. Today, I don't intend to take a lot of time to
5 go through this. If there's any questions, please let
6 me know. The outline of the presentation is as set
7 out there.

8 The -- as noted in the -- in the
9 Information Request responses, fundamentally, this
10 leads to one (1) -- one (1) essential recommendation
11 to the Board, which is that -- that Hydro be granted
12 an across -- rate increase in the range of -- or a
13 rate change in the range of zero to 1.5 percent, not
14 higher than 1.5 percent, that it be done on an across-
15 the-board basis and that it's justifiable based on
16 reasonable customer expectations of annual rate
17 increases, no evidence that rate increases above
18 inflation is needed this year, and to achieve the
19 benefit of a smoother transition to higher rates that
20 will be needed to address Keeyask in-service and to
21 the eventual end of the Bipole III deferral
22 amortization and that consideration be given to
23 ensuring the rate increase is -- is differed for
24 Keeyask similar to Bipole III to help ensure the
25 purpose is clear.

1 Page 3 of -- of MIPUG-7 is simply a
2 summary of key introductory points. The evidence I'll
3 be testifying today real -- is my MIPUG-5, which is
4 the pre-filed testimony. And there were responses to
5 Information Requests from Consumers Coalition, the --
6 the Board and from Manitoba Hydro.

7 There's a few comments on new issues
8 arising from the process that I'll go over, ver --
9 very few, actually, in -- in this situation. And I
10 noted that the review was similar with the long-
11 standing MIPUG assignment we've done since the
12 beginning of the group and as long as I've been
13 testifying, which is to review Hydro's proposals and
14 plans in light of regular principles appropriate for
15 Crown Hydro utility and with a long-term perspective
16 and working from the fundamental view that the
17 interest of customers and Hydro should not seem to be
18 odds.

19 Cust -- as much as -- as in some
20 jurisdictions, the regulatory model is based on the
21 idea that a utility would look -- would seek higher
22 rates and higher net income and customers would seek
23 lower rates. That is not the -- quite the same
24 perspective.

25 When you're dealing Manitoba Hydro

1 here, consume -- customers need a financially
2 sufficient hydro as much as Hydro requires its
3 finances to be sound and Hydro needs the -- the
4 customer loads and competitive rates and to be able to
5 provide the reliable service customers need in order
6 to have the revenue base it requires. They're --
7 they're in this together.

8

9

(BRIEF PAUSE)

10

11

MR. PATRICK BOWMAN: I will say that,
12 in terms of the Hydro proceedings that I've been in,
13 this one presented a unique intellectual challenge to
14 us in that Hydro is the -- the form of regulation of
15 Manitoba Hydro has always taken a long-term
16 perspective.

17

And I -- I want to note that this isn't
18 -- isn't and meant as a -- necessarily a complaint or
19 the like of the situation Hydro is in. We -- we know
20 that Hydro does not currently have a financial plan
21 that they are prepared to -- to sign off on. That is
22 a reality.

23

From one (1) sense, that is encouraging
24 because there was obviously concerns with the previous
25 financial plan that were noted by myself and -- and

1 Mr. Osler and Forrest who testified with me the last
2 hearing and noted by this Board.

3 And it's -- it's encouraging that --
4 that Hydro is doing reconsideration, but it leads us
5 in an -- in and intellectually challenging position
6 given that we need to make decisions about this year
7 in the absence of that plan.

8 So it -- as I said, it led to certain
9 challenges and -- and more time spent than usual on
10 talking about what the -- what the approach would be
11 for doing the assessment.

12 I will say that part of the reality of
13 dealing with Manitoba Hydro is that there are some
14 unique characteristics compared to many of the
15 utilities and the hydrology variability is certainly
16 one (1) of them. And it's one (1) of the reasons why
17 it's really important to look at -- at the long-term
18 and look across multiple possible future scenarios.

19 That's not always the case when we're
20 dealing with -- with other utilities. And I -- I will
21 set out the claim that for -- looking solely at one
22 (1) of finances.

23 And putting on blinders to everything
24 that happens after that is not sufficient information
25 on its own to draw conclusions about the sufficiency

1 or necessity of a rate increase. And for that reason,
2 there -- there wa -- there is some information here
3 beyond the -- the drop-dead date, if you like, of --
4 of March 31, 2020.

5 I -- I hope it remains within the scope
6 that this Board had set out. I -- I certainly would
7 say, based on cross-examination over the last two (2)
8 days, that -- that all parties are in the same
9 situation, that -- that there is a need to understand
10 more than what happens in the one (1) test year.

11 We can go to page 5.

12 So, as a result in terms of the
13 approach, there was an interest in looking at both the
14 one (1) your perspective as well as a longer-term
15 path.

16 For the purposes of selecting the path
17 to look at as -- as someone of a benchmark, Exhibit
18 MH-93 from the previous hearing was used. I -- I
19 think that's defensible on -- for three (3) reasons.
20 One (1) is because it was used by Hydro as a benchmark
21 of their own application. The second is because the
22 Board found that with minor adjustments the scenarios
23 directionally consistent with the Board's decision in
24 the -- in Order 59/18. And the third is because, in -
25 - in my -- my own opinion, that scenario reflected a

1 defensible path, not a perfect path, but defensible
2 path forward for -- for Manitoba Hydro.

3 Just to remind people, we previously
4 reviewed the MH-93 did show -- have a scenario that
5 showed six (6) years of net losses over the -- the
6 horizon. That is not surprising.

7 Each IFF that we've looked at going
8 back many years now, many hearings, has had a period
9 of net losses after major capital comes in. Hy --
10 Hydro is -- is undergoing what's been called the
11 unprecedented scale of -- of development.

12 The NFAT scenarios for Keeyask had
13 eight (8) years of losses, totaling 638 million. NFAT
14 scenarios for Conawapa had -- had even more impact in
15 -- in some of the scenarios.

16 IFF-14, which had the -- the NFAT
17 conclusions in it, similarly had Keeyask in it, that
18 had moved to eight (8) years of losses, totaling 977
19 million.

20 IFF-15 it had dro -- dropped to three
21 (3) years of losses, totaling 58 million. And by --
22 at Exhibit MH-93, which is based on IFF-16, it was six
23 (6) years of losses, totaling four hundred and
24 eighteen (418).

25 And I think this underlines Hydro's

1 point which I don't disagree with, that the long-term
2 forecasts are never going to be precise. There always
3 can it be informative that give you an idea of where
4 you're going and -- and they're -- they're useful from
5 that perspective, but they're not something to -- to
6 assume is locked in. There's -- there's simply no way
7 that anyone could -- could produce such a forecast.

8 The other comment about that sequence
9 of IFFs and what we've seen evolve is that in each of
10 the subsequent IFFs, the starting period of the net
11 losses remained in the same fiscal year or moved
12 later.

13 And what that means is, by the time you
14 enter that period of net losses, you've had more years
15 to build up your retained earnings before you go into
16 the period. So even if the same that losses are
17 occurring in -- they're starting later with a stronger
18 base of -- of retained earnings going in.

19 And from that perspective, I'd say --
20 overall, I'd make the comment that -- that for -- for
21 people who -- who I think were -- sat here through --
22 through the -- the pre-NFAT hearings where there was
23 great concern over what this -- this development plan
24 would look like, what the risk would look like and
25 through the NFAT hearings where we saw what -- what

1 adding these plans did to Hydro's long-term finances
2 and each of the subsequent IFFs, I would say that the
3 expense here is unfolding very well.

4 And I think that there were some very
5 serious risk scenarios that -- that people had to
6 think their way through managing, and -- and those
7 have not unfolded and -- and that, overall, unbalanced
8 -- that we are in a pretty good place.

9 We're in a pretty good place, also,
10 given that with -- with respect to Keeyask and Bipole,
11 you know, where we are at, I'm not sure eleventh hour,
12 but certainly tenth hour of -- of these projects
13 coming into service, risk being resolved, debt being
14 locked in, all the other things that get resolved as
15 you go through a capital project.

16 On slide 6, just to -- to underline
17 this point, I put in a copy a slide that I had -- had
18 used in the 2015 hearing which was commenting IFF-14.
19 And IFF-14 was -- was the worst of the -- of the IFFs,
20 if you like, looking at the scenario.

21 And I -- I only put this in to
22 emphasize the scale of the -- of the hurdle that we're
23 trying to get over and we're -- we're mostly over,
24 that even in IFF14, the -- the scenario that Hy --
25 Hydro having nine (9) years with -- or say eight (8)

1 years \$977 million in losses, that had to be
2 understood that that was a scenario where Hydro is
3 absorbing five (5) massive hits, each of which, on its
4 own, was -- was large compared to the -- the size of
5 the Corporation and its -- and its revenues and its
6 customer base.

7 One (1) was Keeyask, one (1) Bipole,
8 one (1) was the extent of reinvestment that Hydro was
9 bringing forward in existing assets, one (1) was the
10 scale of DSM that Hydro was undertaking and absorbing
11 lost revenue it was causing, and one (1) was the major
12 accounting changes that Hydro was -- was facing and
13 proposing at the time, most of which were put into --
14 put into rates, some of which this Board has elected
15 to treat differently.

16 But that -- in that IFF, we were trying
17 to get over those five (5) major hills, major
18 achievements, and it was all being achieved with no
19 government support of the projects, which is unusual
20 in Canada when you're doing large renewable projects.
21 In fact the -- the government was adding charges
22 related rather than -- rather than support. We went
23 through some of that evidence at that time, and we did
24 some at the last hearing.

25 At that time, we were saying we were

1 able to finance all of Hydro's ongoing operations over
2 the ten (10) years with operating cash flow, including
3 absorbing Keeyask and Bipole, plus all sustaining
4 capital. That was being assessed over the ten (10)
5 year horizon of the IFF.

6 Thinking about where we are now, we're
7 debating whether we can achieve that each year. At
8 that point, it was being achieved over a ten (10) year
9 horizon. It wasn't even a test as to whether it was
10 being achieved each year.

11 And it was being done keeping retained
12 earning levels near or above any estimate at that time
13 a five (5) year drought. We're -- now got retained
14 earning levels way beyond a five (5) year drought
15 level.

16 Fo -- so in -- in context, when I say
17 we're doing very well as this NFAT plan is un --
18 unfolding and in context of the history, I'm -- I'm
19 saying that, in light of the fact that even in IFF-14,
20 when all of these conditions were there, we were doing
21 -- we were already doing quite well for absorbing a
22 very, very challenging environment.

23 To slide 7. Hydro's original
24 application has -- has been covered, so I don't intend
25 to dwell on it, had a 3.5 percent rate increase needed

1 to avoid net losses.

2 The update no longer needed the 3.5
3 percent increase to avoid the net losses and, instead,
4 it set out what -- what I would summarize as three (3)
5 claims in support, and they're from Hydro's February
6 14th filing at page 3.

7 I discuss these in page 6 to 7 of
8 MIPUG-5. I didn't intend to dwell on them today. But
9 taken in -- in balance, there are three (3) things
10 were highlighted. One (1) is that we could have low
11 flows. The second is that Keeyask and Bipole's cost
12 increases are coming online.

13 And the third is that the -- providing
14 a rate increase now will reduce as a likelihood of
15 future rate shock. I try to deal with each of those
16 individually but, in combination, I have a concern
17 that none of those analytically support a 3.5 percent
18 rate increase in the year in question.

19 They are -- they're reflective of -- of
20 the idea that that -- that a rate increase is needed
21 to build net income to deal with all of these things.
22 And -- and we've been -- we've been going through year
23 after year and hearing after hearing where we've
24 talked about how these things are being managed in
25 multiple ways.

1 They're being managed through retained
2 earnings. They're being managed through -- through
3 timing. They're being managed through regulator --
4 certain regulatory deferrals, like the Bipole account.
5 They're being managed through -- including appropriate
6 contingencies in the projects.

7 And all of that was already in place
8 and MH-93. So say things like, well, Keeyask and
9 Bipole cost increases could exacerbate the losses, in
10 fact, today were sitting with Keeyask and Bipole cost
11 decrease and Keeyask -- or Bipole's in-service lower
12 cost.

13 So to me, that's not a justification
14 for why the -- the MH-93 level of net income was
15 insufficient, similar to the drought. It's always
16 true that higher rates could increase your net income
17 so that you have less likelihood of a loss in a
18 drought, but that always has to be put into context of
19 long-term perspective, what is the likelihood, what is
20 the probabilities, and whe -- whether that would
21 indeed cause rate shock if that was -- if -- if
22 something was to occur.

23 Those type of assessments can't be done
24 on the one (1) year basis. And -- and trying to apply
25 them to a one (1) year basis simply leads you to

1 coming up with -- with sort of perpetual large rate
2 increases because I -- I can always try to fund the
3 theory of drought next year with net income,
4 especially if I ignore that last I made a net income
5 which helped build up reserves for that very purpose.

6 So slide 8. Moving on from -- from
7 testing -- or from the comments and on -- on the
8 rationale used by Hydro, slide 8 starts to move into
9 the assessment that -- that we completed looking at
10 the one (1) year picture, the one (1) test year, and
11 the data that is updated quantitatively.

12 And this is -- this is -- covers pages
13 -- about pages 9 to 12 of MIPUG-5. The key -- the key
14 con -- conclusion we had comparing MH-93 '19/'20 to --
15 to the updated '19/'20 year is that long-term debt is
16 lower by about .58 billion. The biggest contributor
17 of that is capital investment. Cost control shows
18 improvement, so plant in-service is down by .543
19 billion, which are both positive developments.

20 Retained earnings is lower, which is
21 not a positive development; .127 billion if there's no
22 rate increase for -- for '19/'20. However, retained
23 earnings ends lower, but the -- the sort of key
24 linkage to retained earnings is the -- is the risk
25 that Hydro faces, particularly drought. And the

1 drought risk in that -- in that one (1) year, '19/'20,
2 is also significantly reduced because of known water
3 and storage.

4 So looking at this one (1) year
5 picture, it's -- retained earnings being -- building
6 re -- up retained earnings for -- for water within
7 that one (1) year isn't the same test because the
8 water's already in storage for that one (1) year.

9 It's basically the same net income
10 being achieved. It was 64 million even without the
11 annual rate increase. And so, overall, the assessment
12 was basically on track before even considering a
13 '19/'20 rate increase.

14 Moving to page 9. There's been --
15 there was a comment in our evidence about the one (1)
16 year assessment in respect of cash and capitalized
17 interest. There's been a bit more discussion of this
18 in terms of -- of Hydro's rebuttal, so I -- I think
19 it's worth commenting on the -- the cash flow a bit
20 more.

21 I will say before I get into this that
22 you'll note in -- in evidence and in IRs I had that
23 cash flow is an -- is an interesting topic, but it is
24 not generally the primary topic one applies when
25 considering the sufficiency of rates, particularly a

1 utility that has hydraulic variability.

2 That's why we would normally use income
3 statement type -- type measures. But if you're solely
4 looking at the cash flows, under every assessment that
5 has been done no matter how you treat various aspects,
6 cash from operations is positive.

7 In the assessment, the way that it was
8 presented in the -- the case that we used, not only is
9 it positive, but it exceeds normal capital spending.
10 And I want to emphasize that when we say cash flow
11 from operations is positive, this -- this means that
12 certain types of claims don't bear out, meaning under
13 none of the assessments can you not pay all of your
14 current bills, all of your O&M and all of your -- all
15 of your interest costs from -- from cash flow in the
16 year. We're not borrowing to pay interest. We're not
17 borrowing to pay -- to pay current O&M.

18 Under certain types of assessments,
19 when you look at interest during construction being
20 included in a cash draw in the year as if it's not an
21 investing activity, you do end up with borrowing to
22 build current -- current sustaining capital, but
23 you're borrowing for something you're building that
24 has hard assets even in that situation.

25 Now, there is what seems like a --

1 being portrayed as a substantive debate about how
2 interest during construction is portrayed. I -- I
3 address that a bit here, but I'll first say it's a bit
4 of a surprising topic for me to receive as much focus
5 as -- as we're talking about because this is a very
6 transitory issue.

7 It's -- it applies to the one (1) you
8 were talking about next -- next year. And then
9 interest during construction is not typically this
10 large, so it's not like it's a fundamental issue
11 that's going to -- going to sort of need to be
12 resolved or needs -- will dominate discussion over the
13 next number of -- of hearings.

14 And -- and I do agree with Hydro when
15 they say it's -- it's basically presentation issue.
16 But as a presentation issue, we present things to
17 convey certain -- certain messages.

18 And I'd note there that there have -- I
19 have four (4) reasons I would take issue with Manitoba
20 Hydro's approach.

21 One (1) is that it's not consistent
22 with the use -- useful principles normally applied to
23 regulating utilities.

24 The second, it's not consistent with
25 PUB'S conclusion in 59/18, which I agreed with.

1 The third is it -- it is purporting to
2 show what happens when Keeyask comes online or -- or
3 this type of enduring obligation that won't go away
4 when Keeyask construction ends, but yet it doesn't
5 show the enduring benefit that occurs when Keeyask
6 comes online, which is the fact that we're going to
7 start getting export revenues, 360 million per PUB
8 book page 76.

9 And the fourth is that there -- there's
10 no principle reason to treat interest different than
11 other construction costs. And that's -- that's pretty
12 much universally recognized when you're considering
13 the capital cost of a project. Borrowing to fund a
14 project is no different than -- than the rebar to --
15 to build the project.

16 But more importantly to me is that,
17 even re -- regardless as to the presentation on the
18 right-hand side -- and this is copied from Hydro's
19 rebuttal, this is cut and pasted into here, is that
20 Hydro's approach shouldn't be viewed as -- as bad
21 news.

22 Hydro's approach is basically saying
23 that we -- if you -- it -- it's basically putting in
24 all of the -- of the -- the Keeyask interest as it now
25 exists. That will go up a little bit as -- as Keeyask

1 final -- the final spinning on Keeyask occurs, it'll
2 go up by about 37 million.

3 And when Keeyask comes online we'll
4 start paying some water rentals and we'll start paying
5 some O&M costs; combined are about 30 million.

6 So in Hydro numbers that show this
7 supposed conveying, the post-Keeyask world, you would
8 take that deficit at the bottom of 197 million. You'd
9 say, well, there's another 67 million in cash that's
10 also going to come out because of extra interest for
11 the ongoing borrowing and the O&M to end with about
12 264 million negative cash before we add Keeyask export
13 revenues.

14 Well, Keeyask export revenues are about
15 360 million. So what that's telling me is that 2019's
16 cash flows and 2019's rates are already sufficient to
17 meet this cash test, meet this cash positiveness once
18 Keeyask comes online.

19 It only can't -- it -- it only fails to
20 meet it in the years where you put in all of the worst
21 parts of Keeyask, the cash outflows for interest, and
22 none of the revenues that Keeyask will generate.

23 And this is where it's -- without
24 trying to lament the point, this is where the -- the
25 lack of a long-term financial plan, I think, provides

1 danger to -- to everyone in over focusing on what is a
2 -- a temporary situation in the next few years, as
3 were finally getting the projects online, and it
4 doesn't show what happens when turned the corner.

5 And I think that's possible to have
6 significant misinterpretation of the facts,
7 significant failure to recognize what twenty-four (24)
8 months from now looks like, whether you're -- whether
9 you're -- you're in Hydro's finance department or
10 whether you're in -- a lender or whether you're credit
11 rating agency or whether you're a Public Utilities
12 Board; that picture that says this is -- is temporary
13 is missing.

14 And I -- I think we we're -- we're all
15 challenged by -- by not having that picture. For that
16 reason, we also tried to look at the longer-term
17 directional assessment, which goes to page 10 of the
18 presentation.

19 And I spent a bit of time on some of
20 the -- the key aspects of MH-93 and -- and what we
21 know has been updated directionally. Of course, we
22 don't have this some -- a lot of this, we don't have
23 quantitatively, and we certainly don't have it
24 integrated quantitatively. But we do know the Bipole
25 III has come in at a lower cost than MH-93 assumed;

1 that's material.

2 We do know that Keeyask is headed for
3 an earlier in-service date. It may not meet that in-
4 service date. There is some -- some risk, of course,
5 associated with it, but an earlier in-service rate
6 means sooner revenues. And it means ongoing --
7 ongoing savings from not having some of the -- of the
8 construction cost we talked about.

9 I find it hard to reconcile some of the
10 comments that when we sat here last time, Keeyask was
11 going to be later in service, about 8.7 billion, and
12 now we're talking about being earlier in service.

13 But, also 8.7 billion, when we also
14 hear that it costs a million dollars a day to run the
15 camp and we know that interest during construction is
16 accruing at about \$25 million a month to the project,
17 if those things are stopping sooner, it is clearly a
18 benefit.

19 Now, maybe we're still on track for
20 eight point seven (8.7) and last time we were here we
21 never were on track for eight point seven (8.7). I --
22 I don't -- I don't know the answer to that, but I -- I
23 find it hard to reconcile.

24 For the purpose of this evidence, I've
25 accepted the -- the conclusion that there is no net

1 cost reduction from Keeyask coming in sooner, nor a
2 capital cost con -- reduction.

3 We also know that Keeyask's risks are
4 increasingly getting resolved compared to what was in
5 the MH 93. And the example was given of -- of
6 geotechnical work. And that was at transcript 238.

7 The ground condition risk is -- is
8 primarily behind us. That was always cited as among
9 the number one risk. We know that there's added
10 export contracts compared to MH-93, when the SaskPower
11 215 megawatt was highlighted, the potential renewals
12 of Xcel Energy, MSP agreements, or -- or renewals of
13 aspects of them, at least. The diversity aspects was
14 discussed.

15 Note that this is different than the
16 last hearing when there was evidence given by Hydro's
17 CFO that no new contracts could arise or -- or be
18 assumed within the five (5), six (6), seven (7) year
19 period was the -- the quote. Its ability in the next
20 five (5), six (6), seven (7) years to -- to secure
21 those contracts was pretty low.

22 This has financial impacts within the
23 important early years of Keeyask, meaning 2025/2026.
24 When you're talking about a hundred and twenty-five
25 (125) year plant, that's the -- that's the -- when I'm

1 talking about his early years.

2 We know that there's an interest rate
3 benefit which we've seen drafts of, so I didn't intend
4 to dwell on. The average interest rate is slightly
5 higher in -- in the '19/'20. PUB-38 updated response
6 shows that it's about .18 percent based on the
7 assumptions at that time. That's before the latest
8 debt was issued.

9 But the thing we need to understand is
10 that, with the longer maturity, it means this debt has
11 been locked in for much longer period. So MH-93,
12 which would have had refinancing risk and refinancing
13 costs associated with -- with more five (5) year debt
14 coming due in the period, that won't happen anymore
15 because that five (5) year debt won't come due. And
16 so, directionally, that would be significant positive.

17 Moving to page 11. Continuing down the
18 list of -- of directional conclusions compared to MH-
19 93. We know that the -- the DSM future is unknown.
20 My -- my assessment is it's hard to see that there
21 will be a case for more upward rate pressure arising
22 from DSM than was assumed in MH-93.

23 We know that there are things that were
24 in MH 93 that are now not likely to occur, the fuel
25 choice being the -- the key example. Fuel choice

1 would have been a program that would have been
2 considered by Manitoba Hydro within the mandate they
3 had for -- four DSM but would not be within energy --
4 or would -- would likely not be the efficiency of
5 Manitoba's mandate, because that was a program that
6 would have led to increased shifting to natural gas.

7 And understanding the scale of DSM
8 changes that occur even when, you know, comments are
9 made that it's largely status quo, these are -- these
10 are big impacts even within a year.

11 And I -- I gave the example from MIPUG-
12 2B there that just the change from the November
13 application to the February update, which was -- both
14 of which were effectively considered status quo DSM,
15 added \$30 million in extra domestic revenue in the
16 year, reduced export revenues by eighteen (18), so \$18
17 million benefit, and it had reduced program spending
18 of 33 million in 2019/'20. And you can reference
19 MIPUG-2B for that -- those -- those values.

20 And all of these directional
21 improvements on top of the assessments are already
22 noted by the Board about why MH-93 was conservative.
23 And I gave you some examples there. MH-93 did not
24 consider export price benefits or import price
25 reductions. Two to five percent was cited as due to

1 the -- the Minnesota transmission, and you didn't
2 consider the dependability premium for uncontracted
3 dependable export energy.

4 And, of course, MH-93 still had 7.9
5 percent price elasticities in the domestic load
6 forecast, so it would've assumed a dampening effect in
7 the load forecast compared to what -- what happens
8 when you don't approve those 7.9 percent.

9 And as best I can tell, there is no
10 apparent material or sustained negative developments
11 compared to MH-93. Now that's not to confuse this
12 accounting detail about Keeyask earlier in-service
13 with bad news.

14 Keeyask earlier in-service helps
15 control the cost of the project. Keeyask earlier in-
16 service leads to export revenue sooner. It does lead
17 to certain costs being recognized on the income
18 statement rather than capitalized, which will have a
19 downward impact on the IFF of numbers; I acknowledge
20 that.

21 But overall, if you're -- if you're
22 somebody who's -- who's managing a project, that's not
23 something you would consider it in the -- in the bad
24 news column. That's, overall, in the long-term, we're
25 talking about benefits to -- to being able to achieve

1 project on time. And that's exactly why Hydro was
2 appropriately trying to do that.

3 And I just wanted to get through this
4 list to emphasize that this is not -- none of these
5 are -- are designed on hope. These are designed on
6 the less than best and latest forecasts available to
7 us about the directionally impacts compared to MH 93.

8 As a result of looking at that, the end
9 conclusion was that the 3.5 percent rate increase was
10 -- was effectively assumed in MH-93 should not be
11 automatically assumed to be required.

12 What rate increase should be assumed to
13 be required, well, I went back to the standards that
14 we've applied consistently over time and that were
15 discussed by Mr. Osler and -- and Mr. Forrest at the -
16 - at the last GRA, which is that there should be a
17 substantial hurdle before people impose rate increases
18 above inflation.

19 We have a utility that's largely
20 invested in capital, largely inflation protected.
21 Increased net inflation should be considered to be --
22 to be, you know, a practical maximum target, maximum
23 barrier absent clear evidence that -- that something
24 beyond that is required.

25 And I think the -- the clear evidence

1 in this -- in this hearing is missing that that is
2 required.

3 Now, no -- on other issues. Some of
4 these are -- were addressed in my IR. Some of it is -
5 - is just commenting on the -- the rebuttal pieces.
6 There was -- there was a comment, is negative net
7 income okay is the way was portrayed, that I was -- I
8 was concluding that negative net income is okay. I
9 don't think it's a fair summary of -- of what was in
10 the evidence I prepared in MIPUG-5.

11 Negative net income is a necessary part
12 of each IFF as part of managing the rate increases.
13 It's part of transitioning in the unprecedented scale
14 of capital. It was part of transitioning in the
15 previous unprecedented scale of capital in 1992.

16 And, in fact, the last time Hydro
17 brought on major plant, limestone, they came to the
18 Board with a forecast of net losses and the Board
19 reduce the rate increase request.

20 It -- it became a -- that was 1992,
21 Order 25/92. It's a -- it's a reality when you're
22 dealing with this type of situation. It's also
23 obviously part of the 2004 drought. That's all in our
24 DNA now, if you like, and it'll be part of any other
25 droughts or risks reliant on reserves.

1 As a matter of fact, there's no meaning
2 to having reserves if there isn't an ability to have
3 the negative income to effectively draw them so long
4 as you're reserves are retained earnings.

5 And I will say that, if in -- in the
6 debate over this there was some very useful testimony
7 from Mr. Colaiacovo at the -- at the previous GRA
8 where I que -- questioning of him as to whether
9 negative net income was -- was advisable or possible.

10 And then if -- if this were to be a
11 substantive debate on first principles, I think that
12 that type information would need to be before the
13 Board.

14 And I just want -- I just want to
15 coclude -- conclude and say that the -- the pre -- the
16 assertion of what is said in the evidence is -- is not
17 correct. And if that was a reason that Hydro's need
18 to rebut, I -- I wanted to allay any concerns that --
19 that anybody would suggest that we should stop paying
20 attention to -- to comments from those out -- outside.

21 But obviously, positive net income is
22 better than negative, all other things being equal,
23 but the -- as long as it's not the primary purpose of
24 otherwise unneeded rate increases.

25 And I also want to emphasize that the

1 tests that might be applied, I think there's a concern
2 that we -- that we not abdicate to -- to other bodies
3 with other purposes, the tests that need to -- applied
4 when considering the fair and reasonable level of
5 rates, including credit rating agencies who have an
6 entirely different purpose and an entirely different
7 objective.

8 Would -- would a lender or credit
9 rating agency prefer that Manitoba Hydro never draws
10 down it's reserves? Sure they would, but that's not
11 the framework we've put in place for rates. We've put
12 in place a framework for rates that -- that we will
13 intend to draw on those reserves at times when we need
14 to.

15 And if -- if that offends someone at a
16 credit rating agency, well, I think that's better than
17 -- than offending the -- the purpose for which we've
18 set up -- set up Manitoba Hydro the way we have.

19 On the comment about are we running out
20 of time, which was made in the transcript on April
21 24th, I -- I want to be clear that we're only running
22 out of time if the intent is that rate increases now
23 will save Hydro from all net losses from Keeyask and
24 Bipole coming into service in each year, and that's
25 that's not a reasonable standard.

1 As I -- I already commented on the
2 capitalized interest, that we're -- we're only running
3 out of time for people who are concerned about --
4 about the interest hitting the books and -- and
5 ignoring the totality of the picture of what's hitting
6 the books over time.

7 And to that audience, we've already
8 shown that picture by putting the capitalized interest
9 in that cash flow test. And I just wanted to also
10 address there that the -- this also applies to the
11 Mood's and -- and noting that the Moody's EBIT that
12 was -- was the focus of some discussion was -- seemed
13 to be largely focused in ignoring Moody's EBIT test
14 which is also cited in Hydro's presentation, but it
15 wasn't the focus of their calculations, which is
16 currently one point two (1.2), per Moody's.

17 That's in the -- the same presentation
18 and in the Moody's report. And EBIT is much more the
19 cash ratio. And -- and that -- that evidence came
20 from Hydro yesterday, one point two (1.2), meaning --
21 meaning interest being -- being covered.

22 And the other thing is that the Bipole
23 III deferral amortization, we know that will end. We
24 know that there is a rate transition needed to help
25 address that over the period of the -- the five (5)

1 years in which the deferral is occurring.

2 I comment on that as part of the reason
3 for being able to -- to see a need to transition rates
4 to a higher level even if we don't have all of the --
5 the quantitative information we're used to.

6 When that happens, that will also be
7 positive to cash because the Bipole III deferral is a
8 non-cash source of revenue at this time.

9 And I wanted to emphasize that, if we
10 are -- if we're running out of time on anything, it's
11 how to start using Hydro's uncertainty analysis to
12 determine the appropriate reserve levels post-Keeyask,
13 the minimum retained earnings type of process, and to
14 work on ensuring we find the right way to communicate
15 this to stakeholders so that people understand what
16 Hydro's finances are intended doing and what this
17 Board is prepared to do to handle risk so that we
18 don't run into this -- the -- the type of short-term
19 focus that we're -- we're seeing.

20 The final side is on the cost of
21 service. I noted I'm recommending across-the-board
22 adjustments for the major rate classes. I didn't do
23 any -- I will say I didn't do any assessment or
24 analysis of anything to do with -- with specific
25 issues on First Nation reserve or the like.

1 But the recommendation to use across-
2 the-board adjustments to the rate increase is
3 reflective in the fact that I don't believe the PCOSS
4 information available to the Board is robust. It's
5 based on PCOSS-18 with only Bipole layered in. We
6 know that directionally Bipole will have a greater
7 percentage increase on those classes that rely on
8 generation or transmission assets, as opposed to those
9 that also pay a rate for distribution assets.

10 But that -- that reflects the
11 limitation of doing that type of approach is that
12 it -- it focuses on what is driving rates in the
13 generation class -- or in the generation of
14 transmission functions. It does not reflect what's
15 driving rates in the other functions.

16 And that is a -- a material omission,
17 particularly in light of how much reinvestment is
18 going into the distribution system. And I -- I'm
19 worried that this point might not be -- might not be
20 noted but in the CEF that is in -- that's been filed
21 outside of major generation transmission, generation
22 in the next -- or in the five (5) years covered is
23 about -- is about \$500 million of reinvestment or
24 about a hundred million a year. And that's on a
25 system. The generation has a very large asset base:

1 7.4 billion.

2 So at -- the reinvestment of the
3 generation system beyond -- beyond Keeyask is -- is
4 quite low. So the thing you're not seeing that PCOSS
5 on top of -- on top of the Bipole is -- is relatively
6 small.

7 Transmission is similar. It's about
8 250 million over five (5) years or about 50 million a
9 year on an asset base of about 2.2 billion. So again,
10 the transmission system, by ignoring what -- what else
11 is going on, you're not missing much.

12 On the distribution system, however,
13 the reinvestment right now is very large, and it's
14 averaging about \$225 million a year on an asset base
15 of about 2.7 billion.

16 So as a -- as a scale of impact, those
17 compounding effects in -- in the future PCOSSs are --
18 are not being picked up by the -- the course estimate
19 that we have today, and that -- I would emphasize that
20 the distribution impact is -- is magnified by the fact
21 that it's just a subset of customers who actually pay
22 them. And it's also magnified by the fact that those
23 investments tend to be depreciated over a somewhat
24 shorter period than some of the -- the lease
25 generation-type investments.

1 So that -- I -- think that is a -- a
2 fairly major story that -- that is missing from that
3 that PCOSS update. I -- I look forward to seeing
4 future PCOSS updates that -- that fully analyze it
5 and -- and as a result, even though the classes
6 that -- that I'm retained to -- to represent tend to
7 be above a hundred, I don't think there's a basis to
8 be talking about further across-the-board rate
9 increases. I don't think the evidence is sufficiently
10 robust to -- to recommend that coming out this
11 proceeding.

12 And that's the end of the -- the
13 direct.

14 MR. ANTOINE HACAULT: Thank you very
15 much, Mr. Bowman.

16 Ms. Fernandez? Oh, sorry. Yeah.
17 Sorry. Ms. Kapitany, please.

18 VICE CHAIR KAPITANY: Mr. Bowman,
19 could you just go back to page 2 of your deck? You
20 say across-the-board increase of zero to 1.5 percent,
21 and then you give your justifications, one of which is
22 inflation.

23 Could you just tell me the measure you
24 used and the time frame you used?

25 MR. PATRICK BOWMAN: There is an IR

1 that was asked on this, I think, by the Board if I'm
2 not mistaken. So if you give me a moment, I'll...

3

4

(BRIEF PAUSE)

5

6 MR. PATRICK BOWMAN: Yes. It was a --
7 a Board PB MIPUG 1-4, and the question is: What was
8 used? How did I get to one point five (1.5)?

9 And I noted that at the time it was
10 prepared, February 2019, total CPI for the Bank of
11 Canada was one point five (1.5). The CPI for Manitoba
12 at that point was one point four (1.4), although it
13 was then updated to -- to two point-o (2.0).

14 I wasn't necessarily trying to pick
15 between a Canada and the Manitoba measure. As I note
16 in that response, the intent of the principle is to
17 give an idea of a -- of a bound, if you like, and --
18 and to work within that generally. So that was how I
19 came up to one point five (1.5).

20 THE CHAIRPERSON: Ms. Fernandes, my
21 apology. I just -- I -- apparently, I have the wrong
22 copy. So I've been told by counsel who -- who gave me
23 the staredown that it's actually Mr. Williams who's
24 going first.

25 DR. BYRON WILLIAMS: My Chair, I'm

1 rarely in the position to ask questions of the Board,
2 but you'll confirm that the staredown was not from the
3 Consumers Coalition.

4 THE CHAIRPERSON: I would confirm the
5 staredown was from counsel --

6 DR. BYRON WILLIAMS: Okay.

7 THE CHAIRPERSON: -- who gave me a
8 look I've seen before from other people.

9 DR. BYRON WILLIAMS: I've seen one of
10 those looks as well.

11

12 CROSS-EXAMINATION BY DR. BYRON WILLIAMS:

13 DR. BYRON WILLIAMS: Just for the --
14 just for the benefit of the panel, as well as the
15 MIPUG witness, the primary focus of our discussion
16 here is -- will be two areas where our experts do not
17 take the same approach as the MIPUG witnesses, and
18 then one issue of clarification where our experts do
19 not comment, and then one quick question in terms of
20 the very last words out of Mr. Bowman's mouth, which I
21 may have been inadvertently misspoken.

22 So perhaps we could start by turning to
23 PUB-Coalition-8, the third page just for a second.
24 And Mr. Bowman, the second full paragraph on this, the
25 last lengthy sentence. You would just see that the

1 Consumer Coalition experts are not recommending a
2 Keeyask deferral account. That's consistent with your
3 understanding, sir?

4 MR. PATRICK BOWMAN: Yes.

5 DR. BYRON WILLIAMS: And, sir, you
6 spoke today in your -- in your PowerPoint and in your
7 oral evidence in terms of -- without asking you to
8 elaborate, I would just ask you to confirm -- of
9 implementing a Keeyask deferral account similar to the
10 Bipole III account. Do you recall that, sir?

11 MR. PATRICK BOWMAN: Yes.

12 DR. BYRON WILLIAMS: And we're not
13 going to get into transition funds at this point in
14 time, but you'll recall in your written evidence, sir,
15 you referred to any such revenue being targeted to a
16 deferral account or transition fund. Do You remember
17 that, sir?

18 MR. PATRICK BOWMAN: Yeah. I was -- I
19 wasn't trying to draw a significant distinction
20 between the -- it was --

21 DR. BYRON WILLIAMS: Okay.

22 MR. PATRICK BOWMAN: -- conceptual.
23 It was descriptive. It wasn't meant to be technically
24 describing two (2) different things.

25 DR. BYRON WILLIAMS: Okay. So just

1 for clarification purposes, the reference in your
2 written evidence to a transition fund is really
3 intended to be analogous to a deferral account.

4 MR. PATRICK BOWMAN: Yes. It was
5 meant to be more -- more descriptive than when -- then
6 the -- the named deferral account, which I'm not sure
7 is as clear to non-accounting folks.

8 DR. BYRON WILLIAMS: And if we could
9 turn to appendix 3, the Hydro annual report, at
10 page 91 and 92, and down to note 27, relating to
11 deferred revenue.

12 Mr. Bowman, recognizing that your
13 approach is to a deferral account similar to the
14 Bipole III approach, without asking for a lengthy
15 accounting discussion which neither I and perhaps you
16 are capable of, your understanding would be that the
17 Bipole III contribution is currently treated as
18 deferred revenue?

19 MR. PATRICK BOWMAN: Yes.

20 DR. BYRON WILLIAMS: And if we can go
21 to the top of the next page. Mr. Bowman, you'll see
22 that the Manitoba Hydro has helpfully presented a
23 history of the development of the deferred revenue
24 within the -- in -- within the Bipole III deferral
25 account, agreed?

1 MR. PATRICK BOWMAN: Yes.

2 DR. BYRON WILLIAMS: And just for a
3 second, I'll remind everyone -- we're going to come
4 right back to that -- but I'll remind everyone that --
5 or Mr. Bowman, I'll get you to remind everyone --
6 you're currently understanding is that -- Keeyask is
7 currently targeted to come online on October of 2020,
8 the first unit?

9 MR. PATRICK BOWMAN: Yes.

10 DR. BYRON WILLIAMS: And as you've
11 indicated today when it comes online, there will be
12 significant costs for the income statement?

13 MR. PATRICK BOWMAN: For the income
14 statement, yes.

15 DR. BYRON WILLIAMS: And as well, sir,
16 there will also be significant new revenues for the --
17 associated with this project.

18 MR. PATRICK BOWMAN: In each case,
19 sort of phased in with the units, but -- but yes. You
20 will be starting the revenues.

21 DR. BYRON WILLIAMS: Now --

22 MR. PATRICK BOWMAN: I don't want to
23 split hairs about the month that it would be
24 recognized or about, you know, at what point
25 contractual obligation kick in versus just added power

1 transactions.

2 But, you know, beyond '19/'20, that --
3 an earlier date would mean that those things start to
4 hit the income -- both components of that would start
5 to start to hit the income statement.

6 DR. BYRON WILLIAMS: Okay. Thank you.
7 Sir, I get your understanding would be that Bipole III
8 came online on or about July 4th, 2018?

9 MR. PATRICK BOWMAN: That was the
10 evidence I heard.

11 DR. BYRON WILLIAMS: So in terms of
12 the development of the Bipole III deferral account,
13 you'll agree that it was initiated in Order 43/13?
14 Would that be fair, sir?

15 MR. PATRICK BOWMAN: Yes.

16 DR. BYRON WILLIAMS: And you see
17 incremental additions over, I'll suggest to you,
18 five (5) consecutive Board orders over five (5)
19 consecutive years, sir?

20 MR. PATRICK BOWMAN: Yes.

21 DR. BYRON WILLIAMS: And if we could
22 turn to PUB-1-11 to Manitoba Hydro and scroll down.

23 Mr. Bowman, you'll recognize here a
24 continuity schedule of the Bipole III deferral
25 account, sir?

1 MR. PATRICK BOWMAN: Yes.

2 DR. BYRON WILLIAMS: And what that
3 shows to us, I'll suggest to you, is contributions to
4 the deferral account over six (6) separate years,
5 starting with the 2013/14 year with a total of
6 19 million and concluding in the 2018/19 year with the
7 44 million?

8 MR. PATRICK BOWMAN: Yes.

9 DR. BYRON WILLIAMS: And presumably,
10 that last year, being 2018/2019, would be the couple
11 of months of that fiscal year before Bipole III came
12 online, agreed? That 44 million?

13 MR. PATRICK BOWMAN: My understanding
14 is that that's when the switch occurs.

15 DR. BYRON WILLIAMS: Directing your
16 attention, sir, to the balance on the right-hand side
17 of this continuity schedule, as of the end of '17/'18,
18 this suggests that the deferral account was
19 \$348 million?

20 MR. PATRICK BOWMAN: Yes.

21 DR. BYRON WILLIAMS: And if we were to
22 add in the \$44 million in contributions in '18/'19,
23 you'll accept, subject to check, roughly 392 million,
24 sir?

25 MR. PATRICK BOWMAN: Yes.

1 DR. BYRON WILLIAMS: And that would be
2 over the course of parts of six (6) years.

3 MR. PATRICK BOWMAN: Yes.

4 DR. BYRON WILLIAMS: And, sir,
5 Mr. Bowman, would you agree in terms of when
6 Bipole III came online, there wouldn't be a
7 significant revenue bump for Manitoba Hydro associated
8 with that project coming online?

9 MR. PATRICK BOWMAN: Yes.

10 DR. BYRON WILLIAMS: So, with
11 reference to the BiPole III deferral account, would it
12 be fair to suggest to you, sir, that that total of
13 roughly \$390 million was accrued or -- sorry, was
14 generated over the course of four (4) full years and
15 parts of two others?

16 MR. PATRICK BOWMAN: Yeah. At varying
17 rates throughout them, but yes.

18 DR. BYRON WILLIAMS: And as -- since
19 it was built up over somewhere between forty-eight
20 (48) months and sixty (60) months.

21 Would that be fair?

22 MR. PATRICK BOWMAN: I -- it's
23 actually a little bit longer than that. But if we --

24 DR. BYRON WILLIAMS: And even longer
25 period. And when we look at the amortization, which

1 is the middle column, sir, we see, as well, that it --
2 the intent or the -- it will be amortized over
3 six (6) years, beginning in 2018/'19 at 58 million and
4 concluding in 2023/'24 at 20 million.

5 Is that correct?

6 MR. PATRICK BOWMAN: Yes.

7 DR. BYRON WILLIAMS: Assuming Keeyask
8 comes in on October 2020, at least first in units,
9 would it be fair to suggest, Mr. Bowman, that you're
10 talking about the buildup of a deferral account over a
11 16-month period between June 1st, 2019 and
12 October 2020?

13 MR. PATRICK BOWMAN: Right. That --
14 and that's -- that's the key factor why I'm -- I was
15 emphasizing that, you know, you -- the Board might
16 consider ordering a mechanism as part of -- of
17 communicating the -- the purpose of any rate increase
18 granted.

19 I don't think the -- the numerical
20 values would obviously be -- be much different and
21 they'd be much smaller on a -- on a much larger
22 project. And as a result, you know, the mechanism may
23 not be worth the trouble.

24 So I'm not sort of thumping the table
25 and saying this is -- this the necessary component. I

1 was just emphasizing that -- that I think when it
2 first came in the Bipole III deferral account, it
3 communicated something of importance. It communicated
4 that the Board was saying this isn't for today. This
5 isn't for -- for compensating Hydro for -- for places
6 where it might -- might, you know, relieve a pressure
7 for cost control or something else.

8 It was just saying this is -- this is
9 for -- this for the benefit of helping transition the
10 impact on ratepayers and for the benefit of helping
11 question the impact by starting a little sooner and
12 ending -- and ending the impact a lot later in giving
13 about ten (10) years to face the project in rather
14 than one.

15 I -- I don't think that six (6) is the
16 magic. I think when you look at this -- at this --
17 this page, the ten (10) was what -- was what they
18 achieved. And in function, it served a useful
19 purpose. In message it also suited the use for
20 purpose, what I'm saying here, for Keeyask 'cause you
21 wouldn't have anywhere near the same function. You --
22 you may want to make it the same message.

23 DR. BYRON WILLIAMS: And you wouldn't
24 have the same function, sir, because a buildup of --
25 of at least three (3) times as long as what we're

1 looking at for Keeyask; you wouldn't have the
2 magnitude of the balance in the deferral account,
3 agreed?

4 MR. PATRICK BOWMAN: Yeah, right. But
5 when this -- when this started, this wasn't aiming for
6 the magnitude either. I don't think anyone dreamed
7 that it was going to be almost \$400 million.

8 It was -- in each case, the Board
9 looked at -- and I think your earlier slide emphasized
10 it -- in each case many -- over many orders, the Board
11 looked to the facts and said I can identify current
12 cost pressures in Hydro that may merit a rate
13 increase, or I may identify no current cost pressures
14 in Hydro that merit a rate increase, but I can
15 identify a long-term need to transition rates.

16 And so something I think that people
17 had been in a way encouraging this Board to do over
18 time, which is develop more than one (1) lever of
19 control, the Board found a way to do, which give
20 itself two (2). It could always say what is the flow
21 rate increase and how much of it does Hydro actually
22 get to book?

23 And -- and I think that was -- I'm
24 thinking back to probably 2005 for something you and I
25 going over these -- these topics, Mr. Williams, and

1 saying that the -- the regulator's dilemma and the
2 Board was limiting the tools available to it 'cause it
3 can only increase rates and -- and -- or decrease
4 rates. And -- and this -- the Bipole to a transition
5 debt from -- from one message -- being able to
6 communicate one message to being able to communicate
7 two.

8 DR. BYRON WILLIAMS: Thank you. And
9 in terms of the Bipole tool, sir, at a high level,
10 without asking you to elaborate, your point is that it
11 had both a functional outcome, as well as a messaging
12 outcome, agreed?

13 MR. PATRICK BOWMAN: Yes.

14 DR. BYRON WILLIAMS: And in terms of
15 the Keeyask tool, given the limitations in terms of
16 function, it -- it is -- you see it at least as a
17 messaging tool.

18 MR. PATRICK BOWMAN: I -- I offer it
19 as a messaging tool, given that I think the Board is
20 in this, you know -- I think the Board is probably
21 facing the same type of an intellectually challenging
22 set of facts that we were, which is how -- how does
23 one make an assessment of what is fundamentally in --
24 in a massive volume of evidence coming out of the
25 previous hearing, the previous few hearings, that we

1 should be transitioning somewhere.

2 But the facts of this case, related to
3 the scope of this case, don't support that.

4 DR. BYRON WILLIAMS: And, sir, in
5 terms of the practical question of amortization, do
6 you have a recommendation over how many years it would
7 be amortized?

8 MR. PATRICK BOWMAN: No

9 DR. BYRON WILLIAMS: And part of that,
10 sir, is a practical or functional result of -- that
11 the sum of money that we're talking about is -- is
12 obviously much lower than what was developed with the
13 Bipole III deferral account.

14 MR. PATRICK BOWMAN: Yes.

15 DR. BYRON WILLIAMS: Mr. Bowman again,
16 recognizing that neither of us have the CPA
17 designation, would it be your understanding that for
18 financial reporting purposes, a deferral account, such
19 as Bipole III or notionally Keeyask, are treated as
20 deferred revenue, and then once the project becomes --
21 comes online, they're drawn into revenue?

22 MR. PATRICK BOWMAN: I know that
23 they're treated as deferred revenue. Beyond that, I
24 would -- I would leave it to the accountants to -- to
25 comment on how that is presented.

1 DR. BYRON WILLIAMS: Perhaps you can
2 assist me with this to the extent you're able.
3 Conceptually -- and for our clients to understand the
4 deferral account -- is that money stocked away in a
5 secret drawer only to be spent when Keeyask comes
6 online? Or would it be your expects -- expectation
7 that the money from the deferral account would be
8 available to be used at Hydro's discretion, so long as
9 it is -- it is treated as deferred revenues on the
10 financial statement?

11 MR. PATRICK BOWMAN: Deferred revenues
12 is a -- it's a balance sheet item, Mr. Williams, so it
13 would show up as an -- as an obligation of the
14 Corporation. But it -- but it's not treated as
15 sequestered cash or anything of that nature to the --
16 to the best of my knowledge, and I've certainly never
17 seen any reporting to suggest it is. It's not a trust
18 account. It's not -- nothing of that nature.

19 DR. BYRON WILLIAMS: Moving to another
20 topic, which will -- I'll only have a couple questions
21 on, Mr. Bowman.

22 At a high level, and without asking you
23 to elaborate, you're aware that in terms of the
24 methodological approach to this application, the focus
25 of the consumer coalition witnesses has been on the

1 test year basis and -- and line on findings from
2 PUB Order 59/18?

3 MR. PATRICK BOWMAN: Yes.

4 DR. BYRON WILLIAMS: And, sir, you
5 take somewhat of a different approach in -- in your
6 direct evidence, and I'll suggest you -- you say that
7 there is no sensible way to determine a rate increase
8 for Manitoba Hydro, based on a one (1) year test year
9 and in the absence of an IFF. Do you recall
10 statements to that effect, sir?

11 MR. PATRICK BOWMAN: Yes. I -- I
12 would -- I might just add, I don't make those comments
13 in -- to suggest that the -- the approach that
14 Mr. Rainkie took is -- is problematic. I think we --
15 we each came at this and -- and dealt with this unique
16 set of facts by sort of boiling down our assignment to
17 a different question.

18 I boiled down the question to say, is
19 64 million enough? He'd boiled down the question to
20 say -- and -- well, I'll let him speak for himself --
21 but -- but -- and I understand his evidence. He
22 boiled down the question to say, if you really want a
23 hundred and eleven million, there are other ways you
24 could get it.

25 DR. BYRON WILLIAMS: Thank you.

1 And -- and just to the extent that there is a -- a
2 methodological difference between the two of you, you
3 will recall from our client's cross-examination of
4 Manitoba Hydro yesterday, we drew the attention of
5 Manitoba Hydro to Board Order 59/18, specifically
6 page 65 and the discussion of drought risk export
7 price risk and interest rate risk. Do you recall that
8 discussion, sir?

9 MR. PATRICK BOWMAN: Yes.

10 DR. BYRON WILLIAMS: And while you
11 and -- and the Consumer Coalition witnesses may
12 disagree on the question to be asked -- do you agree
13 that the findings of the PUB in Order 59/18 with
14 regard to the treatment of risk are still relevant to
15 the deliberations in this rate application?

16 MR. PATRICK BOWMAN: Yes, as long as
17 we understand that inherently talking about something
18 like drought risk is not about just 2019/20. That we
19 fundamentally have to look beyond the -- the single
20 test year, and we can't sort of stop with that -- that
21 set of blinders. And I only emphasize that to sort of
22 ensure that -- that if someone is sort of suggest or
23 dismiss it -- well, that's offside; that's out of the
24 scope. I don't think you can make sense of things
25 if -- if you're limited to that scope.

1 DR. BYRON WILLIAMS: Our clients have
2 one question of -- or one area -- a small area of
3 clarification, and it relates to your evidence in --
4 on the bottom at page 7 in -- and it might be page --
5 let's let's see what we've got here. Yes. On this
6 and -- just one (1) second.

7 Yes, this is the page. Now,
8 Mr. Bowman, on this page you're talking about the --
9 without asking you to elaborate -- you're talking
10 about the appropriate level of reserves for
11 rate-setting purposes?

12 MR. PATRICK BOWMAN: Yes.

13 DR. BYRON WILLIAMS: And if we can
14 just scroll to the top of the page and just keep those
15 first three paragraphs. And for context -- oh, we may
16 be on the wrong page here. My apologies.

17 It's actually the next page, as well.
18 In terms of the appropriate level of reserves on this
19 page, being page 8 at the bottom of your prefilled
20 evidence, Mr. Bowman, you're asking the question of
21 whether reserves have reached a sufficiently high
22 level, agreed? That's at the very bottom of this
23 page.

24 MR. PATRICK BOWMAN: Yes.

25 DR. BYRON WILLIAMS: And in addressing

1 this question, you're looking at the top at three (3)
2 different time periods, being the two-o-three (203)
3 period, the two-o-nine (209) period, and the last
4 generate application?

5 MR. PATRICK BOWMAN: Yes. And there's
6 no magic to the selection of those or -- just to give
7 an -- weight points.

8 DR. BYRON WILLIAMS: But the four
9 factors, sir, that you consider in this discussion --
10 perhaps, Ms. Schubert, you can show the -- scroll up
11 towards the top of the page just so we have a bit --
12 for all three time periods, sir, you're looking at,
13 I'll suggest to you, four factors: domestic revenues,
14 export revenues, the drought reserve, and the level --
15 sorry -- the estimated cost of a five (5) year drought
16 and the actual level of reserves.

17 Would that be fair?

18 MR. PATRICK BOWMAN: Yes.

19 DR. BYRON WILLIAMS: Let's assume for
20 a moment that our client understands your point about
21 reserves being significantly higher than the cost of a
22 five (5) year drought. From the perspective of an
23 appropriate level of reserves, what is the relevance,
24 if any, of the relative level of domestic revenues
25 versus export revenues? Why does that matter for your

1 evidence, sir?

2 MR. PATRICK BOWMAN: I guess,
3 Mr. Williams, I've been trying to find a way to convey
4 a -- a picture that's been evolving over twenty (20)
5 years of doing this that Hydro has gone through
6 different phases in -- in respect of how we come into
7 these -- these rate hearings and the things that we
8 need to address and talk about.

9 One of those is, you know -- even when
10 we start -- I started in 2002. It was in the early
11 years of figuring out how one was moving from this --
12 this bolder minimum retained earnings target to
13 something where it was a bit more long-term
14 aspirational targets of -- of moving away from
15 ninety-five five (955) and -- and building up some --
16 some equity ratio, eight-five fifteen (8515) at the
17 time, in the -- the first targets.

18 And so there -- there was a series of
19 hearings where it was always a question. Of course
20 we're -- we're working at building these reserves. Of
21 course we're working at building these retained
22 earnings. It's just a -- a question of how fast we
23 get there, and what do we do when hit a bump in the
24 road, like the 2004 drought.

25 But -- but that path that was put in

1 place starting in, you know, in the early 90s in --
2 that Mr. Forrest talked about last time, we knew -- we
3 knew that this -- these targets set us somewhere to
4 go, and we always knew that building the reserves and
5 growing was part of the ultimate plan. And -- and
6 there was a lot of different ways to look at -- at the
7 pace in which one did it and how you dealt with these
8 different events.

9 In the midst of that, something else we
10 saw changing was the extent to which Hydro was relying
11 on export markets in a way it hadn't before. And as a
12 result, the -- the -- in the two (2), three (3), and
13 for quite a few years after -- the percentage of
14 exports that made up their base was high. And as a
15 result, the -- the exposure to export market
16 variability was -- was quite high.

17 And so -- and -- and I'll guess relay
18 from -- from my perspective looking back on it, the
19 prices in the export market were also quite high.
20 That led to questions about whether we should even be
21 trying to serve Manitoba load or whether we should,
22 you know, scare away some industrials 'cause we'd
23 rather sell power on the export market, as -- as I
24 would summarize the -- the energy intensive rate era
25 in late 2007-ish.

1 So you had a utility that was trying to
2 build up reserves, trying to -- trying to deal with
3 the fact that it could have long-term droughts, that
4 it -- it didn't have enough from retained earnings to
5 even handle. And that was reliant on, to some extent,
6 a bit of a home run in the export markets at the high
7 prices that were there to do it.

8 In that situation, I -- I don't think
9 there was any serious debate about whether we should
10 be aiming higher on -- on reserves and -- and building
11 up retained earnings.

12 Starting the last hearing -- and I -- I
13 think -- I think we are in a major transition period
14 now -- the facts have changed. The export markets
15 aren't as lucrative as they were. I -- we're not
16 seeing the same degree of even -- I put the ratio
17 of -- export to domestic here.

18 I -- I think if I had had more -- more
19 tools available, I'd deal with the -- the variability
20 that could rise in Hydro's revenues, due to changing
21 export prices, like how exposed are we to the
22 assumptions we make about the export market?

23 But, you know, nowadays, no one's
24 sitting here saying the export market's going to be
25 this -- this, you know, brilliantly high prices that

1 are going to -- going to pay for everything that we --
2 we want to do.

3 That's not built into the IFFs anymore.
4 Those -- the drop in export prices in the shale gas
5 and all the other pieces. It is already built in. We
6 don't have that risk to the same extent as we did
7 when -- when you and I sat here in -- in some of those
8 periods: 2006, 2007.

9 And we've built up, and we've got the
10 retained earnings much higher. And as a result, the --
11 I think the picture looks very different, so that when
12 you run the uncertainty tool that Hydro's now
13 developed, which is the third new development, you can
14 start to look at the future and say, you know, it's
15 not a case where we're inevitably adding to reserves
16 for timing immemorial. It's -- it's a case where we
17 have to think about when we've -- when we've reached
18 enough. And we have tools that can help us assess
19 that.

20 I don't think we'd ever been able to be
21 in a position where we'd talk about: What does enough
22 look like? What does, as the Board latched onto, a
23 minimum retained earnings concept in this modern era
24 look like? And I think that's what we're going to be
25 facing in the next few years.

1 So as much as this -- this hearing's
2 talked about the immediate cash flow, you know,
3 18 months from Keeyask coming into service, and the
4 problems right now, I think the opportunity for us is
5 to say: Given the tools we have available, given
6 the -- the retained earnings that exist, given the
7 risks that we face and -- and a desire to sort of
8 better understand those risks and how they should be
9 addressed -- like drought risk through reserves and --
10 and interest rate risks through rate changes, which
11 the Board dove into in the last piece -- I think all
12 of that could come together and say, how do we turn
13 that corner?

14 And that -- that's what I was trying to
15 address in the -- is it -- are we running out of time?
16 I think we're running out of time to determine that
17 message and convey what does the world look like after
18 Keeyask comes online, rather than just sort of
19 panicking about the -- the eighteen (18) month period
20 where cash is short because Keeyask is coming online.

21 Somehow out of this page, I was
22 trying -- trying to find a way to convey some of that
23 without -- without dragging into that 'cause it
24 clearly gets pretty far beyond the scope of: What do
25 we need to do in one year?

1 DR. BYRON WILLIAMS: My last question,
2 sir, is our notes of the -- your last statement to the
3 panel is that you may have inadvertently said there's
4 no basis for an across-the-board rate increase. Would
5 I be correct in suggesting to you that your
6 recommendation is to the extent that there is a rate
7 increase, you would recommend using across-the-board
8 adjustments, sir?

9 MR. PATRICK BOWMAN: It -- it should
10 have been there is no basis for anything other than an
11 across-the-board increase at this point in my -- in my
12 assessment of the cost-of-service information
13 available.

14 DR. BYRON WILLIAMS: Okay. And that's
15 in light, without asking you to elaborate, of the fact
16 that we only have a PCOSS-18 -- Cost of Service
17 Study 18 -- and that there have been material changes
18 of late, whether Bipole III or -- or what you see on
19 the distribution side.

20 MR. PATRICK BOWMAN: Yeah. And, of
21 course, Keeyask.

22 DR. BYRON WILLIAMS: Yes.

23 MR. PATRICK BOWMAN: So I -- I think
24 just like I would suggest that, you know, steering
25 Hydro's finances is a bit like steering the

1 supertanker. I think probably steering the
2 differential rate increases here is -- is similar. I
3 think you want to look down the road, and do you want
4 to -- you want to do that over time. You're not
5 trying to do something harsh or reactive to -- to one
6 piece.

7 So I think it's helping see where
8 things are going in that it would be helpful, and --
9 and it's not to be critical of -- of Hydro for that.
10 I just don't think that information is available.

11 And I'm -- and I wouldn't think it was
12 a first priority for a -- a one (1) year rate change
13 where we've limited the scope and tried to keep the
14 hearing to a -- to a manageable length.

15 DR. BYRON WILLIAMS: Okay. Thank you,
16 Mr. Bowman, for your assistance. I have no further
17 questions, Mr. Chair.

18 THE CHAIRPERSON: Thank you,
19 Mr. Williams.

20 Let me just ask Ms. Fernandes and
21 Mr. Peters how long you think you'll be into cross. I
22 don't like starting it and interrupting you, and if
23 we're going to finish this afternoon, I'd prefer to
24 break earlier. But I just want to make sure that we
25 finish this afternoon, so.

1 MS. ODETTE FERNANDES: Yes. Thank
2 you, Mr. Chairman. I believe if I can have the break
3 to look through my notes, I think I can get rid of
4 some of my questions. So I anticipate I would be
5 maybe about half an hour, forty (40) minutes.

6 MR. BOB PETERS: I won't be any longer
7 than Ms. Fernandes.

8 THE CHAIRPERSON: Okay. Then, you
9 know, I just -- I just have one question of
10 Mr. Bowman, and then we'll break for lunch.

11 Mr. Bowman, right at the outset of your
12 testimony, you made the comment that, I believe, to
13 the effect: We need to look at it in the longer
14 term -- or Hydro needs to look at a longer term, not
15 the same as other utilities. Can you comment on that
16 part, what you meant by that?

17 MR. PATRICK BOWMAN: Yes. What I
18 meant in that is in the context of rate-setting, and I
19 say that -- that we are often retained to go into
20 different jurisdictions and -- and help either
21 utilities or -- or help interveners and the customers,
22 sometimes regulators, determine what -- what they need
23 to do with rate levels; what would be the appropriate
24 rate changes?

25 And in each case, one has to have a

1 certain understanding of the -- of the ground rules of
2 the jurisdiction and the -- whether that's the
3 legislation, whether that's the regulatory history,
4 and -- and an understanding of the -- the sort of cost
5 tendencies within the utility.

6 And on each of those fronts, Manitoba
7 Hydro is a bit unique because what's going on in one
8 particular year is not -- is not sufficiently
9 informative to make sense of it. And we're not
10 required -- for example, compared to something like --
11 like Alberta where I'm doing work -- we're not
12 required to ensure that the utility necessarily has
13 the -- the exact nickels lined up for exactly every
14 one of its costs it's going to recover plus a fair
15 return on equity to which it's entitled by law in each
16 and every year in which it -- it comes in and -- and
17 asked for rates.

18 If -- if someone says what is the --
19 what is the -- the appropriate rate increase for --
20 for some of the utilities we're dealing with in
21 Alberta, you're not going to sit down and say, well,
22 it, you know, one and a half (1 1/2) seems -- seems to
23 be a sensible trend.

24 You'd come -- you'd do a whole bunch of
25 math and come down to a remedy requirements to the --

1 to the dollar almost and -- and determine the rates
2 that are needed to fund that because they're
3 restricted to this -- this one (1) year picture.

4 So that's the -- that's the framework.
5 And also they don't always have that sort of hydrology
6 risk where'd you say I need to solve this problem this
7 year. It's a drought. I got to fund it this year.

8 A lot -- a lot of the utilities do have
9 an ability to -- to look over the longer term. Like,
10 you know, BC Hydro has some deferral accounts that
11 help it balance its hydrology risk. The Hydro --
12 Hydro balances it through -- through retained
13 earnings. And so they have somewhat of a -- of a
14 longer-term picture.

15 But -- but in Manitoba Hydro's case,
16 it's -- it's very different in terms of both that --
17 that physical nature of the system and the -- and the
18 method in which it's regulated in terms of how
19 important the long-term is.

20 THE CHAIRPERSON: Mr. Bowman, what --
21 what impact is it because it's a cost-of-service model
22 in Manitoba and -- and not in other jurisdictions?

23 MR. PATRICK BOWMAN: Partially it's
24 because it's cost-of-service model in Manitoba. And
25 by "cost of service," we mean Hydro should recover its

1 cost of service like the -- the strict cost-of-service
2 analysis is done in other places.

3 But -- but that -- that's because Hydro
4 needs to recover its -- its costs with -- with sort of
5 this transfer to reserves over time, we have the
6 opportunity to -- to look over the longer term and set
7 rates as -- as I sort of described this as steering
8 the supertanker. It's not quite the same as -- as
9 doing a -- a sort of precise running requirement
10 calculation in each and every year.

11 THE CHAIRPERSON: Are there are any
12 questions? Any other?

13 Thank you very much, Mr. Bowman. We
14 will resume at 1:30. Thank you

15

16 --- Upon recessing at 11:19 a.m.

17 --- Upon resuming at 1:31 p.m.

18

19 THE CHAIRPERSON: If we could resume.
20 Before, Ms. Fernandes -- before we start, I understand
21 Mr. Hacault had something he wanted to put on the
22 record.

23 MR. ANTOINE HACAULT: Sorry, yes, I
24 just wanted to close the loop on that cross-
25 examination question I had asked with respect to

1 capital tax and the guarantee fee related to Bipole
2 III. And the Chair had indicated when I had been
3 asking that question, that it might appropriate if it
4 was a Manitoba Hydro-generated document, and I can
5 advise that it is a Manitoba Hydro-generated document.
6 It was an IR response. The reference is PUB First
7 Round 21, in the last proceeding.

8 THE CHAIRPERSON: Thank you.

9 MS. MARLA BOYD: Sorry, Mr. Chair. I
10 was just looking at the -- Mr. Hacault just caught me
11 in the way in the door and gave me that number, but I
12 understood he was asking us to update the yearly
13 calculation of the payment of the \$900 million, and as
14 I look at PUB Manitoba Hydro 21, it doesn't make that
15 kind of calculation, so I'm -- I'm struggling with
16 what it is that we're being asked to update.

17 THE CHAIRPERSON: I think we're talking
18 two (2) different things. I think I -- I had asked
19 where the numbers had come from in relation to the
20 payments to the government.

21 MS. LOIS MORRISON: Okay.

22 THE CHAIRPERSON: What the -- the
23 origin was. And I think his comment is in relation to
24 that, not in relation to -- not in relation to the --
25 the discussion on updating the \$900 million. Because

1 I don't know where we're going. I didn't understand
2 that there was an undertaking on the \$900 million.

3 MS. LOIS MORRISON: Sorry. No, I
4 didn't take it as one.

5 THE CHAIRPERSON: Yeah.

6 MS. LOIS MORRISON: But I understood
7 that was why this is been raised, but perhaps --

8 THE CHAIRPERSON: No, I think -- I
9 think it was raised simply as to what was the origin
10 of the document, and it was a response to a question
11 that I had.

12 MS. MARLA BOYD: Thank you.

13 THE CHAIRPERSON: Ms. Fernandes?

14

15 CROSS-EXAMINATION BY MS. ODETTE FERNANDES:

16 MS. ODETTE FERNANDES: Thank you, Mr.
17 Chairman, panel.

18 Good afternoon, Mr. Bowman. I'd like
19 to start off by taking you to your response to PUB
20 MIPUG-1.

21 If we go down -- yes, right there. The
22 last paragraph.

23 You have stated that in the short-term,
24 current rates and forecasts other revenues are
25 projected to fully cover, amongst other things, all of

1 Manitoba Hydro's interest costs and payments to
2 government related to current assets and service. Do
3 you see that?

4 MR. PATRICK BOWMAN: Yes

5 MS. ODETTE FERNANDES: And in
6 specifying that revenues will cover interest costs
7 related to current assets and service, you are
8 excluding the interest payments related to Keeyask,
9 correct?

10 MR. PATRICK BOWMAN: In that comment,
11 yes.

12 MS. ODETTE FERNANDES: Okay. And once
13 Keeyask comes into service, you'd agree that interest
14 related to its construction will no longer be
15 capitalized?

16 MR. PATRICK BOWMAN: Yes.

17 MS. ODETTE FERNANDES: And those
18 interest costs will hit the finance expense on the
19 income statement. You'd agree with that?

20 MR. PATRICK BOWMAN: Yes.

21 MS. ODETTE FERNANDES: And, I don't
22 know if we to go there, but would you agree that
23 Manitoba Hydro's approved budget for '19/'20 has a net
24 finance expense of \$741 million? It's on page 8 of
25 Manitoba Hydro's supplement.

1 MR. PATRICK BOWMAN: Yeah, I can
2 accept it, subject to check. I printed those out
3 but...

4 MS. ODETTE FERNANDES: And then if
5 pull up Manitoba Hydro Exhibit number 93. I believe
6 it's page 3. If we look at, in this Exhibit, Keeyask
7 is coming into service in the '20 -- '22/'23 fiscal
8 year. And if we go along the finance expense line,
9 you'll agree that it shows a one point billion dollar
10 of finance expense?

11 MR. PATRICK BOWMAN: Did you say
12 '20/'23?

13 MS. ODETTE FERNANDES: Sorry. Yeah,
14 '22/'23.

15 MR. PATRICK BOWMAN: So, the Exhibit,
16 it -- that has been pulled up in front of me has one
17 one five nine (1159)?

18 MS. ODETTE FERNANDES: Yes.

19 MR. PATRICK BOWMAN: Thank you.

20 MS. ODETTE FERNANDES: \$1.1 billion,
21 correct. That's right --

22 MR. PATRICK BOWMAN: Yes. Yes, one
23 one five nine (1159).

24 MS. ODETTE FERNANDES: And if Keeyask
25 comes into service earlier, you would agree that the

1 increase to finance expense would also be seen earlier
2 in Manitoba Hydro's operating statement?

3 MR. PATRICK BOWMAN: Yes.

4 MS. ODETTE FERNANDES: If we can now
5 turn to PUB-MIPUG-5 -- sorry, PUB-MIPUG-3A. You can
6 go down. You have provided some evidence on interest
7 rates at the end of March. I believe, the -- the
8 figure starts at the end of March 2017. Do you see
9 that there?

10 MR. PATRICK BOWMAN: Yes.

11 MS. ODETTE FERNANDES: And you've
12 shown actual monthly interest rates for March 2017 to
13 March 2019, correct?

14 MR. PATRICK BOWMAN: Yes.

15 MS. ODETTE FERNANDES: And when you
16 look at those actual interest rates, the rates are
17 variable. You'd agree with that?

18 MR. PATRICK BOWMAN: They're variable.
19 I just wanted to correct one (1) small detail. I've
20 shown -- these are actual rates that add in a -- a
21 Manitoba Government spread. The -- the values being
22 reported that are the actuals are off of the -- the
23 Bank of Canada -- off of the Bank of Canada data
24 sources, so. But, yes, they're variable.

25 MS. ODETTE FERNANDES: And you'll

1 agree that when Manitoba Hydro goes to the market for
2 debt issuances, Manitoba Hydro has no guarantee of
3 where the interest rates will be in the market?

4 MR. PATRICK BOWMAN: Yes.

5 MS. ODETTE FERNANDES: Because the
6 rates don't stay the same over twelve (12) -- a twelve
7 (12) month period, correct?

8 MR. PATRICK BOWMAN: Correct.

9 MS. ODETTE FERNANDES: And in your
10 evidence you suggested that interest rate risk for
11 Keeyask is declining as interest during construction
12 is less likely to change than direct project
13 expenditures. Do you recall that?

14 MR. PATRICK BOWMAN: Yes. In any
15 given month interest during construction is primarily
16 driven by what has happened before that point in time.

17 MS. ODETTE FERNANDES: And you'll
18 agree that in order to finish the project, Manitoba
19 Hydro will need to borrow additional funds?

20 MR. PATRICK BOWMAN: Yes.

21 MS. ODETTE FERNANDES: And borrowing
22 those additional funds, Manitoba Hydro will incur
23 further interest charges?

24 MR. PATRICK BOWMAN: Yes.

25 MS. ODETTE FERNANDES: And you would

1 agree that even if the debt is locked in, Manitoba
2 Hydro will still have to make interest payments on
3 that debt?

4 MR. PATRICK BOWMAN: Yes.

5 MS. ODETTE FERNANDES: And you would
6 also agree that at some point, whatever borrowings
7 Manitoba Hydro has made will come due and they must
8 either be repaid or refinanced?

9 MR. PATRICK BOWMAN: Yes.

10 MS. ODETTE FERNANDES: And at the time
11 of refinancing, the interest rates will likely be
12 different than whatever the current rate is today?

13 MR. PATRICK BOWMAN: Yes.

14 MS. ODETTE FERNANDES: Now on slide 14
15 of your presentation this morning, you make a couple
16 of references to the EBIT and the EBITDA calculation.
17 And you would agree with me that in an EBIT
18 calculation is earnings before interest and taxes
19 only?

20 MR. PATRICK BOWMAN: That is what the
21 acronym stands for.

22 MS. ODETTE FERNANDES: And it assumes
23 you have already recovered your depreciation?

24 MR. PATRICK BOWMAN: It is -- it is
25 meant to be after you take off your depreciation,

1 correct.

2 MS. ODETTE FERNANDES: And then the
3 EBITDA calculation is earnings before interest, taxes,
4 depreciation, and amortization.

5 MR. PATRICK BOWMAN: Correct.

6 MS. ODETTE FERNANDES: And you agree
7 that earnings in a EBITDA calculation must be higher
8 than earnings under an EBIT calculation?

9

10 (BRIEF PAUSE)

11

12 THE CHAIRPERSON: Sorry, I'm -- I'm
13 not sure you've got a good mic, because you're --
14 you're speaking the same and it's drifting. So, I
15 think, let's just try and switch mics.

16

17 (BRIEF PAUSE)

18

19 MS. ODETTE FERNANDES: Can you hear me
20 on this one a little better? Okay.

21

22 (BRIEF PAUSE)

23

24 CONTINUED BY MS. ODETTE FERNANDES:

25 MS. ODETTE FERNANDES: Did you catch

1 my previous questions or? The last question, okay.

2 So, Mr. Bowman, you would agree that
3 earnings in an EBITDA calculation must be higher than
4 earnings under an EBIT calculation?

5 MR. PATRICK BOWMAN: The -- the only
6 thing I'm caught up on is -- is the -- you're using
7 the word "earnings must be higher." EBITDA is just a
8 -- is just a measure that is applied to a set of
9 facts. So if -- if earnings is a -- is a fact to
10 which one applies a calculation, they're going to be
11 the same. EBITDA though will have more things added
12 back and so it will lead to a higher value than EBIT,
13 given the depreciation and amortization will be --
14 will be positive values, generally.

15 MS. ODETTE FERNANDES: And I just want
16 to take you through a very simple example. If you are
17 paying one thousand dollars (\$1,000) for interest and
18 five hundred dollars (\$500) for depreciation, you
19 would need fifteen hundred (\$1,500) to cover both
20 interest and appreciation.

21 MR. PATRICK BOWMAN: In -- in your
22 income statement, to have a -- a zero net income, you
23 would need fifteen hundred dollars (\$1,500) to cover
24 those two (2).

25 MS. ODETTE FERNANDES: Right. And if

1 you're looking at an EBIT calculation of one (1)
2 times, and your interest is one thousand dollars
3 (\$1,000), your earnings are one thousand dollars
4 (\$1,000). You'd agree with that?

5 MR. PATRICK BOWMAN: No, I -- I take
6 it that we're -- we're saying that whatever this --
7 this entity is, is we're only talking about the
8 interest component, not the tax component, for
9 example. So we're saying it's just interest?

10 MS. ODETTE FERNANDES: Yeah.

11 MR. PATRICK BOWMAN: Yeah. So you --
12 an EBIT of -- of -- of a -- an EBIT ratio would -- of
13 one (1), would be the -- the EBIT is equal to the --
14 to the interest.

15 MS. ODETTE FERNANDES: Right. So your
16 one thousand dollars (\$1,000) would be interest on
17 your earnings for one thousand dollars (\$1,000).

18 MR. PATRICK BOWMAN: That's what a
19 ratio 1 is, yes.

20 MS. ODETTE FERNANDES: Okay. And if
21 you have an EBITDA calculation of one point two (1.2)
22 times, your interest is one thousand dollars (\$1,000),
23 your earnings are twelve hundred dollars (\$1,200)?

24 MR. PATRICK BOWMAN: Your EBITDA is --
25 is twelve hundred dollars (\$1,200), your interest is

1 one thousand (1,000), is at one point two (1.2).
2 That's -- yeah, EBITDA is the numerator, and the
3 interest is the denominator in the -- in an interest
4 coverage.

5 MS. ODETTE FERNANDES: And then you
6 would agree then that the twelve hundred dollars
7 (\$1,200) is insufficient to cover both interest and
8 depreciation of fifteen hundred dollars (\$1,500)?

9 MR. PATRICK BOWMAN: The twelve
10 hundred dollars (\$1,200) is insufficient to cover it
11 if -- it depends what you mean by "cover". Because if
12 you applying this as a cash test, depreciation is non-
13 cash. If you have twelve hundred dollars (\$1,200)
14 revenue in the door and a thousand dollars (\$1,000)
15 cash out the door, you have a -- you have a positive
16 cash situation.

17 You may have a negative net income.
18 EBITDA doesn't necessarily tell you what your net
19 income is 'cause it's ignoring depreciation. It would
20 be very different if your depreciation is very large
21 or is very small in that case.

22

23 (BRIEF PAUSE)

24

25 MS. ODETTE FERNANDES: Okay. Thank

1 you, Mr. Bowman. On Slide 8 of your presentation...

2 MR. PATRICK BOWMAN: Yes?

3 MS. ODETTE FERNANDES: You make a
4 comment in the third bullet that a one (1) year
5 drought risk for 2019/20 is reduced due to known water
6 in storage. And you would agree with me that the
7 water in storage it's -- is just a starting point,
8 and that the precipitation from now until the end of
9 October has a significant impact on water flow
10 conditions for the year?

11 MR. PATRICK BOWMAN: Oh yes,
12 absolutely. And that's particularly true for -- for
13 Manitoba Hydro. It, you know -- as -- as we deal with
14 different hydro utilities, Manitoba Hydro has -- has
15 relatively less storage than -- than some others.

16 So water and storage we talk about in,
17 you know, single digits of terawatt hours, but overall
18 generation on the year will be -- might be 30 terawatt
19 hours. So a lot of it is -- is not in storage at the
20 beginning of the year; it's -- it's in flows to come.

21 MS. ODETTE FERNANDES: So you'd agree
22 that while you indicate that the drought risk may be
23 reduced, it's not eliminated?

24 MR. PATRICK BOWMAN: Well, \$347
25 million is a long from eliminated. And the -- the

1 reduced four thirty-two (432) to three forty-seven
2 (347), but that's -- that's the -- the difference
3 between what's in storage and -- and what's the come
4 in future flows throughout the next twelve (12)
5 months.

6 MS. ODETTE FERNANDES: If we turn now
7 to your response to Coalition-MIPUG-1B. In part --
8 your response to Part B of this response, in
9 parentheses, you indicate that it would be
10 inconceivable to recover from a drought by way of a
11 single-rate increase.

12 MR. PATRICK BOWMAN: Yes.

13 MS. ODETTE FERNANDES: And you're
14 aware that Manitoba Hydro's retained earnings are not
15 a pool of cash waiting to be called on to fund a
16 drought or other circumstances?

17 MR. PATRICK BOWMAN: Yes.

18 MS. ODETTE FERNANDES: So in order to
19 supply electricity during a drought, Hydro would have
20 borrow funds in addition to potentially any rate
21 increases that is granted by the Public Utilities
22 Board.

23 MR. PATRICK BOWMAN: Well, when you're
24 tracking the drought through in the cash side, that's
25 exactly what happened, yes.

1 MS. ODETTE FERNANDES: And if we look
2 at Manitoba Hydro's response to MIPUG-MH-4, if we go
3 down to page 2, down to, I guess, nineteen forty
4 (1940), right there, the cost of a worst drought on
5 record is nearly \$350 million. Do you see that?

6 MR. PATRICK BOWMAN: Yes. And we
7 actually provided a -- a graphical representation of
8 this in -- in the -- in this submission, MIPUG-5, at
9 page 11 and at page 12.

10 At page 11 shows the -- this -- this
11 series of flows, and something that's a bit -- a bit
12 easier to make sense of, given the water in storage.
13 And that \$350 million you see, it's that -- that one
14 (1) big downward spike in nineteen forty (1940),
15 there.

16 If you go to the next page, you'll see
17 what happens. That -- that was a picture from before
18 whe -- before you know what the water in storage is.
19 And you can see all those -- all those downwards
20 values can -- can change. A matter of fact, the
21 biggest year becomes 2003, but -- due to the timing of
22 the flows. But that's where that three hundred and
23 fifty (350) plays into things.

24 MS. ODETTE FERNANDES: Right. So if I
25 focus on -- on that three hundred and fifty (350);

1 during a drought, Manitoba Hydro's reserves would go
2 down \$350 million and its debt would go up \$350
3 million, correct?

4 MR. PATRICK BOWMAN: Well, dur -- con
5 -- during that worst year, compared to what would've
6 been the case, that's what would happen.

7 MS. ODETTE FERNANDES: Yes. And as
8 we've seen in the course of this process, an
9 additional \$50 million in revenue requires
10 approximately a 3 1/2 percent rate increase?

11 MR. PATRICK BOWMAN: Yes.

12 MS. ODETTE FERNANDES: And so if we
13 were looking at rates alone to recover the costs of a
14 \$350 million drought, rates would require over 20
15 percent increase?

16 MR. PATRICK BOWMAN: I -- I think
17 that's the -- that's my definition of "inconceivable"
18 in the IR response you first took me to. Especially
19 because it would be a one (1) year feature. Raising
20 rates twenty (20) -- over 20 percent for one (1) year
21 and then dropping them back down because of recovering
22 from a drought wouldn't make any sense at all. It's
23 why we use a long-term picture and we use reserves,
24 and why we use averages in running the IFF.

25 You would -- you also wouldn't need to

1 recover from that drought with a 20 percent rate
2 increase, unless in the years of flood you're giving
3 people ten (10) or -- 10 percent rate decreases or
4 whatever, because the water's higher. We designed an
5 IFF for a long-term to show average conditions;
6 average includes the bad year and the good year.

7 MS. ODETTE FERNANDES: And so to the
8 extent that the cost of the drought is not recovered
9 fully by way of a one (1) year rate increase, Manitoba
10 Hydro's retained earnings would decline. You'd agree
11 with that?

12 MR. PATRICK BOWMAN: Correct. Yes.

13 MS. ODETTE FERNANDES: And the debt
14 would increase by \$350 million?

15 MR. PATRICK BOWMAN: Yes.

16 MS. ODETTE FERNANDES: And there would
17 be associated interest cost with that debt?

18 MR. PATRICK BOWMAN: Yes.

19 MS. ODETTE FERNANDES: And that
20 therefore, Manitoba Hydro's finan -- finance expense
21 would increase as a result of the borrowings, and that
22 would translate into an increase in revenue
23 requirement?

24 MR. PATRICK BOWMAN: I guess the -- I
25 -- I was with you right up to the "increase in revenue

1 requirement," because when we talk about increase in
2 revenue requirement, it's comp -- compared to what?

3 If we -- the reason we set rates based
4 on the averages, and you look at things like a
5 uncertainty scenario, you say -- and assuming that
6 revenue requirement here is -- is talking about this
7 long-term picture -- is you -- you look at the fact
8 that in some years you're going to have better-than-
9 average results, in some years you can have worse-
10 than-average results. And to really make sense of
11 that and whether -- how it plays into the rate
12 scenario, you need to run that through some -- some --
13 a proper financial forecast with -- including with
14 some uncertainty analysis, like the tools that we
15 talked about at the last application, to know whether
16 you're collecting the revenue requirement in -- and
17 have sufficient rates.

18 What exists -- I'd be really troubled
19 if -- if the existence of a one (1) year drought is
20 somehow comes across as -- as something that -- that
21 people come in here and say, Well, we never thought of
22 this. Like, I think it was -- we've talked about
23 every time, and we've always built it in and we've
24 always assumed that the IFF is being designed to help
25 take care of that situation. It's the very basis of

1 the financial targets that we've worked to -- to get
2 to

3 MS. ODETTE FERNANDES: But you'd
4 agree, Mr. Bowman, that Manitoba Hydro's finance
5 expense would increase as a result of the borrowings
6 because we have interest to pay?

7 MR. PATRICK BOWMAN: It would. The --
8 the issue is whether that necessarily means that you
9 have higher revenues and need higher rates. If the
10 entire rate system was based on the idea that
11 sometimes that will happen and sometimes the other
12 will happen, and over the long-term they're going to
13 be managed within a -- with -- with -- within an
14 average and within a bound, and with the reserves of -
15 - collecting or -- or being drawn down to reflect that
16 variation.

17 MS. ODETTE FERNANDES: Mr. Bowman,
18 this morning you suggested that Keeyask coming into
19 service early was a good news story from a project
20 management perspective?

21 MR. PATRICK BOWMAN: Yes.

22 MS. ODETTE FERNANDES: And you would
23 agree with me that a project management perspective is
24 different from a financial perspective?

25 MR. PATRICK BOWMAN: Yes. But, in

1 general, I would say Keeyask coming into service early
2 is good from a financial perspective too.

3 MS. ODETTE FERNANDES: You'd agree
4 though that costs -- that Keeyask will be a used and
5 useful asset and its costs, including interest, will
6 be recoverable in rates?

7 MR. PATRICK BOWMAN: Yes.

8 MS. ODETTE FERNANDES: Mr. Bowman, you
9 would also agree that, based on the evidence of this
10 proceeding, Bipole III has come in at a cost of
11 approximately \$4.77 billion?

12 MR. PATRICK BOWMAN: That is the
13 evidence that I heard.

14 MS. ODETTE FERNANDES: And the Bipole
15 III deferral account that was established by the PUB,
16 set aside 11.6 percent of that project?

17

18 (BRIEF PAUSE)

19

20 MR. PATRICK BOWMAN: I -- Which eleven
21 point six (11.6) are you referring to, just to make
22 sure I've been following?

23 MS. ODETTE FERNANDES: The cumulative
24 rate increases were eleven point six (11.6).

25 MR. PATRICK BOWMAN: I thought I heard

1 you say it set aside 11.6 percent of the project, and
2 I was trying to --

3 MS. ODETTE FERNANDES: Oh, I did. I
4 misspoke. Sorry.

5 MR. PATRICK BOWMAN: -- do the math of
6 four seven seven (477) and eleven (11) with -- no, the
7 -- 11.6 percent rate increases have been -- had been
8 imposed over the years, as shown in the -- the MIPUG
9 Exhibit 6, for -- over the years to -- to fund the Bi
10 -- the Bipole III account, and that amount -- those
11 amounts are now flowing into rates -- flowing into
12 revenues.

13 MS. ODETTE FERNANDES: And you would
14 agree that Keeyask is approximately twice the cost of
15 Bipole III; 4.77 billion to eight point seven (8.7)?

16 MR. PATRICK BOWMAN: Yeah. I guess
17 what's a few hundred million between friends.

18 MS. ODETTE FERNANDES: And you would
19 therefore agree that the revenue requirement impacts
20 of Keeyask coming in-service are much larger than
21 Bipole III coming into service?

22 MR. PATRICK BOWMAN: Bipole III, we
23 were talking about wer -- the impacts on the cost
24 side, but it has nothing going on -- on the revenue
25 side. Keeyask has a fairly large effect on the -- on

1 the revenue side as well.

2 MS. ODETTE FERNANDES: But you would
3 agree that even though Keeyask may be revenue
4 generating, all of the costs of Keeyask will not be
5 offset?

6 MR. PATRICK BOWMAN: Well, that's --
7 that's -- that's definitely true. All the costs will
8 not be offset in the first year. And if you could
9 show me a hydro project that would, I think whoever
10 could build it would be jumping for joy.

11 The -- we went through numbers though
12 that I was here for, where, depending on what revenues
13 you ascribe to Keeyask, it's somewhere between --
14 yeah, it's -- it's, you know, 9 percent and maybe as
15 high as 18 percent. But I think, based on the revenue
16 numbers that were -- were recorded in the Board's book
17 of documents, about 360 million, it ends up being
18 about 9 percent on rates. So -- so somewhat lower
19 than Bipole, that's why I was...

20 MS. ODETTE FERNANDES: And you'll
21 agree that currently there has been nothing set aside
22 to smooth the impacts of Keeyask coming in-service?

23 MR. PATRICK BOWMAN: Correct. But to
24 -- pardon, there's nothing been set aside specifically
25 as -- as it for revenue to -- to fund Keeyask coming

1 into service. I think all of the past rate increases
2 that we've had discussions of before this Board have
3 been set based on a long-term trend looking in an IFF
4 that the a Keeyask in it.

5 So, I don't think this -- that someone
6 would say all these rate increases approved by the
7 Board did not have any -- any eye to the fact that
8 there was a Keeyask coming.

9 MS. ODETTE FERNANDES: But there's
10 nothing been set aside in a deferral account, you'd
11 agree with --

12 MR. PATRICK BOWMAN: That's correct.

13 MS. ODETTE FERNANDES: And you would
14 also agree, Mr. Bowman, that having additional money,
15 either in revenue or in a deferral account, will
16 assist in smoothing the transition to higher rates
17 when Keeyask comes into service?

18 MR. PATRICK BOWMAN: I -- can -- get
19 you to repeat the question, if that's okay?

20 MS. ODETTE FERNANDES: Sure. You
21 would agree that having additional money, either in
22 revenue or in a deferral account, will assist in
23 smoothing the transition to higher rates when Keeyask
24 comes into service?

25 MR. PATRICK BOWMAN: We spent a lot of

1 time talking about income statements and cash
2 statements and the difference between the two. I
3 would agree that either of those two (2) would have
4 the effect of -- of smoothing in the income statement
5 effects of Keeyask.

6 I actually think that the -- that if it
7 was -- if it was deferred revenues, it's not
8 addressing a cash impact of -- of Keeyask coming into
9 service, because the -- just like the Bipole III
10 deferral account, Manitoba Hydro's amortizing into
11 revenue \$78 million from the Bipole III deferral
12 account, but that's not new cash, that's cash that was
13 collected a while ago. So this year's cash-flow
14 statement won't show that coming in.

15 So they have different effects on the
16 cash statement, but -- but both rates or a deferral
17 account will have a beneficial effect on the income
18 statement.

19 MS. ODETTE FERNANDES: But, Mr.
20 Bowman, at -- in your evidence, you do you say that
21 there is likely -- there is a likely need to
22 transition rates to higher levels as Keeyask comes
23 into service, and the preferred approach to increasing
24 customer rates is on a stable and predictable basis?

25 MR. PATRICK BOWMAN: Yes. I think

1 you'll probably find that in each piece of evidence we
2 filed going back before NFAT too.

3 MS. ODETTE FERNANDES: And, Mr.
4 Bowman, you have suggested in your evidence that,
5 based on the updated cash-flow information, Hydro is
6 able to internally finance all normal capital spending
7 from operating activities?

8 MR. PATRICK BOWMAN: Yes.

9 MS. ODETTE FERNANDES: That's page 13
10 of your evidence.

11 MR. PATRICK BOWMAN: Yes. And I -- I
12 -- I think there's been a bit more ink spilled on this
13 since that time, and page 9 of the -- of the -- no, we
14 don't have go there, but page 9 of the presentation
15 addresses that in a bit more detail.

16 But the cash -- the cash-flow
17 statement, as it would be prepared, consistent with
18 normal utility practice and consistent with what this
19 Board has ordered, would show cash provided by
20 operating activities of north of 500 million and
21 business operating capital at four seventy-eight (478)
22 for the -- for the year in question.

23 MS. ODETTE FERNANDES: And if we --
24 before we turn to your slide 9, if we pull up your
25 response to PUB-MIPUG-2. We're looking at page 4.

1 Oh, sorry, yeah, right down. I'm trying to find it
2 now.

3

4 (BRIEF PAUSE)

5

6 MS. ODETTE FERNANDES: Oh, in that, I
7 guess, middle paragraph, you indicate that on a
8 forecast basis, it should be viewed as a positive
9 characteristic for Hydro, if the operating cash flows
10 exceeds the level of spending on sustaining capital in
11 forecast years?

12 MR. PATRICK BOWMAN: Yes. A matter of
13 fact, that's the same basis as the -- as the
14 traditional capital coverage target that Hydro had in
15 place for -- for many years as well. The -- the idea
16 being that if -- if we're in sort of normal times,
17 it's -- it's good if you can keep your capital budget
18 below the level of cash flow you're generating from
19 operations. We're -- we're of course we're not in
20 normal times for another year and a half or two (2)
21 years here, but...

22 MS. ODETTE FERNANDES: And if we go on
23 further in that paragraph, you indicate that if this
24 occurs, this means that internally generated cash is
25 fully covering the cost of sustaining the system, and

1 to the extent this value is positive, further con --
2 contributing to cash, financing, either debt reduction
3 or investment in new growth assets?

4 MR. PATRICK BOWMAN: Yes.

5 MS. ODETTE FERNANDES: And then you
6 also say that if operating cash flow did not exceed
7 the level of sustaining capital, it means that some
8 debt is being secured to fund sustainment of this
9 system which is less than ideal?

10 MR. PATRICK BOWMAN: Yes. That's the
11 basis of the capital coverage target that Hydro's had
12 in place.

13 MS. ODETTE FERNANDES: And if we then
14 go to slide -- your slide 9, this was taken from
15 Manitoba Hydro's rebuttal evidence?

16 MR. PATRICK BOWMAN: Yes.

17 MS. ODETTE FERNANDES: And what
18 Manitoba Hydro did in this figure was that we held
19 cash flows constant at 2019/'20 levels, including the
20 requested three and a half (3 1/2) rate increase?

21 MR. PATRICK BOWMAN: Yes.

22 MS. ODETTE FERNANDES: And the total
23 interest paid in both nin -- both lines is \$1.029
24 billion?

25 MR. PATRICK BOWMAN: Yes.

1 MS. ODETTE FERNANDES: And on the
2 right-hand side, we show the total capitalized
3 interest of approximately 312 million, correct?

4 MR. PATRICK BOWMAN: Yes.

5 MS. ODETTE FERNANDES: And this 312
6 million includes the capitalized interest associated
7 with Keeyask?

8 MR. PATRICK BOWMAN: Yes.

9 MS. ODETTE FERNANDES: And then once
10 Keeyask comes into service, the interest will no
11 longer be capitalized. You'd agree with that?

12 MR. PATRICK BOWMAN: Correct.

13 MS. ODETTE FERNANDES: And then if we
14 go to the column on the left, it removes the
15 capitalized interest from Keeyask and only \$20 million
16 of interest on -- is being capitalized on business
17 operations capital?

18 MR. PATRICK BOWMAN: Right. That's a
19 -- I think that's a -- a -- related to projects that
20 carry over the year. It's a more -- it's a more
21 typical picture, and a more typical level, and it's --
22 it's part of the reason I say it's a bit of a
23 transitory issue.

24 MS. ODETTE FERNANDES: And we see at
25 the bottom, when you do the calculation, once Keeyask

1 is in-service and the interest on Keeyask is no longer
2 being capitalized, there's a cash flow deficit of
3 approximately \$197 million?

4 MR. PATRICK BOWMAN: Yes. Under
5 Manitoba Hydro's calculation, that's exactly what it
6 shows.

7 And I -- I guess one could say whether
8 you're -- consider that to be a -- a deficit, meaning
9 that the -- that the -- the entire interest of Keeyask
10 isn't being paid from current cash, or if it's a
11 deficit, saying the entire capital program isn't being
12 paid from current cash, I -- I don't think it makes a
13 difference. I think it's exact reason that every time
14 Hydro has set a financial target, and we sat here and
15 listened to generations of people from the finance
16 department, they always say, But of course, these
17 won't be met when we're building major new capital.

18 MS. ODETTE FERNANDES: And, Mr.
19 Bowman, when we look at this \$1 billion in interest
20 paid, you'd agree that that amount would also
21 increase?

22 MR. PATRICK BOWMAN: It -- increase
23 between now and when Keeyask is completed?

24 MS. ODETTE FERNANDES: Yes.

25 MR. PATRICK BOWMAN: Yes, I quoted

1 this morning that it go -- it's about \$37 million of
2 increase yet to come based on the PUB-8 updated.

3 MS. ODETTE FERNANDES: Well, if I take
4 you, Mr. Bowman, to Exhibit 93, page 5, if we scroll
5 right down to the bottom, we see the net debt line?

6 MR. PATRICK BOWMAN: Yes.

7 MS. ODETTE FERNANDES: And if we're
8 looking at a net debt of about \$20 billion, and in
9 this exhibit, if Keeyask comes into service in 2022 --
10 fully into service, sorry, 2022/23, you're looking at
11 \$24 billion of net debt?

12 MR. PATRICK BOWMAN: I -- I take it
13 you're comparing 2020 to 2023. Is that --

14 MS. ODETTE FERNANDES: We're at the
15 end of '18/'19, so that's 20 billion?

16 MR. PATRICK BOWMAN: At the end of
17 '18/'19 in this picture is -- is twenty point eight
18 (20.8) in -- in the -- average, ninety-three (93), if
19 that's -- you're talking about, like, what -- what
20 would be the case today, not the case at the end of
21 the -- of the fiscal year we're talking about for
22 rates?

23 MS. ODETTE FERNANDES: Yeah. All I'm
24 saying is that between the 2018/19 fiscal year, and in
25 this exhibit, when Keeyask comes into service in

1 2022/23, there's a \$4 billion increase in net debt?

2 MR. PATRICK BOWMAN: In that exhibit,
3 there is an increase to -- to -- for -- for '24.

4 MS. ODETTE FERNANDES: Yes, and if we
5 were to finance that \$4 billion, if you're taking
6 today's interest rates at two point nine (2.9), and
7 you add the provincial guarantee fee at 1 percent,
8 that would get you close to 4 percent. That's \$160
9 million.

10 You'd agree with that?

11 MR. PATRICK BOWMAN: It -- I'd -- I'd
12 agree with your calculation. I don't agree that
13 that's the way that one would look at the picture with
14 a Keeyask capitalized interest, or how much is coming
15 into service.

16 What was coming into service here, if
17 you look at your row called capitalized interest on
18 the -- we -- we were referring to page 9 of the
19 exhibit, that adds up to \$292 million that was
20 excluded. So it's already taking into account two
21 ninety-two (292), going to -- going -- of -- of cash
22 paid in interest going to Keeyask, and the eventual
23 number that Keeyask will -- will drive according to --
24 I believe it's PUB-MH-8 updated is three twenty-nine
25 (329), so it's an increase of 37 million of -- of

1 Keeyask interest.

2 MS. ODETTE FERNANDES: Mr. Bowman,
3 this figure here holds everything constant at 2019/20.
4 It does not include the \$4 billion in additional net
5 debt that will be incurred when Keeyask comes fully
6 into service?

7 MR. PATRICK BOWMAN: No, but the --
8 give me a moment, I'll get the IR, because I'm pretty
9 sure it is PUB-MH-8 updated.

10

11 (BRIEF PAUSE)

12

13 MR. PATRICK BOWMAN: Not -- sorry, the
14 -- number 9 updated. And it's page 4 -- there we are,
15 Keeyask.

16 So that has the number that shows
17 Keeyask at three twenty-nine (329), top row of the --
18 of the column shown.

19

20 (BRIEF PAUSE)

21

22 MR. PATRICK BOWMAN: So the -- the
23 exhibit of page 9 of the presentation is excluding 292
24 million related to Keeyask, but the number on this
25 page shows three twenty-nine (329) related to Keeyask.

1 (BRIEF PAUSE)

2

3 MR. PATRICK BOWMAN: Now, Ms. -- Ms.
4 Fernandes, because you were referring to the -- the
5 full picture, it may be that it's also related to the
6 MMTP and -- and GNT, the other projects that are also
7 coming into service.

8

9 (BRIEF PAUSE)

10

11 MS. ODETTE FERNANDES: If you can just
12 give me a moment, Mr. Bowman?

13 MR. PATRICK BOWMAN: Sure.

14

15 (BRIEF PAUSE)

16

17 MS. ODETTE FERNANDES: Mr. Bowman,
18 would you accept that if Manitoba Hydro is borrowing
19 \$4 billion, it would be 160 million additional dollars
20 in interest that would need to be recovered?

21 MR. PATRICK BOWMAN: The -- the math
22 you present is -- is straightforward enough. If I can
23 just make sure I'm understanding the question, and I -
24 - I do hope this -- this helps, Ms. Fernandes, if I
25 understand the assertion, it's that the -- the numbers

1 here are missing 160 million in further interest that
2 will show up because of all the borrowing between now
3 and 2024/25. Is that the simple point? Is -- is that
4 -- if -- if that's -- if that's the --

5 MS. ODETTE FERNANDES: So it's on --
6 on slide 9.

7 MR. PATRICK BOWMAN: So -- so you're -
8 - you're -- we're starting with one-o-two-nine (1029),
9 which is the '19/'20 interest, and you're saying that
10 if we had an IFF that went as far forward as 2024/'25
11 now, what that number would have in an interest row
12 wouldn't be one-o-two-nine (1029), it would be, like,
13 a hundred and sixty (160) higher. It would be one one
14 nine-o (1190), or something like that, is that --

15 MS. ODETTE FERNANDES: Correct.

16 MR. PATRICK BOWMAN: Okay. And I'm --
17 I'm glad we can be helpful with that part. So if --
18 if I -- if -- if you put that to me, that -- that -- I
19 can accept that there will be more interest. I accept
20 that there would be, for that additional borrowing, an
21 interest expense.

22 But if we take that scenario with
23 what's here, we start with a deficit of around 200
24 million, if we can call one ninety-seven (197) and two
25 hundred (200) close enough between friends, add

1 another 160 million of -- of interest, so that gets us
2 up to three hundred and sixty (360) deficit, add 30
3 million in O&M and water rental costs for Keeyask;
4 we're up to \$390 million deficit, and then add on the
5 360 million in revenues that Keeyask will bring, and
6 we're down to a \$30 million cash deficit based on
7 today's rates once we've absorbed Keeyask.

8 So the first year of Keeyask, we're
9 within \$30 million of cash flowing it with the rates
10 are shown here, without any more time to get those
11 rates in place or to transition it in. I -- I don't
12 think that changes this -- the conclusion of the
13 slide, that Hydro's a -- what Hydro is showing here is
14 not bad news in the slightest.

15 MS. ODETTE FERNANDES: At the end of
16 the day, Mr. Bowman, you'd still have a deficit?

17 MR. PATRICK BOWMAN: You'd -- in -- in
18 that case, if you did no further rate increases, if
19 you absorbed Keeyask in full, and in its first year in
20 service, you expected it to be able to -- Hydro to be
21 able to operate the Company, absorb all the other
22 capital going on, and be able to operate cash
23 positive, you'd be within \$30 million of pulling that
24 off.

25 MS. ODETTE FERNANDES: And you'd

1 agree, Mr. Bowman, that this chart has a 3 1/2 percent
2 rate increase --

3 MR. PATRICK BOWMAN: That's --

4 MS. ODETTE FERNANDES: -- embedded
5 into it?

6 MR. PATRICK BOWMAN: -- that's
7 correct. It wouldn't have to be in this year. Based
8 on this chart, it could be in any of those years.

9 MS. ODETTE FERNANDES: And so that \$30
10 million deficit that you calculated has the 3 1/2
11 percent increase imbedded into it?

12 MR. PATRICK BOWMAN: Yes, but the
13 numbers we just ran are numbers from four (4) years in
14 the future. So you would need that 3 1/2 percent plus
15 another 30 million at some point during the next four
16 (4) years in order to be fully cash positive in the
17 first year or full year of Keeyask operation.

18 MS. ODETTE FERNANDES: Thank you very
19 much, Mr. Bowman. Thank you Mr. Chairman.

20 THE CHAIRPERSON: Thank you, Ms.
21 Fernandes. Mr. Peters?

22

23 CROSS-EXAMINATION BY MR. BOB PETERS:

24 MR. BOB PETERS: Thank you. Good
25 afternoon, Mr. Bowman.

1 MR. PATRICK BOWMAN: Good afternoon.

2 MR. BOB PETERS: In the evidence you
3 provided to the Board, one (1) of your themes is that
4 for the 2019/20 test year, a rate increase is no
5 longer needed. Have I got that right?

6 MR. PATRICK BOWMAN: A rate increase
7 is not needed to stay on the path that was set out in
8 MH-93.

9 MR. BOB PETERS: If you assume the
10 November 30th situation of Manitoba Hydro was the
11 final position, and there was a net income loss of \$28
12 million, would they need a rate increase?

13 MR. PATRICK BOWMAN: You know, Mr.
14 Peters, I -- I hadn't made it as far as fully
15 assessing that one before the new data came in, and I
16 must admit, I was -- I was pretty relieved that it did
17 come in, because I think for all the intellectual
18 challenge of this case, it would be much worse --
19 much more challenging had -- had we -- had we been
20 left with that set of facts.

21 I think probably we would -- we would
22 have been inclined to say you wouldn't come to the
23 zero percent recommendations for Manitoba Hydro's
24 facts. I -- I think we'd be -- we'd be debating
25 something -- something in that 1.5 percent range, or a

1 little bit north of that.

2 MR. BOB PETERS: Even if 28 million
3 negative, was there -- was there approved position?

4 MR. PATRICK BOWMAN: Right. But
5 Hydro's been keen to emphasize the 28 million
6 negatives, again, because it was -- was primarily --
7 the reason it swung is largely because water was down,
8 and water got better, and -- and it's that -- that
9 impression that we have to sort of react to water
10 through net income, and through rate changes right
11 away, that I think we want to be really careful about
12 without the long-term picture.

13 That -- that's not -- that's not what
14 the Board set out when it said the retained earnings,
15 and is -- is of, you know, the ways to -- to help
16 manage water returnings and -- and rate response, and
17 that would be what I was -- meant with the rate
18 response part, coming up with a higher rate under that
19 scenario than under the current one.

20 MR. BOB PETERS: All right. I have
21 your position. And in terms of any rate increase,
22 there is the immediate impact of increased net income,
23 right? That's a given?

24 MR. PATRICK BOWMAN: Yes.

25 MR. BOB PETERS: And then on top of

1 that, we've heard Manitoba Hydro say, but in better
2 words than mine, that there's a pancake effect, that
3 once the rate is embedded, it's there in perpetuity,
4 and it has a long-term value to the Corporation,
5 correct?

6 MR. PATRICK BOWMAN: Yes.

7 MR. BOB PETERS: And you can measure
8 that on a net present value basis, depending on how
9 you discounted and over what years?

10 MR. PATRICK BOWMAN: Well, yes. It --
11 it's -- you know, is it there forever because you
12 never would've made up the difference later? I guess
13 that -- that's the -- the question when you talking
14 about future scenarios. It's -- if we're foregoing a
15 rate increase now means foregoing that rate increase
16 forever. It -- it may not. It may just mean that the
17 next rate increase is a little bit higher than it
18 would have been.

19 MR. BOB PETERS: And without some
20 long-range integrated financial forecasting, you can't
21 come to that conclusion right now.

22 MR. PATRICK BOWMAN: Right. And --
23 and for that reason, I think I would err on the side
24 of caution and say you -- you should do -- you should
25 seriously consider a rate change now, given -- given

1 the customer landscape, given what's been communicated
2 to people, given the fact that we know what transition
3 is needed.

4 And -- and notwithstanding the fact
5 that other facts have evolved, most of which I would
6 say are enduring, not temporary. They're not water.
7 Other facts have evolved to say we're -- we're on
8 track without the three and a half (3 1/2). We're
9 still at 64 million net income. Not 'cause -- not
10 'cause water is good.

11 MR. BOB PETERS: All right. We'll --
12 we'll come to that, Mr. Bowman. But just before the
13 lunch recess or the earlier lunch recess, you were
14 discussing a matter with the Chairman and the
15 suggestion was that in Manitoba using a cost of
16 service methodology was the approach that -- that
17 works well.

18 MR. PATRICK BOWMAN: Well, again,
19 I'm -- I'm cautious about the term "cost of service"
20 because --

21 MR. BOB PETERS: Well, we'll call it
22 Mr. Rainkie's modified cost of service

23 MR. PATRICK BOWMAN: Right. Yeah. Or
24 -- or pure cost recovery, which I think was what Mr.
25 Colaiacovo called it.

1 But this idea that you have a few
2 unique features about Manitoba Hydro, the fact that
3 it's got variable hydrology, the fact that it doesn't
4 need to have a rate set to earn a return in equity
5 every year, and the fact that you have a -- all lend
6 yourself to say I can look over a longer term.

7 MR. BOB PETERS: And in terms of this
8 cost of service or modified cost of service, one of
9 the points I don't know that you mentioned to the
10 Chairman is that there should be a reserve built in,
11 and that's a consideration that should be made at the
12 time the rates are adjusted.

13 MR. PATRICK BOWMAN: Yes. And it's
14 not just that -- that starts right from the Manitoba
15 Hydro Act. Reserves or rate stability are referenced
16 right in there.

17 MR. BOB PETERS: And the reserves that
18 we talk of today are in the neighbourhood of
19 \$3 billion, Mr. Bowman?

20 MR. PATRICK BOWMAN: Well, the -- the
21 reserves, as a concept today, end up being equated to
22 the counting concept of retained earnings, and they're
23 in the neighbourhood of \$3 billion.

24 MR. BOB PETERS: Do you agree with
25 that?

1 MR. PATRICK BOWMAN: Yes.

2 MR. BOB PETERS: And what's the
3 purpose of that reserve now, according to you?

4 MR. PATRICK BOWMAN: Well, I think it
5 serves a -- a number of functions. It provides Hydro
6 with -- with the ability to avoid having to have that
7 \$3 billion in debt. It provides Hydro with the
8 ability to report to people something different than a
9 hundred debt financed assets; to be able to show that
10 there is a -- an audited balance sheet; that
11 comparative value or assets to your -- to your debt
12 and shows a -- a retained earnings level.

13 And it also provides some financial
14 flexibility that you're not going to run into the
15 situation such as New Brunswick did or you end up with
16 a hundred and five percent debt.

17 MR. BOB PETERS: And that
18 flexibility -- is that flexibility, you're saying, is
19 not to be used for drought, to provide any relief any
20 relief for drought?

21 MR. PATRICK BOWMAN: Oh, it -- it
22 would allow you to address unforeseen circumstances.
23 Drought would be one you would plan for it -- plan for
24 under that situation.

25 Others you wouldn't just sit back and

1 wait for -- for the net income to erode. Like -- like
2 Mr. Colaiacovo was speaking, if interest rates
3 starting going up, we wouldn't sit here and say, well,
4 the reserves will pay for it for many years. We won't
5 change rates. No, no. That one you change rates for.
6 Export price -- export work has changed. You change
7 your rates.

8 But the water -- the water goes down,
9 you -- you look as to whether your reserves are fine
10 and whether you really need to start pushing in
11 some -- some rate changes.

12 MR. BOB PETERS: And so I hear your
13 position to be that if the Corporation Manitoba Hydro
14 has financial issues related to exports or related to
15 interest rate, that is -- those are justifiable
16 reasons for coming for rate relief.

17 MR. PATRICK BOWMAN: I -- I think if
18 you have updated information about export rates or
19 interest rates that have gone against you and you run
20 a -- a model that says you -- you need higher rates
21 in order to reduce the risk of a future rate shock,
22 then you -- then you put in place high rates.

23 The biggest -- I think the easiest
24 model -- and I -- I will say it's -- it takes --
25 hearings are always the easiest place to -- to develop

1 the -- the themes or the ability to talk about these
2 things. But the -- the easiest way that -- that I've
3 found to conceptualize it is that the net income, the
4 contributions to reserves, paying -- paying rates that
5 exceed costs in a year is the way that ratepayers buy
6 themselves future rate stability.

7 And so you -- you need to run the type
8 of -- of risk scenarios that say, am I at risk of
9 future rate stability? And if I am, then ratepayers
10 should -- should buy them -- help buy themselves out
11 of that by paying higher rates. They should -- you
12 should face rate increases.

13 If I'm not at risk -- serious risk of
14 future rate stability because of -- because of the
15 targets, because of the current reserve levels,
16 because of -- of whatever else, then -- then there's
17 not the justification for higher rates. We can -- we
18 can come back in next year with updated models.

19 MR. BOB PETERS: Mr. Bowman, you say
20 on slide 13 of your direct evidence this afternoon or
21 this morning that you believe Manitoba Hydro
22 misunderstood what -- which review was on negative net
23 income, correct?

24 MR. PATRICK BOWMAN: Right. And I
25 think this is -- yes, yes. Correct.

1 MR. BOB PETERS: And your whole point
2 of talking about net income is that it's not
3 unexpected when a major capital asset comes into
4 service.

5 MR. PATRICK BOWMAN: Negative income
6 is not unexpected when a major capital asset comes
7 into service.

8 MR. BOB PETERS: All right. And while
9 we were talking about reserves, there's a suggestion I
10 get from your evidence that -- that maybe reserves
11 today -- this \$3 billion -- is -- is sufficient. Was
12 that the intention that you had in -- when you wrote
13 it?

14 MR. PATRICK BOWMAN: I -- I wanted to
15 put out the thought. I wanted to help focus the fact
16 that rather than allowing this lack of an IFF to cause
17 us to be myopic about the near term to say, no, no.
18 There's -- we -- we've got to think about how we're
19 turning this corner. What's happening when Keeyask
20 comes into service, and -- and what are we heading
21 for?

22 And I don't think it's -- it's
23 unreasonable to ask the question about, in that
24 context, if -- if, you know, we're -- if droughts
25 aren't as expensive as they used to be, particularly

1 because export markets aren't as lucrative as they
2 used to be.

3 We don't -- we don't forego these
4 huge -- huge opportunities -- prices that we used to
5 get. And the ability to serve those export prices
6 were -- were a bit more creative and have more
7 options. So droughts aren't as expensive as they used
8 to be.

9 And -- and we've now got Keeyask in
10 service, and we're by this next phase of -- of capital
11 management. Then what are these reserves about
12 anyway, as we're updating the financial targets the
13 same way Hydro talks about.

14 I wanted -- I wanted us to be able to
15 start to question, is it inevitable that we're going
16 to -- we're going to head to the \$7 billion number
17 that Mr. McCallum was talking about last time he was
18 here.

19 MR. BOB PETERS: All right. So I take
20 from that last answer, you want to plant the seed, if
21 I may, that perhaps the regulatory focus should change
22 to figure out what should be the appropriate level of
23 reserves, and that would include setting rates going
24 forward with that in mind.

25 MR. PATRICK BOWMAN: Yeah. And someone

1 might think about a workshop on minimum retained
2 earnings.

3 MR. BOB PETERS: Okay. Well, I'm not
4 so sure you voted in favour of that last time. I
5 think you may have shared a witness that spoke to
6 that, but was -- at the last GRA, was -- was a
7 technical conference on financial targets and minimum
8 retained earnings -- was that endorsed by -- by
9 yourself, Mr. Bowman?

10 MR. PATRICK BOWMAN: I -- I wrote
11 some papers on the uncertainty analysis and talked
12 about the -- the way that tool has evolved to be
13 something that is extremely useful. It's extremely
14 innovative compared to what you had before. It tells
15 us way more than we ever did. And with one more
16 tweak, if you like, where you can build some rate
17 response into it, it could take us to an entire
18 another place in how we talk about Hydro's risk and
19 reserve levels.

20 And I think that's both for this room
21 and for people outside the room. Once it gets boiled
22 down to -- to some -- some clear messages. For
23 example, this Board saying that they've got models
24 that show that there's an 'X' percent -- 99 percent
25 chance -- that they'll be able to -- to help Hydro

1 avoid 'X' financial outcome with rate increases not
2 higher than -- than 'Y' and people could understand
3 that, then I think that would help communicate how
4 regulatory action would occur, how -- how remote these
5 chances are, and some of the same things that
6 Mr. Colaiacovo talked in terms of how Bonneville Power
7 talks about its risks.

8 MR. BOB PETERS: Mr. Bowman, when you
9 tell this Board about the uncertainty analysis, you're
10 referring to that as a new tool in toolbox. Is that
11 what I get from your evidence?

12 MR. PATRICK BOWMAN: Yes.

13 MR. BOB PETERS: And just to refresh
14 my memory, which -- this uncertainty analysis manifest
15 itself in the last general rate application, was that
16 for the first time?

17 MR. PATRICK BOWMAN: You know, I think
18 it may have been appended to a -- a filing before that
19 as part of Manitoba Hydro did some runs and -- and I
20 think there was a -- a KPMG report on it.

21 It -- it was an evolution though of
22 stuff that was done in NFAT, a significant evolution
23 of -- of pieces that were done in NFAT where -- where
24 multiple scenarios were run and a -- and a certain
25 sort of horizon of future possibilities is -- or

1 future outcomes is modelled.

2 MR. BOB PETERS: So for those Board
3 members who remember the NFAT, it manifest itself in
4 what was called the Quilt?

5 MR. PATRICK BOWMAN: There was the
6 Quilt, but there was also the -- the CONE, if you
7 like, that it -- it became sort of represented as the
8 CONE of -- of probabilities.

9 And then we did an attachment in the
10 last -- in the last rate application to show some of
11 those outcomes.

12 MR. BOB PETERS: And that -- and that
13 also manifests itself through those what -- what were
14 called on the record as Box and Whiskers results.

15 MR. PATRICK BOWMAN: That -- that was
16 the early work at -- at NFAT. Yeah. And that -- that
17 led to some of the -- some of the more innovative
18 modelling, and, like I said, there was a KPMG report
19 on an internal Manitoba Hydro report.

20 MR. BOB PETERS: And so your comment a
21 few minutes ago about a possible technical conference,
22 you see a value in that, getting it out of the
23 regulatory arena and more into a -- a technical
24 workshop.

25 MR. PATRICK BOWMAN: Yeah, yeah. I --

1 I think there's a -- yes. I think there's a value in
2 that. There's -- there's certain types of decisions
3 that -- that this type of forum is good at making, and
4 there's certain types of -- of issues that are more
5 difficult to explore.

6 MR. BOB PETERS: And, Mr. Bowman,
7 is -- is such a workshop of any benefit before, or is
8 only a benefit after Manitoba Hydro's Board goes
9 through the current exercise with its twenty (20) year
10 corporate strategic planning and then the development
11 of a new integrated financial forecast?

12 MR. PATRICK BOWMAN: You know, I -- I
13 would think parts of it might happen during, but
14 I'd -- I have to admit I don't entirely understand the
15 full scope of things that -- that Hydro may be dealing
16 with. It certainly sounds like there are some aspects
17 which -- which sound wise, I'll say -- of -- of Hydro
18 considering where this company fits in the energy and
19 policy landscape for things like electrification,
20 which are -- which go way beyond financial modelling
21 and -- and maybe some people need to wrestle with --
22 with some of that picture before they'd get into
23 the -- the detailed parts.

24 But I -- I wouldn't think after. My
25 concern would be after Hydro's hires been completed

1 that they may have come up with a set of financial
2 targets that -- that they've now had to sort of
3 publish and defend, rather than -- rather than, you
4 know, have -- have any serious open debate about.

5 MR. BOB PETERS: All right. I have
6 your position, sir. Is it also a theme in your
7 evidence, Mr. Bowman, that, you know, compared to
8 where Exhibit Manitoba Hydro 93 is, the net income in
9 the test year is pretty much the same as what you
10 would have seen in IFF that -- that it was
11 underpinning Manitoba Hydro Exhibit 93?

12 MR. PATRICK BOWMAN: Well, no because
13 the IFF underpinning Exhibit 93 had, among other
14 things, 7.9 percent rate increases. It also had some
15 different assumptions about accounting approaches that
16 this Board finally resolved in -- in a different way
17 than the IFF had -- had included.

18 So the underlying -- it was called
19 MH16, the IFF scenario, was -- was different.

20 MR. BOB PETERS: And maybe I didn't
21 ask my question properly, but I'm looking at page 9 of
22 your pre-filed evidence, and I apologize. I've
23 forgotten the exhibit number.

24 MR. PATRICK BOWMAN: MIPUG-5.

25 MR. BOB PETERS: And so, Mr. Bowman,

1 on page 9 of your -- at the bottom part of the page
2 just above a paragraph that says "other relevant
3 comparators," but the -- just the sentence before that
4 says:

5 "In short, without a rate increase
6 today, Manitoba Hydro is achieving
7 the same net income as had been
8 expected under the MH-93 scenario."

9 You see that?

10 MR. PATRICK BOWMAN: Yes.

11 MR. BOB PETERS: That's not accurate,
12 is it, anymore?

13 MR. PATRICK BOWMAN: Well, MH93 is the
14 exhibit number that we were discussing --

15 MR. BOB PETERS: Let me ask it this
16 way. You're assuming that the net income under MH93,
17 that IFF was around the \$60 million mark, \$61 million?

18 Sorry, Mr. Bowman. We can go at it
19 this way then. If --

20 MR. PATRICK BOWMAN: I -- I have MH-93
21 in front of me, which is page 3 of -- of that exhibit
22 from the last hearing.

23 MR. BOB PETERS: It's at page 6 of
24 Board counsel's book of documents if you were to give
25 it a proper reference.

1 MR. PATRICK BOWMAN: It's always
2 helpful when people do proper referencing.

3 MR. BOB PETERS: And you'll see in --
4 yes, Mr. Bowman.

5 MR. PATRICK BOWMAN: In the -- in the
6 2020 year, as you -- there's -- if you go to the 2020
7 year and look at the page, you'll see the -- the net
8 income numbers we're talking about are that
9 60-odd million. That -- that's not the IFF for that
10 year. The official Manitoba IFF for that year had the
11 7.9 percent rate increases and had different
12 assumptions on --

13 MR. BOB PETERS: I understood your
14 point earlier. But if we now turn to Board counsel's
15 Book of Documents page 52, we use a Coalition
16 Information Request response by Manitoba Hydro, where
17 Manitoba Hydro restated Manitoba Hydro Exhibit 93 and
18 updated it with a twenty (20) year WATM. Do you
19 remember that? Now you do?

20 And this sheet was not prepared by
21 Manitoba Hydro, but it was a compilation on the bottom
22 of Manitoba Hydro's supplement, together with their
23 response to coalition. Manitoba Hydro First Round 6B,
24 Attachment 1, Figure 5?

25 MR. PATRICK BOWMAN: Can -- can we

1 scroll it down a bit?

2 MR. BOB PETERS: The point I'm going
3 to, Mr. Bowman, and I hope you're catching up to me
4 or -- is that the net income when we stated on a
5 twenty (20) year weighted average term to maturity of
6 the debt, the net income drops from 61 million down to
7 28 million.

8 MR. PATRICK BOWMAN: Yeah. There were
9 some subsequent analysis done of MH-93 in that
10 hearing. You will recall there was also a -- an
11 exhibit prepared that we weren't allowed to see for
12 the Board which put in capacity values and -- and
13 opportunity values and the like.

14 And -- and so the -- the twenty (20)
15 year WATM number drove this down. Some other numbers
16 drove it up. I -- I was really relying on MH-93
17 because that's the one the Board said was -- was, you
18 know, directionally consistent with where the -- the
19 order was going to go -- they -- they didn't reference
20 this -- this number, nor the -- nor the updated
21 exhibit with the capacity values.

22 MR. BOB PETERS: Okay. Well, I've got
23 your point. But you'll accept that when you adjust
24 MH-93 for a twenty (20) year WATM, the net income
25 number drops less than half of what it was when it was

1 filed at the last hearing.

2 MR. PATRICK BOWMAN: Right. We're
3 doing even better. As compared to that benchmark,
4 we're better in this -- in this one before you even
5 think about a rate increase.

6 MR. BOB PETERS: I've got your point.

7

8 (BRIEF PAUSE)

9

10 MR. BOB PETERS: Now, Mr. Bowman, when
11 we turn to what you said was justification for the
12 rate increase, your slide number 2, I think, put out a
13 couple of reasons, and one of them was, in essence,
14 the transition to when Keeyask comes in service,
15 correct?

16 MR. PATRICK BOWMAN: Yes.

17 MR. BOB PETERS: And -- and your
18 acknowledging that's beyond the test year, but
19 you're -- you're looking a little bit forward with the
20 limited data you have?

21 MR. PATRICK BOWMAN: Yes.

22 MR. BOB PETERS: And

23 MR. BOB PETERS: And when you suggest
24 that Manitoba Hydro is likely to outperform Exhibit
25 Manitoba Hydro 93 in the long run, you've given four

1 reasons. The first was the lower long-term interest
2 rates, correct.

3 MR. PATRICK BOWMAN: Yes.

4 MR. BOB PETERS: Then DSM spending,
5 you believe, should be adjusted downwards?

6 MR. PATRICK BOWMAN: I -- I think
7 there is reason to believe the DSM spending, you know,
8 may -- may be a positive shift once the -- once all
9 factors are taken into account, yes.

10 MR. BOB PETERS: The spending and the
11 savings haven't been adjusted down -- downwards.

12 MR. PATRICK BOWMAN: Yeah.

13 MR. BOB PETERS: All right. And your
14 other reason for the optimism is that Bipole III has
15 entered service at a lower cost than was assumed in
16 Manitoba Hydro Exhibit 93?

17 MR. PATRICK BOWMAN: Yes.

18 MR. BOB PETERS: And the last one I
19 could find in your evidence was that the export
20 revenue forecast doesn't assume any additional
21 capacity revenues or any beneficial pricings on both
22 imports and exports that would result from the new
23 transmission assets to the United States.

24 MR. PATRICK BOWMAN: Yes. You said
25 four. So you listed: interest, DSM, Bipole, and

1 export.

2 MR. BOB PETERS: Those are the four I
3 listed.

4 MR. PATRICK BOWMAN: There was also
5 that Keeyask was coming into service earlier, more
6 revenue from Keeyask earlier, and the risks of Keeyask
7 have gone down now that things like ground conditions
8 are known.

9 And the other one I listed -- and by
10 the way, these are at page 10 to 11 of the
11 presentation this morning -- was that there were a
12 number of things already in MH-93 which -- which
13 directionally were understood to -- to mean that
14 scenario with conservative.

15 For example, it had 7.9 percent rate
16 increase, elasticity is built in, so a downward push
17 on -- on domestic loads. It also didn't have the --
18 the export price benefits or the import price
19 reductions related to MMTP and GNTL, which the Board
20 cited at 2 to 5 percent. And so those factors.

21 MR. BOB PETERS: I lumped those in
22 with export revenues, and you've -- you --

23 MR. PATRICK BOWMAN: That's fine.

24 MR. BOB PETERS: -- brought to the
25 Board's attention you could factor them separately.

1 But you haven't been able to quantify
2 the impact of the -- on future revenue requirements of
3 those export changes?

4 MR. PATRICK BOWMAN: No.

5 MR. BOB PETERS: Then you're just
6 saying directionally, what Mr. Cormie's been doing
7 will benefit Manitobans into the future.

8 MR. PATRICK BOWMAN: Yeah. I -- I --
9 that's correct. Never doubt Mr. Cormie.

10 MR. BOB PETERS: You're under oath.

11 Mr. Bowman, you've already talked
12 about the Bipole III benefit and we went through that
13 I think yesterday with the -- some of the Intervenors'
14 questions but skipping over to interest rates, you
15 provided PUB-MIPUG Interrogatory first round number 3
16 and (a) I think My Friend Ms. Fernandes also just had
17 a brief mention of this.

18 This was your attempt to update it as
19 current as you could when you responded to the
20 Information Request?

21 MR. PATRICK BOWMAN: Yes.

22 MR. BOB PETERS: And you're suggesting
23 that the information on this chart should only be seen
24 as positive for Manitoba Hydro?

25 MR. PATRICK BOWMAN: Yes, and -- and I

1 don't know that it even tells the entire story. For
2 example, if you look at the -- the short-term line,
3 the green line, what we heard is that the -- basically
4 the borrowing for this year is sort of locked with
5 the 2.19 percent US dollar borrowing.

6 I think if you track across 2.19
7 percent and you realize that that's a substantial part
8 of the borrowing for this year, it's not just that the
9 line has dipped in March. It's that a good part of
10 that is now known and far below forecast for the
11 entire year.

12 MR. BOB PETERS: Is that going to have
13 any beneficial impact in the test year?

14 MR. PATRICK BOWMAN: Well the locked-
15 in part certainly -- certainly has an impact on the --
16 on the finances.

17 MR. BOB PETERS: When I spoke with Ms.
18 Stephen, I understood her evidence to be essentially
19 that for the test year the fact that Manitoba Hydro's
20 achieving interest -- favourable interest rates at
21 this point in time is not going to have a significant
22 impact in the test year?

23 MR. PATRICK BOWMAN: Yeah, we --

24 MR. BOB PETERS: Did you hear that?

25 MR. PATRICK BOWMAN: Yeah, there was

1 some rebuttal prepared by Manitoba Hydro and I didn't
2 really want a dwell on it but I -- I was at -- at best
3 puzzled by it, if -- if not in -- frankly in
4 disagreement about how much benefit there could be
5 from locking in lower -- lower interest rates.

6 And the issue is Hydro's rebuttal
7 basically says all this money is being borrowed for --
8 for capital so it's not -- there's not a savings.
9 It's all being built -- borrowed for Keeyask.

10 But the -- the evidence we have is that
11 when you're out -- when one actually goes to charge an
12 interest rate to the projects, they use an average of
13 all borrowings and the part of the borrowings that are
14 -- are -- are funding projects not in service, or is
15 in service, it's only about a third of it. So if you
16 actually secure interest rate savings, it does save
17 Keeyask some money but it doesn't save -- it's -- not
18 all the savings goes to Keeyask. A lot of it goes to
19 the -- the portfolio debt funding current assets.

20 MR. BOB PETERS: All right. You're
21 taking issue then with the -- with Manitoba Hydros'
22 conceptualization that the -- even if they borrow
23 money today they don't stream it directly for Keeyask
24 expenses, it -- it forms part of their overall
25 weighted average interest rate?

1 MR. PATRICK BOWMAN: Exactly.

2 MR. BOB PETERS: All right.

3 MR. PATRICK BOWMAN: I'm not taking
4 issue with it, I'm saying that once -- once you
5 consider that factor, it means that the interest
6 benefits can flow through quicker than is -- then is
7 implied by the fact of saying, oh, we are only
8 borrowing for Keeyask.

9 I -- I didn't want to take issue with
10 it because I think it's -- it's an excessively narrow
11 point about the one (1) year where when we're talking
12 about long-term -- long-term rates being locked in for
13 five (5) or thirty (30) years, the -- the benefit in
14 the IFF is sort of indisputable for many many years of
15 it. I don't think -- get fussed about whether it
16 shows up in one (1) particular year or one (1)
17 particular month.

18 MR. BOB PETERS: And the benefit that
19 you say on the IFF will be that the cash interest
20 payments will be lower?

21 MR. PATRICK BOWMAN: Yes. They'd be
22 lower than they would've been with the lines that were
23 forecast here which was the basis of preparation of
24 the -- of the forecast.

25 MR. BOB PETERS: In terms of the --

1 the answer that's on the screen in front of us, Mr.
2 Bowman, I appreciate this was prepared earlier in the
3 month.

4 Does -- do you believe that this is
5 sustainable at this point in time or do you have any
6 indication, any evidence to suggest it is or it isn't?

7 MR. PATRICK BOWMAN: I have no
8 evidence to suggest it is or isn't and it's -- it's
9 only April 25th.

10 The -- the fact that 1.1 billion is
11 pre-funded means that there's a lot more known about -
12 - about the year's financing than -- then may be
13 implied by looking at it, but in terms of what the
14 borrowing costs is on any given day or any given
15 month, I have no further knowledge and I'd -- I'd be
16 sceptical that -- of any source that would come in
17 here and tell you they know what Hydro can borrow for
18 next month.

19 MR. BOB PETERS: Just take a few
20 minutes on DSM costs, Mr. Bowman. You're assuming
21 that the current forecast of spending in DSM savings
22 will be decreased once Efficiency Manitoba becomes
23 operative.

24 MR. PATRICK BOWMAN: I'm -- I'm
25 assuming that the current level -- the forecast level

1 of -- of -- of spending in savings will be optimized.
2 I can't necessarily say it will be -- be decreased but
3 my understanding is that Efficiency Manitoba is
4 running with the -- and I did provide a response on
5 this, is running with a mandate to -- to help mitigate
6 rate increases or help mitigate rate pressures and --
7 and I find it -- would find it surprising if they came
8 in -- in the early years at least and said, hey, we've
9 got a great plan. It's going to drive a lot of rate
10 increase.

11 MR. BOB PETERS: Well, then, I think
12 you're agreeing with me that in your evidence you're
13 suggesting to this Board that looking forward you
14 think there's going to be beneficial impacts in the
15 longer term because DSM spending will be lower as
16 likewise DSM electricity savings will be lower?

17 MR. PATRICK BOWMAN: Or -- or
18 potentially more economic programs would be
19 identified. We certainly heard assertion that the ei
20 -- part of the purpose of setting up the agency was
21 that -- for it to be -- to use the words in the -- in
22 the press -- certainly more -- more efficient, more
23 optimized, more agile than Manitoba Hydro operated it.
24 I -- I can't comment on whether that's -- whether
25 that's the case, but it certainly was the purpose.

1 So I think there's -- there's -- you
2 know, is it administrative cost is -- I'm not sure
3 what people were referring to with that, but I think
4 the -- the idea that -- that the DSM would be -- that
5 someone would come with a DSM plan that said I need
6 even more rate increases than Hydro had assumed for
7 upward pressure for DSM is -- would -- would be
8 surprising.

9 MR. BOB PETERS: Well, is the 1.5
10 percent legislated target greater than the savings in
11 the 2016 DSM plan and underpinning Manitoba Hydro
12 Exhibit 93?

13 MR. PATRICK BOWMAN: It's -- it's --
14 it's greater than the savings that were included in
15 the plan when Hydro developed it. As we know --

16 MR. BOB PETERS: That was -- that was
17 1.2 --

18 MR. PATRICK BOWMAN: 1.2, correct and
19 Hydro asserted that it was not worth spending the
20 money trying to get up to 1.5. It would have taken
21 enormous amounts of money to try to get to 1.5.

22 And I provided a -- a fairly lengthy
23 response to this in the last hearing and I -- for your
24 -- for your reference, Mr. Peters, you might look at
25 PUB-MIPUG 184 where I -- I put some of that same --

1 same response in here.

2 That if you look at the mandate of
3 Efficiency Manitoba it's somewhat different than what
4 Manitoba Hydro's was. If you look at the tools
5 available to the Minister, and to this Board to
6 consider the cost-effectiveness, it's not a given that
7 1.5 would be the target and -- and certainly it's
8 specifically stated that part of the -- part of the
9 effect, part of the purpose of Efficiency Manitoba is
10 to help manage -- manage costs and rates.

11 MR. BOB PETERS: All right. So let's
12 take the DSM costs out of my question then, Mr.
13 Bowman. If Efficiency Manitoba was able to meet its
14 legislated targets, DSM savings would increase,
15 correct? They'd increase up to say 1.5 percent?

16 MR. PATRICK BOWMAN: Yes.

17 MR. BOB PETERS: All right. And then
18 the domestic load would correspondingly, to some
19 amount, decrease?

20 MR. PATRICK BOWMAN: All -- all else
21 being equal, yes.

22 MR. BOB PETERS: And all else being
23 equal, that decrease in domestic load would be put on
24 Mr. Cormie's desk to go sell it the export market?

25 MR. PATRICK BOWMAN: Correct.

1 MR. BOB PETERS: And if he's not able
2 to secure a firm agreement for it, it would be sold at
3 opportunity rates?

4 MR. PATRICK BOWMAN: Correct, although
5 it would be -- it would be dependable energy and it
6 would be capacity savings, both of which are -- lead
7 to that being a valuable product.

8 MR. BOB PETERS: And you're not aware
9 whether that would attract revenues back from the,
10 say, the US market that were equal to or greater than
11 what Manitoba Hydro's domestic ratepayers are paying?

12 MR. PATRICK BOWMAN: I -- I think
13 you'd have to take all of those things into account:
14 the capacity, the -- the dependability and how it fits
15 into the portfolio. I wouldn't say it's a given.
16 It's a US market products. Certainly electrification
17 of the economy could -- could mean some probably
18 significant things for Manitoba load. Certainly some
19 pres -- big pressures on Saskatchewan about how
20 they're managing their -- their generation and we're
21 seen that show up.

22 So, I think that's the reason a full
23 reserve plan needs to be considered for -- in order to
24 do -- to do the assessment that's needed about the
25 appropriate level of -- of DSM spending to make sure

1 that it is -- it is economically efficient, as -- as
2 required by the -- by the Efficiency Manitoba Act.

3 MR. BOB PETERS: So would it be
4 correct, Mr. Bowman, for the Board to summarize your
5 evidence as an expectation that Manitoba Hydro's
6 financial position would be improved compared to what
7 Exhibit MH-93 showed them at the last GRA?

8 MR. PATRICK BOWMAN: I -- I set out
9 there that I -- I -- my submission is that I don't
10 think it would be adversely affected, and I think
11 there's a possibility that it would be improved.

12 MR. BOB PETERS: Put another way,
13 Manitoba Hydro could be in the same financial position
14 but with lower rate increases?

15 MR. PATRICK BOWMAN: Yes.

16 MR. BOB PETERS: And you can't say by
17 how much either the changes in the financial ratios or
18 the changes in the indicative rate increases?

19 MR. PATRICK BOWMAN: No, of course
20 not. No, no, not with -- not without the plan that
21 Efficiency Manitoba brings forward and not without --
22 not without a full financial forecast from Manitoba
23 Hydro.

24 MR. BOB PETERS: Mr. Bowman, I'm going
25 to try to keep away from a document, but I want you to

1 turn, please, to page 69 in Board counsel's book of
2 documents.

3

4

(BRIEF PAUSE)

5

6 MR. BOB PETERS: I think you were
7 talking about this with Ms. Fernandes earlier, but if
8 we look to the 2023 fiscal year, the indication that
9 we now have is things may be accelerated, so those
10 numbers might come forward on the chart. That's your
11 understanding?

12 MR. PATRICK BOWMAN: We're looking at
13 the Keeyask part of the --

14 MR. BOB PETERS: Yes, at the top of
15 the page.

16 MR. PATRICK BOWMAN: Yes, correct.

17 MR. BOB PETERS: When we turn the page
18 to page 70, you and Ms. Fernandes were locking horns a
19 little bit on the -- the net income or loss that would
20 result. And what I'm taking from that exchange is
21 you're acknowledging that Keeyask in-service
22 additional cost could be in the range of \$500 million
23 more, but you'd want to offset that by the revenues
24 that are available, correct?

25 MR. PATRICK BOWMAN: Well, we're

1 talking income statement effect now?

2 MR. BOB PETERS: We are.

3 MR. PATRICK BOWMAN: That -- that's
4 correct. Both of those things will hit the income
5 statement, the added costs and the added revenues.
6 There'll be \$500 on the income statement but it's not
7 \$500 million incremental because, as you'll see there,
8 the capital taxes are already on the income statement.

9 MR. BOB PETERS: Yeah. That's the 35
10 million that's already in -- on the statements today.

11 MR. PATRICK BOWMAN: For 2020,
12 correct.

13 MR. BOB PETERS: Okay, but let's get
14 past that, Mr. Bowman, and then turn to the KHLP
15 revenues. You're taking some issue with how Manitoba
16 Hydro presents this chart, recognizing it's still a
17 hypothetical presentation, but you're saying that the
18 revenues from Keeyask will be higher than 262 million;
19 they'll be more in line with -- and it's in the book
20 of documents, but they would be more in the
21 neighbourhood of either 350 to \$400 million.

22 MR. PATRICK BOWMAN: I'd take you to
23 page 76 of this book. And this is the middle
24 scenario. The -- the first scenario was Keeyask sold
25 all that firm, which is actually page -- the previous

1 pages which we can't see the numbers. This page shows
2 Keeyask sales at -- at the -- assuming the MP250
3 contract is tied to Keeyask, which it is, and prorated
4 contracts which has it at three (3) -- well, come --
5 coming in eventually to three eighty (380), three
6 seventy (370) number, and the -- the following page
7 has a somewhat different portrayal of Keeyask, which
8 is generation all at -- at -- at firm, assuming
9 Keeyask is all sold at firm which is more like 407
10 million.

11 And I would just emphasize that this,
12 the three sixty (360) number, that -- there's a three
13 seventy (370) number on the previous page, is also
14 consistent with the jump you see in export revenues in
15 the IFFs and that were prepared at that time. So
16 that's why I would use the -- the three sixty (360) or
17 three seventy (370) type of number.

18 MR. BOB PETERS: And even if we use
19 your number, Mr. Bowman, there is still a shortfall
20 of, what would that make it, \$140 million?

21 MR. PATRICK BOWMAN: Yes.

22 MR. BOB PETERS: And the part I didn't
23 follow you and Ms. Fernandes on is how is that
24 achieved by way of 9 percent rate increase, a one-time
25 9 percent rate increase?

1 MR. PATRICK BOWMAN: Well, I was -- I
2 was doing that by way of your page 70. And if you
3 scroll a little bit down you will see this -- this
4 works out to net income loss of about -- of about 300
5 million.

6 MR. BOB PETERS: So you've chopped it
7 in half.

8 MR. PATRICK BOWMAN: Yeah.

9 MR. BOB PETERS: Okay, thank you. I
10 have you point, I have your point.

11 And my last point, Mr. Bowman, is your
12 Slide 15. Your recommendation to this Board is
13 whatever rate increase it is, and you're saying
14 somewhere between zero and 1.5 percent would be in
15 your range, correct?

16 MR. PATRICK BOWMAN: Yes.

17 MR. BOB PETERS: Whatever rate
18 increase this Board was to award, you're saying that
19 it should be applied across the board, which means
20 that the average increase would be attached to every
21 rate class and every component of every rate?

22 MR. PATRICK BOWMAN: Well, I'll --
23 I'll be two (2) quick comments. I've referenced it as
24 zero to 1.5 because Hydro's evidenced, in my
25 submission, leads to zero where customer interest

1 leads to 1.5. I would like -- I would lean towards
2 customer interest.

3 So I think being frank we're -- we're
4 not talking about zero. But from the cost of service
5 side, I don't think -- as much as Hydro's evidence has
6 some concerns about completeness, I think the PCOSS
7 evidence has some significant concerns about saying
8 it's -- it's complete or sufficient to draw a
9 conclusion beyond across the board.

10 And -- and I say that's -- that's
11 without getting into the policy issues of First Nation
12 reserve ques -- questions and the like.

13 MR. BOB PETERS: Okay, if I turn to
14 page 86 of Board's counsel book of documents and look
15 to figure 2, at the bottom of the page, Mr. Bowman --
16 are you with me?

17 MR. PATRICK BOWMAN: Yes.

18 MR. BOB PETERS: You're saying that if
19 the Board -- if the Board was still interested in
20 differentiating rates to try to bring any rates that
21 are outside of the zone of reasonableness closer to
22 that zone of reasonableness, the Board should --
23 you're saying the Board shouldn't do that this time
24 around?

25 MR. PATRICK BOWMAN: Well, that's

1 correct. I don't -- I don't think this -- this table
2 holds up to the evidentiary standard I think should be
3 required to -- to be as refined as saying, we're going
4 to apply different increases to different classes.

5 MR. BOB PETERS: All right so just I
6 suppose for the Board's edification, if we go to
7 General Service Large, greater than 100 kVA, those are
8 some of the clients that MIPUG represents that are in
9 that category?

10 MR. PATRICK BOWMAN: There'd be
11 clients on all three (3) GSL, but few in the zero to
12 thirty (30), most would be thirty one hundred (30-100)
13 (sic) and greater than a hundred.

14 MR. BOB PETERS: And under this same
15 methodology shown in figure 2, the General Service
16 Large thirty (30) to a hundred (100) and greater than
17 a hundred (100) would notionally not be -- not be
18 moved at all if the Board followed the same
19 differentiation process they did in the last Order?

20 MR. PATRICK BOWMAN: Right and -- and
21 -- and I have to admit I didn't necessarily follow why
22 any of them would because they would all be within the
23 zone under this analysis, if ninety-five (95), one-o-
24 five (105).

25 MR. BOB PETERS: Except if you wanted

1 to get area and roadway lighting and GSS non-demand
2 into the zone, somebody has to move, correct?

3 MR. BOB PETERS: I presume so, yes.

4 MR. BOB PETERS: And those -- and
5 those that are below unity would be the ones that were
6 targeted, that would exclude the general service large
7 and the general service large greater than one hundred
8 (100), as well as the general service thirty (30) to
9 one hundred (100).

10 MR. PATRICK BOWMAN: That -- that
11 would definitely exclude the two (2) that I deal with,
12 yeah. The two (2) I primarily deal with. Like I
13 said, there is some zero to thirty (30) load.

14 I -- I -- I'd also -- I would never
15 quite follow the math in this either in terms of, you
16 know, something like that the GS medium, and the GSL
17 zero to thirty (30) are -- are, you know, they're --
18 they're quite -- quite a bit -- or they're -- the --
19 the -- quite a bit off in terms of the proposals that
20 are listed there for annual differentiation.

21 And it -- and I take it the idea is
22 let's get everyone to 98.3 as the new number but it
23 didn't quite strike me as why that would be -- why
24 that would be the design somebody would use anyway. I
25 would think it would be designed to try to get, you

1 know -- the zone of reasonableness is not a Get Out of
2 Jail free card. It's -- it's a -- it's a sign that
3 you can't conclude that the rates are unreasonable,
4 but you would not leave someone at the higher or low-
5 perpetually. So, even if somebody is at one-o-four
6 (104) -- I've certainly been involved in many
7 jurisdictions where you would think about moving them,
8 if you were confident of the one-o-four (104).

9 MR. BOB PETERS: Mr. Bowman, there's
10 one (1) latebreaking issue, so please help me out. I
11 apparently have two (2) minutes to keep to my Ms.
12 Fernandez timeline.

13 Your recommendation that you discussed
14 with Dr. Williams was to put the revenues from any
15 rate increase this Board awarded into a deferral
16 account; correct?

17 MR. PATRICK BOWMAN: I -- I suggested
18 the Board should consider it. I wasn't -- I wasn't
19 necessarily strongly advocating it. But --

20 MR. BOB PETERS: If it was a deferral
21 account, Mr. Bowman, you're suggesting it would be
22 treated the same way as was the Bipole III deferral
23 account, there would be no distinguishing differences?

24 MR. PATRICK BOWMAN: I didn't have a
25 distinguishing difference, no.

1 MR. BOB PETERS: All right, thank you.
2 Mr. Chairman, I'd like to thank Mr. Bowman and Ms.
3 Davies for their assistance. Those conclude my
4 questions.

5 THE CHAIRPERSON: Thank you, Mr.
6 Peters. Mr. Hacault, any re-examination?
7 None?

8 MR. ANTOINE HACAULT: No re-
9 examination.

10 THE CHAIRPERSON: Thank you, sir.
11 Thank you, Mr. Bowman, Ms. Davies.

12 We'll adjourn today and we will resume
13 at 9:00 a.m. on Monday morning. Thank you.

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15 --- Upon adjourning at 2:55 p.m.

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18 Certified Correct,

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22 Michael McKenzie

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