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MANITOBA PUBLIC UTILITIES BOARD

RE:

MANITOBA HYDRO'S  
APPLICATION FOR APPROVAL OF  
ENERGY INTENSIVE INDUSTRIAL RATES

Before Board Panel:

Graham Lane	- Board Chairman
Robert Mayer	- Board Member
Susan Proven	- Board Member

HELD AT:

Public Utilities Board  
400, 330 Portage Avenue  
Winnipeg, Manitoba  
December 15th, 2008

Pages 678 to 886

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1 --- Upon commencing at 9:11 a.m.

2

3 THE CHAIRPERSON: Okay, good morning,  
4 everyone. It appears we are doing our best to avert a  
5 deeper recession in the forestry section.

6 Ms. Ramage, do you want to introduce your  
7 new exhibits?

8 MS. PATTIE RAMAGE: Yes. Everyone should  
9 have five (5) -- just to make sure we're all working from  
10 the same page -- five (5). And they would be marked  
11 Undertaking Number 2, Undertaking 3, Undertaking 7, 8, 9,  
12 10 -- which actually adds to six (6).

13 And I'm going 2, then -- then 3, then...

14

15 (BRIEF PAUSE)

16

17 MS. PATTI RAMAGE: ...2, 3, 7, 8, 9, 10.

18 And if we could --

19 THE CHAIRPERSON: Got it.

20 MS. PATTI RAMAGE: -- begin the numbering  
21 of exhibits, I would suggest giving number -- Undertaking  
22 Number 2, Exhibit 10; Undertaking Number 3, Exhibit 11;  
23 Undertaking Number 7, that's Exhibit 12; 8 is Exhibit 13;  
24 9 is Exhibit 14; and Undertaking 10 becomes Exhibit 15.

25 THE CHAIRPERSON: Thank you.

1 --- EXHIBIT NO. MH-10: Response to Undertaking 2  
2  
3 --- EXHIBIT NO. MH-11: Response to Undertaking 3  
4  
5 --- EXHIBIT NO. MH-12: Response to Undertaking 7  
6  
7 --- EXHIBIT NO. MH-13: Response to Undertaking 8  
8  
9 --- EXHIBIT NO. MH-14: Response to Undertaking 9  
10  
11 --- EXHIBIT NO. MH-15: Response to Undertaking 10  
12

13 (BRIEF PAUSE)  
14

15 THE CHAIRPERSON: Okay, Mr. Landry, if  
16 you want to start up again...?

17 MR. JOHN LANDRY: Thank you, sir. And  
18 just to make things a little bit more confusing, we have  
19 a couple of exhibits this morning, too. Perhaps we could  
20 get those marked formally for the record, and also just  
21 so everybody has them before them for the purpose of the  
22 cross.

23 The first exhibit, which I understand is  
24 going to be marked Exhibit MIPUG Number 5 is a four (4) -  
25 - five (5) page document, maybe a little bit more, and

1 it's got a table on the front entitled, "Manitoba -- or  
2 MH Power Resource Plan Situation, With and Without  
3 Wuskwatim".

4 THE CHAIRPERSON: Yes.

5 MR. JOHN LANDRY: That will be Exhibit  
6 Number 5.

7

8 --- EXHIBIT NO. MIPUG-5: Document with table on the  
9 front entitled, "MH Power  
10 Resource Plan Situation, With  
11 and Without Wuskwatim"

12

13 MR. JOHN LANDRY: And then the next  
14 exhibit is the MIPUG Exhibit Number 6, and it starts off  
15 on the first page with MIPUG/MH-1-2. And you'll see, Mr.  
16 Chairman, that it has three (3) handwritten pages numbers  
17 at the top. So that will be Exhibit Number -- MIPUG  
18 Exhibit Number 6.

19

20 --- EXHIBIT NO. MIPUG-6: References from the record,  
21 MIPUG/MH-1-2 and excerpts  
22 from pre-filed testimony of  
23 Bowman and McLaren

24

25 THE CHAIRPERSON: Very good, sir.

1 MR. JOHN LANDRY: And just so everybody  
2 gets acclimatized again, I also, Mr. Chairman, will be  
3 referring to Mr. Peters' book, which is PUB Exhibit  
4 Number 8, the blue binder, and MIPUG Exhibit Number 4,  
5 which is the black binder.

6 So those will be my -- hopefully --  
7 hopefully those will be all the exhibits I will be  
8 referring to, to finish off my cross-examination.

9 THE CHAIRPERSON: Please.

10

11 MANITOBA HYDRO PANEL:

12 VINCE WARDEN, Resumed

13 ROBIN WIENS, Resumed

14 MICHAEL DUDAR, Resumed

15 HAROLD SURMINSKI, Resumed

16 DAVID CORMIE, Resumed

17

18 CONTINUED CROSS-EXAMINATION CONTINUED BY MR. JOHN LANDRY:

19 MR. JOHN LANDRY: Mr. Wiens, I'll  
20 probably start with you, sir. But again, as last week,  
21 if you feel that you need to ask your colleagues, please  
22 -- please feel free to do so.

23 We were -- just to bring everybody back to  
24 where we finished off, we were -- I was asking a number  
25 of questions on those customers that are going to be

1 impacted.

2                   You'll recall some discussion of both  
3 Cannexus and -- and Enbridge, correct?

4                   MR. ROBIN WIENS:    Yes.

5                   MR. JOHN LANDRY:    And I'd like to start  
6 with going to a third impacted customer.  And that  
7 relates to, again, a pipeline.

8                   And Mr. Wiens, you're aware of the,  
9 obviously, the new expansion that is eminent in relation  
10 to the Keystone pipeline?

11                  MR. ROBIN WIENS:    I'm aware of it, yes.

12                  MR. JOHN LANDRY:    And -- and, sir, that's  
13 been publically announced, and presumably, given what  
14 I've seen on the record, Manitoba Hydro has had a number  
15 of different communications with the Keystone owners?

16                  MR. ROBIN WIENS:    That's my  
17 understanding.  I -- I haven't personally been -- been  
18 involved in those.

19                  MR. JOHN LANDRY:    But you're aware that  
20 it is a pipeline, and it is a -- is an expansion, and  
21 presumably it's one that has potent -- will potentially  
22 be caught by this new rate?

23                  MR. ROBIN WIENS:    Yes.

24                  MR. JOHN LANDRY:    I wonder if I could  
25 take you to your reputtal -- buttal evidence, sir, which

1 I understand is Exhibit Manitoba Hydro Number 5. And if  
2 you could go to page 5 of the rebuttal evidence, please.

3

4

(BRIEF PAUSE)

5

6 MR. JOHN LANDRY: Do you have that, sir?

7

MR. ROBIN WIENS: Yes.

8

MR. JOHN LANDRY: Now, sir, I'm -- I'm  
9 starting -- I guess it's the whole page, but for my  
10 purposes, starting at approximately line 16.

11

Sir, you're responding there to Messrs.  
12 Bowman and McLaren's suggestion that they were talking  
13 about pipelines being captive in Manitoba.

14

Is that a fair statement?

15

MR. ROBIN WIENS: Yes.

16

MR. JOHN LANDRY: And looking at line,  
17 specifically, 18 through 26, Manitoba Hydro makes the  
18 point-- and -- and I'll summarize a bit. But the first  
19 point was that pipelines can and have made locations  
20 decisions to bypass Manitoba.

21

You see that?

22

MR. ROBIN WIENS: Yes.

23

MR. JOHN LANDRY: And the second one,  
24 that some pipeline compressor stations can use a fuel  
25 other than electricity to operate their motors?

1 MR. ROBIN WIENS: Yes.

2 MR. JOHN LANDRY: Now, sir, let's be  
3 perfectly clear. Manitoba Hydro knows perfectly well in  
4 relation to Keystone that it is simply a pipeline, at  
5 least from the Canadian context, including Manitoba, that  
6 where it's going to be a conversion from a natural gas  
7 pipeline to an oil pipeline, correct?

8 MR. ROBIN WIENS: Yes.

9 MR. JOHN LANDRY: So those anecdotal  
10 comments that are made in rela -- in response to Messrs.  
11 Bowman and McLaren really have no application to the  
12 Keystone situation, correct?

13 MR. ROBIN WIENS: Well, the one regarding  
14 the location has no application to it.

15 MR. JOHN LANDRY: In relation to  
16 compressor stations, you know that Keystone's expansion  
17 plans are to be -- them to be supplied by electric power,  
18 correct?

19 MR. ROBIN WIENS: That's what I  
20 understand.

21 MR. JOHN LANDRY: Yeah. So these two  
22 (2), although they have an -- a possibility of using  
23 another fuel, you knew that, in fact, in the Keystone  
24 situation, they were going to be using electricity,  
25 correct?

1                   MR. ROBIN WIENS:    We -- we know that  
2 their plan is to use electricity.

3                   MR. JOHN LANDRY:    And -- and, sir, those  
4 two (2) comments that were made by Manitoba Hydro in --  
5 again, in response to Messrs. Bowman and McLaren in  
6 relation to pipelines, et cetera, they also did not apply  
7 to Enbridge either, correct?

8                   MR. ROBIN WIENS:    My understanding is  
9 that Enbridge's plan is to bring their pipeline through  
10 Manitoba as well and to use electricity.

11                  MR. JOHN LANDRY:    But -- but, sir, you  
12 knew, as a result of the presentation Enbridge made at  
13 this -- at -- before this Board back last spring, that  
14 Enbridge was intending to use or bring their pipeline  
15 through the very same right-of-way that existed for  
16 another pipeline, correct?

17                  MR. ROBIN WIENS:    Yes.

18                  MR. JOHN LANDRY:    Right.  So you knew,  
19 sir, when you did this rebuttal evidence, that neither of  
20 these two (2) points related to -- to Enbridge, colle --  
21 correct?

22                  MR. ROBIN WIENS:    I think the points of  
23 Mr. Bowman's evidence were relating to pipelines  
24 generally, so this response was relating to pipelines  
25 generally.

1                   MR. JOHN LANDRY:   Well -- well, sir, you  
2 know, and the evidence before this -- this Board is the  
3 two (2) pipelines that were going to be impacted, that  
4 the three (3) ballpark existing customers that were  
5 targeted, were going to be Keystone and Enbridge,  
6 correct?

7                   MR. ROBIN WIENS:    Yes.

8                   MR. JOHN LANDRY:    And these two (2)  
9 points that you put in the rebuttal evidence did not  
10 apply to those two (2) pipelines, correct?

11                  MR. ROBIN WIENS:    Not with their current  
12 plans, no.

13                  MR. JOHN LANDRY:    Well, you have no  
14 indication, sir, from either of those two (2) companies  
15 that they're intending to change the plans?

16                  MR. ROBIN WIENS:    I do not.

17                  MR. JOHN LANDRY:    Now I want to go back.  
18 Mr. Wiens, I want to go back to where I started this part  
19 of the cross-examination to, again, who will -- who will  
20 be or may be impacted by the new rate? So if we can go  
21 back to that as the general concept, sir.

22                         If we're looking to the future, which is  
23 assuming this rate is approved by the Board, under your  
24 old proposal, where you had exemption criteria, it -- it  
25 gave the discretion to Manitoba Hydro to effectively

1 provide heritage rates to what we talked about in this  
2 room on a -- on a number of occasions, good growth.

3 Is that a fair statement?

4 Even though they wouldn't necessarily hit  
5 the baseline or the proposal -- the gigawatt hours line  
6 that was -- that was proposed in the old proposal?

7 MR. ROBIN WIENS: Yes, there was  
8 provision for exemption.

9 MR. JOHN LANDRY: And now, under your new  
10 proposal, there is no such discretion, correct?

11 MR. ROBIN WIENS: Correct.

12 MR. JOHN LANDRY: So what that means is  
13 that any good growth in the future -- and what I mean by  
14 that, where there'll be material investments paid by  
15 companies and -- and -- and considerable amount of jobs  
16 coming into Manitoba -- if they're over 100 gigawatt  
17 hours, they will be impacted by this -- by this rate,  
18 correct?

19 MR. ROBIN WIENS: Yes.

20 MR. JOHN LANDRY: No matter how positive  
21 that might be, them coming to the Manitoba -- coming to  
22 Manitoba, correct?

23 MR. ROBIN WIENS: Correct.

24 MR. JOHN LANDRY: Even if the issue of  
25 power cost is a material issue in their decision-making

1 process to come or not to come to Manitoba, correct?

2 MR. ROBIN WIENS: Correct.

3 MR. JOHN LANDRY: Now, sir, I'd like to  
4 change topics a little bit, and I want to give you some  
5 idea where I'm coming from on this. And again, Mr.  
6 Wiens, I think I'll start with you, at least.

7 And I want to talk a little bit about what  
8 Manitoba Hydro did or did not file in support of its  
9 proposal, okay?

10 MR. ROBIN WIENS: Yes.

11 MR. JOHN LANDRY: And -- and I want to  
12 make sure that Manitoba Hydro and the Board understands  
13 why this issue is being raised in such a material manner.  
14 And I'm -- just to give a bit of an overview of the  
15 issue, it's done in the spirit, again, of those customers  
16 that are going to be -- that are targeted by this  
17 application.

18 And it's from the perspective of whether  
19 Manitoba Hydro is being fair to them in the way Manitoba  
20 Hydro has approached this application and the Board's  
21 review of the proposal, okay?

22 MR. ROBIN WIENS: Okay.

23 MR. JOHN LANDRY: Sir, presumably, you  
24 would agree with this proposition, that it's important  
25 that Manitoba Hydro act fairly to all customers,

1 including those three (3) or so existing customers that  
2 are going to be impacted by this proposal?

3 MR. ROBIN WIENS: As a general statement,  
4 yes.

5 MR. JOHN LANDRY: So can we start from  
6 this proposition? I know we had a little bit of  
7 difficulty back in the spring, but I've given you  
8 rebuttal evidence. Hopefully, you won't have too much  
9 difficulty in accepting this.

10 Would you agree with this, sir, that  
11 Manitoba Hydro is asking the Board to approve a  
12 discriminatory rate?

13 MS. PATTIE RAMAGE: I think you -- we've  
14 gone right into the heart of the legal question there.

15

16 CONTINUED BY MR. JOHN LANDRY:

17 MR. JOHN LANDRY: Well, I -- I was -- I  
18 thought you might say that, Ms. Ramage, so I'd like to  
19 take everybody to the rebuttal evidence, and -- which is  
20 Manitoba Hydro Exhibit Number 5. And if you could go to  
21 page 10 -- pages 10 and 11, Mr. Wiens.

22 And -- and, Mr. Wiens, presumably you and  
23 your colleagues on the -- on the panel were responsible  
24 for preparing this evidence.

25 Is that a fair statement?

1 MR. ROBIN WIENS: Yes.

2 MR. JOHN LANDRY: And if you could go on  
3 page 10 to line 29, do you see that, sir?

4 MR. ROBIN WIENS: Yes.

5 MR. JOHN LANDRY: And there's a  
6 discussion there about the original PUB order and the  
7 issue of a discriminatory rate, correct?

8 MR. ROBIN WIENS: Yes.

9 MR. JOHN LANDRY: And then, if you go  
10 onto the next page, you'll see that there's further  
11 discussion about that. And then you go to line 20, and  
12 Manitoba Hydro -- in its evidence, not its argument --  
13 talks about, on line 20, some forms of discrim --  
14 discrimination are entirely appropriate.

15 Do you see that, sir?

16 THE CHAIRPERSON: Which page?

17 MR. JOHN LANDRY: Oh, sorry, page 11, Mr.  
18 Mayer, line -- I'm sorry, I went a little quick there.  
19 Line 20.

20 THE CHAIRPERSON: Yeah, that is it.

21

22 CONTINUED BY MR. JOHN LANDRY:

23 MR. JOHN LANDRY: You see those two (2)  
24 comments, sir?

25 MR. ROBIN WIENS: I do.

1                   MR. JOHN LANDRY:    So, again, I'm looking  
2   at your evidence, sir, and I'm sen -- I'm -- I'm trying  
3   to put a proposition to you that from your perspective,  
4   okay, that what Manitoba Hydro is asking the Board to  
5   approve, in the context of the evidence that you're  
6   talking about here, a discriminatory rate.

7                   Fair statement?

8

9                                       (BRIEF PAUSE)

10

11                   MS. PATTIE RAMAGE:    Mr. Chairman, the  
12   rebuttal evidence serves to respond to comments made by  
13   MIPUG and summarizes the evidence of others.  It doesn't  
14   introduce opinions of Manitoba Hydro or legal argument.

15                                    And I think that's what Mr. Landry is  
16   attempting to draw from Mr. Wiens.  It provides Mr.  
17   Bowman and McLaren's comments, and it provides the  
18   Board's comments.

19                   MR. JOHN LANDRY:    Well, Mr. Chairman,  
20   just so that we don't take a long -- a lot of time in  
21   this, I'll -- I'll go on and -- without an answer to that  
22   question.

23

24   CONTINUED BY MR. JOHN LANDRY:

25                   MR. JOHN LANDRY:    Mr. Wiens, without

1 debating that, which I think goes without saying, but  
2 what I would like to say to you, sir, then, is this.

3                   You would agree with me that what Manitoba  
4 Hydro is doing here, in effect, is targeting effectively  
5 several customers within the large industrial class.

6                   Fair statement?

7                   MR. ROBIN WIENS:   It's -- it's targeting  
8 growth beyond the parameters that are described in the  
9 rate, yes.

10                  MR. JOHN LANDRY:   Sir, I'm being very  
11 specific. It is targeting several customers in the large  
12 industrial class, correct?

13                  Do you need -- do you need help from your  
14 lawyer on this one, Mr. Wiens?

15

16                                       (BRIEF PAUSE)

17

18                  MR. ROBIN WIENS:   What is being targeted  
19 is the growth. If the customer -- if the customer grows  
20 beyond the parameters described in the rate, that is what  
21 is -- that is what will be subject to the new rate, if it  
22 is approved.

23                  MR. JOHN LANDRY:   Well, let me -- let me  
24 see if we can go at least this far, sir. The -- the  
25 effect of what you are doing is that for existing

1 customers the effect is that you're targeting very few --  
2 three (3) or four (4), I guess, is the evidence so far --  
3 of your existing customers.

4 Is that a fair statement?

5 MR. ROBIN WIENS: I -- I think our  
6 evidence to date in this proceeding is that we expect  
7 three (3) or four (4) customers will be subject to that  
8 rate.

9 MR. JOHN LANDRY: So the answer to my  
10 question is yes?

11 MR. ROBIN WIENS: Yes, it is expected --

12 MR. JOHN LANDRY: Okay.

13 MR. ROBIN WIENS: -- that three (3) or  
14 four (4) customers will be affected.

15 MR. JOHN LANDRY: So would you agree with  
16 me, sir, that -- that -- would you agree with me, sir,  
17 that in setting a rate which has the impact of affecting  
18 a small customer base -- three (3) or four (4) customers  
19 -- should not be taken lightly by Manitoba Hydro and  
20 bring it forward to this Board?

21 MR. ROBIN WIENS: Well, I -- yes, I would  
22 agree that it's a -- it's a serious proposal, and it  
23 needs to be reviewed seriously.

24 MR. JOHN LANDRY: Sir, and -- and because  
25 of that, sir, would you agree with me that you would --

1 Manitoba Hydro would want to ensure that all relevant  
2 information is placed before the Board to come to that --  
3 to come to a determination in relation to that?

4 MR. ROBIN WIENS: Yes.

5 MR. JOHN LANDRY: And that all necessary  
6 analysis relevant to the issue is completed? Would you  
7 agree with that, sir?

8 MR. ROBIN WIENS: Yes, I would agree that  
9 relevant analysis, to the extent that it can be  
10 determined in advance, would be made available.

11 MR. JOHN LANDRY: And, sir, would you  
12 also agree that before presenting and -- and asking this  
13 Board to approve such a rate, where you are targeting  
14 good existing customers, that all possible options should  
15 be reviewed in order to resolve the issue?

16 MR. ROBIN WIENS: It would be advisable  
17 to review options.

18 MR. JOHN LANDRY: So, would you also  
19 agree with me, sir, that it would be important in this  
20 context, given the seriousness with which we talked about  
21 earlier, that you put before the Board all information  
22 that the Board believes is relevant?

23 MR. ROBIN WIENS: Yes.

24 MR. JOHN LANDRY: And they'd have --  
25 you'd have to do that to ensure that the rate ultimately,

1 that's going to impact these -- these three (3) or four  
2 (4) customers, is fair?

3 Is that a fair statement?

4 MR. ROBIN WIENS: Yes, that's reasonable.

5 MR. JOHN LANDRY: Now, Mr. Wiens, is  
6 Manitoba Hydro -- and again I -- I ask these questions in  
7 the context, as I said earlier, of the three (3) or four  
8 (4) customer -- existing customers that may be -- or are  
9 going to be impacted by this rate if it's -- if it's  
10 approved, sir.

11 Is Manitoba Hydro satisfied that it filed  
12 in its application all relevant information?

13

14 (BRIEF PAUSE)

15

16 MR. VINCE WARDEN: Mr. Landry, we think  
17 we filed the information that's relevant to our  
18 application.

19 MR. JOHN LANDRY: Well, I'll go back to  
20 Mr. Wiens. Mr. Wiens, your evidence was -- and I'm  
21 summarizing, so if I summarize it incorrectly, I'm sure  
22 you'll correct me -- but you said that it's important to  
23 file all relevant information, correct?

24 MR. ROBIN WIENS: Yes.

25 MR. JOHN LANDRY: It's important to file

1 all relevant analysis, correct?

2 MR. ROBIN WIENS: Yes.

3 MR. JOHN LANDRY: And it's important that  
4 you've looked at all possible options to resolve the  
5 issue, correct?

6 MR. ROBIN WIENS: It's important that we  
7 look at options. I -- you know, all possible options,  
8 that -- that's a pretty large universe --

9 MR. JOHN LANDRY: Okay.

10 MR. ROBIN WIENS: -- but it is important  
11 that we look at options.

12 MR. JOHN LANDRY: I'll take that for --  
13 for the moment, sir. In response to those -- in response  
14 to those three (3) questions, sir, my question stands:  
15 Is Manitoba -- Manitoba Hydro satisfied that it provided  
16 this Board, in its application, with all of those things  
17 that we just went through?

18

19 (BRIEF PAUSE)

20

21 MR. ROBIN WIENS: We believe we filed  
22 information that's relevant to support this application.

23 MR. JOHN LANDRY: Mr. -- Mr. Wiens, I  
24 know -- I know under this process your lawyer is allowed  
25 to talk to talk to you in the middle of cross-

1 examination, but I'd like to know what Manitoba Hydro's  
2 view is. And my question is very simple: Is Mani -- was  
3 Manitoba Hydro satisfied that they filed all relevant  
4 information necessary for the Board to come to its  
5 conclusion in relation to this application -- when it's  
6 filed its application?

7 What's the answer to that?

8 MR. ROBIN WIENS: I think we both  
9 answered yes.

10 MR. JOHN LANDRY: That's all I was  
11 looking for, sir.

12 Now, sir, I'd like to take you to the  
13 Board's decision to test that proposition. And if you  
14 could go to the PUB Exhibit Number 8, which is Mr.  
15 Peters' book of documents, the blue document. Sorry, Tab  
16 2.

17 Do you have that, Mr. Wiens? Sorry, I  
18 apologize, it's the reasons of this Board in the GRA  
19 application. Do you see that?

20 MR. ROBIN WIENS: Yes.

21 MR. JOHN LANDRY: And I'd like to start  
22 at page 374, sir.

23 MR. ROBIN WIENS: I have that.

24 MR. JOHN LANDRY: Yeah. And again, I say  
25 this in the context of treating the three (3) or four (4)

1 customers -- existing customers fairly, in relation to  
2 this application.

3                   You understand that's where I'm going,  
4 correct?

5                   MR. ROBIN WIENS:    Yes.

6                   MR. JOHN LANDRY:    Sir, and would you  
7 agree with this proposition, Mr. Wiens, that Manita --  
8 Manitoba Hydro takes very seriously requests for  
9 information made by this Board?

10                  MR. ROBIN WIENS:    Yes.

11                  MR. JOHN LANDRY:    Okay.    And, sir, if we  
12 start at page 374, you can see at about the middle of the  
13 paragraph, where the Board defines the issue -- you see  
14 that just under the subheading, Energy-Intensive Industry  
15 Rate?

16                  MR. ROBIN WIENS:    Yes.

17                  MR. JOHN LANDRY:    They talk about the  
18 issue or the fairness of embedded cost rates being  
19 considerably lower than marginal values?

20                  MR. ROBIN WIENS:    Yes.

21                  MR. JOHN LANDRY:    And they talk about, in  
22 the next paragraph, the financial implications of  
23 expanded load are magnified in the case of industrial  
24 customers.

25                  You see that?

1 MR. ROBIN WIENS: Yes.

2 MR. JOHN LANDRY: And it goes on in the  
3 last -- in the last paragraph on that page, where it  
4 says:

5 "Well how best to address the issue in  
6 Manitoba remains an open question."

7 You see that, sir?

8 MR. ROBIN WIENS: Yes.

9 MR. JOHN LANDRY: And they say at the  
10 very bottom, and I emphasize, sir:

11 "It is important -- it is an important  
12 issue that the Board is deeply  
13 interested in."

14 You see that, sir?

15 MR. ROBIN WIENS: Yes.

16 MR. JOHN LANDRY: And the Board, in its  
17 decision, made a number of suggestions -- in fact, a  
18 number of directions, in relation to information it  
19 believed was relevant to this application.

20 You agree with that?

21 MR. ROBIN WIENS: Yes.

22 MR. JOHN LANDRY: And if we go to the  
23 next page, page 375, sir -- you see that, that page?

24 MR. ROBIN WIENS: Yes.

25 MR. JOHN LANDRY: If you go to, again, a

1 little bit more than the middle of the page, under the  
2 paragraph that starts:

3 "While the Board appreciates..."

4 Do you see that, sir?

5 MR. ROBIN WIENS: Yes.

6 MR. JOHN LANDRY: Do you see in the  
7 second line it says, and I quote:

8 "The Board is concerned about the use  
9 of forecast export prices as opposed to  
10 actual export prices in the  
11 determination of marginal costs and  
12 encourages Manitoba Hydro to explore  
13 and advance other options for  
14 consideration at the separate hearing  
15 into this rate matter."

16 Do you see that, sir?

17 MR. ROBIN WIENS: Yes.

18 MR. JOHN LANDRY: And then it goes on in  
19 the next paragraph, where it says:

20 "Manitoba Hydro should consider..."

21 Do you see that, sir?

22 MR. ROBIN WIENS: Yes.

23 MR. JOHN LANDRY: And if you go to the  
24 next -- I'll skip over a number of bullets would have --  
25 which already have been dealt with, sir. I go to the

1 last bullet on the next page, on page 376, where it  
2 starts:

3 "Perhaps including a marginal cost  
4 component or signal and rates for all  
5 classes, not just GSL."

6 Do you see that?

7 MR. ROBIN WIENS: Yes.

8 MR. JOHN LANDRY: And if you go to the  
9 next full paragraph, it sort of highlights that a little  
10 bit and it says, and I quote:

11 "A question to be considered is whether  
12 these specific industries should be  
13 targeted, or whether the concern is  
14 best addressed across the entire class,  
15 or perhaps all class -- classes served  
16 by Manitoba Hydro."

17 Do you see that, sir?

18 MR. ROBIN WIENS: Yes.

19 MR. JOHN LANDRY: And so it was very  
20 clear that this Board was acting -- asking you, Manitoba  
21 Hydro, when I say "you," Manitoba Hydro, to consider that  
22 type of thing, correct?

23 MR. ROBIN WIENS: Yes.

24 MR. JOHN LANDRY: And, sir, would you  
25 agree with me, again, that there -- there is nothing in

1 the application which analyses in any way this issue, or  
2 discusses this possible option?

3 MR. ROBIN WIENS: The option to -- to  
4 address the concern across the entire class -- perhaps  
5 all classes served by Manitoba Hydro.

6 MR. JOHN LANDRY: There is nothing in the  
7 application that analyses that possible option that  
8 brings in -- brings before this Board that type of  
9 analysis, correct?

10 MR. ROBIN WIENS: That is correct.

11 MR. JOHN LANDRY: Go to the next  
12 paragraph, sir. And it says, and I quote:

13 "Therefore, for the special hearing,  
14 Manitoba Hydro will be expected to  
15 provide options, including its  
16 preferred option."

17 Do you see that, sir?

18 MR. ROBIN WIENS: Yes.

19 MR. JOHN LANDRY: And you would have --  
20 would have been aware of this statement prior to filing  
21 the application?

22 MR. ROBIN WIENS: Yes.

23 MR. JOHN LANDRY: And would you agree  
24 with me again, sir, there's nothing in the application  
25 about other options? Effectively, all the application

1 does is put forward Manitoba Hydro's preferred option.

2 A fair statement?

3 MR. ROBIN WIENS: That's correct.

4 MR. JOHN LANDRY: Yeah. And you knew,  
5 sir, before you filed this application, for example, that  
6 other jurisdictions had dealt with similar issues in  
7 Canada?

8 MR. ROBIN WIENS: Yes.

9 MR. JOHN LANDRY: You knew about the --  
10 the British Columbia situation?

11 MR. ROBIN WIENS: Yes.

12 MR. JOHN LANDRY: In fact, you commented  
13 on the British Columbia situation in response to Messrs.  
14 Bowman and McLaren, didn't you, in your rebuttal  
15 evidence?

16 MR. ROBIN WIENS: Yes.

17 MR. JOHN LANDRY: And you knew about the  
18 Quebec situation?

19 MR. ROBIN WIENS: Yes.

20 MR. JOHN LANDRY: And you commented on  
21 the Quebec situation again in the rebuttal evidence,  
22 correct?

23 MR. ROBIN WIENS: Yes.

24 MR. JOHN LANDRY: Notwithstanding, sir,  
25 that you knew about both the British Columbia and the

1 Quebec situation, you chose not to bring those forward in  
2 your application, did you?

3 MR. ROBIN WIENS: That's right.

4 MR. JOHN LANDRY: Did you not, sir -- Mr.  
5 Wiens, did you not think that it would be helpful in  
6 allowing the three (3) or four (4) customers who are  
7 going to be impacted by this, to put -- and for the  
8 Board, who had to ultimately determine whether or not  
9 this rate would be fair, to have brought forward what had  
10 happened in other jurisdictions and how they dealt with  
11 it, regardless of whether or not Manitoba Hydro was going  
12 to follow those other jurisdictions?

13 Did you not think that would be helpful?

14 MR. ROBIN WIENS: It may have been  
15 helpful, Mr. Landry. We've talked about those situations  
16 in the previous hearing and I was sure that we would be  
17 talking about them again in this hearing.

18 MR. JOHN LANDRY: But you didn't think it  
19 was necessary, notwithstanding the specific suggestion of  
20 the Board, to put into your application a discussion of  
21 those options, correct?

22 MR. ROBIN WIENS: It was not in the  
23 application.

24 MR. JOHN LANDRY: Sir, as I understood --

25 MR. ROBERT MAYER: Mr. Landry, I -- I

1 hate to interrupt, but you're talking about options, and  
2 I'm assuming when you talk about options, you meant  
3 options opened -- open to Manitoba Hydro.

4 I think after, especially, the last  
5 hearing and the discussions that were had in cross-  
6 examination regarding the Government's involvement in  
7 this, I think it was fairly clear that the Quebec option  
8 probably wasn't open in Manitoba Hydro.

9 MR. JOHN LANDRY: Sir, I -- I appreciate  
10 that point, sir, but that's -- that is not the issue that  
11 I was dealing with; it was a matter of having before this  
12 Board, all the options that were out there, whatever the  
13 recommendation would be of Manitoba Hydro. And I'm sure  
14 that if Manitoba Hydro felt that that was a right way to  
15 go, it could have suggested that to the Board.

16

17 CONTINUED BY MR. JOHN LANDRY:

18 MR. JOHN LANDRY: Mr. Wiens, I'd like to  
19 take you now to the next item, which is the export  
20 contracts.

21 Do you see that on page 376?

22 MR. ROBIN WIENS: Yes.

23 MR. JOHN LANDRY: And, again, this -- and  
24 we've sort have gone through this a little bit in the --  
25 in -- in our discussion, in relation to the -- the

1 people who have been targeted in this application. But  
2 if you go to the very bottom of the page, the last few  
3 words on that page, it says:

4 "Export sales do not create any direct  
5 or indirect Manitoba employment in the  
6 sense that domestic indus -- industry  
7 does."

8 Do you see that?

9 MR. ROBIN WIENS: I do see that.

10 MR. JOHN LANDRY: And -- and then, in the  
11 next paragraph it talks about the -- the fou -- the  
12 thought that perhaps some sort of credit be pro --  
13 provided to Manitoba industry, in -- in comparison to the  
14 export customers.

15 A fair statement?

16 MR. ROBIN WIENS: I do see that.

17 MR. JOHN LANDRY: Yeah. Would you agree,  
18 sir, that, at least in this application, there was no  
19 analysis done of -- of trying to det -- trying to come to  
20 grips with this issue of giving a credit?

21 MR. ROBIN WIENS: That's correct.

22 MR. JOHN LANDRY: And, sir, if we go down  
23 to the next item, which is called time-of-use rates -- do  
24 you see that on page 377?

25 MR. ROBIN WIENS: Yes.

1 MR. JOHN LANDRY: And would you agree  
2 with me, sir, without getting into the detail, that the  
3 Board appeared to be very interested in time-of-use rates  
4 and its role in -- in this issue?

5 A fair statement?

6 MR. ROBIN WIENS: Yes.

7 MR. JOHN LANDRY: And you -- and Manitoba  
8 Hydro received specific directions in relation to this?

9 MR. ROBIN WIENS: Yes, I see that the  
10 Board believed that -- or stated that it believed that  
11 time-of-use should be built into the initial concept.

12 MR. JOHN LANDRY: And -- and Manitoba  
13 Hydro was concerned -- so concerned about that, sir, that  
14 they did an R&B application, correct?

15 MR. ROBIN WIENS: Yes.

16 MR. JOHN LANDRY: And notwithstanding the  
17 protestations of Manitoba Hydro, the Board still directed  
18 Manitoba Hydro to file by December 1st, in relation to  
19 this direction, correct?

20 MR. ROBIN WIENS: I believe that's  
21 correct.

22 MR. JOHN LANDRY: Yeah. And, sir, again  
23 from the context of the three (3) or four (4) customers  
24 that are going to be targeted from this, Manitoba Hydro  
25 choose not to report by December 1st to this Board, in

1 relation to their direction, correct?

2 MR. ROBIN WIENS: That did not occur.

3 MR. JOHN LANDRY: And as I understand the  
4 evidence that occurred in direct, your -- the reason why  
5 you didn't bring time-of-use rates as a -- as part of  
6 discussion in relation to this proposal, was that  
7 Manitoba Hydro was not ready, sir.

8 Is that a fair statement?

9 MR. ROBIN WIENS: Yes.

10 MR. JOHN LANDRY: Yeah. But, sir, here -  
11 - here's my question for you: Was there anything in your  
12 direct testimony on time-of-use and your answer to the  
13 direction, in the sense that Manitoba Hydro was not  
14 ready, that could not have been said to the Board by  
15 December 1st?

16

17 (BRIEF PAUSE)

18

19 MR. ROBIN WIENS: I -- I do believe it  
20 was stated in the Review and Vary application that we  
21 were not in a position to be able to advance proposals in  
22 that manner.

23 MR. JOHN LANDRY: But, sir, you weren't  
24 successful in the R&B application, and you knew that we  
25 were going to be here with the three (3) or four (4)



1 this a little bit with Mr. Cormie. And you see that  
2 there was a specific dir -- direction by the Board, in  
3 the second to last paragraph, that an in-depth analysis  
4 of the value of peak versus off-peak energy sales into  
5 the MISO mar -- market?

6 Do you see that?

7 MR. ROBIN WIENS: Yes.

8 MR. JOHN LANDRY: And I think you'd agree  
9 with me, sir, as a result of the cross-examination, at  
10 least in the application, and perhaps not until direct-  
11 examination and cross-examination, that Manitoba Hydro  
12 did not appropriately respond to this -- this direction?

13 MR. ROBIN WIENS: We did not respond to  
14 that in the application. We responded subsequently in  
15 the responses to Information Requests.

16 MR. JOHN LANDRY: In the way Mr. Cormie  
17 testified, you're not questioning how Mr. Cormie answered  
18 questions in relation to this, are you?

19 MR. ROBIN WIENS: I'm not questioning Mr.  
20 Cormie's responses at all.

21 MR. JOHN LANDRY: And -- and you believe  
22 that Manitoba Hydro, in the Information Request -- is it  
23 -- that your position, sir, that Manitoba Hydro, in the  
24 Information Request appropriately responded to this  
25 direction of the Board?

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(BRIEF PAUSE)

MR. ROBIN WIENS: We provided in the Information Requests a response that we believed was acceptable at that time.

MR. JOHN LANDRY: You thought it was an appropriate response to this specific direction, which required an in-dept analysis of the value peak and off-peak sales.

MR. ROBIN WIENS: I believe what we provided was distribution curves and averages for the last four (4) years for on and off-peak sales at the MISO interface.

MR. JOHN LANDRY: Sir, I understand your description of it. My question wasn't that. My question is: You believe that that was an appropriate response to this direction?

MR. ROBIN WIENS: Yes.

MR. JOHN LANDRY: Sir, if you go back -- go the next page, on page 379, the last paragraph on the next page, it says:

"The Board directs Manitoba Hydro to report on the specific dir -- deferral [sorry] -- deferral values that could

1                   be achieved by constraining industrial  
2                   load growth."

3                   Do you see that, sir?

4                   MR. ROBIN WIENS:    Yes.

5                   MR. JOHN LANDRY:    Once agra -- once again,  
6    you would agree with me that there is ap -- there is  
7    nothing in the application that responds to that  
8    direction?

9                   A fair statement?

10                  MR. ROBIN WIENS:    Yes.

11                  MR. JOHN LANDRY:    It was necessary to do  
12    an Information Request of Manitoba Hydro to get its  
13    position on -- on this point.

14                  A fair statement?

15                  MR. ROBIN WIENS:    Yes.

16                  MR. JOHN LANDRY:    And -- and the bottom  
17    line of that was -- as I understood it, was that -- and  
18    I'm -- I'm generalizing here, was that you no longer --  
19    Manitoba Hydro no longer used deferred values in relation  
20    to this type of an issue.

21                  A fair statement?

22                  MR. ROBIN WIENS:    For generation, yes.

23                  MR. JOHN LANDRY:    Okay.  But now, sir, I  
24    know you say that and I know Manitoba Hydro said that in  
25    an IR, but I also understand that Manitoba Hydro is now

1 saying that, for Wuskwatim, the next -- the next big  
2 project, it's going to be used for domestic load,  
3 correct?

4 MR. ROBIN WIENS: Yes.

5 MR. JOHN LANDRY: Surely, Mr. Wiens,  
6 would you not agree with me, given the specific direction  
7 by the Board, that you could have taken a look at  
8 Wuskwatim and done a deferred calcu -- a deferred value  
9 calculation?

10 MR. ROBIN WIENS: The Wuskwatim will not  
11 be deferred; it's under construction and its in-service  
12 cannot be deferred.

13 MR. JOHN LANDRY: I appreciate that, sir,  
14 but a deferred value is an attempt to look into the  
15 future and see what type of value one would put on -- on  
16 load growth.

17 A fair statement?

18 MR. ROBIN WIENS: We took the question of  
19 deferral to me and how long could the installation in  
20 question be deferred, owing to a reduction in load. And  
21 because it was already under construction, and its in-  
22 service date was set, it could not be deferred.

23 MR. JOHN LANDRY: Okay, sir, if you could  
24 go the -- the next page, which is page 380.

25 MR. ROBERT MAYER: Could I just have a

1 quick challenge of that last comment? Firstly, it's my  
2 understanding that in-service may in fact be deferred,  
3 but to suggest that it couldn't be deferred defies the --  
4 the experience at Conawapa, doesn't it?

5 Conawapa was under construction at one  
6 point, wasn't it, sir? The cofferdam was in place.

7 MR. ROBIN WIENS: You're referring to  
8 Limestone?

9 MR. ROBERT MAYER: I'm -- am I referring  
10 to Limestone or Conawapa? A good question.

11 MR. ROBIN WIENS: Conawapa, at best,  
12 there was a road built to the site. To Limestone, yes,  
13 there was a cofferdam in place.

14 MR. ROBERT MAYER: And then it was  
15 deferred when the Ontario contract fell through, is that  
16 -- am I correct in that?

17 MR. ROBIN WIENS: That's Conawapa that  
18 you're talking about, with respect to the Ontario  
19 contract. But as we say, there had been some preliminary  
20 work done on the site and the road was in place, but  
21 nothing else.

22 MR. ROBERT MAYER: Okay, are you talking  
23 --

24 MR. DAVID CORMIE: Mr. Mayer, there was a  
25 test -- a test excavation done in the river that involved

1 the construction of a small cofferdam, but that wasn't  
2 the major cofferdam associated with the generating  
3 station.

4 MR. ROBERT MAYER: Thank you. I thought  
5 there was a cofferdam there somewhere.

6 MR. DAVID CORMIE: We'll give you a  
7 cofferdam.

8

9 CONTINUED BY MR. JOHN LANDRY:

10 MR. JOHN LANDRY: So, Mr. Wiens, if we  
11 could go to page 380.

12 MR. ROBIN WIENS: Yes.

13 MR. JOHN LANDRY: And you see under  
14 "consumption baseline" -- the subtitle, "consumption  
15 baseline," a couple of paragraphs?

16 MR. ROBIN WIENS: Yes.

17 MR. JOHN LANDRY: And the Board had  
18 directed Manitoba Hydro to provide an analysis as to --  
19 to justify the 39 gigawatt hour floor that had been  
20 proposed in the rate exemption?

21 MR. ROBIN WIENS: Yes.

22 MR. JOHN LANDRY: Now, sir, you changed,  
23 as I understand it, from 39 gigawatt hours to 100  
24 gigawatt hours, fair statement, for the new proposal?

25 MR. ROBIN WIENS: Yes.

1 MR. JOHN LANDRY: But would you agree  
2 with me that there is nothing in the application that was  
3 filed by Manitoba Hydro that did an analysis of how they  
4 came to the 100 gigawatt hours?

5 MR. ROBIN WIENS: That's fair.

6 MR. JOHN LANDRY: So I want to go under  
7 the next subheading, sir, under Fairness Principles. And  
8 if you could --

9 MR. ROBIN WIENS: Yes.

10 MR. JOHN LANDRY: If you could go down to  
11 the last word on that page, which is page 380, it starts  
12 there. And I quote, it says:

13 "The Board will be looking to reconcile  
14 the current rate proposal with cost  
15 causation principles."

16 Do you see that, sir?

17 MR. ROBIN WIENS: Yes.

18 MR. JOHN LANDRY: Would you agree with  
19 me, sir, that there's nothing in the application  
20 regarding the reconciling of -- of your rate proposal  
21 with cost causation principles?

22

23 (BRIEF PAUSE)

24

25 MR. ROBIN WIENS: I would agree with

1 that.

2 MR. JOHN LANDRY: And, sir, if you could  
3 go to the -- the last item on this -- in this section,  
4 and it's entitled, "Service Extension Policy".

5 You see that, sir?

6 MR. ROBIN WIENS: Yes.

7 MR. JOHN LANDRY: And once again, the  
8 Board specifically directed Manitoba Hydro to provide  
9 information, getting into the detail on the Service  
10 Extension Policy, correct?

11 MR. ROBIN WIENS: Yes.

12 MR. JOHN LANDRY: And once again,  
13 Manitoba Hydro protested and filed a Review and Variance  
14 application, correct?

15 MR. ROBIN WIENS: Yes.

16 MR. JOHN LANDRY: Notwithstanding their  
17 protestations, were told after the R&V to file the issue  
18 -- the -- in response to the direction in relation to  
19 service extension policy prior to this Hearing, to be put  
20 in place by December 1st, correct?

21 MR. ROBIN WIENS: Yes.

22 MR. JOHN LANDRY: And once again,  
23 Manitoba Hydro ignored that direction.

24 A fair statement?

25 MR. ROBIN WIENS: We didn't file on

1 December the 1st.

2 MR. JOHN LANDRY: Having a problem with  
3 the -- the word "ignore"?

4 MR. ROBIN WIENS: Yeah, because we didn't  
5 ignore it. We knew it was there. We simply were not  
6 able to file it by December the 1st.

7 MR. JOHN LANDRY: Sir, I'm not -- I'm not  
8 used to this, so I -- I'll put it to you, sir.

9 You had a specific direction by your  
10 regulator to file by December 1st, and you didn't even  
11 give the -- the regulator -- and I would say the three  
12 (3) or four (4) customers who are going to be targeted  
13 from this -- the -- the thought of filing by December  
14 1st, your position on this.

15 Fair statement?

16 MR. ROBIN WIENS: We didn't file by  
17 December the 1st.

18 MR. JOHN LANDRY: And, sir, would you  
19 also agree with this proposition: You responded to, in  
20 effect, this direction in direct testimony?

21 MR. ROBIN WIENS: Yes.

22 MR. JOHN LANDRY: And in direct  
23 testimony, there was nothing in the direct testimony that  
24 was anything new from December 1st to December 8th -- in  
25 other words, that you couldn't otherwise have put in a

1 letter to this Board that could have been reviewed by the  
2 three (3) or four (4) targeted customers.

3 Would you agree with that?

4

5 (BRIEF PAUSE)

6

7 MR. ROBIN WIENS: Yeah, it's possible  
8 that we could have provided that information in a letter  
9 to the Board December the 1st. But with the Hearing  
10 being imminent, we determined to put it in direct  
11 evidence.

12 MR. JOHN LANDRY: Mr. Wiens, you had two  
13 (2) very specific directions from this Board in relation  
14 to the time-of-use and service extension policy that this  
15 Board considered to be very relevant.

16 Would you agree with that?

17 MR. ROBIN WIENS: Yes.

18 MR. JOHN LANDRY: And yet Manitoba Hydro  
19 chose to ignore them.

20 Would you agree with that?

21 MR. ROBIN WIENS: Yeah, we did not ignore  
22 them, we -- but we did not make the filing date that was  
23 expected of us.

24 MR. JOHN LANDRY: Sir, I'm going to be  
25 very specific. Is Manitoba Hydro --

1 MS. PATTI RAMAGE: Excuse me, Mr. Chair.  
2 Mr. Chair, Mr. Landry, I think has made his point without  
3 a doubt. But Manitoba Hydro is required to respond to  
4 questions, not respond the way Mr. Landry wants to hear  
5 them. I think his point is well taken, but we can move  
6 on. We've heard the answer from Manitoba Hydro.

7 THE CHAIRPERSON: I think Mr. Landry is  
8 being quite careful in his questions. He seems to be  
9 delineating between each one, although they are subtle  
10 sometimes.

11 Mr. Landry...?

12

13 CONTINUED BY MR. JOHN LANDRY:

14 MR. JOHN LANDRY: Sir, to be more  
15 specific, do you think it was fair to your customers --  
16 when I say "your," I mean Manitoba Hydro customers. You  
17 have three (3) or four (4) customers who are going to  
18 have pay substantially more for their electricity.

19 Do you think it was fair that you did not  
20 file relevant information, directed by this Board, until  
21 the morning of the Hearing?

22

23 (BRIEF PAUSE)

24

25 MR. MICHAEL DUDAR: We -- we have had

1 continual communication with the customers on -- on their  
2 expansions. And we -- we've kept the customers up to  
3 date on -- on what our current plans were. We did not  
4 address it. We -- we do not specifically indicate that  
5 we weren't going to be filing on a certain date.

6 But the customers had relvan -- relevant  
7 information with respect to the situation with -- with  
8 service extension costs and -- and their -- the -- the  
9 possible rate.

10 MR. JOHN LANDRY: Mr. Dudar, I appreciate  
11 your point. My point -- what my -- but my question was  
12 not getting to that. My point is very simple, Mr. Wiens.

13 Does Manitoba Hydro believe it was fair,  
14 notwithstanding two (2) very specific directions of this  
15 Board to have information prior to the Hearing, to wait  
16 until the first morning of the Hearing to file that  
17 information?

18 Does Manitoba Hydro believe that's fair to  
19 those customers?

20

21 (BRIEF PAUSE)

22

23 MR. ROBIN WIENS: In retrospect, Mr.  
24 Landry, it may have been better to file that information  
25 earlier, but we don't believe the customers were missing

1 any relevant information that -- that they needed to  
2 consider in these proceedings.

3 MR. JOHN LANDRY: Sir, given all of the -  
4 - all of those questions -- and we've gone through in  
5 relative detail the directions and suggestions of this  
6 Board -- is it Manitoba Hydro's position still that they  
7 believe that they filed all relevant information that was  
8 necessary when it filed its application for this Board to  
9 determine whether or not this rate was fair to the three  
10 (3) or four (4) customers that are being targeted?

11 MR. ROBIN WIENS: Again, Mr. Landry, it -  
12 - it may have been better, in retrospect, to have  
13 included more information in the application. But that's  
14 what the discovery process is for, among other things, is  
15 to determine if there's additional information that needs  
16 to be considered.

17 MR. JOHN LANDRY: I'll leave that there.

18 I'd like to -- to talk about a different  
19 question or different issue, Mr. Wiens, and I think it'll  
20 probably be you that -- that will be responding to this.

21 If you could go to the -- one of the new  
22 MIPUG exhibits, which is Exhibit Number 6, which at the -  
23 - it's the one that has MIPUG/Manitoba Hydro-1-2 as the  
24 first page.

25 MR. ROBIN WIENS: I have that.

1 MR. JOHN LANDRY: Now, just to set this  
2 up a little bit, Mr. Wiens, the -- in the MIPUG evidence  
3 the issue of rate stability, in the context of the  
4 volatility of the -- of the proxy export price that was  
5 being proposed by Manitoba Hydro, that was raised in  
6 their -- in the evidence?

7 MR. ROBIN WIENS: Yes.

8 MR. JOHN LANDRY: And it was raised  
9 because the issue of rate stability is a core principle  
10 when setting rates in a regulatory context?

11 Fair statement?

12 MR. ROBIN WIENS: Yes.

13 MR. JOHN LANDRY: And -- and the whole  
14 issue of rate stability is tied somewhat to the issue of  
15 fairness?

16 Would you agree with that?

17

18 (BRIEF PAUSE)

19

20 MR. ROBIN WIENS: It's an important  
21 consideration. I'm not sure that it is tied in  
22 intimately with the issue of fairness, but at a general  
23 level, I -- yes, I can agree with you.

24 MR. JOHN LANDRY: Thank you. Would you  
25 agree with this, sir, or the proposition that the proxy

1 market rate that Manitoba Hydr -- excuse me -- Hydro has  
2 chosen historically, if you look at it historically, has  
3 been a very volatile proxy?

4 MR. ROBIN WIENS: It has moved around.

5 MR. JOHN LANDRY: Well, would you agree  
6 with that it's very volatile?

7 MR. ROBIN WIENS: It -- it has moved  
8 around quite a bit. There is a -- there -- there's a  
9 degree of volatility to it.

10 What we've seen, I think, looking at the  
11 exhibit, that we've moved from a period where the -- the  
12 market appears to have changed, and we've moved to a  
13 period where energy sales into the export market -- say,  
14 over the period from 1997/'98 up until the 2002/2003 --  
15 moved up quite a bit.

16 And since that time, there has been some  
17 up and down movement in the -- in the average price.

18 MR. JOHN LANDRY: Well, sir, let's --  
19 let's test how volatile it actually has been. So if you  
20 could go to MIPUG Exhibit Number 6. And -- and also in  
21 MIPUG Exhibit Number 6 we have MIPUG/Manitoba Hydro-1-2  
22 as the first page.

23 Do you see that, sir?

24 MR. ROBIN WIENS: Yes, I do.

25 MR. JOHN LANDRY: And that's a

1 calculation by Manitoba Hydro, going back to the 1997/'98  
2 year, of what the implied tail block energy rate would  
3 have been, using the same rules that were suggested in  
4 this Hearing?

5 MR. ROBIN WIENS: Yes.

6 MR. JOHN LANDRY: And then if you go to  
7 the next page, sir, I wonder if you could confirm for me  
8 that the same numbers for the above baseline rate are  
9 used in -- on page 2, which is an extract from the pre-  
10 filed testimony of Mr. -- Messrs. Bowman and McLaren?

11 MR. ROBIN WIENS: It's using the four  
12 point seven nine (4.79) cents as a --

13 MR. JOHN LANDRY: And --

14 MR. ROBIN WIENS: -- as a price for the  
15 energy above baseline.

16 MR. JOHN LANDRY: Right. And -- and it  
17 goes back, again, using the exact same numbers as  
18 Manitoba Hydro did, back to the '97/'98 year, for the  
19 above baseline rate, correct?

20 MR. ROBIN WIENS: I'm not seeing that on  
21 the third page. I -- I haven't had a lot of time to look  
22 at it.

23 MR. JOHN LANDRY: The second -- sorry,  
24 second page in my -- I apologize. If I misstated that, I  
25 -- that's my mistake, sorry.

1 MR. ROBIN WIENS: Yes, I see that.

2 MR. JOHN LANDRY: Yeah. So it's the  
3 same. I just want to confirm that the numbers are the  
4 same.

5 MR. ROBIN WIENS: Again, I haven't  
6 verified in detail, but I have no -- no reason to doubt  
7 that --

8 MR. JOHN LANDRY: And, sir, what Messrs.  
9 Bowman and McLaren did is they -- they did an annual  
10 change.

11 Do you see that on -- on page 2 of Exhibit  
12 MIPUG --

13 MR. ROBIN WIENS: Yes, I see it.

14 MR. JOHN LANDRY: -- Number 6?

15 MR. ROBIN WIENS: Yes, I see it.

16 MR. JOHN LANDRY: And, sir, would you  
17 agree with me that that percentage change, when you look  
18 at it, that this rate was extremely volatile.

19 Fair statement?

20 MR. ROBIN WIENS: It was extremely  
21 volatile up to about 2003/2004. It does continue to  
22 change after that, but the amount of change is not as  
23 extreme as it was prior to 2003/'04.

24 MR. JOHN LANDRY: Well, sir, would you  
25 not consider -- would Manitoba Hydro not consider, in a

1 regulatory context, a -- a change in rate of 11 and 12  
2 percent material?

3 MR. ROBIN WIENS: Yes, I think it  
4 probably is material, but it is not as material as the  
5 sixty-seven (67) and fifty-two (52) that you see in the  
6 earlier year.

7 MR. JOHN LANDRY: So we -- we do have  
8 years, going back to -- to the early 2000s, where it was  
9 extremely volatile.

10 Fair statement?

11 MR. ROBIN WIENS: Yes, that's a fair  
12 statement.

13 MR. JOHN LANDRY: Now, sir, I guess the  
14 point that I'm trying to get at here is if you look at  
15 your rebuttal evidence, which is Manitoba Hydro Exhibit  
16 Number 5, and you go to page 21...

17 Under the heading Rate Stability, do you  
18 see Manitoba Hydro's evidence?

19 MR. ROBIN WIENS: Yes, I do.

20 MR. JOHN LANDRY: Where effectively you  
21 are acknowledging the concern raised by the MIPUG  
22 evidence, and you say that you're going to consider it in  
23 future applications.

24 MR. ROBIN WIENS: Yes, that's what it  
25 says there.

1                   MR. JOHN LANDRY:    Sir, I guess the  
2    problem I'm having is we're trying, at one level, to  
3    determine the issue of fairness of the rate that you're -  
4    - market rate that you're proposing to this Board and we  
5    know about the volatility; do you not think it would have  
6    been helpful for the three (3) or four (4) customers that  
7    may be impacted by this and the other customers that may  
8    be impacted by this, for Manitoba Hydro to give some  
9    definition to the issue of how they were going to deal  
10   with rate stability in this application?

11                   MR. ROBIN WIENS:    It would have been  
12    helpful, yes.

13                   MR. VINCE WARDEN:    Mr. Landry, I think  
14    it's important too though for the information of the  
15    Board, that we're only talking about above baseline  
16    energy here.  So when we talk about the rate being  
17    extremely volatile, I think it would be fair to look at  
18    the total energy rate.  And the above baseline energy is  
19    going to be a tiny proportion of the total energy  
20    consumed by those customers.

21                                So if we want to talk about rate  
22    stability, the industrial customers in Manitoba had a  
23    period of ten (10) years -- ten (10) years when there is  
24    no rate change whatsoever.  So the rate change -- there's  
25    never a -- I don't think there's any customer in North

1 America that's had the kind of rate stability that have  
2 been experienced by industrial customers in Manitoba.

3 And again, the energy we're talking about  
4 here that -- that's being volatile is a very, very small  
5 proportion of the total energy consumed by these  
6 customers that will be affected.

7 MR. JOHN LANDRY: Mr. -- Mr. Warden, are  
8 you suggesting to Enbridge and Keystone, as an example,  
9 that their expansion -- their expansions and the rate  
10 they are going to pay is tiny?

11 MR. VINCE WARDEN: I'm telling you that  
12 in the context that you put the question forward, the  
13 reference to a -- a volatility or an annual change in the  
14 order of 12.6 percent or 11.8 percent, as referenced on  
15 page 2 of MIPUG's Exhibit Number 6, is somewhat  
16 misleading.

17 MR. JOHN LANDRY: Mr. -- Mr. Warden, I  
18 want to be very careful on this. I'm talking about the  
19 Keystone and Enbridge expansions, only the expansions,  
20 sir. Are you telling this Board that in Manitoba Hydro's  
21 view, the rate that Keystone and Enbridge are going to  
22 have to pay for -- those expansions -- is a tiny amount?

23 MR. VINCE WARDEN: Mr. Landry, I --  
24 you're putting words into my mouth. I wanted to be clear  
25 for the record that the volatility associated with the

1 exhibit as put forward by MIPUG, misrepresents the total  
2 volatility of the rate paid by those customers.

3 MR. JOHN LANDRY: Mr. Warden, I won't go  
4 further. The facts will --

5 MR. VINCE WARDEN: Thank you.

6 MR. JOHN LANDRY: -- speak for  
7 themselves. I would like to go to another issue, panel,  
8 and I -- and I -- Mr. Surminski, I think I'd like to ask  
9 a few questions of you, sir. And again, Mr. Surminski,  
10 if you're not the right person to respond to them, feel -  
11 - please feel free to hand them off to your panel  
12 colleagues.

13 Could I take you to your rebuttal -- or  
14 Manitoba Hydro's rebuttal evidence, sir, which is  
15 Manitoba Hydro Exhibit Number 5? And I'd like to go to  
16 page 10 of that, sir.

17 While Mr. Surminski is looking for that,  
18 Mr. Chair, what time would you like to take a break, just  
19 so I could gauge my cross?

20 THE CHAIRPERSON: How is 10:30?

21

22 CONTINUED BY MR. JOHN LANDRY:

23 MR. JOHN LANDRY: Thank you.

24 MR. HAROLD SURMINSKI: Yes, I have it.

25 MR. JOHN LANDRY: And, sir, and -- and

1 presumably, Mr. Surminski, you reviewed this rebuttal  
2 evidence carefully before it was filed for any issue that  
3 was relevant to your area?

4 A fair statement?

5 MR. HAROLD SURMINSKI: I'm not sure I  
6 reviewed all evidence. We have responsibility for  
7 portions and we -- we review portions that are in our  
8 jurisdiction.

9 MR. JOHN LANDRY: Sir, I wonder if I can  
10 take you to lines 16 to 19 on page 10 of 29 of the  
11 rebuttal evidence.

12 Do you see that, sir?

13 MR. HAROLD SURMINSKI: Yes, I do.

14 MR. JOHN LANDRY: And -- and, sir, I'll  
15 just quote it for the record. It -- where I'm starting  
16 from, it says, and I quote:

17 "Manitoba Hydro has already put on the  
18 record that expansion of these  
19 loads..."

20 And I assume, sir, "these loads" is  
21 intended to reflect the energy intensive loads?

22 MR. HAROLD SURMINSKI: I would assume  
23 that, yes.

24 MR. JOHN LANDRY: And I -- I go further,  
25 and again quoting:



1 intensive loads are a portion of the total. If there's  
2 any other load -- any other sectors that have load  
3 increases they would also be contributing.

4 So it's -- it's the total increase.  
5 Industrials have larger increases than the average.

6 MR. JOHN LANDRY: Well, sir, just so you  
7 know, and it is -- it is in Manitoba Hy -- Man -- sorry,  
8 MIPUG Exhibit Number 5. If you go to the back of that,  
9 you'll see the transcript references that are -- are  
10 referenced in that rebuttal evidence.

11 And -- and please take time to review it  
12 if you need to, sir. But the only reference that I could  
13 find that would suggest in any way that the statement  
14 that was being made was supported by these transfer --  
15 transcript references was on page 706 of the transcript,  
16 in lines 16 to 19. Or, sorry, line 6 -- 16 -- yes, line  
17 16 to 19.

18 MR. ROBERT MAYER: Line 16 on my copy  
19 says, "brief pause".

20 MR. JOHN LANDRY: Sorry, I've got a  
21 different -- I'm referencing a different thing. I -- I  
22 have some problems, sir, with -- some transcripts come  
23 out with different -- so let me -- let me find the  
24 reference. Thank you for pointing that out.

25 Sorry, you're right. Sir, it's -- it's

1 page 7 -- 707, not 706 -- I don't know why I have that  
2 here -- sixteen (16) to nineteen (19). I apologize that  
3 --

4 MR. ROBERT MAYER: The brief pause may  
5 well have been relevant.

6 MR. JOHN LANDRY: It may have been.  
7 Sometimes they are.

8

9 (BRIEF PAUSE)

10

11 MR. HAROLD SURMINSKI: Yes, and if you're  
12 again referencing line 16 on, it's just as I've indicated  
13 minutes ago, that it's a combination of industrial with  
14 other sectors.

15

16 CONTINUED BY MR. JOHN LANDRY:

17 MR. JOHN LANDRY: Sir, the point I'm  
18 trying to get to is this evidence says to me, and I would  
19 -- I would like your view of it, given that it's  
20 referencing your transcript, that the Wuskwatim  
21 Generating Station and its need for domestic service was  
22 -- was caused by the -- the industrial load. That's what  
23 it says to me.

24 Is that -- it's not -- is that not a  
25 correct interpretation of that?

1 (BRIEF PAUSE)

2

3 MR. ROBIN WIENS: Mr. Landry, it's --  
4 it's due to all those. But the point is that industrial  
5 loads, and particularly energy-intensive industrial  
6 loads, were seen at that time as growing more rapidly  
7 than the other loads in the province.

8 So if -- if the statement appears to be  
9 inaccurate, it's -- it's maybe not -- it's maybe not  
10 fully accurate. But the -- the belief is that it's --  
11 it's caused by load growth and load growth was happening  
12 in an energy-intensive industry, where it was what seemed  
13 to be happening, and the forecast at that time was for  
14 more.

15 So the -- the expectation was that these,  
16 more than anything else, were driving the fact that  
17 Wuskwatim was being required for domestic purposes.

18 MR. JOHN LANDRY: Sir, is it Manitoba  
19 Hydro's position that it was these...

20

21 (BRIEF PAUSE)

22

23 MR. JOHN LANDRY: Are you ready?

24 MR. ROBIN WIENS: Yes, sir.

25 MR. JOHN LANDRY: Yeah. Sir, let me just

1 say, in response to your point, I'm very concerned about  
2 accuracies of -- of statement, okay? And that's why I'm  
3 trying to be precise. I'm not always precise, but I'm  
4 trying to be precise with my question. So I'm going try  
5 to be precise again.

6 Is it Manitoba Hydro's position, taking  
7 into account all factors, that the thing driving the  
8 reason for the Wuskwatim generating station to be  
9 required for domestic load as alle -- as suggesting in --  
10 is the industrial -- the energy-intensive industrial?

11 Is that -- is that Manitoba Hydro's  
12 position?

13 MR. ROBIN WIENS: More than other load  
14 growth in the province.

15 MR. JOHN LANDRY: I'm talking about all  
16 factors, sir, all factors, and I'm being very precise.

17 Is it Manitoba Hydro's position that the  
18 reason Wuskwatim -- that the -- the Wuskwatim generating  
19 station is now required for domestic load, as suggested  
20 in -- in their -- in the evidence, is primarily because  
21 of the energy-intensive load?

22

23 (BRIEF PAUSE)

24

25 MR. ROBIN WIENS: We believe not

1 entirely, but primarily.

2 MR. JOHN LANDRY: Sir, when I ask that  
3 question, just to be precise, I'm not just talking about  
4 load. I'm talking about all factors, okay, that  
5 requires, in effect, Wuskwatim to be needed for domestic  
6 purposes than what was originally projected for  
7 Wuskwatim. Not just load -- resources, supply  
8 resources, et cetera.

9 Is it Manitoba Hydro's position that the  
10 energy-intensive load is the primary factor driving that  
11 point?

12

13 (BRIEF PAUSE)

14

15 MR. ROBIN WIENS: Mr. Landry, the -- the  
16 response remains that -- that there are other factors  
17 contributing to it. But one of them, and a significant  
18 one, is the increase in large industrial load that is  
19 anticipated over the next three (3) to four (4) years and  
20 would have been anticipated in the 2007 load forecast.

21 MR. JOHN LANDRY: Mr. Wiens, I'm going to  
22 be -- try to be fair to you, and I'm going to get you to  
23 review an exhibit that we prepared over the break. But  
24 would you agree with this proposition?

25 There were many factors -- many factors,

1 sir -- that were driving the issue of manis -- or the  
2 Wuskwatim generating station being required for domestic  
3 load purposes earlier than -- than originally thought in  
4 the Wuskwatim hearing.

5 Fair statement?

6 MR. ROBIN WIENS: There are other  
7 factors.

8 MR. JOHN LANDRY: And, sir, I just point  
9 out before I -- I -- and I'll probably ask the Chair to  
10 break so that you can review this document. But I just  
11 point out that if we go back to the rebuttal evidence,  
12 would you -- Mr. Wiens, I want -- I -- I'd like your  
13 answer in this.

14 Would you agree with me that this  
15 statement that I just went through with Mr. Surminski  
16 suggests that it was the energy-intensive load that was  
17 driving the -- the need for Wuskwatim earlier?

18 MR. ROBIN WIENS: Yes.

19 MR. JOHN LANDRY: In fact, what Manitoba  
20 Hydro was saying in the rebuttal evidence, that it was  
21 that that was causing that it to be so, correct?

22 That's the word that was used?

23 MR. ROBIN WIENS: Yes.

24 MR. JOHN LANDRY: Okay. Mr. Chair, if I  
25 may? If you could, Mr. Wiens and Mr. Surminski, go to

1 Manitoba -- sorry, MIPUG Exhibit Number 5, just so I can  
2 give you some definition for some questions I'm going to  
3 ask you.

4 If you look at a table, which is the first  
5 page of that, Mr. Wiens, do you see that?

6 MR. ROBIN WIENS: Yes.

7 MR. JOHN LANDRY: And those numbers and  
8 the -- the results from those numbers arise from the two  
9 (2) subsequent pages in that exhibit. The first one is  
10 up in the upper, I guess, lefthand corner, near the  
11 staple, called Table 8.1, which I believe and understand  
12 is from the GRA, the -- the 2008 GRA application.

13 Fair statement?

14 MR. HAROLD SURMINSKI: Yes, that's from -  
15 - that's the source.

16 MR. JOHN LANDRY: Yeah. And then, the --  
17 the third page in, again, it's entitled "Table A:  
18 Dependable Energy Gigawatt Hours, Base Manitoba Load  
19 Forecast," page 1 of 2, that comes from the original  
20 Wuskwatim hearing, Mr. Surminski?

21 MR. HAROLD SURMINSKI: It's not  
22 identified on here, but it looks like it is from that  
23 source.

24 MR. JOHN LANDRY: Could -- could you --  
25 could you just confirm that when you do your review, Mr.

1 Surminski, for me?

2 MR. HAROLD SURMINSKI: Yes.

3 MR. JOHN LANDRY: And if -- and if you  
4 need a reference, Mr. -- Mr. Surminski, if you look at  
5 the first table on the -- sorry, the first column on the  
6 table, you'll -- on the first page, you'll see under the  
7 "2003 Power Resource Plan" the -- the reference: CCCNFAAT  
8 (phonetic).

9 Do you see that sir? The first page of  
10 the exhibit.

11 Do you see that, sir?

12 MR. HAROLD SURMINSKI: I see the  
13 reference. I don't see how that table is referenced to  
14 that source.

15 MR. JOHN LANDRY: Well, if you could just  
16 confirm that this was the table that was used in the  
17 Wuskwatim hearing for me before we -- maybe at the break,  
18 if you could do that.

19 MR. HAROLD SURMINSKI: Well --

20 MS. PATTIE RAMAGE: We could probably do  
21 it today. I don't think we could do it in the break.

22 MR. JOHN LANDRY: Well, okay. Well,  
23 we'll do it all subject to check, sir.

24 But that's where -- that's where I  
25 understand we -- MIPUG obtained that evidence, okay, Mr.

1 Surminski?

2 MR. HAROLD SURMINSKI: Yes, and I don't  
3 doubt that as a source, except it's just not --

4 MR. JOHN LANDRY: Okay.

5 MR. HAROLD SURMINSKI: -- on this table.

6 MR. JOHN LANDRY: Now, sir, what I'm  
7 going to want you to do over the break is to take a look  
8 -- to be fair, to take a look at this -- this table on  
9 page 1 of MIPUG Exhibit Number 5, and then I'll have a  
10 couple of questions that arise out of that.

11 And -- and I might say, Mr. Wiens, just so  
12 you understand, since I, fortunately or unfortunately,  
13 have focussed my questions to you on this. This was --  
14 this goes back to the issue of what are the factors that  
15 are driving all factors?

16 What are the factors that are driving  
17 Wuskwatim to be required for domestics purposes earlier  
18 than was original thought, okay?

19 MR. ROBIN WIENS: Okay.

20 MR. JOHN LANDRY: And on that, Mr. Chair,  
21 it'd probably be a good idea to break now. I don't have  
22 -- and just -- just to give everybody a bit of an idea, I  
23 don't think that I'm going to be much more than about  
24 another half an hour.

25 THE CHAIRPERSON: Okay. Then when you

1 are done, Mr. Landry, we will be able to move on to Mr.  
2 Gange, then, before lunch.

3 MR. JOHN LANDRY: Yes.

4 THE CHAIRPERSON: Thank you. We will  
5 have a break now.

6

7 --- Upon recessing at 10:28 a.m.

8 --- Upon resuming at 10:55 a.m.

9

10 THE CHAIRPERSON: Ms. Ramage...?

11 MS. PATTI RAMAGE: Yes. We have -- we  
12 have an additional undertaking to file. It's Undertaking  
13 Number 4, providing average monthly on-peak volumes for  
14 fiscal 2005/'06.

15 If I could just note, if everyone could  
16 stroke out the last three (3) words of the sentence. It  
17 shouldn't say "in Canadian dollars." There are no  
18 dollars referred to in this document. But seeing that it  
19 was copied and distributed, this is -- we'll -- we'll  
20 save some paper. And I would suggest that be labelled  
21 Exhibit 16.

22 THE CHAIRPERSON: Very good. Thank you.

23

24 --- EXHIBIT NO. MH-16: Response to Undertaking 4

25

1 THE CHAIRPERSON: Very good, thank you.

2 Okay, Mr. Landry...?

3

4 CONTINUED BY MR. JOHN LANDRY:

5 MR. JOHN LANDRY: Thank you, sir.

6 Mr. Wiens, Mr. Surminski, have you now had  
7 a chance to take a look at MIPUG Exhibit Number 5, the  
8 first page, the table and the documents attached?

9 MR. HAROLD SURMINSKI: Yes, I have.  
10 Although I wasn't able to trace the source absolutely.  
11 And I'm not sure, are you sure the CCC is the right  
12 configuration for that entity that was part of that?

13 MR. JOHN LANDRY: I'm not, but if you'd  
14 just give me one second. We are checking.

15 But subject to check, do these numbers  
16 look correct?

17 MR. HAROLD SURMINSKI: Yes. The -- the  
18 table also, Table A, looks like a table that we provide  
19 so -- and the numbers come out of these tables to a great  
20 degree. So subject to check, then, it looks correct.

21 MR. JOHN LANDRY: And, Mr. Wiens, you're  
22 -- you're fine with that?

23 MR. ROBIN WIENS: Yes. There's some --  
24 there's quite a bit of cross-checking that we haven't  
25 been able to do, so you are going to get some answers

1 subject to check, but we'll proceed.

2 MR. JOHN LANDRY: Okay. Mr. Wiens, just  
3 staying with you, given this table is effectively looking  
4 at it from the perspective what is, in effect, what is  
5 causing Wuskwatim to be needed for domestic use earlier  
6 than what was originally planned, at least.

7 Would you agree with that?

8 MR. ROBIN WIENS: Yes. I understand  
9 that's what this is trying to do.

10 MR. JOHN LANDRY: Yeah.

11 MR. ROBIN WIENS: Yes.

12 MR. JOHN LANDRY: And -- and it's trying  
13 to do it from a system perspective. And what I mean by  
14 that is to take into account the -- Manitoba's resources  
15 -- that is the supply side -- the load, and also the  
16 commitments, including export commitments and import  
17 guarantees.

18 Correct?

19 MR. ROBIN WIENS: Yes.

20 MR. JOHN LANDRY: And, sir, just without  
21 going through it in a lot of detail, would you agree with  
22 this proposition, sir, that there are a number of factors  
23 which are driving the issue of requiring Wuskwatim for  
24 domestic purposes earlier than what was -- what was  
25 suggested in 2003?

1 Fair statement?

2

3 (BRIEF PAUSE)

4

5 MR. ROBIN WIENS: Yes.

6 MR. JOHN LANDRY: It's not simply the  
7 issue of the energy industrial -- sorry, the energy --  
8 energy-intensive industrial load large, correct?

9

10 (BRIEF PAUSE)

11

12 MR. ROBIN WIENS: It -- it certainly is a  
13 part of it, but there are a number of factors.

14 MR. JOHN LANDRY: And -- and a number of  
15 factors includes the whole issue of Bipole 3 and when it  
16 will be in service?

17 MR. HAROLD SURMINSKI: Yes, Bipole 3 was  
18 assumed to be beginning in 2010 in the 2003 CEC  
19 application.

20 MR. JOHN LANDRY: So if one was looking  
21 at that -- this issue of Wuskwatim and being required for  
22 domestic load earlier than what proposed -- you'd have to  
23 agree with me, Mr. Surminski, that one of the issues was  
24 the fact that Bipole 3 has now been delayed, correct?

25 MR. HAROLD SURMINSKI: Yes, correct.

1                   MR. JOHN LANDRY:    Yeah.  If Bipole 3 had  
2   been in service on time, at least subject to check on  
3   these numbers, there would be no shortfall, correct?

4                   MR. HAROLD SURMINSKI:    If you can -- yes,  
5   if the four hundred and thirty-seven (437) were carried  
6   into the 2007 Power Resource Plan, it would offset the  
7   275 gigawatt hour deficit.

8                   MR. JOHN LANDRY:    Yeah.  And the 275  
9   gigawatt hour deciplit -- or deficit, just so the record  
10  is clear, that comes from the second column, under line  
11  15 on this table, the first page of MIPUG Exhibit Number  
12  5, correct?

13                  MR. HAROLD SURMINSKI:    Correct.

14                  MR. JOHN LANDRY:    And -- and, sir, this -  
15  - this table, also again, subject to tech -- check, shows  
16  that delays in the wind would also be a factor in  
17  2010/2011, correct?

18                  MR. HAROLD SURMINSKI:    Yes, in 2007 we --  
19  we had not included the -- the full development of wind  
20  that we had assumed in 2003.

21                  MR. JOHN LANDRY:    So, sir, if we go back  
22  to the rebuttal evidence on page 10 of 29, Exhibit  
23  Manitoba Hydro Number 5, lines 16 to 19.

24                  Do you see that, sir?

25                  MR. ROBIN WIENS:    Yes.

1                   MR. JOHN LANDRY:    Would you agree, sir,  
2   that that statement that we referenced earlier, given  
3   this point, is not completely accurate?

4                   MR. ROBIN WIENS:    Inasmuch as it does  
5   appear to attribute the entire shortfall to the -- to the  
6   effect of the energy-intensive loads expanding, it's --  
7   it's missing something.

8                   MR. JOHN LANDRY:    Now if we could go to  
9   MIPUG Exhibit Number 6, Mr. Wiens, and that's the exhibit  
10  that starts with MIPUG/Manitoba Hydro-1-2.

11                  MR. ROBIN WIENS:    Yes.

12                  MR. JOHN LANDRY:    Do you have that, sir?

13                  And, sir, I'd like to take you to page 3,  
14  which is, in effect, various industrial customers'  
15  scenarios, which you'll recall, you and I went through a  
16  few of these in the last hearing, correct?

17                  MR. ROBIN WIENS:    You know, I don't  
18  recall, but I'll take it subject to check.

19                  MR. JOHN LANDRY:    Okay. In any event,  
20  that was just to give us some headline in this.

21                  What this is attempting to do, sir, is use  
22  your new proposal and deal with the issue of new loads  
23  coming into the province and the potential competitive  
24  effect it may have in relation to existing customers that  
25  it -- that the new load is going to compete with.

1 Do you understand that, sir?

2 MR. ROBIN WIENS: Yes.

3 MR. JOHN LANDRY: And so what it's  
4 attempted to use it two (2) scenarios, the first  
5 industrial customer scenario Number 1, which is a 200  
6 gigawatt hour industrial load.

7 Do you see that?

8 MR. ROBIN WIENS: Yes.

9 MR. JOHN LANDRY: And -- and again, we're  
10 assuming, for the purposes of -- of this, Mr. Wiens, that  
11 these two (2) customers will compete against each other,  
12 okay?

13 MR. ROBIN WIENS: Well, they're in the  
14 same industry.

15 MR. JOHN LANDRY: Right. And -- and I'm  
16 just using as a 200 gigawatt hour industrial load, an  
17 example might be a small forestry operation or a steel  
18 mill.

19 Is that -- that relatively speaking, not a  
20 bad thing to look at as an example?

21 MR. ROBIN WIENS: It seems reasonable.

22 MR. JOHN LANDRY: Right. And so, sir --  
23 and again, this is subject to check, Mr. Wiens, and  
24 please do so. And if you have difficulties with these  
25 calculations, please come back on the record. But our --

1 I've had this checked a couple of different times and it  
2 -- and -- and I understand it to be accurate.

3                   You'd agree with me, sir, that if you had  
4 a new 200 gigawatt hour per year customer coming into the  
5 province in the future, competing against an existing 200  
6 gigawatt hour per year customer, that there would be a  
7 material difference in their electrical costs?

8                   MR. ROBIN WIENS:    Their unit electrical  
9 cost, yes.

10                  MR. JOHN LANDRY:    Well, and their total  
11 electrical cost too, correct?

12                  MR. ROBIN WIENS:    In this example,  
13 they're the same size. Yes, it is a material difference.

14                  MR. JOHN LANDRY:    It's approximately 50  
15 percent higher than ballpark, or 40 percent higher than  
16 the existing customer -- ballpark?

17                  MR. ROBIN WIENS:    Something like that,  
18 yes.

19                  MR. JOHN LANDRY:    And you would agree  
20 with me, that's a material amount?

21                  MR. ROBIN WIENS:    Yes.

22                  MR. JOHN LANDRY:    And, sir, if we go to  
23 the second example, which is 1,000 gigawatt hour  
24 industrial load, doing the same comparison between an  
25 existing compared to a new coming into the province.

1 Do you understand that, sir?

2 MR. ROBIN WIENS: Yes.

3 MR. JOHN LANDRY: And I guess what I'm  
4 thinking about here, just as a -- a relative scale, sir,  
5 that this would be, say, for example, a large primary  
6 metal producer.

7 Does that make some sense for comparative  
8 purposes?

9 MR. ROBIN WIENS: Sure.

10 MR. JOHN LANDRY: And again, sir, I -- to  
11 go to the bottom line point again, you would agree with  
12 me that your proposal would result in the new customer  
13 paying substantially more for electrical costs than the  
14 existing customer?

15 MR. ROBIN WIENS: Yes.

16 MR. JOHN LANDRY: In fact, in this case,  
17 if I have my numbers correct, it's in excess of 60  
18 percent higher, correct?

19 MR. ROBIN WIENS: 64 percent.

20 MR. JOHN LANDRY: Sir, just on one final  
21 point, Mr. Wiens.

22 And I -- again, I'm talking about the  
23 Canadian perspective here, sir, and the other hydro-based  
24 systems.

25 You know what I mean by that, correct?

1 MR. ROBIN WIENS: Yes.

2 MR. JOHN LANDRY: Like Quebec,  
3 Newfoundland, BC, those are hydro-based --

4 MR. ROBIN WIENS: Yes.

5 MR. JOHN LANDRY: -- systems, correct?

6 Sir, would you agree with me that there is  
7 no other hydro-based jurisdiction in Canada that is  
8 requiring its energy-intensive load to pay at market-base  
9 pricing, such as proposed by Manitoba Hydro, unconnected  
10 to embedded costs?

11 MR. ROBIN WIENS: Not to my knowledge. I  
12 -- I don't have the details in terms of how the Quebec  
13 situation has been applied, but not to my knowledge.

14 MR. JOHN LANDRY: Mr. -- or Mr. Chair,  
15 subject to any cross-examination that we might have on  
16 the numerous undertakings that have been filed that I've  
17 not had a chance to -- to review -- and if I do have any  
18 questions on that, I will -- I mentioned to Mr. Peters, I  
19 will make sure that we notify the Board.

20 Subject to that, those are all the  
21 questions I have, and I thank the panel.

22 THE CHAIRPERSON: Thank you, Mr. Landry.

23 Mr. Gange, are you ready to begin?  
24

25 CROSS-EXAMINATION BY MR. BILL GANGE:

1 MR. BILL GANGE: Thank you, sir, I'm  
2 ready to go.

3 Mr. Wiens, if you could keep that exhibit  
4 that Mr. Landry just had in front of you. And those  
5 questions that he was asking you with respect to MIPUG  
6 Exhibit Number 6, page 3, the -- the first comparison of  
7 the existing 200 gigawatt a year customer and the new 200  
8 gigawatt a year customer, if -- if Manitoba Hydro were to  
9 take on a new customer that was taking 200 gigawatts of  
10 power out of the system, do you have a -- an idea of what  
11 the -- the effect of that would be?

12 If that 200 gigawatts is taken away from  
13 export sales, what's the cost to Manitoba Hydro and to --  
14 to the Manitoba Hydro customer base?

15

16 (BRIEF PAUSE)

17

18 MR. ROBIN WIENS: Subject to check, it's  
19 approximately \$4 million.

20 MR. BILL GANGE: And -- and those  
21 revenues would then have to be made up by -- in terms of  
22 your -- your applications before this Board, by -- by  
23 virtue of -- of -- you'd have -- you'd have a shortfall  
24 of \$4 million as a result of that.

25 Is that correct?

1                   MR. ROBIN WIENS:    Yes, all other things  
2 being equal, of course, you would have a shortfall of  
3 approximately \$4 million.

4                   MR. BILL GANGE:    And the -- the second  
5 scenario, taking on a new 1,000 gigawatt a year customer,  
6 again if the same scenario were to take place, if this is  
7 a new customer taking a 1,000 gigawatts of power out of  
8 the system that could be used for export, what would the  
9 net effect be upon Manitoba Hydro's revenues?

10                  MR. ROBIN WIENS:    Well, it would just be  
11 a scale of the -- the first one, approximately \$22  
12 million.

13                  MR. BILL GANGE:    And -- and is it fair  
14 for me then to suggest that -- that as a result of that,  
15 the -- the rest of the customer classes would have to pay  
16 higher rates to make up that \$22 million decrease in  
17 revenues that would be available from -- from export  
18 sales?

19                  MR. ROBIN WIENS:    Again, other things  
20 being equal, that's correct.

21                  MR. BILL GANGE:    And -- and that would  
22 apply to all customers? That would apply -- apply to  
23 residential -- the residential class, it would apply to  
24 the -- the small industrial and the large industrial.  
25 That -- that's where you'd have to make up that revenue.

1                   Is that correct, sir?

2                   MR. ROBIN WIENS:    Yes.

3                   MR. BILL GANGE:    Do I have it -- the --  
4   the -- do I understand this process properly, sir, that  
5   the purpose of the second block, as -- as you've put  
6   forward here, is to preserve revenue neutrality on the  
7   system as a whole?

8                   MR. ROBIN WIENS:    That's the intent, yes.

9                   MR. BILL GANGE:    And -- and Mr. Mayer  
10  asked a question last week in which Mr. Mayer had -- had  
11  hustled about the idea of revenue neutrality.

12                   But you're not talking about revenue  
13  neutrality per customer.  You're talking about revenue  
14  neutrality for the entire system.

15                   Is that correct, sir?

16                   MR. ROBIN WIENS:    Yes, that's correct,  
17  for -- for Manitoba Hydro, in terms of revenue from all  
18  sources.

19                   MR. BILL GANGE:    And -- and the two (2)  
20  examples that -- that Mr. Landry provided to you would be  
21  examples of -- of new industries coming into Manitoba and  
22  -- and the prejudicial effect that has upon the -- the  
23  ability of Hydro to finance its operation and to -- and  
24  to create a subsidy by virtue of the export sales?

25                   MR. ROBIN WIENS:    The -- the impact is as

1 a result of energy being required to serve domestic load  
2 that oth -- would otherwise have been sold in the export  
3 market.

4 MR. BILL GANGE: The -- the basis then  
5 for establishing the second block rate is an attempt --  
6 perhaps, not -- not down to the penny, but it's an  
7 attempt in general terms to make certain that -- that the  
8 -- all of the classes are not affected by servicing of --  
9 of new loads and of expanding loads?

10 MR. ROBIN WIENS: Yes, that's correct.

11 MR. BILL GANGE: And -- and the way that  
12 you've done that is, in -- in terms of setting the rate  
13 for the second block, is looking backwards for two (2)  
14 years to establish the average price of extra-provincial  
15 sales during the two (2) previous years.

16 Is that correct, sir?

17 MR. ROBIN WIENS: The average price for  
18 firm export sales during the two (2) previous years or  
19 sales out of dependable energy in the two (2) previous  
20 years.

21 MR. BILL GANGE: And in looking backwards  
22 there's no adjustment for the cost of carbon emissions in  
23 that calculation, because the -- the carbon emission  
24 issue is not something, when you look backwards -- is  
25 taken into account at present.

1                   Is that correct, sir?

2                   MR. ROBIN WIENS:    We haven't made an  
3 explicit -- we haven't addressed the issue of carbon  
4 emissions explicitly in setting that -- that rate to the  
5 extent that it may or may not be reflected in the prices  
6 received over those two (2) years.  It may or may not be  
7 included implicitly.

8

9                                   (BRIEF PAUSE)

10

11                   MR. BILL GANGE:    Are you okay with that,  
12 Mr. Mayer?

13                   MR. ROBERT MAYER:   It may or may not be  
14 included implicitly?

15                   MR. BILL GANGE:    Mr. -- Mr. Mayer, if  
16 they buyer has -- if the buyer had included a factor for  
17 that in it, it is; otherwise, no.

18

19 CONTINUED BY MR. BILL GANGE:

20                   MR. BILL GANGE:    And although it's  
21 looking backwards for the two (2) years of 2007 and 2008,  
22 the reality is, though, that -- that it's looking even  
23 further backwards, because those sales in 2007 and 2008  
24 may well involve contracts that date back over a decade  
25 ago.

1                   Isn't that correct, sir?

2                   MR. DAVID CORMIE:    That's correct.

3                   MR. BILL GANGE:    So that there is a  
4 significant lag time in -- in terms of -- of that process  
5 of -- of what this -- the market value is.

6                   MR. DAVID CORMIE:    That's correct.

7                   MR. BILL GANGE:    And the -- the theory  
8 is, as you've put forward, is that this rate would --  
9 this new energy-intensive industrial rate would then  
10 apply for the next, perhaps, one (1), perhaps as many as  
11 three (3) years into the future, depending upon the  
12 timing of a General Rate Application?

13                   MR. ROBIN WIENS:    Well, it would be our  
14 intent, certainly, that if we were filing a General Rate  
15 Application, that we would want to update this rate.  If  
16 it seemed appropriate to do so without a General Rate  
17 Application, we might bring an application specifically  
18 directed at this rate.

19                   That's the basis on the one (1) to three  
20 (3) year period for bringing back changes.

21                   MR. BILL GANGE:    Thank you, Mr. Wiens.  
22 So in this case, the years 2008 -- 2007/2008 would be  
23 used to set a rate that way -- that may well be in effect  
24 until 2011.

25                   Is that correct?

1                   MR. ROBIN WIENS:    That's a possibility,  
2    yes.

3                   MR. BILL GANGE:    Mr. Chernick has done  
4    calculations that would suggest that the export price  
5    forecasts would be approximately 12 percent higher than  
6    the backward-looking marginal rate for the financial year  
7    2009 and 17 percent by financial year 2011.

8                   Do you recall seeing that in -- in Mr.  
9    Chernick's testimony, sir?

10                  MR. ROBIN WIENS:    Yes.

11                  MR. BILL GANGE:    And did -- you don't  
12    take issue with -- with Mr. Chernick's analysis on that  
13    point, do you, Mr. Wiens?

14

15                                       (BRIEF PAUSE)

16

17                  MR. DAVID CORMIE:    Can you give us a  
18    reference to that, Mr. Gange?

19                  MR. BILL GANGE:    It was page 6 of Mr.  
20    Chernick's direct evidence.

21

22                                       (BRIEF PAUSE)

23

24                  MR. BILL GANGE:    Lines -- well, the  
25    question starting at line 6, Mr. Cormie, and -- and going

1 through 6 to 9.

2

3

(BRIEF PAUSE)

4

5

MR. DAVID CORMIE: Subject to check,  
6 we'll accept those values.

7

MR. BILL GANGE: Thank you, sir. And --  
8 and I take it, with respect to that, subject to check,  
9 but the -- the point that would appear to be developing  
10 from that evidence of -- of Mr. Chernick is that although  
11 this is an attempt at revenue neutrality, using the  
12 backward-looking rate, guaran -- well, pretty much  
13 guarantees that -- that there will be a shortfall with  
14 respect to the revenue neutrality.

15

Is that correct? As -- as time goes by.

16

MR. ROBIN WIENS: Mr. Gange, to the  
17 extent that the actual crisis received in the export  
18 market for firm sales in the future vary from the rate  
19 that is included in our application, there will -- that  
20 will contribute to not achieving revenue neutrality. If  
21 the export rate is lower, we may actually exceed more  
22 revenue than we expected. If it's higher, we would  
23 exceed less.

24

MR. BILL GANGE: Thank you.

25

One of the concerns that's been expressed

1 in this Hearing has been that the -- the price of extra-  
2 provincial sales is not a transparent number, and -- and  
3 for reasons of confidentiality Manitoba Hydro chooses not  
4 to -- to produce those documents for line-by-line  
5 inspection.

6 Is that correct, Mr. Wiens?

7 MR. DAVID CORMIE: That's correct. We  
8 are reluctant and are bound under our confidentiality  
9 agreements not to provide the specific demand and energy  
10 charges that have been negotiated under the contract.

11 However, through the National Energy Board  
12 information, a blended rate can be determined that is  
13 very close to the numbers that Manitoba Hydro is using.

14 MR. BILL GANGE: And similarly, the --  
15 the value of -- of your -- your future forecasts for the  
16 costs of energy sales, that too is not subject to a line-  
17 by-line scrutiny.

18 Is that correct, sir?

19 MR. DAVID CORMIE: Yes, that's correct.

20 MR. BILL GANGE: But basically they --  
21 they -- both of those -- those methods rely upon the --  
22 the -- well, one of them relies upon the actual data,  
23 although we can't see it. And the other one, the -- the  
24 future cost relies upon the -- the abilities of -- of  
25 Manitoba Hydro to be doing your job, in terms of

1 forecasting those sales.

2 Is that correct?

3 What I mean by that is neither one of them  
4 is subject to line-by-line scrutiny?

5 MR. DAVID CORMIE: Yes, that's correct.

6 MR. BILL GANGE: Okay. You've provided  
7 estimates of the cost of Wuskwatim Power, which is set at  
8 -- at seven point three (7.3) cents per kilowatt hour in  
9 2011, real dollars, escalating with inflation?

10 MR. HAROLD SURMINSKI: Yes, that's  
11 correct.

12 MR. BILL GANGE: Mr. Chernick has -- has  
13 suggested that the real number in 2011 would have to be  
14 at least eight (8) cents once you take into account  
15 marginal losses on the Bipole transmission.

16 Is that -- is that a fair analysis by Mr.  
17 Chernick?

18 MR. HAROLD SURMINSKI: First of all,  
19 Wuskwatim Power would not flow down the Bipoles around  
20 the HVDC high-voltage lines; it would go AC.

21 MR. BILL GANGE: I'm sorry, taking into  
22 account, even -- even with that, the marginal losses, the  
23 -- the cost would still be approximately eight (8) cents,  
24 would it not?

25 MR. HAROLD SURMINSKI: I believe we have

1 actually considered the -- the losses in our calculation  
2 of the seven point three (7.3) cents.

3 MR. BILL GANGE: Okay. The rate that is  
4 -- that is being proposed to ensure revenue neutrality  
5 would certainly be less than the rate that's expected  
6 from the cost of -- of the Wuskwatim Power.

7 Is that correct, sir?

8 MR. HAROLD SURMINSKI: Yes, that's  
9 correct.

10 MR. BILL GANGE: And -- and one of Mr.  
11 Chernick's suggestions has been that a -- that one of the  
12 approaches that -- that Hydro could be using, in terms of  
13 making this analysis and presenting its case to this  
14 Board, would be to use the marginal costs of the  
15 Wuskwatim Power.

16 That -- that process is one way that --  
17 that revenue-neutrality could be protected, is it not?

18 MR. HAROLD SURMINSKI: Yes, one could use  
19 future generation as a proxy or as an indicator of  
20 marginal cost.

21 MR. BILL GANGE: And Mr. Chernick has  
22 also made a suggestion that if -- if -- if the Wuskwatim  
23 Power analysis is not cost-effective, that another  
24 approach would be to have the second block -- block based  
25 on Hydro's projections of market prices.

1 Do you see that, sir?

2 MR. HAROLD SURMINSKI: Yes, and I agree  
3 with the statement. Forward looking is the more  
4 appropriate way to set value for these industrial loads.

5 MR. BILL GANGE: Okay, thank you. I  
6 wonder if you have in front of you the RCM/TREE response  
7 to Information Requests.

8 It's this booklet. Does anybody have  
9 that?

10 It was -- it was our response to  
11 undertakings. And with respect to the undertakings of the  
12 -- of counsel from the Public Utilities Board, Mr.  
13 Chernick created three (3) graphs, which is at Tab 2 for  
14 members of the Board or -- pardon me -- the Tab B and  
15 then the three (3) graphs are shown at pages 2, 3, and 4.

16  
17 Do you have that Mr. Mayer? Do you see  
18 those?

19 MR. ROBERT MAYER: Oh, yeah.

20

21 CONTINUED BY MR. BILL GANGE:

22 MR. BILL GANGE: Do you have that Mr.  
23 Wiens?

24 MR. ROBIN WIENS: Just a moment. Could  
25 you -- could you give us a specific reference to the

1 question? I -- I've got the responses here.

2 MR. BILL GANGE: I haven't asked the  
3 question yet.

4 MR. ROBIN WIENS: No, no, but the  
5 specific Information Request.

6 MR. BILL GANGE: Oh, I'm sorry. It was -  
7 - it was PUB/PC-1.

8 MR. ROBIN WIENS: Yes, I have that.

9 MR. BILL GANGE: And in there, Mr.  
10 Chernick created a number of graphs with respect to net  
11 flow in which Mr. Chernick concluded that, in fact, there  
12 wasn't a constraint with respect to tie-ins, for the most  
13 part.

14 MR. DAVID CORMIE: No, we don't disagree  
15 with that.

16 MR. BILL GANGE: The one (1) thing that  
17 Mr. Chernick does not know and -- whether -- perhaps  
18 there's more than one thing that he doesn't know but,  
19 although, from my perspective, I'm -- I'm a little  
20 doubtful on that.

21 The one (1) thing that -- with respect to  
22 these graphs that he doesn't know is where is the  
23 ceiling? Where -- where would that line have to be  
24 before there would be transmission constraints?

25 MR. DAVID CORMIE: Which graph are you --



1 (2,014). Okay, thank you.

2 And that would apply to the -- to the  
3 third graph as well, the -- the real time experts,  
4 Manitoba, to MISO. Is that -- is that the same number?

5 MR. DAVID CORMIE: That's the current  
6 rating, yes.

7 MR. BILL GANGE: Yes, thank you.

8

9 (BRIEF PAUSE)

10

11 MR. BILL GANGE: I'd like to turn my  
12 attention to the concept of the baseline. And since the  
13 -- the original application, the proposal has been  
14 modified to include a baseline that will -- that will  
15 grow with each year; that's -- that's the basic premise  
16 of this baseline theory, is that correct, Mr. Wiens?

17 MR. ROBIN WIENS: Yes.

18 MR. BILL GANGE: And -- and is it fair  
19 for me to take from that that as a result of that growth,  
20 built into that there's going -- if -- if these customers  
21 -- if all the customers effected by this, take advantage  
22 of the maximum growth allowed in this proposal, that  
23 there's going to be a substantial impact upon the  
24 revenues of Manitoba Hydro, because there's going to be  
25 less power to export?

1 MR. ROBIN WIENS: Yes, it -- it will  
2 affect -- it will affect the revenue to Manitoba Hydro.  
3 I think there's probably been some -- I don't have a  
4 specific reference, but there's a number of information  
5 requests that -- that deal with that.

6 MR. BILL GANGE: Yes.

7 MR. ROBIN WIENS: I can't think of the  
8 number off the top of my head, but it is on the record.

9 MR. BILL GANGE: I have it, and that's  
10 RCM/TREE/Manitoba Hydro-27, sir. And -- and I'll -- I'll  
11 just wait until you have that, Mr. Wiens.

12

13 (BRIEF PAUSE)

14

15 MR. BILL GANGE: In that response, you  
16 indicated that the effect of that growth would be  
17 approximately \$3.5 to \$5.1 million annually.

18 MR. ROBIN WIENS: That looks right.

19 MR. BILL GANGE: And Mr. Chernick pointed  
20 out that -- that that response is -- is the growth factor  
21 on an annual basis.

22 Is that correct, sir?

23 MR. ROBIN WIENS: Yes.

24 MR. BILL GANGE: And Mr. Chernick pointed  
25 out in his testimony that if -- if you use the cumulative

1 effect of that, that by -- rather than just the annual  
2 growth factor, that by 2015, the effect upon Manitoba  
3 Hydro's revenues would be \$23.8 million.

4 And I'm looking there, sir, at Mr.  
5 Chernick's evidence at page 15, lines -- line 13.

6 MR. ROBIN WIENS: Yes, certainly we -- we  
7 did report the impacts, in terms of the growth that had -  
8 - was occurring in that year. Mr. Chernick has  
9 accumulated that over the number of years, so that --  
10 that would seem to be reasonable.

11

12 (BRIEF PAUSE)

13

14 MR. BILL GANGE: When my clients look at  
15 this proposal, sir, with the -- with the growth factor  
16 that is proposed, my cli -- my clients come to the  
17 conclusion that as long as -- as one (1) of the -- these  
18 large customers -- stays within the growth factor  
19 allowed, the percentage that -- that is permitted,  
20 there's really no incentive to those largest customers to  
21 take active steps to conserve energy.

22 MR. ROBIN WIENS: Well, as long as they  
23 stay within the growth factor that's allowed. Well, I  
24 would say that the fact that they do stay within the  
25 growth factor that's allowed, may indicate that they are

1 taking steps to conserve energy.

2 I can't be certain of that, of course,  
3 with an abstract example, but if they would otherwise  
4 have to grow into the second block, but they do manage to  
5 stay within the first block, then they may well be taking  
6 steps to conserve energy.

7 MR. BILL GANGE: Thank you. But there's  
8 nothing in this -- in this proposal that is providing a  
9 strong price signal as -- as -- or to conserve energy as  
10 long as their growth plan does not include a -- a  
11 corporate plan to increase their usage by more than the  
12 percentage that's allowed?

13 MR. ROBIN WIENS: If their growth plan  
14 can be accommodated within the growth allowances set out  
15 in -- in the rate and they don't have to do any energy  
16 conservation in order to accommodate within that --  
17 there's a couple of ifs -- then your -- your statement  
18 may be correct.

19 MR. BILL GANGE: Thank you.

20

21 (BRIEF PAUSE)

22

23 MR. BILL GANGE: And -- and from your  
24 perspective, sir, and your knowledge of -- of how the  
25 industrial customers treat the issues of -- of

1 conservation measures, is it fair for me to suggest that  
2 -- that a -- a cost measure -- or pardon me, a  
3 conservation measure is -- is likely to be a -- a good  
4 corporate decision if there's a payback?

5                   If the -- if the cost of -- of  
6 implementing the conservation measures if going to be  
7 recaptured by a reduction of energy?

8                   MR. ROBIN WIENS: They -- they look at  
9 more factors than just energy. And that's why Manitoba  
10 Hydro's Power Smart Industrial Programs focus on both the  
11 energy and non-energy benefits associated with energy  
12 efficiency projects.

13                   MR. BILL GANGE: And, Mr. Dudar, would --  
14 would -- you're the one that's out talking to these big  
15 guys -- I -- I -- from -- from what you've been saying.

16                   Is it -- is it your impression that a -- a  
17 conservation measure that can be recaptured, in terms of  
18 cost savings, there's got to be a -- a cost analysis --  
19 cost benefit analysis. And -- and usually that -- that's  
20 going to be recovery of costs within two (2), three (3)  
21 years?

22                   If it's more than that it's not -- it's  
23 not cost effective?

24                   MR. MICHAEL DUDAR: It -- it depends on  
25 the -- the economic times. In some cases I've seen

1 expected paybacks down to about six (6) months. Other  
2 times, it's -- it's three (3) years.

3 MR. BILL GANGE: But not likely to be  
4 more than three (3) years?

5 MR. MICHAEL DUDAR: Typically, no.

6 MR. BILL GANGE: Yes. And -- and so  
7 obviously one of the -- one of the issues, in terms of  
8 the increased cost of the second block is that it  
9 provides an incentive for large industrial customers to  
10 say, Well, it would be better for us to institute more  
11 aggressive conservation methods, because we're going to -  
12 - we're -- we're not going to be facing that -- that  
13 higher cost in the second block?

14 MR. MICHAEL DUDAR: It -- it will help,  
15 but -- but it's dependent on the cost of energy relative  
16 to the other costs they may incur.

17 MR. BILL GANGE: Okay. Would you agree  
18 with me, sir, that -- that the use of a declining  
19 baseline -- as opposed to a -- a -- an increasing  
20 baseline, but a -- a declining baseline -- could provide  
21 a powerful tool to encourage companies to be more  
22 aggressive in their conservation efforts?

23 MR. MICHAEL DUDAR: Yes.

24 MR. BILL GANGE: And in -- in this  
25 Hearing we know that the baseline at -- at 100 gigawatts

1 recognizes that -- that this level applies to very few of  
2 Manitoba Hydro's customers.

3 We've -- we've talked about that at  
4 length, that it's -- that it's only a handful?

5 MR. MICHAEL DUDAR: That's correct.

6 MR. BILL GANGE: And -- and is fair say -  
7 - fair, sir, to say that it's the intention of Manitoba  
8 Hydro to study -- to study how the setting of an  
9 inclining rate can be applied to smaller users in -- in  
10 future rate applications?

11 MR. ROBIN WIENS: Yes.

12 MR. BILL GANGE: And is it also fair to -  
13 - to suggest that it's the intention of Manitoba Hydro to  
14 study how inclining rates could be used with all customer  
15 classes to assist in the reduction of power usage?

16

17 (BRIEF PAUSE)

18

19 MR. ROBIN WIENS: It's fair to say that  
20 we would continue to examine the potential for doing so.  
21 It -- it's also, I think, appropriate to state that  
22 there's a limit to the extent to which inverted rates or  
23 inclining block rates can be applied on a custom basis to  
24 individual general service customers. And we had some  
25 discussion about this on the record earlier in these

1 proceedings.

2                   So it's -- it's fair to say that we would  
3 examine certainly the application of an inclining or  
4 inverted block type rate to customers served at 30 kV and  
5 higher, which gives us about thirty-five (35) -- thirty-  
6 four (34) -- thirty-five (35) customers and maybe forty  
7 (40) or so metering points.

8                   It's fair to say that we would look at the  
9 admis -- certainly the administrative implications of  
10 going beyond that to incorporate customers served at  
11 under 30 kV in the General Service Large class of whom  
12 there are close to three hundred (300). And it's  
13 certainly fair to say that we would be looking at the  
14 residential class because of the fact that residential  
15 customer loads tend to have a greater degree of  
16 homogeneity than general service customer loads.

17                   The last groups that we would look at  
18 would be the General Service Medium and the General  
19 Service Small classes, because it's -- it's very  
20 difficult and burdensome to custom -- customize inverted  
21 blocks for these classes. But at the same time, there's  
22 so -- so many differences among them, that a uniform rate  
23 such as you could apply to the residential is quite  
24 difficult.

25                   So in -- in terms of -- in terms of how we

1 set our priorities, they would be the very last to be  
2 considered.

3 MR. BILL GANGE: Thank you, gentlemen.  
4 Mr. Chair, that concludes my questioning.

5 THE CHAIRPERSON: Thank you, sir. I  
6 think what we will -- well, first of all, we will go to -  
7 - if there is any re-examination from Ms. Ramage.

8 MS. PATTI RAMAGE: Could I just have a  
9 moment?

10 THE CHAIRPERSON: Of course.

11

12 (BRIEF PAUSE)

13

14 MS. PATTI RAMAGE: Mr. Chairman, in  
15 discussion with the panel, I'm wondering if we could  
16 defer any re-direct until after the break so we've had a  
17 moment to discuss and look at what's been raised this  
18 morning?

19 THE CHAIRPERSON: Sounds quite  
20 reasonable. Okay, we will take our lunch break now and  
21 we will come back at 1:00 if that is okay with everyone,  
22 instead of 1:15, and then we will have a full afternoon.  
23 Thank you.

24

25 --- Upon recessing at 11:41 a.m.

1 --- Upon resuming at 1:05 p.m.

2

3 THE CHAIRPERSON: Okay, welcome back  
4 everyone. Due to a prior commitments, we are going to  
5 have to shut down at 4:00. So I do not know whether we  
6 will finish with Mr. Chernick or not today, but we will  
7 do our best.

8 Mr. Landry, you had something?

9 MR. JOHN LANDRY: Just a small, minor  
10 thing, Mr. Chair. We -- we had a discussion about CCC  
11 mean -- meant in -- in a reference, and I'm told that it  
12 is the Manitoba Crown Corporation's Counsel.

13 THE CHAIRPERSON: Makes sense. Mr.  
14 Gange...?

15 Oh, Ms. Ramage, do you have any more  
16 undertakings?

17 MS. PATTIE RAMAGE: Yes, I have some  
18 redirect, not undertakings.

19 THE CHAIRPERSON: Okay.

20

21 (BRIEF PAUSE)

22

23 RE-DIRECT EXAMINATION BY MS. PATTIE RAMAGE:

24 MS. PATTIE RAMAGE: Mr. Wiens, if I could  
25 direct you to MIPUG Exhibit 5. I think Mr. Landry was

1 just reviewing that a moment ago.

2 MR. ROBIN WIENS: Yes.

3 MS. PATTIE RAMAGE: And if we could look  
4 specifically at line 9 of that document. That's the GSL  
5 greater than 100 kVs.

6 MR. ROBIN WIENS: Yes.

7 MS. PATTIE RAMAGE: Do these forecasts  
8 incorporate all the energy intensive load that would be  
9 effected by the proposed rate?

10 MR. ROBIN WIENS: No, they don't.

11 MS. PATTIE RAMAGE: And what -- what is  
12 missing?

13 MR. ROBIN WIENS: Well, over the break we  
14 took an opportunity to review this. And it, perhaps,  
15 should have been clear earlier, but it became obvious  
16 that the exclusion of the GS Large 3,200 kV in this table  
17 has a significant impact on the results.

18 And I think if you went through and made  
19 that adjustment, you would be looking in the first column  
20 of where the -- the forecast for the year 2010/'11 in  
21 2003, or at the time of the 2003 Power Resource Plan, the  
22 number 5,406 gigawatt hours would be replaced with a  
23 number of 6,227 gigawatt hours if you added the General  
24 Service 30 -- Large 30 to 100 kV.

25 Similarly, again, staying with the

1 2010/'11 year, at the time of the 2007 Power Resource  
2 Plan, the number 6,011 gigawatt hours would become 7,484  
3 gigawatt hours.

4                   And then the change or the difference  
5 between the two (2), instead of being six hundred and  
6 five (605), would now be one thousand two hundred and  
7 fifty-seven (1,257).

8                   And once you make that change, of course,  
9 you have to make a corresponding reduction in the row  
10 labelled, "Other," which was all the other domestic  
11 loads. So the one thousand eight hundred (1,800) and --  
12 one thousand nine hundred and eighty-four (1,984) number  
13 becomes one thousand (1,000) -- pardon me -- the eighteen  
14 thousand nine hundred and eighty-four (18,984) number  
15 becomes eighteen thousand one hundred and sixty-three  
16 (18,163).

17                   Going over to the next column, the twenty  
18 thousand and fifty-eight (20,058) number becomes one  
19 thousand (1,000) -- eighteen thousand five hundred and  
20 eighty-five (18,585).

21                   And the change -- the one thousand and  
22 seventy-four (1,074) number becomes four hundred and  
23 twenty-two (422).

24                   MS. PATTIE RAMAGE:    And what do you  
25 conclude from all this?



1 nine (879) previously becomes one thousand five hundred  
2 and fifty-four (1,554).

3 Looking at the other domestic loads for  
4 the 2003 plan, the nineteen thousand four hundred and  
5 fifty-five (19,455) becomes eighteen thousand six hundred  
6 and forty-three (18,643).

7 The twenty thousand seven hundred and  
8 seventy-one (20,771) becomes nineteen thousand two  
9 hundred and eighty-four (19,284).

10 And the one thousand three hundred and  
11 sixteen (1,316) change becomes six hundred and forty-one  
12 (641).

13 THE CHAIRPERSON: Thank you. Anything  
14 else, Ms. Ramage?

15 MS. PATTI RAMAGE: Yes, there is and I'm  
16 wondering -- it might be helpful. I've just had passed  
17 to me -- we were attempting to get these numbers down.  
18 We can hand out, perhaps at the next break or now, we had  
19 that -- those numbers printed out for everyone in --

20 THE CHAIRPERSON: Okay. Mr. Gaudreau,  
21 could you...?

22 While he is doing that, Ms. Ramage, do you  
23 have anything else in the redirect?

24

25 CONTINUED BY MS. PATTI RAMAGE:

1 MS. PATTI RAMAGE: Yes, I do. For Mr.  
2 Warden, I'd like to turn to Manitoba Hydro Exhibit 11,  
3 which was Manitoba Hydro's response to Undertaking Number  
4 3. That was filed this morning.

5 Mr. Warden, at the bottom of the page, at  
6 Footnote 2, it indicates that there was a volume  
7 difference of 32.4 gigawatt hours as between PUB/Manitoba  
8 Hydro-First Round-14-C, the original response and the  
9 supplementary. And that resulted in an adjusted average  
10 rate of fifty-five dollars and four cents (\$55.04) a  
11 megawatt hour.

12 Based on that information, is Manitoba  
13 Hydro changing its application?

14 MR. VINCE WARDEN: No, Manitoba Hydro is  
15 not proposing to change its application. The fifty-five  
16 twenty-seven (55.27) as filed in -- in the application,  
17 is a proxy -- as we've been talking about -- a proxy for  
18 marginal costs.

19 In the -- in the determination of that  
20 proxy, there are certain adjustments that are made to  
21 dependable energy, both on the -- on -- in terms of  
22 revenue and gigawatt hours.

23 The change from fifty-five twenty-seven  
24 (55.27) to fifty-five-o-four (55.04), we determined, is  
25 relatively minor and will be incorporated in the update

1 to any subsequent application.

2                   So because we're using the previous two  
3 (2) fiscal years as the proxy for marginal costs, we  
4 would incorporate a -- any reconciling differences in  
5 future applications.

6                   Yeah, I might also add -- excuse me -- I  
7 might also add that the -- the fifty-five twenty-seven  
8 (55.27), being a proxy, is already very conservative, in  
9 terms of being low, relative to what that rate would be  
10 going forward, as evidenced by rates we are deriving from  
11 the export market in the future -- expected to derive  
12 from the export market in the future and the costs of  
13 Wuskwatim, which is in the range of seventy-seven (77) or  
14 seventy-three (73) -- I'm sorry -- seventy-three dollars  
15 (\$73) per megawatt hour. Thank you.

16                   MS. PATTI RAMAGE: And finally to you,  
17 Mr. Dudar, I just want to address the -- an issue that  
18 was dealt with this morning.

19                   And to be clear, did Manitoba Hydro  
20 consider other options to deal with the energy-intensive  
21 industry rate issue?

22                   MR. MICHAEL DUDAR: Yes, we did.

23                   MS. PATTI RAMAGE: But you chose not to  
24 include any of those -- those options in the rate filing.

25

1                   Were they communicated to customers?

2                   MR. MICHAEL DUDAR:    We -- we chose not to  
3 include them in the filing because we didn't believe that  
4 they were viable.  We had had discussions with customers  
5 and looked at a number of different options, even prior  
6 to the 2008 GRA, where we looked at the approaches taken  
7 by Hydro Quebec and -- and BC Hydro and -- and determined  
8 that those two (2) options weren't -- weren't viable or  
9 appropriate for Manitoba.

10                   In -- in discussions with customers, they  
11 were never shy about sharing their opinions on what -- on  
12 -- on their ideas on -- on improvements we could make to  
13 -- to our rate.

14                   And in -- in response to -- to  
15 PUB/Manitoba Hydro-18-C, where we were asked to provide  
16 communication with -- with stakeholders, we -- we  
17 provided a number of PowerPoint presentations that  
18 included a couple of different versions, along with  
19 emails, that -- that talked about the -- the North/South  
20 split and -- and some of the rationale on -- on why we --  
21 we didn't approa -- we didn't take the -- the approach to  
22 use a split between the North and the South, some of the  
23 -- some of the changes that we made.

24                   And in the transcript of the September  
25 11th meeting, it goes into great detail on -- on some of

1 the approaches that we took and -- and some of the  
2 rationale behind some of the decisions that we made as we  
3 went forward and developed a rate.

4 So -- so, yes, we did consider options and  
5 chose to present only the viable ones to the -- to the  
6 Board as part of the application.

7 MS. PATTIE RAMAGE: In terms of  
8 communications to the Board, was there representa -- was  
9 there representation by the Board at any of those pow --  
10 when any of those PowerPoint presentations were given?

11 MR. MICHAEL DUDAR: The Board was  
12 represented at the September 11th meeting.

13 MS. PATTIE RAMAGE: And that -- that  
14 concludes Manitoba Hydro's redirect. That's all we have.

15 THE CHAIRPERSON: Thank you, Ms. Ramage.

16 Mr. Landry, with the changes in the  
17 numbers in that table, do you have anything else that you  
18 want to add?

19 MR. JOHN LANDRY: I may, Mr. Chairman, if  
20 I could just -- I wanted to go through all the  
21 undertakings; I got through about half of them. And I  
22 may still have a couple of questions, but I don't have  
23 them right at this moment, and I apologize for that.

24 THE CHAIRPERSON: Okay, just meditate for  
25 a bit --

1 MR. JOHN LANDRY: Yeah.

2 THE CHAIRPERSON: -- and we will go on to  
3 Mr. Gange and Mr. Chernick.

4

5 (BRIEF PAUSE)

6

7 THE CHAIRPERSON: Yes, we should probably  
8 change seating rotations.

9 MS. PATTIE RAMAGE: And before doing  
10 that, we might want to label the document that was just  
11 distributed, provide it with an exhibit number, in case  
12 parties wish to refer to it.

13 THE CHAIRPERSON: Yes.

14 MS. PATTIE RAMAGE: And I think that's  
15 Manitoba Hydro-17.

16 THE CHAIRPERSON: Thank you. Thank you  
17 very much to the panel, as well.

18 --- EXHIBIT NO. MH-17: Document entitled "Forecast  
19 Domestic loads for years  
20 2010/11 and 2013/14,  
21 forecasts from 2003 and 2007"

22 THE CHAIRPERSON: Okay. We are switching  
23 panels now.

24

25 (MANITOBA HYDRO PANEL STANDS DOWN)

1 THE CHAIRPERSON: And we have RCM/TREE  
2 and Mr. Gange and his group.

3 Mr. Gange, if you want to first introduce  
4 people, and then we will have Mr. Gaudreau swear Mr.  
5 Chernick in?

6 MR. BILL GANGE: Thank you, Mr. Chair.  
7 With me is an associate from my office, Beth Tait-Milne,  
8 at the far end; of course, Dr. Peter Miller; and to my  
9 right our -- our witness, Mr. Paul Chernick.

10 THE CHAIRPERSON: Mr. Gaudreau...?

11

12 RCM/TREE PANEL:

13 PAUL CHERNICK, Sworn

14

15 THE CHAIRPERSON: Thank you, Mr.  
16 Gaudreau.

17 Mr. Gange...?

18

19 EXAMINATION-IN-CHIEF BY MR. BILL GANGE:

20 MR. BILL GANGE: Thank you, Mr. Chair.

21 Mr. Chernick, the -- in -- in preparation  
22 for this Hearing, you have provided direct testimony,  
23 which has been filed as RCM/TREE Exhibit Number 3. And  
24 in addition to that, you've prepared Information Request  
25 responses to Manitoba Hydro and the Public Utilities

1 Board.

2 And -- and I believe, Mr. Chair, that you  
3 have both of those documents with you.

4 With respect to your direct testimony,  
5 sir, we're going to rely upon the -- the written  
6 testimony in full. And I understand that there is one  
7 (1) correction on page 17 that we'll -- we'll start with.

8 MR. PAUL CHERNICK: Yes. As I  
9 occasionally do, I came up with more things to say after  
10 I had -- had initially counted them. And so line 3 says  
11 I have five (5) recommendations, and I then list seven  
12 (7) recommendations. So line 3 should say I -- I have  
13 seven (7) recommendations.

14 There -- there is one other update I'd  
15 like to give on my testimony. That is that on page 6,  
16 lines 22 to 25, I have a sentence there about the line  
17 losses from Wuskwatim to load. And the Hydro panel  
18 earlier today indicated that those losses would -- that  
19 the DC losses would not be incurred and that, as they  
20 understood it, the number I was using for Wuskwatim cost  
21 already included losses.

22 And taking that, subject to check, that  
23 sentence could be removed from my testimony.

24 MR. BILL GANGE: Thank you, sir.

25 For what purposes does Hydro need

1 estimates of market prices and other marginal costs?

2 MR. PAUL CHERNICK: Well, in addition to  
3 the -- the EIIR that's the -- the subject of this  
4 Hearing, Hydro needs estimates, marginal costs, for other  
5 rate design determinations for the evaluation of DSM and  
6 for many supply decisions as well, where they're  
7 comparing incremental supplies to the market value of  
8 those supplies.

9 MR. BILL GANGE: And in looking at this,  
10 how should Manitoba Hydro estimate marginal generation  
11 costs?

12 MR. PAUL CHERNICK: Well, as I think the  
13 Hydro panel said earlier today, those estimates really  
14 should be forward-looking, based on the sales that Hydro  
15 will be able to make in the future due to reduced usage  
16 or that it won't be able to make due to increased usage.

17 And those forecasts are inevitably  
18 estimates, because they're about the future. It's much  
19 harder to forecast the future than it is to forecast the  
20 past. And they will not always be correct after the  
21 fact. Utilities, like any other entity, have to make  
22 decisions about the future under uncertain information  
23 and based on their best available information.

24 Though the price forecasts are -- are  
25 benchmarks for rate design that can be adjusted over

1 time, should be adjusted over time, but rate design  
2 doesn't have to slavishly follow or automatically follow  
3 changes in the rate design if the -- in excuse me, in the  
4 marginal cost.

5                   If marginal cost estimates change  
6 abruptly, the rate design can be adjusted more slowly to  
7 dampen out volatility, either perhaps missing peaks and  
8 valleys entirely as prices swing up and down, or if  
9 there's a step increase or a step decrease, gradually  
10 merging from the old level to the new level.

11                   MR. BILL GANGE:    And is a market price  
12 forecast a more appropriate basis for marginal costs than  
13 the average price of sales over the past two (2) years or  
14 some other historical period?

15                   MR. PAUL CHERNICK:   Yes, a forecast is --  
16 is more appropriate.  Historical data, in some sense, may  
17 be easier to derive, but it's -- it's an easy answer to  
18 get, but it's not, basically, the right question.

19                   MR. BILL GANGE:    Are forecasts of market  
20 prices inherently less transparent than our historical  
21 prices?

22                   MR. PAUL CHERNICK:   No.  A -- a forecast  
23 to market prices can be based on recent contracts between  
24 Hydro and -- and customers in neighbouring systems,  
25 recent and pending Hydro contracts, negotiations,

1 memoranda of understanding, that sort of thing.

2 Other purchase contracts within the  
3 neighbouring systems -- what the Ontario Power Authority  
4 is paying for -- for resources. What the Minnesota and  
5 Wisconsin utilities have been -- have been paying. What  
6 kind of contracts have they been signing recently?

7 And even on the costs of -- of generic new  
8 resources within the neighbouring regions; for example a  
9 -- a typical new coal plant, if that's actually feasible  
10 anywhere now, or a gas-combined cycle plant.

11 Now, Hydro keeps its contract information  
12 much more confidential than do most of the utilities I've  
13 dealt with. And if the Board allows Hydro to continue  
14 holding that data very closely, that would limit the use  
15 of the methods I just listed that rely on hydro-specific  
16 contracts and negotiations. But the other methods are  
17 feasible, even if -- if Hydro refuses to -- to share the  
18 information that it has.

19 MR. BILL GANGE: Why should the Board  
20 institute an energy-intensive industrial rate, or  
21 something similar, at this point?

22 MR. PAUL CHERNICK: Well, the answer at  
23 this point would be the same as it would be at any other  
24 point, which marginal costs are very different from  
25 embedded costs.

1                   Decisions are made all the time about the  
2 efficiency of equipment and of processes, about  
3 housekeeping matters, about hiring, staffing, the amount  
4 of -- of labour and other inputs to put into reducing  
5 energy use, and decisions about location of new plants  
6 and operations within plants.

7                   So having domestic price incentives  
8 consistent with export prices would have been useful this  
9 year, it would have been useful last year, it would  
10 certainly be useful next year. So the sooner, the  
11 better.

12                   MR. BILL GANGE:    Can you summarize the  
13 difference in perspective on inclining block rates  
14 between your position and Hydro?

15                   MR. PAUL CHERNICK:    Let me -- let me take  
16 a crack at it. My -- my view is that large customers,  
17 initially -- and eventually, other customers as well --  
18 should face marginal cost rates for increased usage and  
19 for at least some of their current usage to encourage  
20 efficient decisions in all the kinds of decisions I've  
21 just talked about.

22                   And my understanding, from discovery and  
23 some of the discussion earlier today, is that Hydro  
24 appears to believe my approach has some merit, but its  
25 own attention in this particular proceeding was more

1 limited.

2                   So Hydro is not really proposing to give  
3 marginal cost signals for existing usage, or even for a  
4 considerable amount of future growth.

5                   The company's perspective is -- is -- or  
6 intent is more to ensure that very large load increases  
7 pay something closer to marginal costs. And -- and that  
8 seems to me to be an unnecessarily limited goal, which  
9 wouldn't apply marginal costs in a lot of situations  
10 where they would be useful and -- and feasible.

11                   And as long as Hydro's going through the  
12 process of setting up the -- this energy-intensive indu -  
13 - industrial rate, it should make that rate as -- as  
14 effective as possible.

15                   And Manitoba Hydro's proposal is, for the  
16 rates, actually complicated by the addition of various  
17 provisions for growth in the baseline, which dilute the  
18 effectiveness of the rate.

19                   And it's one thing to have a less  
20 effective rate because you want to simplify the process.  
21 But to have a less effective rate that requires you to  
22 complicate the process is inappropriate, I think.

23                   So rather than locking in the growth and  
24 the base load in a baseline, I would urge Hydro to  
25 gradually reduce the baselines to ensure that most of the

1 affected customers have some at least some load at the  
2 marginal rate. And so when they're making their marginal  
3 decisions, they're facing prices that reflect the export  
4 prices.

5 In -- in connection with that, I would  
6 also strongly suggest that the allowances for the older  
7 Power Smart savings be reexamined and phased out as the  
8 net savings from the -- the original measures phase out.

9 MR. BILL GANGE: Are the inclining -- are  
10 the inclining rates of the energy-intest -- intensive  
11 industrial rate some sort of punishment for load growth?

12 MR. PAUL CHERNICK: No, I don't see it as  
13 being a punishment at all. It's simply asking marginal  
14 load to pay the marginal cost. The -- the point is to  
15 reflect the cost of that incremental energy use or the  
16 benefit of reduced usage and to make other customers  
17 indifferent between the energy being used domestically or  
18 being sold out of the province as export sales.

19 MR. BILL GANGE: Does the energy-  
20 intensive industrial rate maintain revenue neutrality?

21 MR. PAUL CHERNICK: Well, this is  
22 something that, actually, you discussed with the -- the  
23 Hydro panel earlier this morning.

24 And if the second block rate is set  
25 properly and each customer is using some energy in second

1 block, then the energy-intensive rate would create  
2 revenue neutrality with respect to the choice between  
3 using it domestically or exporting it.

4 Now obviously, it's not revenue neutral  
5 for each customer, because some customers who do choose  
6 to use more would wind up paying more with the EIIR than  
7 -- than under the existing rates.

8 MR. BILL GANGE: Do you believe that  
9 inclining rates should be applied only to the largest GSL  
10 customers?

11 MR. PAUL CHERNICK: No. Essentially, all  
12 customers should eventually be on inclining block rates  
13 of some form and that the form as I -- again, I think,  
14 Hydro panel pointed out earlier today, the form of the  
15 inclining block will be different for residential  
16 customers than for large commercial -- large industrial.  
17 And customers in between may have yet other forms.

18 But to the extent that it's feasible, you  
19 want to get a marginal cost signal to every customer, or  
20 at least the -- the bulk of the load. And with that in  
21 mind, it makes sense to start with the largest customers,  
22 because, as Willie Sutton said when he was asked why he  
23 robbed banks, that's where the money is.

24 And I looked at -- I actually did some of  
25 these calculations --

1                   MR. ROBERT MAYER:    Now, that's an  
2 interesting analogy --

3                   MR. ROBERT CHERNICK:    Let me --

4                   MR. ROBERT MAYER:    -- Mr. Landry's  
5 suggesting we're doing.

6                   MR. ROBERT CHERNICK:    Let me explain the  
7 -- the context for that.  I looked at it -- at Exhibit --  
8 Manitoba Hydro-17.  Actually, I've done these  
9 calculations on my own while they were doing their  
10 calculations based on MIPUG's Exhibit 5.

11                   And if you look at -- at that exhibit for  
12 2010 and '11, the change in the load forecast was -- 75  
13 percent of that was due to the GSL over 30 kV.  And for  
14 2013/'14, 80 percent of the change was for those very  
15 large customers.

16                   For the -- now this other category  
17 includes the smaller GSL, who are not covered by the --  
18 the lower voltage GSL, who are not covered by the rate  
19 proposal.  And the GSL under 30 kV represent another 15  
20 percent of the increase in the load forecast for 2011 and  
21 about 13 percent for 2013/'14.  And they have about 18  
22 percent or 19 percent increase in their forecast usage in  
23 that time.

24                   And the remaining customers -- that is,  
25 without GSL -- the non-GSL customers, all of them,

1 represent only about 10 percent of the increase in load  
2 expected for 2010/'11 and 7 percent by 2013/'14. And  
3 their increase in forecast was about 1 percent for  
4 2010/'11 and .8 percent for 2013/'14.

5 So the place where the forecast is  
6 growing, where things are changing and where the energy  
7 use is -- is eating into the opportunity for export sales  
8 seems to be primarily in the GSL class.

9 So again, starting where the -- the load  
10 growth is occurring seems to be a reasonable way to  
11 prioritize these rate design issues.

12 I wouldn't suggest that that would be a  
13 reason to slow down any of the others, but we do what we  
14 can -- can do as fast as we can do it and the rate design  
15 proposals can be dealt with in other proceedings.

16 MR. BILL GANGE: Would the energy-  
17 intensive rates discourage economic growth and  
18 development?

19 MR. PAUL CHERNICK: Not if it's properly  
20 implemented. I've suggested that the incremental  
21 revenues from the energy-intensive rate and other  
22 inclining block rates, as well as the export -- increased  
23 export revenues made possible by reducing domestic usage,  
24 could be used to fund energy efficiency programs,  
25 economic development programs, low-income energy

1 assistance, and other provincial priorities.

2                   And so those funds could, to the extent  
3 that -- that they're -- that customers use energy in the  
4 -- the second block, could be used to, among other  
5 things, fund programs that bring additional jobs in, jobs  
6 that are desired by the province, to the parts of the  
7 province where the -- the government thinks they're most  
8 useful.

9                   MR. BILL GANGE:     That concludes our  
10 direct evidence, Mr. Chair.

11                   THE CHAIRPERSON:    Thank you, Mr. Gange.

12                   Mr. Chernick, we will begin the cross-  
13 examination now and we will begin with the Coalition, Mr.  
14 Williams.

15

16 CROSS-EXAMINATION BY MR. BYRON WILLIAMS:

17                   MR. BYRON WILLIAMS:    Yes, good afternoon,  
18 Mr. Chairman and Members of the Board.

19                   Mr. Chernick, welcome to sunny Winnipeg.

20                   MR. PAUL CHERNICK:    Thank you.

21                   MR. BYRON WILLIAMS:    Just -- just at a  
22 very high level, Mr. Chernick, and I know we're trying to  
23 get you off to a flight fairly soon, but I just want to  
24 start with you at the -- the -- at a high level, in terms  
25 of regulatory approach and regulatory principle.

1                   And -- and when we look at the role of the  
2 Public Utilities Board or any public utilities board in -  
3 - in a rate-setting context, you'll agree with me at a  
4 high level it's to set a rate that's just, reasonable,  
5 and -- and not unduly discriminatory?

6                   Would that be fair, sir?

7                   MR. PAUL CHERNICK:   Those sound like the  
8 kinds of terms that are -- are currently embedded in the  
9 statutes that establish the Board's powers, yes.

10                  MR. BYRON WILLIAMS:   And that's your  
11 understanding of general objectives for a regulator?

12                  MR. PAUL CHERNICK:   Well, it's -- that's  
13 some of them, certainly.

14                  MR. BYRON WILLIAMS:   You'd agree as well  
15 that in setting rates that are just and reasonable, a  
16 regulator is called upon to balance diverse, and -- and  
17 at times, competing interests, including, but not limited  
18 to, the interests of the utility and its consumers.

19                  Would that be fair?

20                  MR. PAUL CHERNICK:   The utility, its  
21 consumers or its groups of consumers, a -- a whole range  
22 of -- of interests and issues, yes.

23                  MR. BYRON WILLIAMS:   Thank you for that.

24                  And in terms of some of the issues, you'll  
25 agree as well that in considering a just and reasonable

1 rate, a regulator can and should take into account not  
2 just the interests -- and I think you've already answered  
3 this -- the interests of the utility and its consumers,  
4 but the broader societal, or -- or public, interests?

5 Would that be fair, sir?

6 MR. PAUL CHERNICK: Yes.

7 MR. BYRON WILLIAMS: And one element of  
8 the broader societal interests that the regulator is  
9 certainly open to consider is issues relating to  
10 conservation, sustainability, and the environment.

11 Would that be fair?

12 MR. PAUL CHERNICK: That's correct.

13 MR. BYRON WILLIAMS: And you've averted  
14 to this just in your recent questions with Mr. Gange, but  
15 another element of that broader public interest, which  
16 it's open to the Board to consider, are the impacts of  
17 its rate decisions in the Manitoba context on the  
18 Manitoba economy, Manitoba jobs, and Manitoba's economic  
19 growth.

20 Would that be fair?

21 MR. PAUL CHERNICK: Yes. And I discussed  
22 that as well.

23 MR. BYRON WILLIAMS: And I think you  
24 mentioned this as well, but we'll just tread lightly upon  
25 ground previously trod.

1                   In considering the broader public  
2 interest, it's also open to the Board to consider the  
3 impact of its rates upon consumers in the context of rate  
4 affordability.

5                   Would that be fair?

6

7                   (BRIEF PAUSE)

8

9                   MR. PAUL CHERNICK:    Yes, that's -- that's  
10 one aspect of the -- the interest of the various consumer  
11 groups.

12                  MR. BYRON WILLIAMS:   Thank you.  And you  
13 smiled when I said this before.

14                  While we all aim to reconcile these  
15 interests -- let's say sustainability, economic growth,  
16 and affordability -- you'll -- you'll agree that at times  
17 these objectives may conflict?

18                  MR. PAUL CHERNICK:    The Board's job  
19 wouldn't be nearly so interesting if that weren't the  
20 case.

21                  MR. BYRON WILLIAMS:    So you are agreed?

22                  MR. PAUL CHERNICK:    I agree, yes.

23                  MR. BYRON WILLIAMS:    And I think it's got  
24 an interesting job, as well, one I wouldn't wish upon  
25 anyone.

1 MR. PAUL CHERNICK: They look like  
2 they're having fun.

3 MR. BYRON WILLIAMS: Yeah.

4 I wonder if you'd agree, as well, that in  
5 general terms, the -- the rate that flows from a  
6 particular regulatory decision would then depend in part  
7 upon the particular weight that the Board chooses to give  
8 to dif -- its different objectives and considerations?

9 MR. PAUL CHERNICK: There certainly are  
10 situations in which that's the case, yes.

11 MR. BYRON WILLIAMS: So differences in  
12 what we consider to be the objectives that are given  
13 primacy, in terms of the rate setting exercise, could  
14 lead to differences in the structures of the rate.

15 You'll agree with that?

16 MR. PAUL CHERNICK: Yes, in some cases.

17

18 (BRIEF PAUSE)

19

20 MR. BYRON WILLIAMS: Now, I don't think  
21 you need to turn there, Mr. Chernick -- I'm a relatively  
22 trustworthy guy -- so I'm going to suggest to you that if  
23 you did look to page 2 of your evidence, the mandate your  
24 client gave you -- lines 16 to 17, if you're looking for  
25 a reference, sir.

1                   Apparently, I'm not as trustworthy as I --  
2 as I thought.

3                   MR. PAUL CHERNICK:    I -- I -- trust --

4                   MR. BYRON WILLIAMS:    I'm just teasing  
5 you, Mr. Chernick.  I'm just teasing you.

6                   The mandate your clients have given you is  
7 to look at the -- and I'm referring you to page 2, lines  
8 15 through 17 -- is to look at the energy-intensive  
9 industrial rate, or EIIR, in light of the PUB's concerns  
10 about below-cost pricing and resulting environmental  
11 emissions.

12                   Is that fair, sir?

13                   MR. PAUL CHERNICK:    Yes, to -- to be  
14 completely honest, that part of my testimony was quoted  
15 from my -- my evidence in the General Rate Application.  
16 And I'm not sure that -- that my clients actually  
17 mentioned this particular objective in -- in connection  
18 with this Hearing.

19                   But I think that concern of theirs remains  
20 relevant.

21                   MR. BYRON WILLIAMS:    And when you were  
22 looking at this application, that is indeed the  
23 perspective that you were -- you were focussed on, to at  
24 least some degree, which is below-cost pricing and  
25 resulting environmental emissions.

1                   Would that be fair?

2                   MR. PAUL CHERNICK:   Well, it's -- it's  
3                   emissions' effects and also the -- the effects on export  
4                   revenues for Manitoba Hydro, and therefore, potential  
5                   benefits for the province and the ratepayers as a whole.

6

7

8   (BRIEF PAUSE)

9

10                   MR. BYRON WILLIAMS:   So you were looking  
11                   at both, but in kind of the purpose of your direct  
12                   testimony, you only focussed on the environmental  
13                   emissions.

14                                        Is that fair?

15                   MR. PAUL CHERNICK:   I don't think that's  
16                   fair if you look at my testimony, that I do touch on the  
17                   effect on the environment.  But mostly, I -- I talk about  
18                   the cash market prices, which are a benefit to Hydro, to  
19                   the province, and about issues of the rate design.

20                   MR. BYRON WILLIAMS:   Okay, fair enough.  
21                   And I apologize if you felt that was unfair.

22                   MR. PAUL CHERNICK:   I've seen worse.

23                   MR. BYRON WILLIAMS:   And again, you --  
24                   you don't need to look, but if you wish to, just in terms  
25                   of your evidence as I understand it -- and I'm -- I'm

1 referring to page 17, lines 24 and 25 -- one of your  
2 recommendations -- page 17, lines 24 and 25, sir.

3 MR. PAUL CHERNICK: You -- you can go  
4 ahead while I find it.

5 MR. BYRON WILLIAMS: One of your  
6 recommendations is that the CBEL --

7 MR. PAUL CHERNICK: Mm-hm.

8 MR. BYRON WILLIAMS: -- should gradually  
9 be reduced to insure that most customers will face  
10 marginal costs prices and incentives for at least a small  
11 portion of their usage.

12 Is that right, sir?

13 MR. PAUL CHERNICK: Yes.

14 MR. BYRON WILLIAMS: And you stated that  
15 again today. I think you spoke of rates focussing on  
16 increased usage and only some of current usage.

17 Is that right, sir?

18 MR. PAUL CHERNICK: That's correct.

19 MR. BYRON WILLIAMS: And as I understand  
20 that, you're -- at least with regard to certain companies  
21 or -- you're ultimately calling for a baseline below  
22 current usage.

23 Would that be fair?

24 MR. PAUL CHERNICK: Yes.

25 MR. BYRON WILLIAMS: And indeed for all

1 companies ultimately in the GSL.

2 Is that fair?

3 MR. PAUL CHERNICK: Yes, I think so. I  
4 really haven't dealt with how the rate design should be  
5 extended to the smaller GSL, but I -- I assume it would  
6 take a similar form.

7 MR. BYRON WILLIAMS: Notionally --  
8 notionally, that's where your --

9 MR. PAUL CHERNICK: Yes.

10 MR. BYRON WILLIAMS: -- your evidence is  
11 directed?

12 MR. PAUL CHERNICK: Well said.

13 MR. BYRON WILLIAMS: Thank you for that.  
14 You certainly also suggest, again, that environmental  
15 costs should be included in the marginal energy costs for  
16 the EIIR. Is that fair, sir?

17 MR. PAUL CHERNICK: Yes.

18 MR. BYRON WILLIAMS: I want you to assume  
19 just for a second that the Public Utilities Board has  
20 told you -- maybe -- let's assume you're being retained  
21 by them.

22 MR. PAUL CHERNICK: Mm-hm.

23 MR. BYRON WILLIAMS: That while it's  
24 concerned deeply about environmental emissions, that in  
25 this proceeding its primary focus is to limit reductions

1 in revenue caused by displacement of exports to serve  
2 large, new, price-sensitive loads and thereby limit or  
3 reduce rate increases to the entire domestic customer  
4 base.

5 Do you have that point, Mr. Chernick?

6 MR. PAUL CHERNICK: Yeah.

7 MR. BYRON WILLIAMS: And just to be  
8 clear, I'm -- I'm asking you to assume that the primary  
9 purpose is to limit reductions in revenue caused by  
10 displacement of experts to serve large, new, price-  
11 sensitive load, okay?

12 MR. PAUL CHERNICK: Yes.

13 MR. BYRON WILLIAMS: If you were told by  
14 the PUB that that was its primary purpose -- focussing on  
15 large, new, price-sensitive loads -- I wonder if you'd  
16 agree with me that the recommendation to lower the base -  
17 - baseline beyond the current usage for individual firms  
18 goes farther than that purpose.

19 Would that be fair, sir?

20 MR. PAUL CHERNICK: Yes. I think what  
21 you describe is basically Manitoba Hydro's purpose. And  
22 as I said in my direct, I have a broader view of what one  
23 can do with this rate and should do.

24 MR. BYRON WILLIAMS: And as I understand  
25 that broader view -- and I'm -- again, I think I'm

1 quoting from your response, Manitoba Hydro/TREE-1-A --  
2 but you're looking to provide a consistent marginal cost  
3 conservation incentive for any customer whose load grows,  
4 remains constant, or falls less rapidly than the decline  
5 in the baseline that's ultimately adopted.

6 Would that be fair?

7 MR. PAUL CHERNICK: Yes.

8 MR. BYRON WILLIAMS: And as I guess we've  
9 said before, but you'll agree with me that the  
10 differences in what views as the objective of the rate  
11 can easily lead to differences and what we think is the  
12 most appropriate way to structure that rate.

13 Would that be fair?

14 MR. PAUL CHERNICK: Oh, yes. I think  
15 it's why Manitoba Hydro wound up with its proposal and I  
16 have a -- a different proposal.

17 MR. BYRON WILLIAMS: I want to talk to  
18 you for just a couple minutes about inclining rates.

19 MR. PAUL CHERNICK: Mm-hm.

20 MR. BYRON WILLIAMS: And revenue  
21 neutrality on a -- on a class basis, okay, Mr. Chernick?

22 MR. PAUL CHERNICK: Okay.

23 MR. BYRON WILLIAMS: And you're aware --  
24 you're aware that as a conseq -- consequence of the  
25 Board's last order, residential customers will be subject

1 to a -- to inclining rate in which monthly consumption  
2 above a certain level or second block is subject to a  
3 slightly higher rate than monthly consumption in the  
4 first place?

5 MR. PAUL CHERNICK: A very slightly  
6 higher, yes.

7 MR. BYRON WILLIAMS: And you underlined  
8 the word slightly. You'll agree that the long-term  
9 objective of Manitoba Hydro appears to be for that second  
10 block to gradually move towards marginal costs, certainly  
11 as Hydro defines it.

12 Is that fair, sir?

13 MR. PAUL CHERNICK: I think that's what  
14 they've said, yes.

15 MR. BYRON WILLIAMS: And the objectives  
16 of having that second block move towards some version of  
17 marginal costs is to send better pricing signals,  
18 correct?

19 MR. PAUL CHERNICK: Yes.

20 MR. ROBERT MAYER: You know where that's  
21 going to go. Looking at weather like this and those of  
22 us who have no option but to use electric heat, there's  
23 no ability, I suggest to you, to give a price signal at  
24 minus 40 degrees.

25 MR. PAUL CHERNICK: Well, the price

1 signals would include for the -- most customers, or many  
2 customers, do have some option and -- in terms of fuel  
3 for -- for heating. Those -- even those that don't have  
4 any option for fuel, have options for efficiency.

5           And customers have incentives and options  
6 regarding their choice of how far they set back the --  
7 the thermostat, whether they have an automatic time-of-  
8 use thermostat, whether they leave the house -- leave the  
9 -- the home at 20 degrees day and night or drop it back  
10 at night and drop it back when they leave for work.

11           There are a lot of -- of things that  
12 people can do to reduce their usage. And certainly one  
13 of the things you could do with some of the revenues from  
14 an inclining block would be to give a non-usage related -  
15 - perhaps a square-footage related -- allowance for space  
16 heating customers, for heritage space heating customers,  
17 to basically take into account the fact that they made  
18 decisions about heating sources at a time when price  
19 structures were very different and they were being  
20 encouraged to use electric heat.

21           That's a few steps down the road from  
22 where we are right now, but all of those things are --  
23 are things that can be done.

24

25 CONTINUED BY MR. BYRON WILLIAMS:

1                   MR. BYRON WILLIAMS:    I wasn't quite going  
2 to take you down that path, Mr. Chernick, so I'll -- I'll  
3 ponder your -- your words, and I may come back to them in  
4 -- in a few moments.  Just going back to better pricing  
5 signals --

6                   MR. PAUL CHERNICK:    Thank you.

7                   MR. BYRON WILLIAMS:    -- we're -- we're  
8 assuming, and the assumption is that they'll have a  
9 beneficial effect, both in terms of economic efficiency  
10 and conservation.

11                   Is that fair?

12                   MR. PAUL CHERNICK:    Yes.

13                   MR. BYRON WILLIAMS:    And you can correct  
14 me if your understanding is different, but my  
15 understanding of the intent of the residential inclining  
16 rate structure is that it be implemented on a revenue-  
17 neutral basis for the class as a whole.

18                   Is that your understanding as well, sir?

19                   MR. PAUL CHERNICK:    That is often the  
20 case.  It's not always feasible.

21                   MR. BYRON WILLIAMS:    Well -- well, let's  
22 assume it is feasible.  It's certainly possible to  
23 implement -- at a theoretical level, at least -- an -- an  
24 inclining rate structure on a revenue neutral basis for a  
25 class, is it not, sir?

1 MR. PAUL CHERNICK: Yes. I mean  
2 certainly if -- if you're talking about for residential  
3 customers, for example, having a rate for everybody  
4 that's one -- one price for -- for so many kilowatt  
5 hours, and then a higher price above that, you can  
6 certainly do that on a revenue-neutral basis -- that is,  
7 revenue neutral compared to the flat rate that you had  
8 before.

9 MR. BYRON WILLIAMS: And just so I  
10 understand your point, it's possible in the context,  
11 certainly, of residential customers to design an  
12 inclining rate structure that recovers approximately the  
13 same level of revenues as a flat rate.

14 That's your point?

15 MR. PAUL CHERNICK: Yes.

16 MR. BYRON WILLIAMS: And let's say, you  
17 know, just for -- for -- you'll assume -- and I -- I'm  
18 just making this up on the fly, so you'll bear with me as  
19 we go through it.

20 But let's say we're -- we're assuming that  
21 the -- if you only had one rate for consumers, it would  
22 be five (5) cents per kilowatt hour, you could -- and  
23 let's assume, as well, that the marginal costs were six  
24 (6) cents.

25 MR. PAUL CHERNICK: Mm-hm.

1                   MR. BYRON WILLIAMS:    It would be  
2 possible, assuming that the load is evenly distributed  
3 before -- between the first block and the second lot --  
4 second block, in terms of usage, to charge, let's say,  
5 four and a half (4 1/2) cents for the first block, five  
6 and a half (5 1/2) cents for the second block, and that  
7 would effectively yield the same right -- rate as a 5  
8 percent overall block -- or overall price.

9                   Would that be fair?

10                  MR. PAUL CHERNICK:    Yes, it could --  
11 could be the same level of revenues, yes.

12                  MR. BYRON WILLIAMS:    And just to follow  
13 this through, if understand the -- the concept of revenue  
14 neutrality, as you and I are using it, let's say one  
15 wanted to send a stronger pricing signal in the second  
16 block and perhaps move it to six (6) cents per kilowatt  
17 hour.

18                  The corresponding impact upon the first  
19 block, assuming that you want to achieve revenue  
20 neutrality, might be to move that down to four (4) cents  
21 per kilowatt hour, again assuming the load is evenly  
22 distributed.

23                  Would that be fair?

24                  MR. PAUL CHERNICK:    Yes.

25                  MR. BYRON WILLIAMS:    Now you talked about

1 the revenue neutrality with Mr. -- My Friend Mr. Gange in  
2 the -- in the concept -- or the context of the EIIR.

3 And you -- I don't know if you're aware of  
4 this, but my understanding of -- of Hydro's testimony is  
5 that it -- it doesn't see it, the EIIR, as being revenue  
6 neutral at the subgroup or group level.

7 Are you aware of that, sir?

8 MR. PAUL CHERNICK: No. And I believe  
9 that -- that Manitoba Hydro understands that that's the  
10 effect, yes.

11 MR. BYRON WILLIAMS: In other words,  
12 while there is an increase in costs for usage above the  
13 baseline, there is no comparable reduction to the rates  
14 charged below the baseline.

15 Would that be your --

16 MR. PAUL CHERNICK: That's correct.

17 MR. BYRON WILLIAMS: -- understanding?

18 And that's your understanding, I think,  
19 from your discussion with Mr. Gange today as well?

20 That's your understanding of how the EIIR  
21 works?

22 MR. PAUL CHERNICK: Yes.

23 MR. BYRON WILLIAMS: So just going back  
24 to kind of the -- where -- where I left off a couple  
25 seconds ago, it's conceivable to implement a inclining

1 rate structure in a manner that's revenue neutral.

2 We're agreed on that? In many cases?

3 MR. PAUL CHERNICK: Yes.

4 MR. BYRON WILLIAMS: In an inclining rate  
5 structure it's also conceivable to bring in it -- bring  
6 it in in a manner where it's not revenue neutral at the  
7 subclass or class level, such as the EIIR.

8 Fair enough?

9 MR. PAUL CHERNICK: Yes.

10 MR. BYRON WILLIAMS: And that's one  
11 conceptual difference between the residential inclining  
12 rate structure and the EIIR, the fact that one's designed  
13 to be revenue neutral and one is not, sir?

14 MR. PAUL CHERNICK: Well, there are --  
15 one of the differences is that with the residential  
16 class, you can -- if you have data on -- on billings over  
17 time, you can say, All right, if we -- if in last year --  
18 if instead of charging five (5) cents to everybody, we  
19 charged four (4) cents for the first so many kilowatt  
20 hours and six (6) cents over that, what would our  
21 revenues have been?

22 Okay, that's about right. We can -- we can  
23 make that revenue-neutral. We have a sense of what  
24 percentage of the total load would be facing a six (6)  
25 cent tail block.



1 to that point -- and thank you. I'll come back to that  
2 in just one second.

3 Just at a conceptual level, would that be  
4 one conceptual difference between how we look at the  
5 residential inclining rate, in that it's designed to be  
6 revenue neutral, versus the current design of the EIIR?

7 Did I -- did you say yes?

8 MR. PAUL CHERNICK: Well, we were talking  
9 about a revenue-neutral residential rate. You could also  
10 have a residential rate that was not intended to be  
11 revenue neutral and was intended to raise funds for some  
12 other purpose or to just be a rate increase to cover  
13 Hydro's increasing costs or whatever the purpose was.

14 It doesn't have to be revenue neutral, but  
15 it's relatively -- I think my point was that it's  
16 relatively easy to think about how to do a revenue-  
17 neutral rate design for a mass class like residential or  
18 small commercial.

19 It gets much harder, or more complicated  
20 anyway, for the large GSL customers.

21 MR. BYRON WILLIAMS: In your evidence of  
22 the Recommendation 5 at page 17 of your evidence, lines  
23 19 to 23, you recommend that the Board should put smaller  
24 GS customers on notice that they will also be covered by  
25 similar rate design in future years.

1 Do I have that about right, sir?

2 MR. PAUL CHERNICK: Yes, it's --

3 MR. BYRON WILLIAMS: Can I ask you to  
4 elaborate just a little?

5 MR. PAUL CHERNICK: Well, literally, I  
6 said GSL. You said, GS.

7 MR. BYRON WILLIAMS: Oh.

8 MR. PAUL CHERNICK: I would -- I think  
9 the Board might want to start letting out the word that  
10 this is coming for GS customers as well, and they should  
11 be looking at reducing their usage.

12 MR. BYRON WILLIAMS: So I pushed you  
13 farther than you -- you -- inadvertently pushed you  
14 farther. I was -- I just misread it.

15 What I am interested in, sir, is when you  
16 use the words "similar design," are you suggesting that  
17 smaller GSL customers -- let's focus on them, first of  
18 all -- should be exposed to an EIIR-type rate, which is  
19 not on a revenue-neutral basis?

20 That's what I'm trying to get at.

21 MR. PAUL CHERNICK: No. I have no  
22 opinion about that at this point.

23 MR. BYRON WILLIAMS: So you have no  
24 recommendations to the Board in terms of whether it  
25 should be brought in on a revenue-neutral basis or not?

1                   MR. PAUL CHERNICK:    No, I don't have a --  
2   I'm not making any specific recommendations about rate  
3   designs other than for the large GSL customers who would  
4   be covered by the -- the company's proposal in this case.

5                   MR. BYRON WILLIAMS:    In the context of  
6   this application and just going to large GSL customers,  
7   you consider it appropriate that it's not revenue neutral  
8   at the group and subgroup level.

9                   Is that your view?

10                  MR. PAUL CHERNICK:    Well, the Board at  
11   some point is going to have to decide what to do with the  
12   additional revenues that come in from this rate, to the  
13   extent that there are additional revenues.  And as I  
14   said, you know, they could be used for economic  
15   development or energy efficiency programs or other things  
16   benefiting those customers.

17                  Certainly, Hydro should keep track of how  
18   much extra it collects -- it -- that would be a pretty  
19   easy calculation to do -- and should make some proposals  
20   to the Board about what to do with those funds.

21                  At this point, we don't have any idea how  
22   large this will be, how that would change over time.  So  
23   it's perhaps a -- it's not premature to think about it,  
24   but it -- it's premature to make any firm decisions about  
25   what to do with the funds.

1 (BRIEF PAUSE)

2

3 MR. BYRON WILLIAMS: Just to follow that  
4 up one more step, if -- would you agree that if we  
5 extended a EIIR type of rate to all GSL and either had a  
6 static baseline or a declining base -- baseline, there  
7 would be material extra revenue if it was not designed to  
8 be revenue-neutral?

9

10 (BRIEF PAUSE)

11

12 MR. PAUL CHERNICK: I don't -- I don't  
13 know whether that's true or not. I don't -- I haven't  
14 really thought through how much load growth there --  
15 there's likely to be in that -- that class and how  
16 substantial the revenues would be, compared to the  
17 revenues from an EIIR approach only for larger customers.

18 And it depends on how the baseline is set  
19 and how quickly it declines and whether it's really  
20 feasible to do this on an individual customer basis with  
21 the -- the number of customers for the -- in the smaller  
22 GSL category.

23 So I -- I don't know whether it would be  
24 substantial, and I'm not even sure what subs -- I haven't  
25 reached an opinion as to what substantial would mean in

1 this context.

2                   It's certainly enough money to think  
3 about, and I just haven't gotten there. It's beyond the  
4 scope of this application, as I understood it.

5                   MR. BYRON WILLIAMS: And just to finish  
6 up on this point, just -- you were talking about  
7 extending it down to a smaller GSL if feasible.

8                   Do I take it from that answer that you  
9 have some doubts as to the feasibility?

10                  MR. PAUL CHERNICK: I -- I heard some  
11 things from -- from Hydro expressing some caution  
12 regarding their ability to do hand calculations for  
13 customers as you get into smaller groups. I don't know  
14 whether the issue of identifying affiliates gets much  
15 more complicated as you get into more small customers.

16                  It's possible that Hydro is perfectly  
17 capable of -- of automating the system and -- and having  
18 very little need to -- to hand-crunch the numbers and  
19 that they have a great deal of information about the  
20 corporate nature of their -- their GSL customers down to  
21 the smallest of them, and that it's not really an issue.

22                  But I'm not presupposing that there isn't  
23 an issue there, and it's something that I'd be happy to  
24 talk to Hydro about at some point. But first let's get  
25 the first bite of the apple before we look at -- at

1 making the whole pie. How's that for a mixed metaphor?

2 MR. BYRON WILLIAMS: Well, I hope we get  
3 back to bank robbers at some point in time.

4 MR. PAUL CHERNICK: Well, you have to get  
5 in the front -- front door before you crack the safe.  
6 How about that?

7 MR. BYRON WILLIAMS: I see Mr. Landry  
8 taking notes at that point in time.

9 Just to switch gears for a few minutes,  
10 and we won't be that much longer, I was watching Wolf  
11 Blitzer on CNN this week and --

12 MR. PAUL CHERNICK: He's a Canadian,  
13 isn't he?

14 MR. BYRON WILLIAMS: I'm not sure. But  
15 it looks to me that the -- it sounds from watching CNN,  
16 where the economy is number one, that parts of the United  
17 States are undergoing some difficult economic times.

18 Is that a fair and sad statement, sir?

19 MR. PAUL CHERNICK: It is.

20 MR. BYRON WILLIAMS: Most economists  
21 would say that the United States economy is in a  
22 recession?

23 Fair enough?

24 MR. PAUL CHERNICK: Yes.

25 MR. BYRON WILLIAMS: And I'm not an

1 economist, but when -- I understand what a recession  
2 means is that an economy is not growing?

3                   Indeed, it's shrinking?

4                   MR. PAUL CHERNICK:    Yes.

5                   MR. BYRON WILLIAMS:   And at a time when  
6 the economy is shrinking, is it fair to say that there's  
7 a possibility that there'll be a reduced demand for  
8 certain commodities?

9                   MR. PAUL CHERNICK:    Yes, there has been  
10 already.

11                   MR. BYRON WILLIAMS:   And it's possible as  
12 well in a shrinking economy that there will be reduced  
13 demand for energy.

14                   Would that be fair, sir?

15

16                   (BRIEF PAUSE)

17

18                   MR. PAUL CHERNICK:    It's possible, and  
19 certainly there are, maybe, areas and sectors in which  
20 the demand for energy goes down.  It's pretty rare for a  
21 declining economy to -- to completely wipe out growth in  
22 electric demand.  But it can certainly bring it down to a  
23 very low level.  And obviously, in someplace like, you  
24 know, in -- in Michigan, what's going on with the -- the  
25 car companies could have a -- a very substantial effect

1 on their -- their loads.

2 MR. BYRON WILLIAMS: To the -- let's take  
3 that in two (2) parts. To the extent that it -- if  
4 demand is -- is growing, you're -- you're indicating to  
5 me that at a time of recession, it's certainly possible  
6 that demand can grow at a lower level than previously  
7 anticipated.

8 Is that fair?

9 MR. PAUL CHERNICK: Yes.

10 MR. BYRON WILLIAMS: And you're also  
11 saying that in certain circumstances, particularly hard-  
12 hit jurisdictions, demand for electrical energy may  
13 indeed fall.

14 Would that be fair?

15 MR. PAUL CHERNICK: Yes, that can happen.

16 MR. BYRON WILLIAMS: All other things  
17 being equal, and let's take your first example, assuming  
18 a slowdown in anticipated growth in revenue dema --  
19 demand, is it conceivable that prices for energy will be  
20 lower than at a time when the economy is -- is growing,  
21 or than compared to the expectations when the economy was  
22 growing faster?

23 MR. PAUL CHERNICK: Well, that certainly  
24 is the case if you look at -- at the price of -- of oil,  
25 which was a hundred and fifty dollars (\$150) a barrel a

1 few months ago and is fifty dollars (\$50) a barrel now.

2 MR. BYRON WILLIAMS: Earlier in the  
3 context of better pricing signals, you agreed that they  
4 are intended to have a beneficial effect on economic  
5 efficiency.

6 Is that fair?

7 MR. PAUL CHERNICK: That's correct.

8 MR. BYRON WILLIAMS: And it's your view,  
9 is it not, that when we have the price right, then  
10 society as a whole benefits through a greater allocative  
11 efficiency?

12 Would that be fair?

13 MR. PAUL CHERNICK: Yes, it's not a  
14 panacea by any means, but it helps people make better  
15 decisions for the economy as a whole.

16 MR. BYRON WILLIAMS: Just out of  
17 curiosity, does that thinking, in terms of getting the  
18 price right and benefiting society as a whole, apply to  
19 the provision of ba -- basic health services, such a  
20 doctor's visit or preserving essential or -- or life  
21 preserving medication?

22 MR. BILL GANGE: With respect, Mr.  
23 Chernick is not an expert in medical technology or  
24 medical procedures, that's an inappropriate question.

25

1 CONTINUED BY MR. BYRON WILLIAMS:

2 MR. BYRON WILLIAMS: Well, where I'm  
3 going at, Mr. Chernick and Mr. Gange, I'm trying to -- to  
4 understand how far Mr. Chernick takes the principle of --  
5 of the right price being of -- of ultimate benefit to  
6 society.

7 Mr. Chernick, can you conceive of  
8 situations where -- where society as a whole is better if  
9 prices are not right?

10 MR. PAUL CHERNICK: Yes. And -- and  
11 certainly in situations in which there are large  
12 externalities from not consuming the product, you -- you  
13 want to price below marginal cost. And that would be  
14 certainly the case for preventive and early intervention  
15 kind of care, that you actually wind-up saving money for  
16 everybody else by making the care free in the first  
17 place.

18 And then, there are also, you know,  
19 distributive issues, in terms of -- that -- that go  
20 beyond efficiency as a -- as a goal. And -- and when you  
21 start talking about distributive effesh -- efficiency, I  
22 got this uncomfortable feeling that you were addressing  
23 me as a hardcore economist, one (1) of those people who  
24 believes if you get prices right, then all must be right  
25 with the world and there's nothing else to do, and I'm

1 not in that camp.

2 But I -- so I -- I've mentioned and -- and  
3 we discussed earlier the issues, I think you call it  
4 affordability -- and my client has -- has been very  
5 interested in making sure that low income customers can  
6 get access to the -- the power that they need to have a  
7 safe and productive life, without having to forego other  
8 necessities.

9 MR. BYRON WILLIAMS: And just -- you --  
10 you anticipated, not necessarily on the affordability,  
11 but you anticipated my -- my line of questioning.

12 You've stated before that getting the  
13 price right is -- is not a panacea. Is that -- that  
14 right?

15 MR. PAUL CHERNICK: That's correct.

16 MR. BYRON WILLIAMS: And just to finish  
17 up the thought, you can conceive of circumstances where  
18 having the right price may not be to the net benefit of  
19 society.

20 Would that be fair?

21 MR. PAUL CHERNICK: Well, then, in a  
22 sense, it isn't the right price. But if you just add up  
23 the numbers that you can easily get your hands on, you  
24 may get the wrong answer.

25 Does that satisfy your needs for that

1 question?

2 MR. BYRON WILLIAMS: My needs are  
3 completely satisfied, Mr. Chernick, on that point.

4 Is it your view that if a company reduces  
5 production, when the cost of a subsidized input is raised  
6 to the market value, the effect is a net benefit?

7 MR. PAUL CHERNICK: Well, that's the  
8 first order effect; that if a company is taking  
9 electricity at three (3) cents and producing a good  
10 that's worth four (4) cents but the electricity could  
11 have been sold someplace else for seven (7) cents, then  
12 again, you know, at that -- at that highest level of  
13 abstraction, there's a lot of benefit by getting the  
14 seven (7) cents instead of the four (4) cents.

15 MR. BYRON WILLIAMS: And I was quoting  
16 your words back to -- as you -- as you understand, Mr.  
17 Chernick.

18 Those words sound familiar, that I quoted  
19 back to you?

20 MR. PAUL CHERNICK: Well, you sounded  
21 very clever, so they may have been my words.

22 MR. BYRON WILLIAMS: I thought so too.  
23 By subsidized rate, you mean less than the market rates  
24 when the -- when market rates are intended to include  
25 environmental costs.

1                   Is that what you mean by subsidized rates?

2                   MR. PAUL CHERNICK:    In this case, I meant  
3 compared to the market price.  You can -- I'm not sure  
4 that -- that -- that I would use the term subsidy for --  
5 as being synonymous with leaving out environmental  
6 externalities but you would certainly want to include the  
7 market portion of the environmental benefit; that is what  
8 you can get for the product.

9                   MR. BYRON WILLIAMS:   Going -- going back  
10 to your clever words, just so -- and if you're looking  
11 for them, they're in PUB --

12                   MR. PAUL CHERNICK:    It's the way you used  
13 them, sir.

14                   MR. BYRON WILLIAMS:    It's 8 sub A, just -  
15 - if you -- if you need them.  Just to make sure that I'm  
16 not misquoting you.

17                   MR. PAUL CHERNICK:    I'm sorry, what was  
18 the reference?

19                   MR. BYRON WILLIAMS:    PUB, Paul Chernick--

20                   MR. PAUL CHERNICK:    Yeah.

21                   MR. BYRON WILLIAMS:    -- Number 8 sub A.

22                   And the response again, just says if --  
23 I'm just reading the first part of it, Mr. Chernick.

24                    "If a company reduces production when  
25 the costs of a subsidized input is

1                   raised to the market value, the effect  
2                   is a net benefit."

3                   And I understand by what you mean by the  
4 word "subsidized" is that certainly goes to the market  
5 rate; it doesn't necessarily include environmental costs  
6 --

7                   MR. PAUL CHERNICK:     That's correct.

8                   MR. BYRON WILLIAMS:    Okay.  Just to  
9 understand how far you -- you apply this thinking --

10                  MR. PAUL CHERNICK:    Mm-hm.

11                  MR. BYRON WILLIAMS:    Would I be right in  
12 suggesting that you categorically reject the argument,  
13 for example, that industrial power rates at less than  
14 market rates might be a preferable tool for economic  
15 development, job growth, and growth in Manitoba, as  
16 compared to charging industrial consumers market rates?

17                         Would you reject that argument  
18 categorically, sir?

19                  MR. PAUL CHERNICK:    Well, I would reject  
20 that argument if there is another way of using the  
21 differential between embedded cost and marginal cost,  
22 between the heritage rate and the -- and the current  
23 market rate to encourage employment.  And in general, I  
24 suspect that it's much better to have those funds flowing  
25 through a mechanism that selects projects based on their

1 economic benefits to the province, rather than just  
2 giving it out to whoever shows up and wants to use a lot  
3 of electricity, because there isn't all that much  
4 correlation between the use of electricity and the  
5 benefit to the province.

6                   You can use a lot of electricity without  
7 creating a lot of jobs, or -- or training workers, or  
8 improving infrastructure. Or you can use relatively  
9 little electricity and do a lot of things that the  
10 province may want, and in the place where the province  
11 wants it.

12                   Now you can -- and many utilities and  
13 state agencies even do this in -- in various  
14 jurisdictions -- you could certainly use electric rates  
15 as one (1) way of flowing through an incentive by saying:  
16 Oh, this is a desirable project, as determined by the  
17 relative authorities. It's being located in a  
18 development area that's been designated by the province;  
19 it qualifies, and therefore, for every job that's  
20 created, we will give you so many kilowatt hours per year  
21 at a lower rate.

22                   That's not just a matter of handing out  
23 kilowatt hours because you're using kilowatt hours; it's  
24 handing out cheaper kilowatt hours because you're --  
25 you're qualified. And it could have a ca -- a cheque.

1 It could have been a hydro handing over some money to the  
2 province to build roads and other infrastructure to  
3 support this new enterprise.

4 It sort of doesn't matter how you do it,  
5 in many cases. And I'm familiar with a number of  
6 situations where utilities use electricity pricing in a  
7 very targeted way, but often not for all of the  
8 customer's usage, and hence, they're facing regular rates  
9 above some level.

10 MR. BYRON WILLIAMS: Given my client's  
11 agnosticism I'm being a fairly -- I'm certainly giving  
12 you a free reign, Mr. Chernick; I'm going to ask you to  
13 try and respond to this question more directly.

14 MR. PAUL CHERNICK: Okay.

15 MR. BYRON WILLIAMS: If we go to -- to  
16 what I understand to be your -- your proposal  
17 directionally, which is market based rates for at least  
18 some percentage of -- of current usage and with a  
19 declining baseline.

20 Are there any potential negative impacts  
21 of that, in terms of the province's economic growth or in  
22 terms of jobs that you could foresee from that?

23 MR. PAUL CHERNICK: Well, I suppose if  
24 Manitoba Hydro took that money and used it to decorate  
25 its offices with Italian marbles and fine European

1 paintings, then, you know, basically it goes in a rat  
2 hole, that could be the case. But assuming that the  
3 funds are recycled, in some way, with a reasonable amount  
4 of intelligence, I -- I think -- I'm reluctant -- to say  
5 it's impossible that it would have a ne -- negative  
6 effect, but I think it's unlikely.

7 MR. BYRON WILLIAMS: In terms of the  
8 specific companies just following that through, again,  
9 market rates and a declining base law -- baseline, excuse  
10 me, can you foresee any negative implications for any  
11 particular companies?

12 I know there's benefits you foresee, sir.  
13 I just want to understand, using your bright mind, if --  
14 if you can foresee any potential negative impacts.

15 MR. PAUL CHERNICK: Well, certainly for  
16 the companies. If you're looking at a decision about  
17 expanding production in Manitoba and facing a rate of  
18 four (4) cents, or doing it in the United States at -- at  
19 eight (8) or nine (9) cents, and the Manitoba rate is  
20 raised to seven and a half (7 1/2) cents, that's a  
21 negative effect on you.

22 And if there's an alternative someplace  
23 else at seven (7) cents and you expand the -- your  
24 production there instead, then there are some contractors  
25 that -- that would be providing you service in

1 construction of your new facility, and some people who  
2 would work there that wouldn't wind up with those  
3 particular opportunities. But there would be additional  
4 export revenues which could then be used by Hydro for  
5 other useful purposes.

6 MR. BYRON WILLIAMS: And just switching  
7 gears for a few more minutes. In the MISO market, do --  
8 is it your view that -- to the extent that you're aware,  
9 do current market rates adequately capture environmental  
10 costs?

11 MR. PAUL CHERNICK: No.

12 MR. BYRON WILLIAMS: Is it your view that  
13 in the MISO market, as it currently is, do they capture  
14 environmental cost to any significant degree at all, sir?

15 MR. PAUL CHERNICK: Well, yes, there's --  
16 there's certainly some effect from SO2 and NOx trading  
17 programs; from various other caps on pollution --  
18 pollution. And various utilities have incentives, or  
19 limits, or targets for reducing greenhouse gas emissions  
20 that would tend to increase the -- the value of hydro or  
21 wind based contracts. So there's some. But as we agreed  
22 earlier, it's not enough.

23 MR. BYRON WILLIAMS: Just, my clients  
24 have asked -- asked me to ask a question. Then I think  
25 we'll be finishing off.

1                   Let's just take the example of -- and it's  
2 not a very complex one, but I --

3                   MR. PAUL CHERNICK:    Mm-hm.

4                   MR. BYRON WILLIAMS:    Two (2) Manitoba  
5 customers, and -- and let's say that they're -- they're  
6 both very conscious of minimi -- minimizing their  
7 environmental footprint.  They do what you suggested to  
8 the Vice-Chairman, they -- they shut the thermostat down  
9 when they --

10                  MR. PAUL CHERNICK:    Okay.  We -- we're  
11 talking about two (2) residential customers?

12                  MR. BYRON WILLIAMS:    Yeah, exactly, sir.

13                  MR. PAUL CHERNICK:    Okay.  Mm-hm.

14                  MR. BYRON WILLIAMS:    I apologize for  
15 that.  They have the same energy usage pattern, the same  
16 size house, same utilities, no plasma TVs.

17                  MR. PAUL CHERNICK:    Mm-hm.

18                  MR. BYRON WILLIAMS:    They live in well  
19 insulated infill housing in -- in the urban core.  And  
20 let's assume that one of these customers has a high-  
21 efficiency electric -- electric furnace to heat their  
22 home, and the other one has a high-efficiency natural gas  
23 furnace to heat their home.

24                  In your view, is one (1) of these two (2)  
25 customers contributing more to greenhouse gas emissions

1 than the other?

2 MR. PAUL CHERNICK: Well, effectively,  
3 the one using the electric furnace is producing more  
4 greenhouse gases, because he's using up Manitoba Hydro's  
5 power that would otherwise be backing out natural-gas-  
6 fired power plants. They're less efficient than the gas  
7 furnace or backing down coal plants or allowing Manitoba  
8 Hydro to sign contracts that replace the need for -- for  
9 new coal and -- and gas plants.

10 So on the whole, I would say the -- in  
11 terms of greenhouse gasses, the gas is the -- the better  
12 fuel.

13 MR. BYRON WILLIAMS: You can understand  
14 how that might be counterintuitive to a -- a Manitoba  
15 consumer who is told that because they're using something  
16 that's more energy efficient, they are contributing to  
17 the greenhouse gas emissions of others?

18 MR. PAUL CHERNICK: Well, it's not  
19 because they're using something that's more efficient.  
20 They're using a limited resource. And energy supply, to  
21 some extent, is like a balloon. You -- you poke on it  
22 one place, and it bulges out someplace else.

23 And if Hydro's alternative was to dump the  
24 water over the dam, then a customer using the electricity  
25 for heat would -- would be -- would have a very small

1 global warming footprint.

2 But it's not -- it's my understanding  
3 that's not the case for most of the year.

4 MR. BYRON WILLIAMS: Just taking your  
5 conclusion one step further, given that -- your  
6 conclusion that electric customers in Manitoba are  
7 contributing more to greenhouse gas emissions, would --  
8 would you take that one step further and say that that  
9 greater contribution should be reflected in their prices,  
10 as compared to a -- a natural gas consumer, sir?

11 MR. PAUL CHERNICK: Well, that -- that's  
12 a -- that's a complicated issue. Certainly, you would at  
13 least want to include in the cost of the -- in the price  
14 being charged, at the margin -- for new customers, for  
15 customers who are thinking of switching to electric  
16 heating, for the marginal block of the customer's usage  
17 or something like that -- you'd want to be charging the  
18 full market price for the electricity, which reflects,  
19 just to the extent that carbon -- anticipated carbon, the  
20 trading is -- is incorporated, has had some effect on the  
21 -- on the price.

22 You -- and I -- I think you'd want the  
23 environmental attributes to inform judgment about rate  
24 design, and certainly to inform judgment about priorities  
25 in energy efficiency programs. But I'm not sure that

1 you'd want to just willy-nilly raise rates across the  
2 board to reflect what you think that global warming  
3 effects are.

4 I think some of the other prior -- the --  
5 the other considerations we talked about, the Board  
6 having to take into account, would mitigate against doing  
7 that.

8 MR. BYRON WILLIAMS: Mr. Chairman and  
9 members of the Board, thank you. And Mr. Gange, thank  
10 you for that latitude on that last question as we tried  
11 to figure out where Mr. Chernick was ultimately going.  
12 Thank you.

13 THE CHAIRPERSON: Thank you, Mr.  
14 Williams. We will take our afternoon break now. When we  
15 come back, we will move to Mr. Landry.

16  
17 --- Upon recessing at 2:34 p.m.

18 --- Upon resuming at 2:54 p.m.

19

20 THE CHAIRPERSON: Mr. Gange...?

21 MR. BILL GANGE: Thank you, Mr. Chair. I  
22 believe that Ms. Ramage would like to usurp my time for a  
23 couple of minutes, and that's fine with me.

24 THE CHAIRPERSON: I will give her a  
25 minute. Since the relocations occurred, it is more

1 difficult for her.

2 MS. PATTI RAMAGE: Yes, Mr. Chair, we  
3 distributed or -- and are still in the process of  
4 distributing Manitoba Hydro Undertaking Number 5. And I  
5 suggest that be marked Exhibit 18.

6

7 --- EXHIBIT NO. MH-18: Response to Undertaking 5

8

9 THE CHAIRPERSON: Eighteen it is.

10 MS. PATTI RAMAGE: There were also two  
11 (2) occasions during the Hearing where Manitoba Hydro  
12 didn't take a formal undertaking, but we did advise that  
13 we would get back to the Board, or subject to checks.  
14 One was with Mr. Dudar and one was Mr. Williams -- Mr.  
15 Wiens with Mr. Williams.

16 And maybe if I could turn the mic over to  
17 Mr. Wiens, he could respond to -- that was an exchange  
18 with Mr. Williams, I believe.

19

20 (BRIEF PAUSE)

21

22 MS. PATTI RAMAGE: I'm sorry, it was with  
23 Mr. Peters at transcript page 192 to 193.

24 MR. ROBIN WIENS: Yes, and the question  
25 had been with specific reference to tables that appeared

1 in the 2005/'06 and 2006/'07 load forecasts, identified  
2 as Table 10. And they were, I believe, some historical  
3 and some forecast information for industrial sectors and  
4 aggregated, as well as -- as well as commercial and  
5 residential sectors aggregated.

6 And I believe the question was, Are those  
7 forecasts, are those aggregations available for '07/'08  
8 and '08/'09 in -- in the respective load forecasts that  
9 were produced in those years?

10 And the response is no, they're not. The  
11 reason is that in the intervening period between the last  
12 forecast for which they were available and these two (2)  
13 load forecasts for which the request was made is that  
14 Manitoba Hydro's billing system changed. And along with  
15 that change, the capability to construct those tables was  
16 lost.

17 I'm informed that our load forecasting  
18 people are attempting to reconstruct that, but it will  
19 not be available for either of those two (2) forecasts,  
20 '07/'08 and '08/'09.

21 THE CHAIRPERSON: Thank you, Mr. Wiens.

22 MS. PATTI RAMAGE: Okay. And if I could  
23 also -- there was another subject to check on page 251 of  
24 the transcript, and that was an exchange with Mr. Peters  
25 and Mr. Dudar regarding the -- regarding DSM measures.

1                   And I believe Mr. Peters indicated that  
2 the best determination he could make from the record was  
3 there was approximately 336 gigawatt hours a year of  
4 credits being given.

5                   Mr. Dudar took that subject to check, and  
6 I think he'd like to elaborate on his checking.

7                   MR. MICHAEL DUDAR:    That's correct.  I  
8 can confirm that the --the DSM credits are 336 gigawatt  
9 hours for all GSL customers served at voltages over 30 kV  
10 and consuming more than 100 gigawatt hours in energy.

11                  THE CHAIRPERSON:    Thank you, Mr. Dudar.  
12                                        Ms. Ramage, is that it?

13                  MS. PATTI RAMAGE:    That is it, and I  
14 believe now Manitoba Hydro has responded to all of the  
15 undertakings that have been provided in the Hearing.

16                  THE CHAIRPERSON:    Very good, thank you  
17 very much.

18                                        Okay, we are back to you, Mr. Gange.

19  
20                                        (BRIEF PAUSE)

21  
22                  THE CHAIRPERSON:    Mr. Landry...?

23                  MR. JOHN LANDRY:    Thank you, sir.  And  
24 MIPUG has no questions.

25                  THE CHAIRPERSON:    That was certainly

1 short.

2

3

(BRIEF PAUSE)

4

5

THE CHAIRPERSON: We were afraid you had gone for coffee or something.

6

7

MS. PATTIE RAMAGE: Well, Mr. Landry threw me with that one, and I had left my notes in the back room.

8

9

10

11

CROSS-EXAMINATION BY MS. PATTIE RAMAGE:

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MS. PATTIE RAMAGE: Mr. Chernick, you had a discussion with Mr. Williams, where you indicated at some point in time the Board will have to decide what to do with the additional revenues from the energy-intensive rate?

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MR. PAUL CHERNICK: Yes.

MS. PATTIE RAMAGE: Now, you don't disagree that Manitoba Hydro's proposal is designed, while intended to be revenue neutral on an individual customer basis, is also intended to be revenue neutral on a system-wide, or more specifically, as between domestic and export customers.

Is that your understanding?

MR. PAUL CHERNICK: Well, revenue neutral

1 in the sense that the revenue's coming in, whether sold  
2 domestically or -- or for export would be the same, yes.

3 MS. PATTIE RAMAGE: So the idea is when a  
4 domestic customer uses energy at the Tier 2 rate, the  
5 funds collected will offset the moneys not collected from  
6 our export customers.

7 Is that correct?

8 MR. PAUL CHERNICK: That's correct.

9 MS. PATTIE RAMAGE: And your evidence is  
10 that Manitoba Hydro's proposal to base that Tier 2 rate  
11 on the two (2) year historical value in fact undervalues  
12 the two (2) tier energy.

13 Is that also correct?

14 MR. PAUL CHERNICK: Yes.

15 MS. PATTIE RAMAGE: So I'm just confused  
16 on where the additional revenues that you talked about  
17 would be coming from --

18 MR. PAUL CHERNICK: All right.

19 MS. PATTIE RAMAGE: -- if you can maybe  
20 elaborate?

21 MR. PAUL CHERNICK: I -- I'm sorry,  
22 things are -- do get a little vague, because the -- the  
23 proposal I'm talking about it not always the same as --  
24 as the one that Manitoba Hydro put forward, since I'm  
25 talking about a -- a higher second block rate and a

1 declining baseline.

2                   So some of the -- the sales that otherwise  
3 would have been made at the -- or and have historically  
4 been made at heritage embedded rates would be made at  
5 marginal cost rates. So in that situation, there would  
6 additional revenues.

7                   MS. PATTIE RAMAGE: You're going to have  
8 to help me there.

9                   Are you -- are you, when you say that,  
10 talking about what I call the individual customer revenue  
11 neutrality, where you lower the Tier 1 rate and raise the  
12 Tier 2 rate?

13                   Or is it a different --

14                   MR. PAUL CHERNICK: No, I'm -- I'm  
15 talking about a situation in which the -- you keep the  
16 Tier 1 rate the same and lower the baseline and have some  
17 additional revenues at the higher Tier 2 rate.

18                   But you're -- you're correct that, for the  
19 most part, the revenues that -- that Hydro collects would  
20 either be collected from the -- the same revenues would  
21 be collected either from the export market or from the --  
22 the large industrial customer.

23                   MS. PATTIE RAMAGE: Thank you on that.

24                   Another question I had for you, with  
25 respect to the marginal rate, if we could, perhaps for a

1 moment, set aside our differences on the -- on the  
2 retrospective versus the prospective rate.

3                   Would you agree that provision of power to  
4 a domestic industrial customer most closely resembles a  
5 long-term firm sale from dependable resources, as opposed  
6 to, for example, an opportunity sale?

7                   MR. PAUL CHERNICK: Yes, although it's  
8 actually a better deal for the customer, because the  
9 customer can take what the customer wants and is not  
10 obligated to take power in your long-term firm sales, as  
11 I understand it. The customer has to take the power at  
12 the stipulated price.

13                   So in some ways, it's an even better deal  
14 for the buyer than your export sales, but they're fairly  
15 close analogies.

16                   MR. PAUL CHERNICK: Okay, thank you. And  
17 if I could just have one moment to consult.

18

19                   (BRIEF PAUSE)

20

21                   MS. PATTI RAMAGE: That, Mr. Chairman,  
22 is, I think everything Manitoba Hydro has for Mr. -- did  
23 I say Mr. Chairman or Mr. Chernick.

24                   Mr. Chairman, that's all we have for Mr.  
25 Chernick.

1 THE CHAIRPERSON: Yes, they both covered  
2 both things.

3 Mr. Peters, we are over to you.  
4

5 CROSS-EXAMINATION BY MR. BOB PETERS:

6 MR. BOB PETERS: Thank you, Mr. Chairman,  
7 Board Members. Good afternoon, Mr. Chernick.

8 MR. PAUL CHERNICK: Good afternoon.

9 MR. BOB PETERS: on behalf of the Board,  
10 I have some questions for you and I'll attempt not to  
11 repeat the questions that I had that were asked by  
12 others.

13 Would you agree with me, Mr. Chernick,  
14 that your evidence in summary form would be that Manitoba  
15 Hydro's energy intensive industry rate is a small step in  
16 the right direction, but much more should be done?

17 MR. PAUL CHERNICK: Yes. And I would say  
18 it should be bit -- done better in that first step.

19 MR. BOB PETERS: You're saying that  
20 Manitoba Hydro didn't even get it right in their energy  
21 intensive industry rate; they could have done -- could  
22 have done better?

23 MR. PAUL CHERNICK: Well, I think you've  
24 said it a littler harsher than I would. But, yes, that -  
25 - I do have some suggestions for improving the first

1 step.

2 MR. BOB PETERS: All right. And your  
3 concern, sir, would it be correct to summarize it as you  
4 want more to be done in the sending of price signals for  
5 energy efficiency; that's the focus of -- of your  
6 recommendations?

7 MR. PAUL CHERNICK: There's energy  
8 efficiency, there's locational decisions, there's -- and  
9 for energy efficiency I guess there's both the -- the  
10 investment side and the housekeeping side. So, yes, all  
11 of those things.

12 MR. BOB PETERS: And part of it is that  
13 you've now heard that there are probably three (3) or  
14 four (4) customers that will be targeted by the new rate  
15 and you think it should have broader application,  
16 correct?

17 MR. PAUL CHERNICK: Yes.

18 MR. BOB PETERS: Would I also be correct  
19 that your focus is not so much on the revenue recovery  
20 for any loss of export opportunities, but yours is more  
21 revenue recovery through sending efficient price signals,  
22 which will generate more export opportunities?

23 MR. PAUL CHERNICK: I'm not sure I  
24 understand the difference between those two (2). I see  
25 it pretty much as a -- a whole. If not for the -- the

1 export opportunities there probably wouldn't be anything  
2 wrong with the existing price signals.

3 MR. BOB PETERS: You don't know whether  
4 any of the three (3) or four (4) customers are going to  
5 forego using the forecast growth energy so that Manitoba  
6 Hydro can -- can export it? You don't -- you don't know  
7 that? Nobody knows that?

8 MR. PAUL CHERNICK: I -- that's -- that's  
9 correct. And -- and either they will forego it and  
10 Manitoba Hydro and its customers have not taken that loss  
11 by selling power below market prices, or they do take it  
12 and, more or less, Manitoba Hydro gets similar revenues  
13 in either case.

14 MR. BOB PETERS: And if there was a  
15 stronger price signal to more customers that would lead  
16 to energy efficiency and conservation measures, that too  
17 would mean more energy available to Manitoba Hydro for  
18 exports and the revenue that would be gained by that?

19 MR. PAUL CHERNICK: Yes.

20 MR. BOB PETERS: Is the price signal  
21 we're talking about simply a higher price for the second  
22 block? That's the signal that you think should be sent  
23 to more customers?

24 MR. PAUL CHERNICK: That's the -- the one  
25 that's of immediate concern here, there -- where there's

1 also been some discussion about time of use rates,  
2 including in my testimony, but the primary one is the  
3 inclining block.

4 MR. BOB PETERS: I noted in your  
5 evidence, and I take it that you agreed with the Board in  
6 its Order, I think it was 117/'06, where it talked about  
7 the potential virtuous circle. Remember that?

8 MR. PAUL CHERNICK: Yes.

9 MR. BOB PETERS: And energy efficiency  
10 would lead to lower domestic consumption, which would  
11 lead to lower domestic customer bills, which would lead  
12 to higher aggregate net export revenue for the Utility,  
13 and that would lead to lower carbon emissions by US  
14 customers?

15 MR. PAUL CHERNICK: Yes.

16 MR. BOB PETERS: And the premise of that  
17 circle is that energy efficiency is the starting point,  
18 correct?

19 MR. PAUL CHERNICK: Well, sort of a  
20 chicken-egg problem. Energy efficiency could be one (1)  
21 starting point. The rate design and price signals could  
22 -- is another way of thinking about a starting point.  
23 They -- they all -- they're being -- they're happening  
24 simultaneously.

25 MR. BOB PETERS: But the rate design is

1 the price signal that leads to energy efficiency in your  
2 -- in your evidence?

3 MR. PAUL CHERNICK: Right.

4

5 (BRIEF PAUSE)

6

7 MR. BOB PETERS: When we deal with the  
8 second block energy price that you talked about, your  
9 first criticism of Manitoba Hydro's rate is that they got  
10 the -- the proxy wrong.

11 MR. PAUL CHERNICK: Yes.

12 MR. BOB PETERS: And you've said in your  
13 direct evidence, and also to Mr. Williams in cross-  
14 examination, that you'd rather look forward, rather than  
15 backwards, to set the proxy?

16 MR. PAUL CHERNICK: Yes, and I think to  
17 some extent, Hydro has agreed with me about that.

18 MR. BOB PETERS: But Hydro hasn't agreed  
19 to share with the public or on the public record the --  
20 the terms of its contractual sales going forward?

21 MR. PAUL CHERNICK: That's correct.

22 MR. BOB PETERS: And in terms of the  
23 contractual sales that Manitoba Hydro has used to form  
24 the basis of the proposed rate, in fact only two (2) or  
25 three (3) of the -- their long-term contracts were signed

1 before 2000 that are used to -- to come up with their  
2 rate?

3 MR. PAUL CHERNICK: I don't have that  
4 information readily to hand, but that may very well be  
5 true.

6 MR. BOB PETERS: I take it from the  
7 jurisdictions that you are also familiar with, the  
8 utilities readily put their export agreements on the  
9 public record?

10 MR. PAUL CHERNICK: That varies.  
11 Sometimes there's a considerable lag about the -- in  
12 terms of contract details being released. Sometimes  
13 there are limits to what details are released.  
14 Certainly, I can't think of a situation in which a  
15 utility has not shared that information with its  
16 regulators and in...

17 Offhand, I can't think of a situation  
18 where there haven't been some other parties also who are  
19 -- who are given access to the information. In some  
20 cases, it's kept confidential in the sense that other  
21 market participants -- power producers, other utilities -  
22 - aren't given access to the data, but some consumer  
23 representatives, and certainly the regulators, have  
24 access to the data.

25 MR. BOB PETERS: But all parties agree

1 not to publish information that would track back to the  
2 utilities' export contract?

3 MR. PAUL CHERNICK: In that, again, the  
4 level of detail that's confidential varies from  
5 jurisdiction to jurisdiction and -- and one situation to  
6 another. But in -- and there -- there are often specific  
7 confidentiality agreements among the parties regarding  
8 specific documents.

9 And often you wind up seeing some kind of  
10 aggregated data that leaves out some of the -- the key  
11 provisions that are considered to be -- or merges those  
12 in. The things about the -- the treatment of -- of  
13 outages and availability and replacement power and  
14 various other complications that -- that may be very  
15 important in terms of the contractual arrangement, but  
16 may not be particularly important in terms of ask --  
17 asking, What's the reference price here?

18 MR. BOB PETERS: Unless you were able to  
19 compare previous contracts with the current or soon-to-be  
20 finalized contracts of the utility, you wouldn't be able  
21 to determine what the differences in expected price would  
22 be?

23 MR. PAUL CHERNICK: I wouldn't be able to  
24 review the Manitoba Hydro summary of their -- their  
25 forecast. If that's what you mean, that's correct.

1                   MR. BOB PETERS:    I want to turn with you,  
2 Mr. Chernick, to the issue of transmission constraints.  
3 And you did provide an answer to questions advanced on  
4 behalf of the Public Utilities Board, and you also  
5 provided some -- some graphs. And in addition to that,  
6 you also provided some -- some commentary.

7                   And one of the comment -- comments you  
8 make is that -- if I understand it correctly, in your  
9 response to PUB Question Number 1B, you suggest that  
10 Manitoba Hydro has actual summer peak flows that are a  
11 couple of hundred megawatts less than the scheduled  
12 flows, and 4 to 600 megawatts lower than the interface  
13 capability.

14                   Do you recall that statement?

15                   MR. PAUL CHERNICK:    Yes.

16                   MR. BOB PETERS:    Is that statement still  
17 accurate in light of the evidence you've heard from the  
18 utility?

19

20                                   (BRIEF PAUSE)

21

22                   MR. PAUL CHERNICK:    The -- as I  
23 understand it, the firm transfer limit from Manitoba to  
24 US MISO was given as 2,014 megawatts. And hence, the  
25 realtime flows look to be on the order of 350 or 400

1 megawatts below the -- the limit in the summer on-peak  
2 periods.

3 MR. BOB PETERS: And I'm going to try to  
4 work through your counsel on this. But Manitoba Hydro,  
5 and through the good graces of Mr. Cormie, filed Manitoba  
6 Hydro Exhibit Number 7. It was one of many charts that  
7 had a -- had a curve marked on it.

8 Do you remember seeing those, or does your  
9 counsel?

10 MR. PAUL CHERNICK: Yes, I have 8 and 9  
11 with me; I don't have 7 at the moment.

12 MR. BOB PETERS: Well, let's use -- let's  
13 use the one you have.

14 MR. PAUL CHERNICK: Okay; 8 represents  
15 average water, if that's...

16 MR. BOB PETERS: It wasn't the water  
17 flows I wanted to use. It was the -- the narrative on  
18 the -- on the actual chart.

19 And I think the number you just put on the  
20 record in the second-last answer to me was incorrect,  
21 sir, that the firm export capability to the MISO market  
22 appears to be 1,814 megawatts. Would you agree with  
23 that?

24 And I'm looking right in the middle of  
25 Exhibit 8, right in the middle of the page.

1                   MR. PAUL CHERNICK:    Yes, I -- I see that  
2    it's -- and that may be consistent with what the Hydro  
3    panel said earlier.  I did not take very careful notes as  
4    -- I was jotting things down.  But perhaps it was the  
5    firm and non-firm is 2,014.

6                   MR. BOB PETERS:    All right.  And I think  
7    your counsel asked those very questions of -- of the  
8    witnesses this morning for Manitoba Hydro.

9                   MR. PAUL CHERNICK:    Yes.

10                  MR. BOB PETERS:    If -- if those numbers  
11    that we have now on Exhibit 8, for example, are the --  
12    are the corrected numbers -- or the correct numbers, it's  
13    still your view that Manitoba Hydro was underutilising  
14    their firm capacity for summer peak exports to the United  
15    States?

16                  MR. PAUL CHERNICK:    Well, it depends on  
17    what you mean by "underutilising."  I mean, I assume that  
18    they're doing their best to be efficient about it.  I'm  
19    not criticising their performance.

20                  MR. BOB PETERS:    Well, you are -- you're  
21    sug -- well, let me take issue with that, sir.  You're --  
22    you're saying that there's 4 to 600 megawatts more  
23    interface capability than they're using.

24                                    Have I got that right?

25                  MR. PAUL CHERNICK:    Yes.

1                   MR. BOB PETERS:    And if they're not using  
2 all of the interface capability that they have, then  
3 maybe -- and I'm not going to use Mr. Cormie's words, but  
4 to the effect -- why would they -- why would they use and  
5 make opportunity sales when they have more on-peak  
6 capacity in the summer?

7                   MR. PAUL CHERNICK:   I -- I'm sorry, I  
8 didn't quite follow the -- the question.  Maybe it would  
9 help if -- if I tried to answer the question about the --  
10 the numbers.  And it looks like -- I'm sorry I didn't  
11 have more time to prepare a more readable exhibit here,  
12 but it looks like there's -- there's some headroom during  
13 the summer months.

14                   Now, maybe it's one (1) to two hundred  
15 (200), rather than the three (3) or four hundred (400) we  
16 were talking about before, even at the eighteen hundred  
17 (1,800).  And remember, these are realtime exports, so  
18 some of this would be non-firm exports, as well.  So you  
19 shouldn't be comparing the export level shown here to the  
20 eighteen fourteen (1814), you'd think that they'd be  
21 making both firm and non-firm, doing firm and non-firm  
22 transactions, given the high prices in the on-peak in the  
23 summer and in the winter.

24                   So I -- I think that was one (1) of the  
25 questions you asked and there's a little headroom.

1 There's not as much as I thought, based on the fact that  
2 there are higher exports scheduled and, in fact, there  
3 are higher real-time exports that actually occur in some  
4 hours. But if you want to look at just the firm, there's  
5 -- there's not a lot of -- of additional room there.

6 Now you -- you asked another question  
7 about opportunity sales and I'm not quite sure.

8 MR. BOB PETERS: Well, if -- if as you  
9 propose and suggest, Mr. Chernick, that there is headroom  
10 to export more summer peak than is presently being done,  
11 why would Manitoba Hydro be exporting as much as they do  
12 off-peak? And why wouldn't they transfer some of that  
13 off-peak to on-peak if they weren't constrained?

14 MR. PAUL CHERNICK: I can't really tell  
15 you. I mean, certainly it does look like in -- in some  
16 months they're selling more in the off-peak than the on-  
17 peak. And that could be because in the on-peak they have  
18 generation constraints. I -- I really don't know. You'd  
19 have to -- to ask the company that.

20 MR. BOB PETERS: Before I leave this,  
21 what do you -- what did you calculate as being Manitoba  
22 Hydro's maximum firm capacity to MISO? What number did  
23 you use?

24 MR. PAUL CHERNICK: Well, it -- I didn't  
25 use a number. I was talking about, you know, rough

1 numbers and it looked like they were -- at times they  
2 were scheduling on the order of twenty-two hundred  
3 (2,200).

4                   And remember, I also looked at the hourly  
5 data when -- when I was writing this up. These are  
6 averages over the entire month that you're seeing here.  
7 So, if I take the --

8                   MR. BOB PETERS: I take it your -- I'm  
9 sorry.

10                   MR. PAUL CHERNICK: The -- the numbers  
11 were -- were well above two thousand (2,000) in terms of  
12 the maximum actual flows that I was seeing, which doesn't  
13 really seem consistent with the two thousand fourteen  
14 (2,014) transfer limit.

15                   But again, these --

16                   MR. BOB PETERS: Thank you.

17                   MR. PAUL CHERNICK: -- these things vary  
18 over time. So what is a -- there may be a notional  
19 transfer limit, which is a pretty good rule of thumb, but  
20 there may be times when you can transfer more.

21

22                   (BRIEF PAUSE)

23

24                   MR. BOB PETERS: The numbers you've used  
25 on your charts, Mr. Chernick, are average monthly

1 numbers, correct, for each hour?

2 MR. PAUL CHERNICK: Right.

3 MR. BOB PETERS: So -- so in addition to  
4 those averages there will be peaks, there will be valleys  
5 in terms of the specific individual days of the month for  
6 that particular hour?

7 MR. PAUL CHERNICK: Yes.

8 MR. BOB PETERS: And if there's peaks  
9 those peaks would take your numbers even higher than you  
10 show on your -- on your graphs?

11 MR. PAUL CHERNICK: That's correct.

12 MR. BOB PETERS: And that further  
13 suggests then that Manitoba Hydro is well above its two  
14 thousand fourteen (2,014) megawatt capacity to MISO?

15 MR. PAUL CHERNICK: That's -- no. It  
16 means that the capacity is higher than two thousand  
17 fourteen (2,014), if in fact they're exporting more than  
18 that in some hours.

19 MR. BOB PETERS: I think I was trying to  
20 ask the same question. But so what you then find is  
21 Manitoba Hydro, your -- your graphs -- because they're  
22 averages don't show the highs and the lows?

23 MR. PAUL CHERNICK: That's correct.

24 MR. BOB PETERS: And on the high -- on  
25 the day -- the days of the month when that hour is the

1 highest, that could be representative of a constraint on  
2 the tie-line?

3 MR. PAUL CHERNICK: When it's -- when the  
4 exports are highest?

5 MR. BOB PETERS: No, when the -- when the  
6 exports are highest for that particular hour --

7 MR. PAUL CHERNICK: Oh, oh, that might,  
8 in fact, be the tie-line limit, yes. That -- that's the  
9 normal limit on the tie-line would -- would -- might very  
10 well be the highest hourly transfer.

11 MR. BOB PETERS: And if I look at your  
12 graphs and if -- if the -- if the capacity limit is  
13 closer to 2,014 megawatts, how do you explain your lines  
14 on the graph for those months that exceed the two  
15 thousand and fourteen (2,014)?

16 MR. PAUL CHERNICK: I'm sorry. The two  
17 thousand fourteen (2,014) is not my number and I really  
18 don't know what it means and, like I say, you'd have to  
19 ask the -- ask Hydro and I -- I'd be interested in -- in  
20 the information, as well.

21

22 (BRIEF PAUSE)

23

24 MR. BOB PETERS: Mr. Chernick, I'm not  
25 sure if you told me but what was the source of your data

1 points to put on your charges for the MISO  
2 interconnection and the flows to MISO?

3 MR. PAUL CHERNICK: For each -- I'm  
4 trying to get this right. I think it's for each day,  
5 MISO creates a document that, as I say on page 2, the --  
6 oh, I'm sorry, that's the Planning Constraints Report.  
7 Never mind.

8 It's the -- okay -- it's the Interchange  
9 Summary Report which is also a daily report which gives  
10 the hourly flow across a number of interfaces, both  
11 within MISO and between MISO and external systems.

12 MR. BOB PETERS: Did you compare it, sir,  
13 with the information that Manitoba Hydro provided in  
14 response to Information Request PUB/Manitoba Hydro-16A?

15 MR. PAUL CHERNICK: Let me get to that  
16 and I'll let you know.

17 MR. BOB PETERS: My question was whether  
18 you compared the MISO --

19 MR. PAUL CHERNICK: Yeah, I --

20 MR. BOB PETERS: -- interchange summary  
21 with -- with the information provided by Manitoba Hydro  
22 in PUB/Manitoba Hydro-16A.

23 MR. PAUL CHERNICK: Right and -- and I  
24 need to take a look at 16A to see what it was.

25 MR. BOB PETERS: Of course, and I --

1                   MR. PAUL CHERNICK:    These are -- oh, no,  
2 I did not add up the megawatt hours to see whether they  
3 matched.

4                   MR. BOB PETERS:    And do you know whether  
5 your information from MISO contains energy that was  
6 actually physically delivered or does it also include any  
7 financially settled transactions?

8                   MR. PAUL CHERNICK:    It's my understanding  
9 that this is a physical transaction report. This is  
10 related to the operation of the transmissions system.  
11 Financial settlements between parties would not even come  
12 to MISO's attention for the most party.

13                   MR. BOB PETERS:    Thank you. Mr.  
14 Chernick, also in your evidence, you provided an  
15 attachment, PUB/PC-1A, and that was in response to  
16 Information Request PUB to Paul Chernick 1C, and you can  
17 turn to it if you -- if you require.

18                   MR. PAUL CHERNICK:    Yeah.

19                   MR. BOB PETERS:    It would be -- it would  
20 be -- and this isn't meant disparagingly but it's -- it's  
21 like a crossword puzzle. That's what it would remind you  
22 of at first blush. You found that?

23                   MR. PAUL CHERNICK:    I -- I -- yeah, I  
24 thought it looked actually more like a very old video  
25 game and the invaders should be coming down the screen at

1 you but... Yes, I -- sorry about the aesthetics.

2 MR. BOB PETERS: No, no --

3 MR. PAUL CHERNICK: Like I say, I didn't  
4 have a lot of time for graphic design here.

5 MR. BOB PETERS: Can you tell the Board  
6 what capacity was employed to define the constrained  
7 hours in the 7:00 a.m. -- sorry, the 11:00 a.m. -- sorry,  
8 the 7:00 a.m. to 11:00 p.m. period?

9 MR. PAUL CHERNICK: No, I can't and that  
10 would be different at different times. These are the  
11 hours in which the Manitoba zone had a different price  
12 than the rest of MISO, in which there was a transmission  
13 constraint, and power from -- additional power from  
14 Manitoba could not flow to MISO US.

15 So that -- that could mean that there are  
16 2,000 megawatts flowing and there's a 2,000 megawatt  
17 limit, or that something is out of operation and --  
18 either a tie-line is down or some generator is down,  
19 which changes the impedance and all that other magical  
20 electrical engineering stuff on the transmission system,  
21 and the limit is 1,500 megawatts and the flow is 1,500  
22 megawatts.

23 As -- you see a lot of constraints in the  
24 -- in the spring, and often in blocks, and I suspect that  
25 those are -- are outages, rather than very high flows.

1 This report does not provide the flows and I didn't try  
2 matching them up.

3 MR. BOB PETERS: And this is that there  
4 were no flows provided for any other time periods of the  
5 day?

6 MR. PAUL CHERNICK: Not -- not in this  
7 constrained -- the constraints report that -- that I cite  
8 in the text of the response. This is -- this simply  
9 reports for each hour in which a -- in this case, the  
10 Manitoba zone separates from the rest of MISO when the  
11 prices are different.

12 And they do tell you the difference in  
13 price, and sometimes it's a dollar a megawatt hour and  
14 sometimes it's five dollars a megawatt hour, but they --  
15 they don't tell you what the flows are or what the  
16 capacity of the interface is at that time.

17 MR. BOB PETERS: Can the Board look at  
18 what you've provided, sir, and determine whether there  
19 were different off-peak capacities compared to on-peak  
20 capacities?

21 MR. PAUL CHERNICK: No.

22 MR. BOB PETERS: That's because you can't  
23 tell from the chart, correct?

24 MR. PAUL CHERNICK: You can't tell from  
25 the chart and -- and you couldn't tell from these

1 reports.

2 MR. BOB PETERS: And there's no data that  
3 underlies it that you get the actual number of -- the  
4 capacity number.

5 MR. PAUL CHERNICK: That's right.

6 MR. BOB PETERS: And would I also be  
7 correct that you did not compare these constrained hours  
8 with the actual energy exports that Manitoba Hydro made  
9 during those time periods, again, perhaps as depicted  
10 best in PUB Manitoba Hydro question 16A?

11 MR. PAUL CHERNICK: Well, there's nothing  
12 in this report that could be directly compared. There is  
13 in the other report. I could have added up the hours  
14 that the -- the megawatt hours by month.

15 Actually, I'm not even -- I'm not sure  
16 whether that matches or not. I don't know whether there  
17 are generators physically or electrically located in  
18 Manitoba who sell outside of Manitoba. So without  
19 confirming that, I -- I don't even know whether these  
20 numbers ought to match.

21 I thought about providing the entire  
22 database to you, but it's about 6 megabytes, and I  
23 thought that might be a little much to put in a discovery  
24 response at the last minute.

25 MR. BOB PETERS: Is that from the MISO

1 website or is that as a result of a private subscription?

2 MR. PAUL CHERNICK: That's -- it's data  
3 from the MISO website, but it's daily day -- each file is  
4 for one day, so you have to combine 366 files to create  
5 the full database, and then you have to manipulate it  
6 into a form that's usable.

7 MR. BOB PETERS: I want to turn to a  
8 different topic with you, Mr. Chernick, and -- and it has  
9 to do with your suggestion in your evidence, that Hydro  
10 can be a tool for economic development, do you remember  
11 saying that?

12 MR. PAUL CHERNICK: I -- I may have, in  
13 some context.

14 MR. BOB PETERS: Maybe check page 10 if  
15 you're looking for the context of your pre-filed  
16 evidence.

17

18 (BRIEF PAUSE)

19

20 MR. PAUL CHERNICK: Yes.

21 THE CHAIRPERSON: And today you testified  
22 that excess revenues, in a sense, could be potentially  
23 used for economic development.

24 MR. PAUL CHERNICK: Yes.

25

1 CONTINUED BY MR. BOB PETERS:

2 MR. BOB PETERS: And I want to explore  
3 that in light of your questions and answers -- sorry, the  
4 questions of Ms. Ramage and your answers. In essence, I  
5 took your evidence to suggest that the -- the revenues  
6 Manitoba Hydro gains from this energy intensive industry  
7 rate could be put to specific economic development use.

8 MR. PAUL CHERNICK: If that's the desire  
9 of the Board, yes.

10 MR. BOB PETERS: And would your  
11 expectation be that it would be Manitoba Hydro that would  
12 put the monies to use or would it be monies that would be  
13 transferred to the province so they could do that?

14 MR. PAUL CHERNICK: That gets into a  
15 bunch of legal and administrative and technical issues  
16 that I am not familiar enough with to offer an opinion.  
17 In some places, an appropriate agency would, for example,  
18 identify an enterprise zone in which businesses are being  
19 encouraged and subsidized to locate; would certify a  
20 business is complying; would certify that they're likely  
21 to have so many employees and that they need the  
22 assistance and basically tell the utility, give them a  
23 break of X thousand dollars per year on their electric  
24 bill and then the utility just implements that for the  
25 target customers.

1                   There are other places where the utility  
2 takes more of that responsibility and reports to its  
3 regulator on -- on what its doing, how its using those  
4 funds.

5                   The political and legal and other  
6 conditions vary from place to place. Some places, you  
7 would trust the -- the government more to handle those  
8 decisions and other places, it might be the utility. As  
9 you may have noticed in the events in Illinois, you can't  
10 always trust anybody.

11                   But anyway, there are -- different  
12 approaches have been used in different places and it  
13 really depends upon a number of factors. For example,  
14 there are places where -- there are states where if the  
15 utility were to turn the money over to a state agency for  
16 even a minute, it would require legislative approval for  
17 them to spend that money in a designated way to hand out  
18 a cheque to a -- and there will be all kinds of state-  
19 related requirements on that.

20                   I don't know what -- what the situation is  
21 in Manitoba and there may -- very -- very good -- there  
22 may be very good practical reasons for Manitoba Hydro to  
23 actually hand out the incentive in whatever form it -- it  
24 takes, but at the direction of a government agency.

25                   MR. BOB PETERS:     In essence --

1                   MR. ROBERT MAYER:    Mr. Chernick, just --  
2   the word I haven't heard yet in all this discussion is  
3   the term "dividend".  As you know, Manitoba Hydro is a  
4   Crown corporation.

5                   All the shares are held, I believe, by the  
6   Minister of Finance at the present time.  It seems to me  
7   that one way to move that money around is by payment of a  
8   dividend to the shareholder.

9                   MR. PAUL CHERNICK:    And that certainly is  
10  an option and that could be part of the process of using  
11  some of the funds for -- for economic development  
12  indirectly.  It could be -- the funds could just go into  
13  the general budget.  That's a decision for the government  
14  and the Board in various ways to be making.

15                  And I have not tried, other than my  
16  specific interests in efficiency and the suggestion that  
17  if you have money lying around, there are probably ways  
18  to use it that would reduce sales to -- and increase the  
19  amount of power available for export sales, I haven't  
20  generally tried to prescribe specific uses for -- for the  
21  funds.

22                  But if the Board is concerned about  
23  economic development, then there are ways of funnelling  
24  the money back into economic development.

25

1 CONTINUED BY MR. BOB PETERS:

2 MR. BOB PETERS: Is one of the risks that  
3 you run in that scenario of using Hydro for economic  
4 development, specifically with this rate that's before  
5 the Board, that you are in essence dampening the growth  
6 of existing Manitoba industry to create funds that can be  
7 used to try to attract other industry to Manitoba?

8 MR. PAUL CHERNICK: Well, I guess -- you  
9 know, you can make a mess out of almost any program and -  
10 - and so when you say, is there a risk, of course,  
11 there's -- there's some risk but I'm not suggesting it  
12 has to be a new industry. There are certainly situations  
13 in which various governmental entities have identified  
14 that an existing industry, often an old one that's --  
15 that's having a hard time hanging on in -- in a  
16 traditional area, deserves some help and would really  
17 benefit from it, and there would be big benefits to the  
18 local community, and has directed economic development  
19 funds towards retaining and improving that industry.

20 So, I -- I don't see there being a -- a  
21 bright line between --

22 MR. BOB PETERS: Do you agree that if  
23 Manitoba Hydro was in charge of enticing the new industry  
24 or the expansion of existing industry in Manitoba, it's  
25 primary ability to do that would be through subsidized

1 electricity prices?

2 MR. PAUL CHERNICK: Well, again, if the -  
3 - if the subsidy is that you get so many megawatt hours a  
4 month at a lower price per new employee or per retained  
5 employee as estimated by the economic development  
6 authorities, then you're handing out a discount on  
7 electricity and that's where it shows up in the -- in the  
8 -- in the customer's operating statements but it doesn't  
9 encourage the customer to use more electricity because at  
10 the margin they're still paying the -- the marginal rate.

11 So, yes, Hydro would probably be  
12 distributing whatever incentives it's -- kind of like  
13 development incentives it's instructed to do, so probably  
14 would be doing that through electric rate discounts but  
15 they can be independent of -- of usage levels so that  
16 they don't have a perverse effect on efficiency  
17 decisions.

18 MR. BOB PETERS: Is there any suggestion  
19 that the industries that would be paying and creating  
20 this fund of money from the energy-intensive industry  
21 rate are any less efficient or their employees are any  
22 less productive than those of any new industry coming to  
23 Manitoba?

24 MR. PAUL CHERNICK: I -- I haven't any  
25 idea.

1                   MR. BOB PETERS:    So there's no suggestion  
2 that the jobs at these energy-efficient companies are any  
3 less desirable for Manitoba than jobs created by some new  
4 industry that might come here?

5                   MR. PAUL CHERNICK:    The...I think we --  
6 we may be getting back to the point that we were talking  
7 about earlier with I don't see any distinction between  
8 economic development incentives to retain existing jobs  
9 and those to -- to encourage and facilitate the creation  
10 of new jobs.

11                   So there may very well be situations in  
12 which the -- the province would find that a -- an  
13 industrial customer really did need some help and that  
14 they had large enough benefits that it was appropriate to  
15 help them, and that -- that Hydro would be instructed to  
16 help them out with a monthly reduction in their electric  
17 bill.

18                   MR. BOB PETERS:    And the risk in all of  
19 that, Mr. Chernick, is that it may cause hardship to an  
20 existing Manitoba industry or cause a Manitoba industry  
21 to close down or to reduce its production or perhaps  
22 reduce its expansion, and there may be economic  
23 consequences to that, as well?

24                   MR. PAUL CHERNICK:    That is -- is  
25 possible.  Again, if -- if they are actually paying more

1 then that could affect the decision about expansion.

2                   In terms of shutting down it seems kind of  
3 odd that, you know, if 5 or 10 percent of your energy use  
4 is at the marginal rate, that that would cause you to  
5 shut the entire plant down, given that most places in  
6 North America you would be paying market prices or close  
7 to it.

8                   MR. BOB PETERS:    But it may -- but it may  
9 be a factor in deciding whether to do an expansion as  
10 opposed to --

11                  MR. PAUL CHERNICK:    Yes.

12                  MR. BOB PETERS:    -- shutting down?

13                  MR. PAUL CHERNICK:    It may.  And then  
14 that expansion in a sense competes in the economic  
15 development community against the -- the other projects  
16 that might be encouraged.  And maybe the -- an existing  
17 plant that is going to be creating a lot of jobs and  
18 needs a chunk of lowcost power to make it work, and you  
19 could structure -- or -- or just a cash handout; that  
20 works just as well, and one way or another you could work  
21 it out.

22                  MR. BOB PETERS:    I want to turn to one  
23 (1) of the other recommendations you make in your  
24 evidence, Mr. Chernick, and that was to have a demand  
25 charge for on-peak energy only, if I understood

1 correctly.

2 MR. PAUL CHERNICK: No, it was to convert  
3 the demand charge to an on-peak energy charge.

4 MR. BOB PETERS: But not to have a demand  
5 charge for off-peak energy?

6 MR. PAUL CHERNICK: Not to have a demand  
7 charge at all and not to -- and -- and to concentrate the  
8 -- the revenues -- the revenue collection in the on-peak  
9 period.

10 MR. BOB PETERS: I think I did understand  
11 your evidence correctly then. So you would recover  
12 demand costs only through on-peak energy rates, correct?

13 MR. PAUL CHERNICK: Yes.

14 MR. BOB PETERS: And would that not have  
15 the effect that the on-peak rate would certainly go up --

16 MR. PAUL CHERNICK: Yes.

17 MR. BOB PETERS: -- but the off-peak rate  
18 would remain at the embedded rate?

19 MR. PAUL CHERNICK: That's correct.

20 MR. BOB PETERS: So that would be an  
21 example of a declining block structure of a rate.

22 MR. PAUL CHERNICK: No, only if you  
23 assume that the customer -- the customer's marginal usage  
24 is in the off-peak.

25 MR. BOB PETERS: Well, you'd agree with

1 me -- we'll -- we'll leave the application of that, but  
2 the on-peak rate would be higher than the off-peak rate,  
3 you'd agree with that?

4 MR. PAUL CHERNICK: Yes.

5 MR. BOB PETERS: All right.

6 MR. PAUL CHERNICK: That's generally the  
7 case with time-of-use rates.

8 MR. BOB PETERS: One (1) of your other  
9 recommendations, Mr. Chernick, was that, if not now,  
10 later the Board should eliminate Hydro's proposed growth  
11 allowance, as well as their environmental compliance  
12 allowances, correct?

13 MR. PAUL CHERNICK: Yes, I -- I suggest  
14 that it be now.

15 MR. BOB PETERS: And therefore, all  
16 growth would be at the marginal cost proxy rate?

17 MR. PAUL CHERNICK: Yes.

18 MR. BOB PETERS: Should the above  
19 baseline rate be revenue neutral still?

20 MR. PAUL CHERNICK: In -- in which of the  
21 meanings of revenue neutral that we've been using are you  
22 asking a question?

23 MR. BOB PETERS: Let me -- let me try it  
24 this way. If there was an elimination of the DSM and the  
25 Power Smart initiatives that companies have undertaken

1 and there was an elimination of the credits for  
2 environmental compliance, would the actual rate for the  
3 second tier have to change, or would you leave -- you  
4 know, would it stay the same?

5 MR. PAUL CHERNICK: The rate for the  
6 second tier is based on market prices and it -- so it  
7 wouldn't be affected by the way that you set the  
8 baseline.

9 MR. BOB PETERS: Which would mean that it  
10 would be less revenue neutral; it would gain more revenue  
11 than it otherwise would because you've taken away the --  
12 the credits?

13 MR. PAUL CHERNICK: Well, actually, I  
14 think it would be moving more towards revenue neutrality  
15 because -- in the sense that -- that Manitoba Hydro used  
16 that term in -- in the sense that I was using that term,  
17 in that you'd be closer to reflect to being neutral,  
18 being indifferent between whether you sold a megawatt  
19 hour to an industrial customer or to an export market.

20 MR. BOB PETERS: But by not raising the  
21 baseline to accommodate the DSM and the environmental  
22 compliance allowance credits, you would be exposing the  
23 customer to the second tier rate more quickly as they  
24 expanded.

25 MR. PAUL CHERNICK: Yes. By -- by the

1 way, I don't believe that I advocated against the -- the  
2 DSM credits. I just said that when -- when the DSM is no  
3 longer really effective, you shouldn't be counting it  
4 anymore.

5 But to the extent that a plant's operation  
6 is lower today because of the -- of Power Smart  
7 initiatives that they took in the past, I'm not really  
8 arguing with the idea of including that.

9 So I'm -- I'm talking about phasing out  
10 DSM when it no longer exists and -- and not having a  
11 growth allowance and not having this special subsidy  
12 basically for electric use and environmental compliance.

13 MR. BOB PETERS: How will Manitoba Hydro  
14 know when DSM initiatives no longer work?

15 MR. PAUL CHERNICK: Well, I suggested  
16 that they sort of start with the rebuttal first --  
17 rebuttable presumption that after ten (10) years they're  
18 no longer saving anything. And then offer the customers  
19 -- we're not talking about a lot of customers here --  
20 offer the customer an opportunity to demonstrate, in  
21 fact, they still use the equipment and it's still more  
22 efficient than it would have been without the -- the  
23 measure.

24 MR. BOB PETERS: So it would be  
25 individual plant verifications would be needed?

1                   MR. PAUL CHERNICK:    Yes.  And that -- the  
2 difficulty of that obviously depends upon the nature of  
3 the -- of the measure and the equipment.

4                   MR. ROBERT MAYER:    Mr. Chernick, am I  
5 correct in assuming that some of that is based on  
6 advances in technology?  We've all been told to use  
7 compact fluorescents and a company does that throughout  
8 its organization but in ten (10) years, I'm assuming  
9 you're thinking we're going to do better than compact  
10 fluorescents and LEDs may solve the whole problem?

11                  MR. PAUL CHERNICK:    Well, or that ten  
12 (10) years ago, you -- Hydro gave them an incentive to  
13 convert their incandescent lighting to florescent  
14 lighting.  And maybe that was sort of a -- an unusually  
15 progressive move in that industry at that time.

16                  And compact fluorescents are -- are now  
17 quite standard and the incandescents long ago would have  
18 been burned out -- would have burned out and managers in  
19 that industry are generally putting in compact  
20 fluorescents anyway.

21                  So the fact that you now have a compact  
22 fluorescent in there really doesn't have anything to do  
23 with the program that you undertook ten (10) years ago  
24 with us and it's sort of silly to keep giving you an  
25 incentive -- or a -- well, you are giving them an

1 incentive.

2                   You're giving them a discount on their  
3 energy usage because they participate in a program that  
4 has really kind of run its course and they would have a -  
5 - even if you still have a few compact fluorescents that  
6 haven't burned out from ten (10) years ago, they'd be in  
7 there anyway because the incandescents certainly would  
8 have burned out and been replaced.

9                   There's other, you know, equipment that --  
10 that lasts a long time. If you replaced a chiller, for  
11 example, when it burned out in 1997 or '98, it's probably  
12 in great shape and it's still running just fine and it's  
13 still saving energy.

14                   If you replaced one (1) that was nearing  
15 the end of its life anyway and probably would have burned  
16 out in the early 2000's, then the one you would have  
17 replaced it with would have been meeting current  
18 standards at that point and it would be more efficient  
19 than -- than the old one you replaced it with. So  
20 there's...

21                   The calculations originally done to  
22 estimate the savings from doing the measure may not apply  
23 today for a whole bunch of reasons. And given the small  
24 number of customers we're dealing with here and given  
25 that it's interesting information for the company to have

1 in terms of the persistence of energy efficiency measures  
2 and how customers really use them over time, it seems  
3 like it will be worth collecting the information.

4

5 CONTINUED BY MR. BOB PETERS:

6 MR. BOB PETERS: Mr. Chernick, I take  
7 from that answer that if there's a -- say a lighting  
8 system that's broadly adopted right now, that initiative  
9 will have no enduring value maybe past the ten (10) years  
10 that you prescribed for it because that program will have  
11 by then run its course? And any DSM credits should be --  
12 should be eliminated at that point in time?

13 MR. PAUL CHERNICK: Are we talking about  
14 something that a company puts in place in 2009 and what  
15 happens in 2019? Or are we --

16 MR. BOB PETERS: No, we're talking about  
17 historic.

18 MR. PAUL CHERNICK: Oh, something that  
19 they did ten (10) years ago. Depends upon what they've  
20 done and it's perfectly possible that they've put in a  
21 system that would, you know, still be considered ahead of  
22 the curve and that it's reasonable -- a reasonable  
23 argument that they would have kept using their old  
24 system.

25 And -- and, in fact, other plants still

1 use that old system. And so the -- the savings persists.  
2 And that's -- you know, that's really a matter of fact in  
3 the individual situation, and I don't want to be  
4 doctrinaire about this.

5 MR. BOB PETERS: Mr. Chernick, is there  
6 any suggestion by you that the three (3) or four (4)  
7 customers who are likely to be paying the energy  
8 intensive industry rate if it was approved as filed, are  
9 not already energy efficient to the maximum?

10 MR. PAUL CHERNICK: Well, it's my  
11 understanding that most industrial customers are not as  
12 energy efficient as they could be, and given higher  
13 energy prices, they can find ways of being more  
14 efficient. So I doubt that those customers are -- are  
15 world leaders in efficiency for their industry. It's  
16 possible that you've got one (1) or two (2) of them, but  
17 I -- I just don't have any evidence that's the case.

18 MR. BOB PETERS: You --

19 MR. PAUL CHERNICK: In addition, the --  
20 please remember that I'm suggesting that there should be  
21 many more customers affected by that second block rate.

22 MR. BOB PETERS: Many more customers who  
23 -- who may have greater room for energy efficiency than  
24 the three (3) or four (4) that will end up paying the  
25 rate if approved?

1                   MR. PAUL CHERNICK: Well, without any  
2 specific knowledge about who has what room for energy  
3 efficiency, I was just reacting to your opening -- the  
4 opening of your question, which assume three (3) or four  
5 (4) customers will be affected. And that seems to be  
6 case under Hydro's proposal. I've proposed an approach  
7 that would broaden that.

8                   MR. BOB PETERS: All right. Let me use  
9 just a couple of minutes to summarize. In terms of this  
10 application, whatever baseline is set, you'd like it to  
11 be declining as that would expose greater load to the  
12 marginal cost rate?

13                   MR. PAUL CHERNICK: Yes.

14                   MR. BOB PETERS: And I'm going to use an  
15 adjective that Mr. Williams used to describe himself and  
16 that was you're rather -- almost agnostic about the DSM  
17 initiative, whether you give it or don't give it, but you  
18 wouldn't like to have the baseline extended for the  
19 energy efficiency initiatives that have been implemented  
20 in the past?

21                   MR. PAUL CHERNICK: Well, I would only  
22 extend them if there's some evidence that they're still  
23 in place.

24                   MR. BOB PETERS: And the 3 percent growth  
25 of the baseline for the first five (5) years is an item

1 again that you think should be removed?

2 MR. PAUL CHERNICK: Yes.

3 MR. BOB PETERS: And likewise, the 2  
4 percent ad infinitum item growth of the baseline would  
5 also be something that you find offensive?

6 MR. PAUL CHERNICK: Yes. The 2 percent  
7 even more so than the 3 percent, despite the smaller  
8 value, because it -- as I understand it, it's a use it or  
9 lose it opportunity, and it could actually create a  
10 situation in which a customer who's planning to expand is  
11 essentially being rewarded for using extra energy in the  
12 -- in the -- for a few years to build up their -- their  
13 baseline so that when the expansion comes in, they can  
14 fit it underneath their expanded baseline. And that  
15 seems to me to be a -- not a good idea.

16 MR. BOB PETERS: Because it promotes  
17 inefficiency?

18 MR. PAUL CHERNICK: Yes.

19 MR. BOB PETERS: All right. With that,  
20 Mr. Chairman, I'd like to thank Mr. Chernick. Those are  
21 my questions.

22 THE CHAIRPERSON: Thank you, Mr. Peters.  
23 Mr. Gange, do you have any re-direct?

24 MR. BILL GANGE: I have no re-direct, Mr.  
25 Chair.

1 THE CHAIRPERSON: Well, thank you very  
2 much, Mr. Chernick. And with your testimony, that closes  
3 today. And tomorrow, we will have another panel in front  
4 of us, which will be the MIPUG witness panel.

5 So goodnight. We'll see you tomorrow  
6 morning.

7

8 (RCM/TREE PANEL STANDS DOWN)

9

10 --- Upon adjourning at 3:57 p.m.

11

12

13 Certified correct,

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18 Cheryl Lavigne, Ms.

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