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MANITOBA PUBLIC UTILITIES BOARD

Re: 2008/'09 GENERAL RATE APPLICATION
MANITOBA HYDRO

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
April 30th, 2008
Pages 3102 to 3311

APPEARANCES

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1 --- Upon commencing at 9:05 a.m.

2

3 THE CHAIRPERSON: Okay, good morning,
4 everyone. Welcome back. Particularly to those who have
5 returned from balmy Calgary.

6 MS. PATTI RAMAGE: You had to rub it in?

7 THE CHAIRPERSON: I couldn't resist. Mr.
8 Peters, do you want to remind us what's up today?

9 MR. BOB PETERS: Yes, thank you and good
10 morning, Mr. Chairman, Board members, ladies and
11 gentlemen.

12 On the calendar that had been previously
13 circulated, and I think yellow is the current colour,
14 today was initially shown as an open day but as we saw
15 from our last sitting date on the 16th of April, that the
16 cross-examination of the Manitoba Hydro Cost Allocation
17 and Rate Design Panel had not concluded, and Mr. Anderson
18 had agreed to stand himself down to the -- to the bottom
19 of the list so that we could accommodate the schedules of
20 other counsel and witnesses.

21 And that means that Mr. Anderson will
22 start this morning with the Cost of Service Rate Design
23 Panel and -- and conclude this morning, I believe. And
24 after Mr. Anderson all parties who have wanted an
25 opportunity to cross-examine this panel will have had

1 that opportunity.

2 There have been a number of undertakings
3 and exhibits filed and I would suggest that after Mr.
4 Anderson, Mr. Chairman, that parties be given an
5 opportunity to ask any remaining questions they may have
6 on any of the filed exhibits from Manitoba Hydro that
7 were in response to undertakings.

8 After that is concluded, Ms. Ramage may or
9 may not want an opportunity to re-examine her panel and
10 she should be of course afforded that opportunity. And
11 following that, I believe the panel will be -- if the
12 Board is satisfied with all of the evidence so far and
13 the questions have been asked, the panel can be
14 discharged.

15 After the panel is discharged and if
16 there's time remaining today which we expect there is,
17 the MIPUG witnesses from InterGroup have made themselves
18 available to be sworn in and to continue with the
19 evidentiary portion of the Hearing later.

20 So, Mr. Chairman, first up this morning
21 will be Mr. Anderson followed by questions on
22 undertakings, followed by re-examination and let's see
23 how -- how that takes us.

24 THE CHAIRPERSON: Thank you, Mr. Peters.
25 So with that, Mr. Anderson, you can begin at any time.

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MANITOBA HYDRO COST OF SERVICE AND RATE DESIGN PANEL
RESUMED:

- KURT ROBIN WIENS, Resumed
- CHIC THOMAS, Resumed
- VINCE WARDEN, Resumed
- HAROLD SURMINSKI, Resumed

CROSS-EXAMINATION BY MR. MICHAEL ANDERSON:

MR. MICHAEL ANDERSON: Good morning, Mr. Chair, Mr. Peters, Ms. Ramage and members of the panel.

Thank you very much for making those arrangements prior to -- as Mr. Peters had put it in a voicemail to me, we are being placed at the back of the bus which is not necessarily a -- which is a helpful position for us, given the -- our ability of course to review the transcript and then to parse out those questions that have asked -- been asked by others and answered ably by Manitoba Hydro.

I wanted though to sort of jump ahead of where some of my questions were and ask some questions of Mr. Warden that by way of doing so will bring some good news to the Board -- of interest to the Board -- in respect of the tentative diesel settlement.

So with this one (1) question out of

1 sequence I would ask: Mr. Warden, would -- would you
2 please confirm that on Friday, April 25, 2008, that all
3 of the outstanding undepreciated capital costs were paid
4 by MKO to Manitoba Hydro.

5 MR. VINCE WARDEN: Yes, good morning, Mr.
6 Chairman, members of the Board, ladies and gentlemen.

7 Yes, I can confirm that Mr. Anderson. All
8 payments -- all outstanding payments, capital payments,
9 have now been made by the -- by INAC through MKO. The
10 total -- just as a reminder, the total that was to be
11 paid in accordance with the yet signed agreement was
12 approximately \$20 million --19.7, I believe it was --
13 that -- the agreement did provide for that to be paid
14 over installments of approximately -- approximately \$5
15 million per year over four (4) years. With this most
16 recent payment of \$10 million, all payment -- all that
17 amount has now been fully paid.

18 MR. ROBERT MAYER: You aren't gonna -- I
19 thought you were going to tell us somebody signed the
20 agreement. We live in hope, right.

21 MR. VINCE WARDEN: I -- I wish.

22

23 CONTINUED BY MR. MICHAEL ANDERSON:

24 MR. MICHAEL ANDERSON: And -- and to
25 follow on the confirmations of that, the other items that

1 were discussed during the -- the previous applications
2 and consideration by the Board of the rates charged in
3 the diesel zone I had also wanted to confirm that the
4 item of the \$3.2 million in unpaid surcharge was also
5 paid in December, 2004.

6 Is that correct?

7 MR. VINCE WARDEN: Yes.

8 MR. MICHAEL ANDERSON: And the other
9 large item of the accumulated deficit has been booked off
10 by Manitoba Hydro over two (2) previous fiscal years.

11 Is that correct?

12 MR. VINCE WARDEN: Yes, Mr. Anderson.
13 You're referring to the amount that is being amortized
14 over an approximate ten (10) year period through ex --
15 the allocation of export revenues. And, yes, those
16 amounts have, as you say, been booked off over the past -
17 - past couple years.

18 MR. MICHAEL ANDERSON: And -- and just
19 for the purposes of the record, Mr. Warden, could you
20 confirm the amount of the accumulated deficit as of April
21 1st, 2004, that has been booked off as we've discussed?

22 MS. PATTI RAMAGE: If I can help, Mr.
23 Anderson -- if you want to move on, I'm just having Ms.
24 Fernandes pull that number from the back room.

25

1 CONTINUED BY MR. MICHAEL ANDERSON:

2 MR. MICHAEL ANDERSON: Thank you, Ms.
3 Ramage. I'm just going to switch microphones. This one
4 isn't -- isn't...

5

6 (BRIEF PAUSE)

7

8 MR. MICHAEL ANDERSON: I have wanted to
9 make a brief reference now to Schedule 3 of the
10 prospective Diesel Cost of Service Study that was filed
11 in the Diesel Application on October 5, 2006. It's my
12 understanding that we're reviewing all of the background
13 of the interim orders that we've had. I have a copy of
14 it for everyone's convenience.

15 MS. PATTI RAMAGE: Manitoba Hydro -- Mr.
16 -- Mr. Anderson, did you -- if you could clarify again,
17 you said that you thought we were reviewing the past
18 order -- the past diesel orders.

19 Is that correct?

20 MR. MICHAEL ANDERSON: My understanding
21 is that this would be an opportunity just to review some
22 of the material that had been filed. But this is a
23 question on a go-forward basis for the prospective Diesel
24 Cost of Service Study that -- that Chic -- Mr. Thomas had
25 referred to in a response to a question raised by Mr.

1 Peters.

2 MS. PATTI RAMAGE: Unfortunately, that
3 cost of service study isn't filed in this proceeding and
4 I don't believe anyone on the panel has one -- has a copy
5 of that with them. It's not part of this proceeding.

6 MR. MICHAEL ANDERSON: For assistance,
7 Ms. Ramage, as I had indicated, I have copies of the
8 schedule I wish to refer to as sufficient to distribute
9 to the Board and to counsel if that would be acceptable.

10 MS. PATTI RAMAGE: I am again concerned
11 because this -- those orders are ex parte. We have an
12 agreement with a number of parties, Mr. Anderson's
13 employer included, and none of that material has been
14 released publicly yet and I have a concern with asking
15 questions on the public record until we have that signed
16 agreement.

17 MR. MICHAEL ANDERSON: I can ask the
18 question that I have in mind, just in respect of the
19 future cost of service study in respect of the
20 confirmations recently made by Mr. Warden, that would
21 suffice for my purpose at this point.

22 THE CHAIRPERSON: Well, ask it and we'll
23 see.

24

25 CONTINUED BY MR. MICHAEL ANDERSON:

1 just stated, that was a separate item per the unsigned
2 agreement which has no impact whatsoever on the Cost of
3 Service Study.

4 MR. MICHAEL ANDERSON: I appreciate the
5 distinction on the Cost of Service Study. Maybe I'll --
6 I'll ask this differently.

7 The rates that are currently affect -- is
8 result of the tentative settlement agreement and the --
9 are the -- the rates -- assume that there is no interest
10 and deprivation being charged back to customers through
11 rates.

12 Is that correct?

13 MR. VINCE WARDEN: With respect to the
14 \$20 million capital contribution made by the Government
15 of Canada, that is correct.

16 Now there are some capital expenditures
17 incurred currently which do attract interest in
18 depreciation until such time as those capital payments
19 are settled, and that would flow through the Cost of
20 Service Study. But that amount is relatively incidental
21 to-date.

22 MR. MICHAEL ANDERSON: And to be clear,
23 those are capital expenditures after April 1st, 2004. Is
24 that correct?

25 MR. VINCE WARDEN: Correct.

1 (BRIEF PAUSE)

2

3 MR. MICHAEL ANDERSON: Now, in the
4 discussion Mr. Thomas previously had with Mr. Peters
5 regarding the amortization of the operating accumulated
6 deficit after April 1st, 2004, are there any amounts for
7 interest and depreciation included in that accumulated
8 deficit after April 1st, 2004 that are not associated
9 with capital plant built after April 1st, 2004?

10 MR. CHIC THOMAS: So when you're saying
11 the accumulated deficit you're talking about the
12 deficiencies or surpluses post-April, 2004. And I don't
13 have the numbers at hand. I -- I think they'll be in one
14 of the schedules in the Diesel Cost to Service Study that
15 you would have on hand. I think it's Schedule 9 or 10 or
16 something like that. There is a deficit that we are
17 currently amortizing.

18 MR. MICHAEL ANDERSON: Yes, as I
19 understand and the discussion is that one-fifth (1/5th)
20 of the 2006/2007 operating cost deficit has been
21 incorporated in -- in rates.

22 Is that correct?

23 MR. CHIC THOMAS: That's correct.

24 MR. MICHAEL ANDERSON: Of the amounts
25 that -- that give rise to the operating cost deficit

1 included in rates, are there any cost related to interest
2 and depreciation for capital plant built prior to April
3 1st, 2004?

4 MR. CHIC THOMAS: No, there's not.

5 MR. MICHAEL ANDERSON: Thank you.

6 MS. PATTI RAMAGE: If I could jump in at
7 this point. I'm getting very concerned. While two (2)
8 parties to that agreement are in the room, another is
9 not, and we're skirting around that agreement very
10 closely and I am not comfortable answering questions with
11 respect to matters so closely tied to that agreement.

12 THE CHAIRPERSON: Do you have any more on
13 this, Mr. Anderson? It seems to be in all party --

14 MR. MICHAEL ANDERSON: I do, Mr. -- Mr.
15 Chair, but I'm content to leave that particular question
16 at that answer. I did notice that Mr. Peters had
17 explored the -- the accumulated deficit. The Board's
18 Order, of course, the interim ex parte order refers to
19 the inclusion of Manitoba Hydro's proposal to amortize
20 and a -- and an operating deficit over time. And that is
21 referred to in the public order that the Board has
22 issued.

23 I don't intend to pursue it at this --
24 this particular time. I had wanted to confirm that one
25 (1) point.

1 THE CHAIRPERSON: Okay, well let's --
2 let's move on then. If you have any further concerns,
3 you might want to confer with your colleagues during the
4 break.

5 MR. MICHAEL ANDERSON: I'd be happy to do
6 that, Mr. Chair. I do understand the circumstances of
7 orders being issued in respect of proposals to consider
8 amortization of amounts, the Board counsel referring to
9 it, and yet the -- the matter is as it is on the rates.
10 And I'll -- I'll leave it at that at this point.

11

12 (BRIEF PAUSE)

13

14 CONTINUED BY MR. MICHAEL ANDERSON:

15 MR. MICHAEL ANDERSON: In the exchange
16 between Mr. Thomas and Mr. Peters, again, with respect to
17 the diesel class, I'm dealing with supply options in this
18 case. Just for everyone's help, a transcript reference,
19 it's April 11th, 2246 to 2251.

20 The response was that it appears that
21 diesel generated electricity still appears to be the
22 lowest cost option.

23 Is that Manitoba Hydro's view for the
24 future of the diesel service?

25 MR. VINCE WARDEN: Yes.

1 MR. MICHAEL ANDERSON: Has Manitoba Hydro
2 initiated a review of that conclusion in light of the
3 relatively recent increases in global hydrocarbon fuels,
4 diesel fuel in particular?

5

6 (BRIEF PAUSE)

7

8 MR. VINCE WARDEN: Yes, Mr. Anderson.
9 The -- we have update -- or had a look at the impact of
10 diesel fuel and done some sensitivity around the -- the
11 cost of diesel fuel around, as it impacts the -- the
12 studies that were conducted over the past two (2) years
13 and it appears to have a minimal impact on those studies.
14 The -- the majority of the costs associated with
15 providing diesel service is infrastructure involved in
16 providing that service.

17

18 (BRIEF PAUSE)

19

20 MR. MICHAEL ANDERSON: Is the sensitivity
21 analysis that you're referring to been made available in
22 the current proceeding?

23 MR. VINCE WARDEN: No, as a matter of
24 fact, what has happened is that the studies with respect
25 to alternative -- potential for alternative supply to

1 each of those four (4) communities has been provided to
2 those communities as well as to INAC. And at this point,
3 we are awaiting a response from those communities before
4 we proceed further. So those studies have not been --
5 been filed as a part of these proceedings.

6 MR. MICHAEL ANDERSON: Would you please
7 undertake to file those studies with the Board in these
8 proceedings?

9 MR. VINCE WARDEN: Our -- our commitment
10 is to have the input of the communities before such a
11 filing is made.

12

13 (BRIEF PAUSE)

14

15 MR. MICHAEL ANDERSON: In the event that
16 any interest in depreciation costs no longer are being
17 recovered by rates to customers in the diesel zone, would
18 the cost of fuel be the single largest cost that would be
19 recovered in rates?

20 MR. CHIC THOMAS: Yes.

21 MR. MICHAEL ANDERSON: Has the
22 sensitivity analysis that we've discussed been conducted
23 with the assumption that interest and depreciation costs
24 would no longer be part of the total cost per kilowatt
25 hour on an average basis in the -- in the diesel system?

1 MR. CHIC THOMAS: I'm not quite sure what
2 you're meaning by which sensitivity analysis; sensitivity
3 analysis in terms of the carbon credits or sensitivity in
4 terms of the rates going forward without the interest and
5 depreciation included therein?

6 MR. MICHAEL ANDERSON: The latter, Mr.
7 Thomas, and particularly in respect to Mr. Warden's
8 comments that a sensitivity analysis regarding the impact
9 of increasing fuel costs on the cost of serving the
10 diesel zone.

11 If you remove interest and depreciation
12 costs and then calculate the cost-to-serve based on
13 maintenance, variable, and fuel, has a sensitivity
14 analysis of the result of the impact in fuel prices been
15 conducted on that basis?

16 MR. CHIC THOMAS: Well, currently the
17 rates in place now are in the spirit of the agreement
18 based only on the variable costs. And I think the full
19 cost rate is approximately forty-one (41) cents versus
20 eighty (80) or ninety (90) cents should interest and
21 depreciation be included.

22 As we all know from filling up our own
23 vehicles lately, fuel prices have indeed increased. And
24 as I think I discussed with Mr. Peters previously, we
25 have done a Diesel Cost of Service Study, but it is --

1 but -- but it hasn't been reviewed internally yet. And
2 then I think I indicated to Mr. Peters that that overall
3 the rates are within the ballpark. But again the
4 decision to go forward to increase those rates, due to
5 the increase in fuel costs, has not been made internally
6 yet.

7

8

(BRIEF PAUSE)

9

10 MR. MICHAEL ANDERSON: And I had wanted
11 to confirm that the conclusion that diesel -- electricity
12 produced by diesel generators is the lowest cost option.
13 That's also in the context of the -- the forecast
14 doubling of load by 2026? Is that Manitoba Hydro's
15 position?

16 MR. CHIC THOMAS: Well, as Mr. Warden had
17 just indicated, yes, it is the lowest cost option. And I
18 think Mr. Wiens indicated on the record that, yes, indeed
19 the load forecast does show a doubling in approximately
20 twenty (20) years or so.

21 But going forward, yes, we still
22 anticipate that to be the case notwithstanding these
23 other studies that Mr. Warden just discussed.

24 MR. MICHAEL ANDERSON: Thank you, Mr.
25 Thomas.

1 (BRIEF PAUSE)

2

3 MR. MICHAEL ANDERSON: At page 20 -- at
4 page 10 of 26 of the proposed rate schedule, there is
5 reference to a non-participating -- non-participation
6 rate in the diesel service.

7 I just simply wanted to ask whether there
8 are any customers remaining in the diesel service that
9 are -- that would be served under this rate?

10 MR. CHIC THOMAS: Yes, there is one (1)
11 customer.

12 MR. MICHAEL ANDERSON: And is there a
13 forecast -- is this customer making arrangements to pay
14 its portion of the installed capital facilities in the
15 diesel community directly, similar to that set out in the
16 tentative settlement agreement, which is referred to in
17 the Board's order? Or are they intending to amortize the
18 capital entirely on tariff?

19 MR. CHIC THOMAS: It's through the
20 tariff.

21 MR. MICHAEL ANDERSON: Is -- is it
22 possible to identify whether this entity is a Federal or
23 provincial entity?

24 MS. PATTI RAMAGE: No, I'm -- I'm sorry
25 Mr. Anderson, we can't identify our customer's identity.

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CONTINUED BY MR. MICHAEL ANDERSON:

MR. MICHAEL ANDERSON: I'll -- during the break I'll have a chat with my colleagues from Manitoba Hydro about this -- this item, Mr. Chair.

MR. CHIC THOMAS: I can add, Mr. Anderson, as just -- I've just been informed that we're expecting their outstanding obligation to be paid off by May or June of this year.

MR. MICHAEL ANDERSON: That was going to be my next question, as to the expectation for it being amortized. So after May or June of 2008, there would no longer be any non-participant -- any customer qualifying for the non-participant rate.

Is that correct?

MR. CHIC THOMAS: As it stands right now, correct.

MR. MICHAEL ANDERSON: Thank you.

(BRIEF PAUSE)

MR. MICHAEL ANDERSON: Mr. Warden, the Board's order, in respect of the cost of service proceeding, indicated that -- approved the allocation of net export revenues to -- to offset the cost of service

1 in the diesel communities.

2 Is -- is that Manitoba Hydro's understand?

3

4 (BRIEF PAUSE)

5

6 MR. VINCE WARDEN: Yes, Mr. Ander --
7 Anderson, I think we can we can agree with that.

8 MR. MICHAEL ANDERSON: Thank you, Mr.
9 Warden. And at the present time, are there net export
10 revenues being allocated to the cost of service of the
11 diesel communities?

12 MR. VINCE WARDEN: Yes, there are.

13 MR. MICHAEL ANDERSON: Are they directly
14 affecting the cost of service or are they being -- being
15 applied for another purpose at the present time?

16 MR. VINCE WARDEN: Well, I think for both
17 of those reasons really. There -- we're getting back
18 into the tentative agreement again, but there's provision
19 in -- in that agreement for the allocation of export
20 revenues.

21 But they will also have the effect of
22 lowering rates in those communities.

23

24 (BRIEF PAUSE)

25

1 MR. MICHAEL ANDERSON: In respect of the
2 discomfort and I -- for the purposes of the Board's
3 assistance perhaps, I would note that this mechanism that
4 Mr. Warden and I are discussing are set out at page 6 of
5 the Board's October 6th order, Application to Revise
6 Electric Rates in Remote Communities, which is a public
7 document.

8 So I recognize the sensitivity of our
9 commitment to participate and -- and proceed with a
10 mediated process, but I do just make the point that there
11 is a matter of -- of public record that describes the
12 amortization mechanism that you had just provided.

13 In this regard, Mr. Warden, does Manitoba
14 Hydro have a forecast of when net export revenues will no
15 longer be directed to amortizing the accumulated deficit
16 prior the -- that is the deficit prior to April 1st, 2004
17 but will be applied to reduce the cost of service?

18 MS. PATTI RAMAGE: Mr. Chairman, again,
19 not only does this deal with the agreement and the
20 workings of it, but also this was not -- this isn't a
21 diesel hearing.

22 Mr. Anderson will have his opportunity to
23 confirm this information. He can confirm it both
24 directly with Manitoba Hydro's panel off-line. He can
25 confirm it with the Board when we go to confirm those

1 orders, but that wasn't the purpose of putting this panel
2 up in our General Rate Application.

3 THE CHAIRPERSON: Ms. Ramage is correct,
4 Mr. Anderson.

5 MR. MICHAEL ANDERSON: Thank you, Mr.
6 Chair. I -- I simply make the point that there are rate
7 schedules attached to the application, and I had made --
8 made a reference of them in -- in respect of the diesel
9 service. And my questions are directed in that regard
10 because the Board is -- is being asked to approve the
11 schedules for application in the community.

12 MR. ROBERT MAYER: Mr. Anderson --

13 MR. MICHAEL ANDERSON: But I take Ms.
14 Ramage's --

15 MR. ROBERT MAYER: Mr. Anderson, you're
16 -- MKO, Hydro, and the Government of Canada, through
17 INAC, signed an agreement that was confidential. It
18 wasn't even totally disclosed to this Board, and it was
19 taken as a part of mediation.

20 If you continue to attempt to violate that
21 confidentiality, Mr. Anderson, I would suggest you may
22 put it in jeopardy, and I would suggest you ought not to
23 do that.

24 MR. MICHAEL ANDERSON: Well, MKO
25 certainly appreciates the Board's support for the process

1 that has undertaken since December 2004 and looks forward
2 to the Board's continuing support of the process until
3 such time as the tentative settlement agreement is
4 executed.

5

6 (BRIEF PAUSE)

7

8 CONTINUED BY MR. MICHAEL ANDERSON:

9 MR. MICHAEL ANDERSON: Now recognizing
10 that we're having the opportunity here to examine the
11 proposal for the General Service Large, New or Expansion
12 Rate Proposal, I'd like to turn to some questions
13 regarding that for a moment.

14 And these are sort of -- these are
15 questions that I'd like to ask for the purposes of our
16 summation, at least on an interim basis on this,
17 recognizing that we will have a future proceeding where
18 MKO will be able to present evidence of its own and so
19 forth.

20 But for the purposes of testing or
21 pursuing some questions regarding Manitoba Hydro's
22 submission, would you -- would you please confirm that
23 Manitoba Hydro's generation was built to serve forecast
24 dry years and that surplus generation exists for any year
25 with more water than a dry year?

1 MR. HAROLD SURMINSKI: Yes, generally I
2 can confirm that.

3 MR. MICHAEL ANDERSON: Thank you. Would
4 you please confirm that all generation is and will be
5 paid for by Manitoba Hydro customers? For example, as
6 opposed to being paid for by government; that is, the
7 cost of all generation is paid for by Manitoba Hydro
8 customers?

9 MR. VINCE WARDEN: Yes.

10 THE CHAIRPERSON: We will account that --

11 MR. ROBERT MAYER: Recognize --

12 THE CHAIRPERSON: -- the -- go ahead.

13 MR. ROBERT MAYER: Recognizing that the
14 government of Manitoba is also a customer of Manitoba
15 Hydro.

16 MR. VINCE WARDEN: Correct.

17

18 CONTINUED BY MR. MICHAEL ANDERSON:

19 MR. MICHAEL ANDERSON: Yes, and I
20 intended not to make a distinction that there be -- may
21 be billed accounts in the name of the Manitoba
22 government. I would hazard to say in the diesel
23 communities there are several, but...

24 And proceeding with this, would Manitoba
25 Hydro please confirm that the benefits of surplus

1 generation are for the benefit of Manitoba Hydro
2 customers?

3 MR. VINCE WARDEN: Yes.

4 MR. MICHAEL ANDERSON: Meaning, of
5 course, the -- the benefits of surplus generation meaning
6 the export and net export revenues are for the benefit of
7 Manitoba Hydro customers.

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

9 MR. MICHAEL ANDERSON: And in this case
10 the only -- would the -- what classes of customer would
11 be excluded from receiving any benefit from net export
12 revenues?

13 MR. VINCE WARDEN: As the Cost of Service
14 Study is now constructed, Mr. Anderson, there would be no
15 -- no customer would be excluded from that benefit.

16

17 (BRIEF PAUSE)

18

19 MR. MICHAEL ANDERSON: Would you confirm,
20 however, that firm export customers do not receive any
21 benefit of the net export revenues?

22 MR. VINCE WARDEN: That would be fair,
23 yes.

24

25 (BRIEF PAUSE)

1 MR. MICHAEL ANDERSON: I noted, in
2 relation to this question and a couple others that I -- I
3 have, that at transcript 1606 to 1610, Mr. Warden, you
4 had engaged in a discussion with Mr. Peters regarding the
5 definition of the domestic load. And you'd indicated
6 that making a distinction between Manitoba domestic
7 customers and firm export customers was -- was
8 theoretical, but not practical.

9 Is -- is that your -- do you recall making
10 that comment, Mr. Warden?

11 MR. VINCE WARDEN: If you can just give
12 us a moment, Mr. Anderson.

13

14 (BRIEF PAUSE)

15

16 MR. MICHAEL ANDERSON: This is a
17 transcript of March 26th.

18 MS. PATTI RAMAGE: Page number, Mr.
19 Anderson? And line? That would be helpful.

20

21 CONTINUED BY MR. MICHAEL ANDERSON:

22 MR. MICHAEL ANDERSON: Yes, Ms. Ramage,
23 it's precisely -- it's on page 1608, and carrying over to
24 1609. It's lines 24 and 25 on page 1608 and line 1 on
25 page 1609.

1 (BRIEF PAUSE)

2

3 MR. MICHAEL ANDERSON: And -- and just as
4 a matter of reference in the preceding pages, the
5 discussion was also engaged in by Mr. -- Vice Chair Mayer
6 in -- in respect of a distinction between definitions of
7 domestic load.

8 MR. VINCE WARDEN: Yes, the whole -- the
9 whole context of that discussion, Mr. Anderson, was with
10 respect to Wuskwatim and the timing of the in-service
11 date of Wuskwatim, as I read it quickly here.

12 So I wonder, on that basis, if you could
13 just re-state your quest -- the question that you had
14 posed earlier?

15

16 (BRIEF PAUSE)

17

18 MR. ROBERT MAYER: Mr. Warden, I think
19 the question was do you -- did you remember making the
20 statement?

21

22 CONTINUED BY MR. MICHAEL ANDERSON:

23 MR. MICHAEL ANDERSON: That actually was
24 the question, and the transcript speaks for -- for
25 itself. In taking Mr. Warden's comment on context, Mr.

1 Mayer had asked at page 1607, at the bottom of the page
2 carrying over to 1608. What I was seeking was
3 clarification of -- does Manitoba Hydro's definition of
4 domestic load include firm exports?

5 MR. VINCE WARDEN: No. Domestic load
6 would not typically -- that definition would not
7 typically include firm exports.

8 MR. MICHAEL ANDERSON: And recognizing
9 the reference to "not typically," under what circumstance
10 would it include for --

11 MR. VINCE WARDEN: Well again, it's a
12 question of context, Mr. Anderson, as to whether or not
13 we were talking about what Manitoba Hydro's firm
14 commitments were, and there was this -- the distinction,
15 I think, trying to be made between how much of those firm
16 commitments were domestic versus export.

17 MR. MICHAEL ANDERSON: By firm
18 commitments, Mr. Warden, do you mean firm export
19 commitments?

20 MR. VINCE WARDEN: Well firm commitments
21 would include domestic load as well as firm export
22 contracts, yes.

23 MR. MICHAEL ANDERSON: So under certain
24 circumstances, some firm export commitments are included
25 in the def -- Manitoba Hydro's definition of domestic

1 load?

2 MR. VINCE WARDEN: No, no. I think you
3 were asking me what is the definition of firm
4 commitments, and that the firm commitments would include
5 domestic load as well as export -- firm export contracts.

6 MR. MICHAEL ANDERSON: So asking it just
7 one final time, Mr. Warden, does Manitoba Hydro's
8 definition of domestic load include any firm export
9 commitments?

10 MR. VINCE WARDEN: No.

11

12 (BRIEF PAUSE)

13

14 MR. MICHAEL ANDERSON: Under Manitoba
15 Hydro's proposal for general service large, new or
16 expanding rates, would those customers receive an
17 allocation of net export revenues under the proposal?

18

19 (BRIEF PAUSE)

20

21 MR. ROBIN WIENS: Mr. Anderson, any
22 portion of those customer's loads that is being served at
23 historic or embedded cost-based rates would seem, almost
24 by definition, to be receiving some benefit of net export
25 revenue.

1 The portion that is above baseline, on the
2 other hand, is intended to recover the full marg --
3 marginal cost which would appear to be not receiving a
4 benefit of net export revenue.

5 MR. MICHAEL ANDERSON: Thank you, Mr.
6 Wiens. Assuming that the Board confirms the -- at some
7 point in future, the general service large new or
8 expansion rate proposal, would there be any other
9 customer in -- served by -- domestic customer served by
10 Manitoba Hydro who would not have all of its service --
11 the cost of its service receiving a benefit of an
12 allocation in the export revenue?

13 Would this customer class be the only one
14 with such a distinction?

15 MR. ROBIN WIENS: Yes.

16 MR. MICHAEL ANDERSON: Thank you.

17

18 (BRIEF PAUSE)

19

20 MR. MICHAEL ANDERSON: Recognizing that
21 prior to the uniform rate legislation, we had several
22 zones for the provision of service to the residential
23 customers.

24 Can Manitoba Hydro please confirm that
25 they have always applied a postage stamp tariff to all

1 customers within these respective zones, whether it be
2 broken down by area or whether it be a uniform rate
3 within Manitoba, that all customers have been charged the
4 same rate within their respective zones, however defined?

5 MR. ROBIN WIENS: Since 2001, Mr.
6 Anderson, customers within Manitoba, within the
7 residential general service small and medium classes,
8 have been on a uniform rate. The exception is the full
9 cost portion of the diesel zones.

10 MR. MICHAEL ANDERSON: Which I will not
11 further explore at this point.

12 But having asked that, when we had zones
13 in the residential class for example, or zones for rate
14 setting purposes, prior to 2001, within those zones, were
15 the customers charged postage stamp rates for each class
16 of service?

17 MR. ROBIN WIENS: Yes, I would say yes.

18 MR. MICHAEL ANDERSON: Thank you. Would
19 Manitoba Hydro please confirm that generally it costs
20 more to serve a rural customer than it does an urban
21 customer?

22 MR. ROBIN WIENS: Generally that would be
23 true.

24 MR. MICHAEL ANDERSON: Thank you. Would
25 Manitoba Hydro please confirm that generally it costs

1 more to serve a new customer than it does to serve an old
2 customer, in terms of the capital costs and so forth?

3 Simplifying the question, please confirm
4 that generally it costs more to serve a new customer than
5 it does an old customer.

6 MR. ROBIN WIENS: That would depend on
7 the circumstances, Mr. Anderson. If the new customer
8 could be attached at very low capital cost, and the old
9 customer were at the end of the long rural line, no, that
10 would not be true. But Manitoba Hydro does have to incur
11 some capital costs, however small, to connect a new
12 customer to the system.

13 MR. MICHAEL ANDERSON: Taking into
14 account the question that we had asked and received
15 confirmation of in respect to the difference in cost
16 between rural and urban customers, could you confirm that
17 it generally costs more to serve a new customer in a
18 rural or urban setting respectively or -- than it does to
19 serve an old customer in a rural or urban setting
20 respectively?

21 MR. ROBIN WIENS: To the extent that new
22 capital costs have to be incurred which are not
23 compensated by the new customer, I -- I would say that's
24 true.

25 MR. ROBERT MAYER: Mr. Wiens, my thought

1 that immediate -- comes to mind in response to your
2 response to Mr. Anderson, if someone is in-filling
3 property, which seems to be the idea now with most
4 municipalities -- want to in-fill vacant lots -- to which
5 services have been provided all the way down the street,
6 I -- I would suggest that the cost of the capital would
7 be minimal, and that the costs of continuing service
8 would be no different than each of the house -- than the
9 house on either side.

10 MR. ROBIN WIENS: I -- I would not
11 disagree with that, Mr. Mayer, but to the extent that
12 some new expenditure has to be incurred to connect that
13 customer no matter how small, that -- the answer would be
14 yes although the amount is not significant.

15

16 CONTINUED BY MR. MICHAEL ANDERSON

17 MR. MICHAEL ANDERSON: Would Manitoba
18 Hydro please confirm that generally old customers become
19 like new customers from a cost of -- cost-to-serve
20 prospective if they are the on the system long enough
21 that their assets used to serve them need to be replaced?

22

23 (BRIEF PAUSE)

24

25 MR. ROBIN WIENS: Eventually some assets

1 will have to be replaced to serve every customer, Mr.
2 Anderson. So do they become like new customers? Well we
3 have to incur some cost to maintain service.

4 I mean that's -- that's true of every
5 customer eventually.

6 MR. MICHAEL ANDERSON: And then as we've
7 discussed in many proceedings but to confirm the
8 principle, would Manitoba Hydro agree -- please agree --
9 agree or confirm that if a cost of service study was
10 detailed enough, each customer would have a different
11 cost to provide service and the cost-to-serve, of course,
12 would change over time -- the cost to serve that
13 customer.

14 MR. ROBIN WIENS: Assuming it was
15 technically and administratively possible, I guess you
16 could do a separate cost of service study for every
17 customer.

18 But that's kind of in the realm of angels
19 dancing on the head of a pin.

20 MR. MICHAEL ANDERSON: Thank you, Mr.
21 Wiens. Would you please confirm that that is why we
22 apply postage stamp tariffs to provide fairness for old
23 versus new customers, rural versus urban customers over
24 time?

25 MR. ROBIN WIENS: Not necessarily, Mr.

1 Anderson. It may be that we apply postage stamp tariffs
2 because it's a matter of policy and that we have some
3 technical capability to continue to maintain separation
4 among customers. But it's been determined that for
5 whatever number of reasons that we will go with the
6 postage stamp tariff.

7 MR. MICHAEL ANDERSON: And the essence
8 being using your example of angels dancing on the head of
9 a pin however is that we apply postage stamp rates to
10 classes of customers because of the administrative and
11 other complexities of doing detailed Cost of Service
12 Studies that would design rates for each customer.

13 Is that correct?

14 MR. ROBIN WIENS: Yes.

15 MR. MICHAEL ANDERSON: Thank you. In
16 terms of the general -- proposed general service large,
17 new or expansion rate, would you please confirm that this
18 rate would differentiate between old and new customers of
19 Manitoba Hydro?

20 MR. ROBIN WIENS: Well it's intended to
21 differentiate between certain old and new loads. That's
22 the intent of the rate. It -- it may or may not
23 differentiate between new and old customers.

24 MR. MICHAEL ANDERSON: But if a new
25 customer is also a new load, would the rate differentiate

1 between old and new customer in that context?

2 MR. ROBIN WIENS: It depends on the
3 circumstances of the load, but it quite well could.

4 MR. MICHAEL ANDERSON: Thank you, Mr.
5 Wiens. Please confirm that from a demand-side management
6 perspective, a kilowatt hour saved is equal to a kilowatt
7 hour of any new generation capacity that does not have to
8 be built, all things being equal.

9 MR. ROBIN WIENS: That would be fair.

10 MR. MICHAEL ANDERSON: Thank you. Would
11 Manitoba Hydro please confirm that from a DSM
12 perspective, a kilowatt hour saved has the value of a
13 kilowatt hour that can be sold for export?

14 MR. ROBIN WIENS: Yes.

15 MR. MICHAEL ANDERSON: Would Manitoba
16 Hydro please advise or confirm whether Manitoba Hydro
17 values a kilowatt hour saved -- provides a valuation
18 internally of a kilowatt hour saved as a result of
19 demand-side management at the marginal export value?

20 MR. HAROLD SURMINSKI: Yes, Mr. Anderson,
21 and in your earlier question about a kilowatt hour all
22 being available for export, maybe it's not quite correct
23 in that in -- in certain times we displace our old
24 thermal or import energy, but import is related to
25 export. But we could be displacing our own thermal

1 generation.

2 MR. MICHAEL ANDERSON: Thank you for that
3 addition, Mr. Surminski.

4 Would Manitoba Hydro please confirm that a
5 kilowatt hour saved for a residential, commercial, or
6 industrial customer, all have the same value, to Manitoba
7 Hydro?

8 MR. HAROLD SURMINSKI: Yes, the
9 characteristics are -- are important on exact time of
10 this generation that's saved, but for a generation and a
11 kilowatt hour in exactly the same time period they all
12 have the same value.

13 MR. ROBERT MAYER: Mr. Surminski, now
14 you've got me confused. If you displace power that
15 you're already getting six and a half (6 1/2) or five and
16 a half (5 1/2) cents for, if you save that and sell it on
17 the export market it may not be worth an extra penny to
18 you one way or the other. If you displace kilowatt hours
19 that are going to somebody who's paying three (3) cents
20 an hour for it then that strikes me as being a little
21 more valuable.

22 Where am I missing this?

23 MR. ROBIN WIENS: Well, Mr. Mayer, I -- I
24 think what Mr. Surminski is saying is that it -- it all
25 has the same -- it all has the same value, it's just in

1 terms of the revenue that you would otherwise receive for
2 it, it may not.

3 I should -- should also add that there is
4 a distinction in terms of the value to a residential
5 versus an industrial customer, not at the level of
6 generation but at the level of -- the residential
7 customer requires distribution facilities which may be
8 displaced over time, whereas an industrial customer,
9 likely will not.

10

11 (BRIEF PAUSE)

12

13 CONTINUED BY MR. MICHAEL ANDERSON:

14 MR. MICHAEL ANDERSON: Would Manitoba
15 Hydro please confirm that in order to -- at the current
16 values that we've been discussing, that in order to
17 maximize the value of the gen -- of generation capacity
18 for Manitoba Hydro customers, the amount of generation
19 sold to Manitoba Hydro customers should be minimized;
20 that is, that Manitoba Hydro's maximum benefit from the
21 sale of its generation yields a -- a maximum value if
22 it's sold on an export basis.

23 MR. VINCE WARDEN: Mr. Anderson, I think
24 it really depends on how you define value. If we're
25 looking at purely economic sense, then I could agree with

1 your statement, but the value of -- of Manitoba Hydro's
2 generation to domestic customers is -- is not measured
3 purely in economic terms.

4 MR. MICHAEL ANDERSON: Would you please
5 elaborate on these other values, other than economic,
6 that Manitoba Hydro applies?

7 MR. VINCE WARDEN: Well, it gets into a
8 whole quality of life and -- and other factors that, you
9 know, we -- we can certainly explore. But it -- I think
10 it's quite evident that electricity -- provision of
11 energy provides value to society beyond just an economic
12 benefit.

13 MR. ROBERT MAYER: The rural
14 electrification program and the extension of the formal
15 diesel communities to the -- to the grids, comes
16 immediately to mind in terms of quality of life and
17 service.

18 MR. VINCE WARDEN: Yes, that's --
19 absolutely.

20

21 CONTINUED BY MR. MICHAEL ANDERSON:

22 MR. MICHAEL ANDERSON: But from a
23 strictly economic perspective, maximum benefits from
24 Manitoba Hydro's generation would be served by maximizing
25 export sales and minimizing domestic sales.

1 Is that correct?

2 MR. ROBIN WIENS: Again, that's such a
3 sweeping statement, that, you know, you can answer in the
4 generality, that today, depending on the amount that you
5 can free-up from domestic consumption to go into the
6 export market, that may be true. But you've got to hinge
7 that around with a lot of qualifications; that's why this
8 panel is somewhat hesitant to give you a general
9 affirmation of that, Mr. Anderson.

10

11 (BRIEF PAUSE)

12

13 MR. MICHAEL ANDERSON: Is Manitoba Hydro
14 considering the concept of economic benefits to Manitoba
15 for rate-setting purposes similar to that proposed in the
16 general service large newer expansion rate proposal to
17 any other class of customers in the Manitoba Hydro
18 system?

19 MR. VINCE WARDEN: Well, the concept of a
20 move towards a marginal cost-based rate structure has
21 certainly been discussed at -- within these proceedings
22 and to the extent that we will move very gradually
23 towards an inverted rate structure. The concepts that
24 underlie the industrial rate proposal are similar.

25

1 (BRIEF PAUSE)

2

3 MR. MICHAEL ANDERSON: Other than
4 applying marginal cost-based rates, however, are there
5 any other classes of customers for which benefits to
6 Manitoba, as might be described for example in Appendix
7 1, the Economic Impact Assessment Approach, being
8 considered?

9 Are you -- is Manitoba Hydro considering
10 an economic benefits model or standard to any other
11 customer class other than the proposed general service
12 large newer expansion area?

13 MR. VINCE WARDEN: No.

14 MR. MICHAEL ANDERSON: Thank you. From a
15 principled perspective, is there any reason why Manitoba
16 Hydro wouldn't apply such a standard to other customer
17 classes?

18 MR. VINCE WARDEN: Mr. Anderson, the --
19 the principles by which we will be applying that rate are
20 -- will be the -- the subject of another proceeding to be
21 conducted in the fall, so it's probably -- or to be
22 scheduled by -- or to be determined by this Board, so it
23 may be premature to -- to comment further on that at this
24 time.

25 MR. MICHAEL ANDERSON: It's my

1 understanding, Mr. Chair, that the clarification that we
2 had requested - MKO had requested it at the onset of the
3 proceedings - was that the Intervenors or other parties
4 would be filing evidence in the future proceeding that
5 Manitoba Hydro would test, but that this is our
6 opportunity to explore Manitoba Hydro's proposal at this
7 time.

8 Do I now understand that Manitoba Hydro
9 will be refileing its entire proposal in the future
10 proceeding?

11 THE CHAIRPERSON: Ms. Ramage...?

12 MS. PATTI RAMAGE: Yes, Mr. Anderson is
13 correct that Manitoba Hydro opened its panel to examine
14 this rate, however, it is given -- it was -- came to
15 Manitoba Hydro's surprise that we would not be receiving
16 full evidence on this.

17 It's Manitoba Hydro's view that having
18 listened to the various parties it may well refile or
19 refine its proposal once the new hearing date is set and
20 the process is established.

21 THE CHAIRPERSON: It was our intention to
22 test the application.

23 MR. MICHAEL ANDERSON: Yes, thank you Mr.
24 Chair. I was -- my purpose of this last question in
25 respect of the application of the rationale to other

1 customers as a matter of principle is to test the policy
2 ramifications of the rate proposal as before the Board.

3 THE CHAIRPERSON: Sounds reasonable.

4 MR. MICHAEL ANDERSON: Thank you.

5

6 CONTINUED BY MR. MICHAEL ANDERSON

7 MR. MICHAEL ANDERSON: So I would again
8 ask Mr. Warden, from a principle perspective, why would
9 Manitoba Hydro not apply the same rationale as the
10 proposed GS rate to all other customer class or any other
11 customer class -- leave it with the first part, all other
12 customer classes?

13 MR. VINCE WARDEN: Well, the, Mr.
14 Anderson, this is -- this is applying to so few customers
15 as we had indicated earlier in the proceeding. And the
16 application of exemption criteria is one that we have
17 been struggling with some -- putting some definition
18 around. We'll certainly admit that.

19 And as Ms. Ramage indicated, I think these
20 proceedings have been of value to us too, inasmuch as
21 we've had some -- some good discussion around that very
22 topic and we will, based on those discussions and the
23 input received through such people as the presenters
24 representing the large industrial power group have
25 certainly given -- given us thing -- other issues to

1 think about. And as Ms. Ramage indicated we will be
2 refiling that in -- in the -- in the fall.

3 I, therefore, think that as to whether
4 that would apply to other customers, the question -- we -
5 - we would say it would not apply to other customers.
6 The principles as to why it wouldn't apply to other
7 customers, I would only respond that the fewer the
8 customers this applies to, the more manageable it will be
9 going forward. It is going to be a -- a process that
10 will have to be managed very carefully, and the fewer
11 customers involved the more expedient it will be for us
12 to -- to manage.

13

14 (BRIEF PAUSE)

15

16 MR. MICHAEL ANDERSON: As a point of
17 clarification on the -- on the application if I might, do
18 I understand from your comments and those of Ms. Ramage
19 that you're refiling in the fall to mean you're no longer
20 seeking interim approval of the new and expanded rate in
21 this proceeding?

22 MR. VINCE WARDEN: Well, Mr. Anderson,
23 actually we had intended to address this question through
24 some redirect, but since you -- you have -- since you've
25 raised it --

1 MR. MICHAEL ANDERSON: Well, that's why
2 I'm here, Mr. Warden.

3 MR. VINCE WARDEN: Yes, that -- that
4 would be our plan is to refile an application with better
5 defined, we think, terms and conditions and exemption
6 criteria. We do -- we would like to take the opportunit
7 -- this opportunity, in the interim period, to have
8 further discussions with the large customers.

9 We do, though, we would like out of this
10 proceeding, if possible, to get some endorsement of our
11 baseline, the date at which the baseline would be
12 established, and we have -- we have proposed that that
13 date be December 31st, 2007. And we would, again, like
14 to get some endorsement from this Board that that is
15 reasonable.

16 MR. MICHAEL ANDERSON: Thank you for that
17 clarification, Mr. Warden. And so in the spirit of the
18 pre-testing of the application, I'll continue with a few
19 other questions on this. Thank you.

20

21 (BRIEF PAUSE)

22

23 MR. MICHAEL ANDERSON: The -- my -- my
24 colleagues, Ms. McCaffrey and Mr. Williams, had asked in
25 stereo whether my next question was going to address the

1 -- are we seeking approval of the date for setting the
2 baseline or both the date and the baseline amount in this
3 proceeding? Or an endorsement, in principle.

4 MS. PATTI RAMAGE: I think endorsement in
5 principle would be the better term. I don't know how the
6 Board could approve -- approve for the transcript -- that
7 was my fingers -- approve the date without a rate
8 attached to it because this Board approves rates, and
9 then there are other pieces to the puzzle there may be
10 that you have to -- have to understand.

11 So I don't think it can approve a date,
12 but it can certainly endorse that date so to put all
13 parties on notice of -- for planning purposes of whatever
14 ultimate rate is approved that that would be the -- the
15 date from which it would work.

16 Not the rate as in -- again, I have to be
17 careful I'm not talking about retroactive rates. I'm
18 talking about for baseline purposes.

19 MR. MICHAEL ANDERSON: And the -- the
20 second part of my question, Ms. Ramage, was whether the -
21 - the baseline load would also be endorsed, in principle,
22 in this proceeding.

23 MS. PATTI RAMAGE: That was not the
24 intention. That's a matter we haven't heard any evidence
25 from any other party so I don't think it would be

1 appropriate to be asking the Board to approve something
2 without all parties having -- having spoken to it.

3 MR. MICHAEL ANDERSON: And I'm using --
4 just adding for the record, your qualification that the
5 Board would endorse, in principle, the date that the
6 baseline would be set at.

7 Is that correct, Ms. Ramage?

8 MS. PATTI RAMAGE: That's correct.

9

10 CONTINUED BY MR. MICHAEL ANDERSON:

11 MR. MICHAEL ANDERSON: And since Mr.
12 Warden had raised the matter of consultation, I'm jumping
13 ahead a bit from the questions that I was going to ask.

14 But will Manitoba Hydro also be discussing
15 the exemption criteria with First Nations and -- First
16 Nation organizations?

17

18 (BRIEF PAUSE)

19

20 MR. VINCE WARDEN: Mr. Anderson, I would
21 just respond that we're -- we're certainly open to
22 listening to any party that might have an interest in --
23 in this rate.

24 We hadn't contemplated meetings with First
25 Nations specifically, but again, we -- we -- if they

1 would like to talk to us about this for any reason, we
2 would certainly be willing to do so.

3 MR. MICHAEL ANDERSON: Mr. Chair, would
4 this be an appropriate time to take a brief break?

5 THE CHAIRPERSON: Sounds good to us.

6 MR. MICHAEL ANDERSON: Thank you.

7

8 --- Upon recessing at 10:15 a.m.

9 --- Upon resuming at 10:36 a.m.

10

11 THE CHAIRPERSON: Anytime, folks. Ms.
12 Ramage, you have some other undertakings to file?
13 Exhibits?

14 MS. PATTI RAMAGE: Yes, we do. And I'll
15 just Zip through them and hopefully Mr. Gaudreau will
16 agree with the numbering system here. I'm seeing his
17 nod, so that's good news.

18 We have Manitoba Hydro Undertaking Number
19 74 which we suggest be entered as Exhibit Manitoba Hydro
20 82.

21

22 --- EXHIBIT NO. MH-82: Response to Undertaking 74

23

24 MS. PATTI RAMAGE: Undertaking 75 we
25 suggest be Exhibit Manitoba Hydro 83.

1 --- EXHIBIT NO. MH-83: Response to Undertaking 75

2

3 MS. PATTI RAMAGE: Manito -- then
4 Undertaking 77 will be Exhibit Manitoba Hydro 84.

5

6 --- EXHIBIT NO. MH-84: Response to Undertaking 77

7

8 MS. PATTI RAMAGE: Manitoba Hydro
9 Undertaking Number 83 will be given exhibit Manitoba
10 Hydro 85.

11

12 --- EXHIBIT NO. MH-85: Response to Undertaking 83

13

14 MS. PATTI RAMAGE: Then Undertaking 85 be
15 assigned Exhibit Manitoba Hydro 86.

16

17 --- EXHIBIT NO. MH-86: Response to Undertaking 85

18

19 MS. PATTI RAMAGE: Manitoba Hydro
20 Undertaking 87 be assigned Exhibit Manitoba Hydro 87.

21

22 --- EXHIBIT NO. MH-87: Response to Undertaking 87

23

24 MS. PATTI RAMAGE: Then Manitoba Hydro
25 Undertaking 90 be assigned Exhibit Manitoba Hydro Number

1 88.

2

3 --- EXHIBIT NO. MH-88: Response to Undertaking 90

4

5 MS. PATTI RAMAGE: Then Manitoba Hydro
6 Undertaking Number 94 be assigned Manitoba Hydro Exhibit
7 89.

8

9 --- EXHIBIT NO. MH-89: Response to Undertaking 94

10

11 THE CHAIRPERSON: Thank you very much.

12 MS. PATTI RAMAGE: There was one (1)
13 other item that -- in Mr. Landry's cross-examination of
14 Manitoba Hydro; it ended up that I was speaking to it.
15 And I don't have the undertaking number, but it was with
16 respect to countervailing duties.

17 And I thought I could advise the Board
18 that Manitoba Hydro has visited this issue a number of
19 times over the years, and I can also advise that the
20 issue has been looked at specifically with respect to
21 that new industrial rate which I think should be
22 sufficient for their responding to that question.

23 THE CHAIRPERSON: Thank you, Ms. Ramage.
24 Okay, Mr. Anderson.

25 MR. MICHAEL ANDERSON: Thank you, Mr.

1 Chair.

2

3

(BRIEF PAUSE)

4

5 MR. ROBERT MAYER: While we're waiting,
6 just because it may not be lawful to countervail, it
7 doesn't mean the Americans won't do it.

8

9 MS. PATTI RAMAGE: I think we've seen a
10 number of examples of that.

10

11 CONTINUED BY MR. MICHAEL ANDERSON:

12

13 MR. MICHAEL ANDERSON: I had wanted to
14 just ask a few follow-up questions on supply options that
15 were discussed in the diesel communities, without
16 exploring any matter that appears in the agreement.

16

17 You had -- Mr. Warden, you had indicated
18 that studies on supply options were -- have been provided
19 to the communities for their consideration and that Hydro
20 wanted to have the communities comments and -- prior to
21 filing them with the Board.

21

Is that correct?

22

MR. VINCE WARDEN: Correct.

23

24 MR. MICHAEL ANDERSON: Can you please
25 advise when these studies, approximately, have been
provided to the communities?

1 MR. VINCE WARDEN: My information is that
2 they were provided in the fall, and that we did expect to
3 -- to have that response from the communities and from
4 INAC in the spring. So anytime now I would say.

5 MR. MICHAEL ANDERSON: Thank you. And
6 has -- in that intervening period, has Manitoba Hydro
7 had any follow-up discussions with either or both of the
8 communities in INAC regarding the studies provided to
9 them?

10 MR. VINCE WARDEN: That may have
11 occurred, Mr. Anders -- Mr. Anderson but not to my
12 specific knowledge.

13

14 (BRIEF PAUSE)

15

16 MR. MICHAEL ANDERSON: And as part of the
17 communities' consideration of the studies provided to
18 them, has Manitoba Hydro arranged to provide the
19 communities with technical support to analyze and review,
20 and to provide comments on the studies, or to have the
21 communities make technical support available to
22 themselves?

23 MR. VINCE WARDEN: We're not aware of
24 that, Mr. -- Mr. Anderson. I -- I would expect though,
25 that because they've also been provided to INAC that that

1 would be a -- a source of technical support.

2 MR. MICHAEL ANDERSON: Just as a small
3 matter, would -- could you please undertake just to
4 confirm whether the communities have been -- arrangements
5 have been made by Manitoba Hydro for the communities to
6 accor -- obtain independent technical and professional
7 support to review the studies?

8 MRS. PATTI RAMAGE: Again, I don't think
9 that falls within the parameters of this Hearing, Mr.
10 Chairman.

11 MR. MICHAEL ANDERSON: I'm just following
12 up on an answer regarding the prognosis that diesel
13 generated electricity for the long term including -- in
14 respect of the forecast load doubling in 2026, would be
15 the least cost to serve the communities.

16 The response on alternatives was this
17 process with the studies. I was just trying to -- I'm
18 seeking clarification on when we might see some answers
19 that might provide some additional guidance on Manitoba
20 Hydro's thinking and that of INAC or the communities,
21 regarding options for least cost service.

22 THE CHAIRPERSON: Well, we're certainly
23 interested in this topic as to the options, but on the
24 other hand we don't know even know where -- whether the
25 communities asked for any assistance with respect to

1 analysis.

2 MR. MICHAEL ANDERSON: That's correct.
3 We're not aware with whether they have requested. The
4 question was whether Manitoba Hydro had made that
5 available to them as part of the process, in providing
6 the studies and seeking a response that might be
7 available in the spring of 2008?

8 MS. PATTI RAMAGE: I think this panel's
9 already -- already indicated it doesn't know, and -- and
10 really my -- my comment just went to, in terms of our
11 process here. I -- I don't think anyone on the panel has
12 an objection to speaking with Mr. Anderson after we've
13 investigated --

14 THE CHAIRPERSON: That's fine.

15 MS. PATTI RAMAGE: -- as opposed to going
16 through a formal undertaking process.

17 THE CHAIRPERSON: Okay.

18 MR. MICHAEL ANDERSON: That's fine.

19 THE CHAIRPERSON: Please speak to him.

20 MR. MICHAEL ANDERSON: That's fine, Mr.
21 Chair, thank you.

22

23 CONTINUED BY MR. MICHAEL ANDERSON

24 MR. MICHAEL ANDERSON: Recognizing now
25 that we are going to have a -- a complete new proceeding

1 with respect to the general service large newer expansion
2 rate, I had wanted to ask a few questions that flow from
3 our comments during the proceeding on the MIPUG's motion,
4 and tie into an earlier discussion I had today about
5 future consultations.

6 And if we could please have in front of
7 us, MIPUG/Manitoba Hydro Round 2 Number 17, which is
8 conveniently located at Mr. Peter's cost of service book,
9 Tab 67, Tab 6-7. And also if you might, have available
10 Exhibit W, January 25th, 2008, which was circulated as an
11 exhibit at the MIPUG Motion Hearing. If we could --
12 that's the one (1) page exemption criteria sheet.

13 This was an exhibit sworn by Mr. Wiens.
14 It's a Manitoba Hydro exhibit.

15

16 (BRIEF PAUSE)

17

18 MR. MICHAEL ANDERSON: Do you have those
19 materials, Mr. Warden, Ms. Ramage?

20 MS. PATTI RAMAGE: Mr. Wiens has a copy.
21 We have -- another copy is on its way. So I think you
22 can go ahead.

23 MR. MICHAEL ANDERSON: Thank you, Ms.
24 Ramage.

25

1 CONTINUED BY MR. MICHAEL ANDERSON

2 MR. MICHAEL ANDERSON: Would Manitoba
3 Hydro please confirm that in the process of determining
4 the application of the general service large new or
5 expansion rate that there is a two (2) step process.
6 First, to determine the baseline energy consumption
7 level, and then second to determine whether the load
8 qualifies for an exemption, or meets an exemption
9 criteria.

10 Is that correct?

11 MR. ROBIN WIENS: I'm not sure that I
12 would describe it as a -- in those words as a two (2)
13 stage process, but both of those steps are contemplated,
14 yes.

15 MR. MICHAEL ANDERSON: Are there any
16 other steps that are necessary in determining the
17 applicability of the rate to a customer? If not, the two
18 (2) steps I just described?

19 MR. ROBIN WIENS: Well, those are the --
20 those are the key steps, but the process also envisages,
21 of course, a review with the customer or by the customer,
22 the opportunity to appeal in either case, but those are
23 the two (2) key steps in determining whether the rate
24 will be applied.

25 MR. MICHAEL ANDERSON: Would you please

1 confirm that any credit or consideration for energy
2 efficiency and the meaning of environmental obligations,
3 for example under a customers license is issued by
4 government, apply only to the calculation of the baseline
5 energy consumption level and not -- is not contained
6 within the exemption criteria?

7 MR. ROBIN WIENS: That would be correct.

8 MR. MICHAEL ANDERSON: Could you please
9 confirm that the process for determining the baseline
10 energy consumption level credits only -- credits 50
11 percent of the additional energy consumed by a customer
12 to meet compliance with environmental requirements of
13 licenses issued by government?

14 MR. ROBIN WIENS: That's -- that's the
15 proposal as it currently stands.

16 MR. MICHAEL ANDERSON: Would you please
17 explain why 100 percent of the energy required to meet
18 license requirements imposed by government on the
19 customer would not be included within the baseline energy
20 consumption level?

21

22 (BRIEF PAUSE)

23

24 MR. ROBIN WIENS: One (1) of the big
25 concerns, Mr. Anderson, was fuel switching.

1 MR. MICHAEL ANDERSON: Could you please
2 elaborate, Mr. Wiens?

3 MR. ROBIN WIENS: We didn't want to look
4 at significant migration of load offset natural gas to
5 electricity to meet environmental requirements.

6 MR. MICHAEL ANDERSON: On -- on that, in
7 order to address that consideration, had Manitoba Hydro
8 considered the option of obtaining a -- an acknowledgment
9 or affirmation from the customer that no fuel switching
10 would occur in order to receive the 100 percent credit
11 for a consideration electrical consumption required to
12 the environmental license --

13 MR. ROBIN WIENS: We didn't look at that
14 specifically, Mr. Anderson.

15 MR. MICHAEL ANDERSON: And we'll explore
16 that further in the next proceeding, I would assume. The
17 application speaks for itself in terms of your
18 consideration of that.

19 You've determined that 50 percent is the
20 appropriate amount to consider to account for those
21 risks?

22 MR. ROBIN WIENS: That's what we've put
23 forward, Mr. Anderson, and I believe that in an earlier
24 part of this proceeding, a previous cross-examination of
25 this panel, we did indicate that we're certainly look --

1 willing to look at the specifics of individual cases to
2 determine whether or not it might be appropriate to look
3 at some other number. But for the purposes of this
4 application we were talking 50 percent, yes.

5

6 (BRIEF PAUSE)

7

8 MR. MICHAEL ANDERSON: And -- and further
9 to our earlier questions, I just had wanted to clarify
10 that in the baseline adjustment to recognize economic
11 benefits, new or existing customers, which is at page 3
12 of Tab 67, that that is the same process as what we have
13 described at Exhibit W as the exemption criteria?

14 Is that correct, Mr. Wiens?

15

16 (BRIEF PAUSE)

17

18 MR. ROBIN WIENS: I believe it is, Mr.
19 Anderson, but I'm -- I'm just having some difficulty
20 finding that in your reference.

21 MR. MICHAEL ANDERSON: It's -- it's -- I
22 -- it's numbered Section 3.0 on page 3 of the discussion
23 paper that appears at Mr. Peter's book of documents, cost
24 of service documents, Tab 67. And then we had that
25 summarized as Exhibit W.

1 Is that correct?

2 MR. ROBIN WIENS: Yes, that's correct.
3 I'm sorry, I was -- I was at the wrong tab.

4 MR. MICHAEL ANDERSON: No, thank you very
5 much. I appreciate the clarification and the
6 confirmation.

7 Would Manitoba Hydro please confirm that
8 in the proposed exemption criteria, as summarized at
9 Exhibit W, that there is no credit provided to a new
10 customer for environmental benefits that may be in
11 addition to those that we've already discussed in setting
12 the baseline energy consumption level?

13

14 (BRIEF PAUSE)

15

16 MR. ROBIN WIENS: It's not explicitly set
17 out here, no.

18 MR. MICHAEL ANDERSON: Thank you. Would
19 Manitoba Hydro please confirm that in the exemption
20 criteria summarized at Exhibit W, there is no credit
21 provided for employment equity targets or standards?

22 MR. ROBIN WIENS: There's nothing set out
23 in here.

24 MR. MICHAEL ANDERSON: Would Manitoba
25 Hydro please confirm that there is no credit given to

1 Aboriginal employment of a customer in the exemption
2 criteria?

3 MR. ROBIN WIENS: Confirmed.

4

5 (BRIEF PAUSE)

6

7 MR. MICHAEL ANDERSON: Did Manitoba take
8 -- Hydro take into account in establishing the proposed
9 exemption criteria presented for consideration by the
10 Board providing credits for environmental benefits,
11 employment equity and Aboriginal employment?

12 MR. ROBIN WIENS: Mr. Anderson, there's
13 nothing explicit here.

14 MR. MICHAEL ANDERSON: When Manitoba
15 Hydro considered developing the criteria for
16 presentation, were those items considered as part of a --
17 an exemption -- a go-forward exemption criteria?

18 MR. ROBIN WIENS: No, they were not.

19 MR. MICHAEL ANDERSON: I recall at the --
20 during the discussion on the MIPUG motion proceeding, Ms.
21 Ramage had indicated that the government certainly knows
22 that Manitoba Hydro is doing in respect of this rate
23 explicitly.

24 Did Manitoba Hydro receive any direction
25 from the Manitoba government in respect of the proposed

1 exemption criteria?

2 MR. VINCE WARDEN: Not to our knowledge,
3 Mr. Anderson.

4 MR. MICHAEL ANDERSON: Were there any
5 consultations between Manitoba Hydro and government
6 regarding the proposed exemption criteria?

7 MR. VINCE WARDEN: There were
8 consultations between Manitoba Hydro and government on
9 the proposal. Whether there was specific reference to
10 the exemption criteria, I assume there was, but I don't
11 have direct knowledge of that.

12

13 (BRIEF PAUSE)

14

15 MR. MICHAEL ANDERSON: And recognizing
16 that the Manitoba Hydro Board of Directors is -- has of
17 course approved the filing of the materials that are
18 currently before the Board, was there any communication
19 received from government that suggested government's
20 approval of this proposal -- the new and industrial --
21 new or expansion rate proposal?

22 MR. VINCE WARDEN: We don't have any
23 documentation other than -- than what has already been
24 filed as part of these proceedings, Mr. Anderson.

25

1 (BRIEF PAUSE)

2

3 MR. MICHAEL ANDERSON: I just wanted to
4 thank you for those responses. Finally, Mr. Chair, turn
5 to -- briefly to Tab 12 of the Application. That's the
6 report on the PUB directives. And specifically to page
7 6.

8

9 (BRIEF PAUSE)

10

11 MR. MICHAEL ANDERSON: Do you have that
12 Mr. Warden?

13 MR. VINCE WARDEN: We have it here, yes.

14 MR. MICHAEL ANDERSON: Thank you.
15 Recognizing that -- could you confirm that Item H of the
16 direction provided by the Board was to provide a report
17 on consultations with MKO and the Federal Government
18 regarding MKO's proposal for additional sharing of net
19 export revenue and its suggestion rates be charged to
20 communities would be reduced on an ongoing basis to
21 reflect the removal of the cost responsibility for
22 certain mitigation costs?

23 MR. ROBIN WIENS: We can confirm that
24 that was a directive that came out of Order 116/'07.

25 MR. MICHAEL ANDERSON: Can Manitoba Hydro

1 confirm that subsequently Indian and Northern Affairs
2 Canada had advised Manitoba Hydro that it did not view
3 itself as having a role in the further consideration of
4 this matter?

5 MR. ROBIN WIENS: That's my recollection,
6 Mr. Anderson.

7 MR. MICHAEL ANDERSON: Thank you, Mr.
8 Wiens. And subsequent to that information being provided
9 by INAC, has Manitoba Hydro proceeded to conceptually
10 develop any of the substance of the report requested by
11 the Board?

12 MR. ROBIN WIENS: No, we have not.

13

14 (BRIEF PAUSE)

15

16 MR. MICHAEL ANDERSON: Well, with that,
17 Mr. Chair, I have some off line discussions to have with
18 Manitoba Hydro, and I already -- I -- I know that I can
19 take the results of those and assemble them with the
20 record of this proceeding plus other matters of public
21 record to draw the conclusions that I would have
22 otherwise sought through cross-examination.

23 With that, those are my questions, and
24 thank you for your time, panel. And, I thank the Board.

25 THE CHAIRPERSON: Thank you, Mr.

1 Anderson.

2 Okay, Mr. Peters.

3

4 CROSS-EXAMINATION BY MR. BOB PETERS:

5 MR. BOB PETERS: Thank you, Mr. Chairman.
6 I believe that now concludes all of the questioning from
7 the Intervenors of this panel on their -- on matters
8 perhaps not including the undertakings and exhibits.

9 And Mr. Chairman, I -- I want to take this
10 opportunity to ask some questions of the panel. I will
11 indicate right off the top that as you noted, Mr.
12 Chairman, in your comments when the revenue requirement
13 panel was discharged, Mr. Warden and Mr. Surminski are
14 the last vestiges of that panel and still available to
15 assist us. I will have some questions that do reflect on
16 revenue requirement matters as well as cost of service
17 matters, and I hope that will be satisfactory to the
18 Board.

19 Mr. Surminski, the Chairman this morning--

20 MR. BYRON WILLIAMS: Mr. -- Mr. Peters,
21 if I could just interrupt for a second, and I -- I don't
22 want to interrupt anything -- just a note I have when my
23 time -- my time comes, I have a couple questions about
24 undertakings, and then there was one (1) matter
25 unfinished from my cross-examination -- a very small

1 matter. So -- but -- so I'm -- I'm not trying to preempt
2 your hour of glory, but I -- I have like five (5)
3 minutes.

4

5 CONTINUED BY MR. BOB PETERS

6 MR. BOB PETERS: Thank you, and Mr.
7 Williams is correct. He stood down to allow other
8 processes to take place, and I do appreciate he'll
9 conclude after -- after my questions.

10 Mr. Surminski, the Chairman this morning
11 welcomed back some people who went to the frozen west.
12 It looks like you weren't one (1) of those, because you
13 were busy here finalizing a sale with Wis -- Wisconsin
14 Public Service.

15 Is that right?

16 MR. HAROLD SURMINSKI: Yes, negotiations
17 have been taking place for many months on that sale, and
18 finally a term sheet has been agreed too.

19 MR. BOB PETERS: When you say a "term
20 sheet," and on -- on Manitoba Hydro Exhibit 17, you've
21 given a listing of not only the contracts, but "term
22 sheets." The "term sheet" is the step before the lawyers
23 get a hold of it and make it into a contract.

24 Is that -- is that right?

25 MR. HAROLD SURMINSKI: Yes, it's -- it's

1 agreement in general terms, but the specific legal
2 language is not worked out. And -- and there are further
3 details that are worked out in a definitive agreement, I
4 think it's called.

5 MR. BOB PETERS: Has anybody walked away
6 from a term sheet entered into with Manitoba Hydro?

7 MR. HAROLD SURMINSKI: Yes --

8 MR. ROBERT MAYER: Riel Hydro comes
9 immediately to mind.

10 MR. HAROLD SURMINSKI: Yes, I was
11 wanted --

12

13 CONTINUED BY MR. BOB PETERS

14 MR. BOB PETERS: With the exception then
15 of the Ontario Power sale that was related to the
16 Conawapa construction initially?

17 MR. HAROLD SURMINSKI: Yes, but there are
18 others.

19 MR. BOB PETERS: All right, so a term
20 sheet isn't something you can take to the bank yet?

21 MR. HAROLD SURMINSKI: Yes, that's
22 correct.

23 MR. BOB PETERS: And it's not something
24 Mr. Warden can take to the bank yet, I guess, more
25 accurately. But this Wisconsin Public Service sale is

1 for 500 megawatts starting in the year 2018 and it runs
2 for fifteen (15) years?

3 MR. HAROLD SURMINSKI: Yes, generally, I
4 think it's fourteen (14) years. It ramps up over time.
5 It -- it's a smaller quantity in the first years. It
6 gets to 500 megawatts in 2020.

7 MR. BOB PETERS: And that 500 megawatt
8 sale to Wisconsin Public Service was not previously in
9 the evidence in this GRA, was it?

10 MR. HAROLD SURMINSKI: No, it was not.
11 It -- it was something we did not have any firm
12 commitments on.

13 MR. BOB PETERS: No, understood. And
14 it's also -- that is the 500 megawatt sale to Wisconsin
15 Public Service is not included in the thirty (30) year
16 power resource plan that's found in Tab 15 of PUB Exhibit
17 12, which is the book of documents that I had showed you
18 with the revenue requirement panel?

19 MR. HAROLD SURMINSKI: That's right. It
20 has now been included in our last resource plan.

21 MR. BOB PETERS: So this term sheet with
22 Wisconsin Public Service will now be added to the list of
23 export term sheets that you have shown on PUB -- I'm
24 sorry, on Manitoba Hydro Exhibit 27; that would be a fair
25 place to park that for this Hearing?

1 MR. HAROLD SURMINSKI: Yes. We would
2 include it there.

3 MR. BOB PETERS: All right. I'll come
4 back to this sale, but I want to refresh the Board's
5 understanding of the 250 megawatt sale to Minnesota Power
6 and that was announced, I believe, in January of 2008.

7 Correct, Mr. Surminski?

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

10 MR. BOB PETERS: That was announced after
11 you had done your filing of the GRA materials?

12 MR. HAROLD SURMINSKI: Yes.

13 MR. BOB PETERS: For purposes of system
14 planning, Mr. Surminski, does Manitoba Hydro assume that
15 the term sheets will result in fixed contracts or
16 definitive agreements?

17 MR. HAROLD SURMINSKI: Yes.

18 MR. BOB PETERS: Am I correct that with
19 the 250 megawatt sale announced in January of '08 to
20 Minnesota Power, Manitoba Hydro will not only need
21 Wuskwatim to service that contract but will also need
22 Conawapa energy to meet the load?

23 MR. HAROLD SURMINSKI: Yes.

24 MR. BOB PETERS: Is it also correct that
25 the 250 megawatt sale to Minnesota announced in January

1 of 2008, that sale can be met with the existing
2 transmission capabilities of Manitoba?

3 MR. HAROLD SURMINSKI: Yes, it could be,
4 although a -- a transmission line was part of that
5 agreement.

6 MR. BOB PETERS: Well, let's understand
7 that. The transmission line that was part of that
8 agreement was an intertie.

9 Is that what you're referring to?

10 MR. HAROLD SURMINSKI: Yes.

11 MR. BOB PETERS: But Manitoba Hydro
12 didn't need and doesn't need Bipole 3 for the Minnesota
13 Power 250 megawatt sale announced in January of 2008?

14 MR. HAROLD SURMINSKI: Well, new
15 transmission is required with a new generation. That
16 sale was -- that's internal transmission -- that sale was
17 contingent on -- on Manitoba Hydro developing new hydro
18 generation.

19 MR. BOB PETERS: It was con -- contingent
20 on developing -- well -- while Manitoba Hydro didn't need
21 to develop new transmission for the 250 megawatt sale, it
22 did so as part of a bigger picture.

23 Would you agree with that?

24 MR. HAROLD SURMINSKI: Yes, I would agree
25 with that.

1 MR. BOB PETERS: And -- and the bigger
2 picture includes the use of Bipole 3 and other
3 transmission facilities to bring additional power from
4 the north down to southern Manitoba?

5 MR. HAROLD SURMINSKI: Yes.

6 MR. BOB PETERS: And you specifically
7 referenced that the sale to Minnesota is contingent on
8 construction of a transmission line, but that would be a
9 transmission line from -- would it be Riel to the US
10 border?

11 MR. HAROLD SURMINSKI: Yes, I think that
12 would be the -- the terminal.

13 MR. BOB PETERS: If I wanted to go
14 sightsee and look at Riel, where would I find that?

15 MR. HAROLD SURMINSKI: It's along --
16 along the floodway on the --

17 MR. BOB PETERS: South -- south perimeter
18 highway?

19 MR. HAROLD SURMINSKI: No, the east
20 perimeter.

21 MR. BOB PETERS: Okay. And what's
22 envisioned for the Minnesota Power --

23 MR. ROBERT MAYER: Could we -- could we
24 get a little bit more specific on that? Exactly where on
25 the flood way between Highway 1 and Highway 15? Or south

1 of 15 or north of Number 1?

2 MR. VINCE WARDEN: The -- the -- it's
3 just north of Deacon's Corner on the perimeter -- or on
4 Number 1 Highway if you know where that is.

5 MR. ROBERT MAYER: I do, thank you.

6 MR. VINCE WARDEN: Okay.

7 MR. BOB PETERS: In behind the reservoir.
8 The City of Winnipeg reservoir? No? Okay, I wasn't
9 serious about going sightseeing but we may have to rent a
10 bus --

11 MR. ROBERT MAYER: I can take you to
12 Deacon's Corner.

13

14 CONTINUED BY MR. BOB PETERS:

15 MR. BOB PETERS: All right. So we have
16 an idea that a new transmission line to -- to supply the
17 250 megawatt sale to Minnesota Power is planned to be
18 constructed from the Riel Station down to the US border,
19 Mr. Surminski?

20 MR. HAROLD SURMINSKI: Yes.

21 MR. BOB PETERS: And there's an
22 expectation and a requirement for Manitoba Hydro that a
23 US transmission line also will be built, correct?

24 MR. HAROLD SURMINSKI: Yes.

25 MR. BOB PETERS: Before we go to the US

1 side of the border, has the Canadian side of the border
2 citing for this transmission been -- been completed?

3 MR. HAROLD SURMINSKI: No. I believe the
4 -- it's an idea on principle right now.

5 MR. BOB PETERS: And is it an idea in
6 principle or can you estimate a cost per kilometre for
7 construction of that -- that inter-tie?

8 MR. HAROLD SURMINSKI: No, I cannot
9 estimate that.

10 MR. BOB PETERS: The cost of that new
11 transmission line is not included in the capital
12 expenditures forecast set before the Board is it?

13 MR. HAROLD SURMINSKI: No, it is not.

14 MR. BOB PETERS: Do you recall roughly
15 the cost of the Rugby line?

16

17 (BRIEF PAUSE)

18

19 MR. HAROLD SURMINSKI: No. Nobody here
20 has a recollection of the number. We could undertake to
21 provide that.

22 MR. BOB PETERS: Well I'm not -- I'm not
23 looking for more undertakings, Mr. Surminski. I'm -- I'm
24 just wanting to know if -- if you can put a ballpark
25 around the capital costs of that transmission line to

1 service the Minnesota Power 250 megawatt sale.

2 And I was wondering if the Rugby cost
3 would be in the same ballpark.

4 MR. HAROLD SURMINSKI: We're guessing
5 it's in the neighbourhood of \$30 million.

6 MR. BOB PETERS: And again, you haven't
7 included that in the current capital expenditures
8 forecast, but that will be included in the next one?

9 MR. HAROLD SURMINSKI: Yes.

10 MR. BOB PETERS: And when you have a line
11 from Riel to the US border, and recognizing the citing
12 hasn't been finalized, has a decision been made whether
13 that line will be alternating current or direct current?

14 MR. HAROLD SURMINSKI: A decision has not
15 been fully made. It's -- it's likely alternating
16 current, but there were proposals to investigate each
17 HVDC as I mentioned earlier.

18 MR. BOB PETERS: This will show you the
19 depth of my engineering knowledge, but if -- if Manitoba
20 Hydro has HVDC to the US border, the US side will either
21 have to convert it or also -- also transmit it as DC
22 current, correct?

23 MR. HAROLD SURMINSKI: Yes. But one (1)
24 proposal was a DC line into the Fargo area.

25 MR. ROBERT MAYER: If you're going to go

1 with DC, you haven't -- there's no reason to funnel it
2 through the Riel Station then is there?

3 I mean, I understand converter stations
4 are there to convert DC power to AC power or AC power to
5 DC power. So if you're going to run a DC transmission
6 line to the American border, there's no reason you have
7 to go anywhere near Riel is there?

8 MR. HAROLD SURMINSKI: Yes, that's
9 correct, but that's getting into transmission planning
10 issues which I am not fully familiar with.

11

12 CONTINUED BY MR. BOB PETERS:

13 MR. BOB PETERS: Well I just -- maybe
14 again for my understanding, if -- if the 250 megawatt
15 sale to Minnesota is going to be routed to the border
16 whether it's -- let's assume it's going to be a direct
17 current line, you still need to construct a dedicated
18 line, as I understand it, to the border to provide the
19 energy for this sale?

20 MR. HAROLD SURMINSKI: Yes, it's also my
21 understanding that the -- that there will be a single
22 transmission line before the Wisconsin and -- and the MP
23 sale. They will actually piggy back on each other.

24 MR. BOB PETERS: All right, and that --
25 and I was going to actually head there, because when we

1 get to the US side of the -- the border for building
2 transmission, they'll need to accept the 250 megawatt
3 sale to Minnesota plus the recently announced 500
4 megawatt sale to Wisconsin?

5 MR. HAROLD SURMINSKI: Yes, that's
6 correct.

7 MR. BOB PETERS: And -- and can you tell
8 the Board who is expected to construct the transmission
9 line in the United States?

10

11 (BRIEF PAUSE)

12

13 MR. HAROLD SURMINSKI: It's -- it is the
14 responsibility of the counter party. It's -- there will
15 be a request for transmission -- for new transmission in
16 the US. There is a process in MISO for requesting
17 additional transmission, and it goes through -- through
18 that process.

19 MR. BOB PETERS: All right, and can the
20 US utility in MISO own their own transmission facilities?

21

22 (BRIEF PAUSE)

23

24 MR. HAROLD SURMINSKI: Yes, we believe
25 that utilities can own, but the -- the system operator --

1 the independent system operator becomes the -- the
2 controlling entity of transmission.

3 MR. BOB PETERS: Okay, I appreciate that.
4 Thank you. Because one (1) transmission line is
5 envisioned for both the Minnesota Power sale and the
6 Wisconsin Power sale, that's envisioned also on the
7 Canadian side of the border.

8 Is that correct?

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

11 MR. BOB PETERS: And then it's also
12 envisioned on the US side of the border?

13 MR. HAROLD SURMINSKI: Yes.

14 MR. BOB PETERS: And so now you've got
15 two (2) counter parties who are using Manitoba
16 electricity on these sales, and you're not aware as to
17 who will actually construct and who will own the
18 transmission facilities? That's really the counter
19 parties concern?

20 MR. HAROLD SURMINSKI: Yes, on the US
21 side, it's the counter parties.

22 MR. BOB PETERS: When you say it's the
23 counter parties concern, are you saying it's up to
24 Minnesota Power, or Wisconsin Power, or is there some
25 other transmission carrier that's an option?

1 MR. HAROLD SURMINSKI: The -- those two
2 (2) utilities will be requesting the transmission service
3 -- the transmission -- the development of -- of
4 transmission facilities in the US. It goes through a
5 request process for constructing new facilities. So they
6 will be the -- the primary proponents behind it.

7 MR. BOB PETERS: But a -- but a third
8 party to this whole arrangement could be the ultimate
9 transmission builder, and they will charge tariff rates
10 to carry the electricity to Wisconsin and Minnesota?

11 MR. HAROLD SURMINSKI: Yes, that is a
12 possibility.

13 MR. BOB PETERS: When we threw out the
14 ballpark figure of \$30 million as a -- a rough cost of
15 the transmission capabilities on the Canadian side of the
16 border, that's a 100 percent Manitoba Hydro's
17 responsibility?

18 MR. HAROLD SURMINSKI: Yes, that's
19 correct.

20 MR. BOB PETERS: And Manitoba Hydro has
21 zero (0) responsibility for transmission costs south of
22 the border?

23 MR. HAROLD SURMINSKI: Yes.

24 MR. BOB PETERS: And when -- and when we
25 threw out the \$30 million -- that \$30 million number, and

1 I'm not going to -- I'm not going to pull out this
2 transcript years from now, Mr. Surminski and wave it at
3 you, but does that include both the sale to Minnesota and
4 Wisconsin, or is it just simply the Minnesota sale?

5 MR. HAROLD SURMINSKI: It would be both.

6

7 (BRIEF PAUSE)

8

9 MR. BOB PETERS: Can you indicate to the
10 Board -- let me just do the math -- that \$30 million will
11 get you from -- from Riel let's say down to the US border
12 -- maybe that's 90 or a 100 kilometres.

13 How many kilometres need to be constructed
14 on the American side to facilitate this transaction?
15 These two (2) transactions I should say.

16 MR. HAROLD SURMINSKI: It's difficult for
17 me to respond to that. It's -- it does not have to go
18 all the way to Wisconsin. It -- it has to go just deeper
19 into the US so I would guess something like 200 miles
20 into the US would -- would be sufficient.

21 MR. BOB PETERS: Let's focus a little bit
22 more on the 500 megawatt sale to Wisconsin. That's
23 starting in 2018 you've told us, Mr. Surminski?

24 MR. HAROLD SURMINSKI: Yes. And this
25 sale also is contingent on developing new hydro

1 generation in Manitoba.

2 MR. BOB PETERS: Well you've looked at my
3 notes. Does that -- are you telling the Board albeit it
4 subtly, that that will now trigger the requirement for
5 Gull, also known as Keeyask Generating Station, to be
6 constructed?

7 MR. HAROLD SURMINSKI: There's a
8 requirement for Manitoba Hydro to develop a certain
9 quantity of new generation in Manitoba associated with
10 this sale.

11 MR. BOB PETERS: Some lawyers would call
12 that a non-answer, but I'm not going to go there. Let's
13 just -- just make sure the Board is with us, Mr.
14 Surminski.

15 To do the 250 megawatt sale to Minnesota,
16 you've told the Board that not only do you need Wuskwatim
17 but also energy from Conawapa.

18 Is that right?

19 MR. HAROLD SURMINSKI: It's not
20 specifically tied to a particular resource. It could be
21 either Keeyask or Conawapa and was a new resource as
22 required.

23 MR. BOB PETERS: And that's fair --

24 MR. ROBERT MAYER: Just one (1)?

25 MR. HAROLD SURMINSKI: If we're talking

1 about the Minnesota Power sale.

2 MR. ROBERT MAYER: We're not. You've
3 been asked about the combination of the two (2). Do we
4 now need two (2) new sources of generation if you count
5 Wisconsin and Minnesota?

6 MR. HAROLD SURMINSKI: Is that the
7 question, Mr. Peters? It's for Mr. Mayer, okay.

8

9 CONTINUED BY MR. BOB PETERS:

10 MR. BOB PETERS: Yeah. That -- that's
11 where we're going.

12 MR. HAROLD SURMINSKI: Yes, we do need
13 more than just Conawapa for serving the two (2) sales.

14 MR. BOB PETERS: Or you need more than
15 just Gull to service the two (2) sales?

16 MR. HAROLD SURMINSKI: That's correct.

17 MR. BOB PETERS: Or Keeyask, more
18 appropriately. But you haven't said that you need both
19 Conawapa and Keeyask. Am I correct in understanding how
20 you're walking a somewhat tight rope on this?

21 MR. HAROLD SURMINSKI: It appears that --
22 it -- it's not perfectly clear that we need both, but the
23 terms of the term sheet do indicate that we need more
24 than -- it looks like the total of the two (2) hydraulic
25 resources is what is required.

1 MR. BOB PETERS: And if you need the
2 total of the two (2) generating stations of Keeyask and
3 Conawapa to serve both the Wisconsin and the Minnesota
4 sale, it's just that Manitoba Hydro hasn't made the final
5 decision that it will build both Keeyask and Conawapa?

6 MR. HAROLD SURMINSKI: Yes. As I said,
7 this term sheet is contingent on Manitoba Hydro
8 developing this new hydro generation as well as the
9 transmission line to the border.

10 MR. BOB PETERS: All right. And if for
11 some reason only one (1) of Keeyask or Conawapa was to be
12 built, you would still need a second generating resource
13 to meet your export commitments that you've just
14 negotiated in the last five (5) months?

15 MR. HAROLD SURMINSKI: Yes. But each of
16 those sales is contingent on generation. So if for some
17 reason one (1) of those generation resources is not
18 built, one (1) of the sales or only a portion of the sale
19 may be met.

20 MR. BOB PETERS: All right. Now let's
21 make the assumption that -- that Manitoba Hydro is going
22 to proceed with both sales. You've indicated to the
23 Board that certainly one (1) of those two (2) will be
24 needed; one (1) of Conawapa and Keeyask will be needed,
25 plus there will have to be a second resource added,

1 correct?

2 MR. HAROLD SURMINSKI: Yes, that's
3 correct.

4 MR. BOB PETERS: If it wasn't -- if it
5 wasn't both Keeyask and Conawapa, what options could that
6 include and still honour your commitments and your term
7 sheets?

8 MR. HAROLD SURMINSKI: For example, it
9 may include a non-hydro resource such as a combined cycle
10 combustion turbine. Although we haven't specifically
11 been able to get, you know, exact inform -- judgment, I
12 guess, or infor -- information back on whether if we sup
13 -- if we had a generation that was not hydro, if it were
14 gas fired, whether we would meet the -- the spirit of
15 this term sheet because Wisconsin, in fact, wants
16 renewable energy.

17 And they are trying to get their renew --
18 renew -- the RPS, Renewable Portfolio Standards, to
19 recognize hydro -- large hydro like Manitoba Hydro's
20 qualifying as -- as meeting their Renewable Portfolio
21 Standards which they -- which may be a 25 percent
22 requirement of their generation.

23 MR. BOB PETERS: All right, and I -- I
24 appreciate we're now into some speculative areas, Mr.
25 Surminski and Mr. Warden, but one (1) of the benefits

1 that Manitoba Hydro has extolled when it's selling it's
2 power, is the fact that it is from renewable energy and
3 doesn't have the same greenhouse gas problem that -- that
4 thermal generation has.

5 MR. HAROLD SURMINSKI: Yes, that's
6 correct.

7 MR. BOB PETERS: And so there becomes a
8 negotiating point, if I will, between Manitoba Hydro and
9 Wisconsin over whether natural gas still provides
10 Wisconsin with the source of energy that will be
11 appropriate under their regime.

12 MR. HAROLD SURMINSKI: Yes, and just
13 because we install a -- a natural gas plant does not mean
14 that we would be operating it for significant periods of
15 time. It would be there more for drought flow conditions
16 and lower flow conditions.

17 MR. BOB PETERS: So I take it that the
18 sale is not contingent on Manitoba Hydro building
19 renewable source of generation, but rather the load has
20 to be met for Wisconsin through renewable energy from
21 Manitoba.

22 Would that be fair?

23 MR. HAROLD SURMINSKI: Yes, recognizing
24 that energy from Manitoba comes from the system, and --
25 and the bulk of it is from hydroelectric resources.

1 MR. ROBERT MAYER: Also recognizing the
2 fact we've heard a number of times in this hearing, that
3 you can't tell where the electrons go and where they come
4 from, so does -- if you have to build gas generation to
5 supply Wisconsin, are you not defeating the purpose and
6 at least, the spirit in which Wisconsin appears to be
7 buying this power?

8 MR. HAROLD SURMINSKI: Yes, that could be
9 the case. But recognizing how often the -- the
10 generation that they actually receive would be coming
11 from gas generation would be a factor in that judgment,
12 and...

13 MR. ROBERT MAYER: I don't recall ever
14 seeing in any of your capital requests something to do
15 with combined cycle. In fact, I recall in a number of
16 other hearings that -- I recall Mr. Warden saying if we
17 didn't have the northern power we would have had to gone
18 there, but we have northern power so we're not going
19 there.

20 When did this thought of substituting a
21 combined cycle gas generator instead of further hydro
22 generation fall into the scope of possibility?

23 I certainly didn't see any of that in the
24 announcements that I heard and the number of questions
25 that were put to both Hydro and to government.

1 MR. HAROLD SURMINSKI: No, that is --
2 you're right. We are primarily interested in large hydro
3 developments, but there may be a situation, for example,
4 if we are not able to get our next hydro plant on before
5 2022, we have deficits in -- in five (5) years before
6 that, and we may -- may seek alternatives like a combined
7 cycle gas plant, because it can be built in a short
8 period of time and -- and --

9 MR. ROBERT MAYER: I take it then you're
10 ensuring against being held to ransom on the two (2)
11 major future generating stations -- future hydro
12 generating stations?

13 MR. VINCE WARDEN: Mr. Mayer, we still
14 are in the process of negotiations so...

15
16 CONTINUED BY MR. BOB PETERS:

17 MR. BOB PETERS: Mr. Surminski, isn't
18 Conawapa twice the installed capacity of Keeyask?

19 MR. HAROLD SURMINSKI: Yes and a little
20 more.

21 MR. BOB PETERS: So Keeyask is six twenty
22 (620). Conawapa may be 1400 megawatts?

23 MR. HAROLD SURMINSKI: Yes, in that
24 ballpark.

25 MR. BOB PETERS: And Wuskwatim is two

1 hundred (200)?

2 MR. HAROLD SURMINSKI: Two hundred (200),
3 right.

4 MR. BOB PETERS: If the -- is there
5 sufficient energy from just Conawapa to meet the sale
6 through to both Wisconsin and Minnesota -- one (1) was
7 250 megawatts, one (1) was 500 megawatts -- if that came
8 out of Conawapa?

9 MR. HAROLD SURMINSKI: I have not checked
10 exactly the balance here. It probably is, but we have
11 other sales out in time like the Northern States Power
12 sale extension.

13 MR. BOB PETERS: What you're telling the
14 Board, Mr. Surminski, is that even if you could meet both
15 of those two (2) new sales with one (1) new Northern
16 Manitoba generating station -- hydro generating station -
17 - there are other system requirements that are forecast
18 to be needed such that some additional generating
19 capacity will be needed over and above that?

20 MR. HAROLD SURMINSKI: Yes. And the
21 growth in Manitoba domestic load is a significant factor
22 over the next ten (10) years.

23 MR. BOB PETERS: All right. Again,
24 ballpark price, what's the sticker price on a combined
25 cycle combustion turbine? And I appreciate they come in

1 different -- different models but --

2 MR. ROBERT MAYER: One that could match
3 either of the generating stations. Let's take the small
4 one, Keeyask, 600 megawatts.

5

6 (BRIEF PAUSE)

7

8 MR. HAROLD SURMINSKI: Mr. Peters, I
9 don't have details at the top my head on that, and we're
10 -- we're estimating a thousand dollars (\$1,000) a
11 kilowatt works out to something like \$600 million for a
12 600 megawatt plant.

13

14 CONTINUED BY MR. BOB PETERS:

15 MR. BOB PETERS: Keeyask would be \$4
16 billion for the 620 megawatt output of Keeyask?

17 MR. VINCE WARDEN: Slightly higher than
18 that but that's for purposes of our discussion, that's
19 pretty close.

20 MR. BOB PETERS: When the sales are
21 negotiated, does the -- does Manitoba Hydro take into
22 account the costs it will need to incur to serve that
23 load or do you simply use average forecast export prices?

24 MR. HAROLD SURMINSKI: You're talking
25 about costs or revenues here?

1 MR. BOB PETERS: Well, I was talking when
2 you're negotiating the -- the contracts with your counter
3 parties.

4 MR. HAROLD SURMINSKI: We base it on our
5 forecast of export revenues, yes. The forecast of export
6 -- of long term product or dependable energy product for
7 a long term firm type of product is what we -- we base
8 our -- our price on.

9 MR. BOB PETERS: And in terms of two (2)
10 possible generating sources, one (1) being the combined
11 cycle combustion turbine, the other being Keeyask, the
12 cost of the energy that's output is how -- how
13 comparable?

14 MR. HAROLD SURMINSKI: Well, it's the
15 combination of capital cost with a combined cycle, you
16 have a lower capital cost but a high fuel cost. On the
17 hydro plant, you have a high capital cost and almost no
18 fuel cost other than the water rentals.

19 So it's the -- in the end, that's --
20 that's the balance and -- and certain capital costs the
21 two (2) work out to be very similar.

22 MR. BOB PETERS: And included in that is
23 an assumption as to what the natural gas cost is going to
24 be going forward?

25 MR. HAROLD SURMINSKI: Yes, that's a big

1 factor.

2 MR. BOB PETERS: A big risk.

3 MR. HAROLD SURMINSKI: Yes, a risk also.

4 MR. BOB PETERS: Neither the 600 million
5 ballpark figure for a combined cycle combustion turbine
6 or the 4 billion plus that Mr. Warden told me about is
7 included in the capital expenditures forecast, is it?

8 MR. HAROLD SURMINSKI: No, we have not
9 included those at all yet.

10 MR. BOB PETERS: But the next time you
11 prepare a capital expenditures forecast, it's going to
12 have to be revised to reflect the final decisions that
13 the Corporation makes and how it's going to serve these
14 sales assuming they do come to fruition.

15 MR. HAROLD SURMINSKI: Yes, that's
16 correct.

17 MR. BOB PETERS: On the back of the
18 envelope where I do most of my math, Mr. Surminski, would
19 I be correct in assuming that the cost out of Keeyask
20 would be in the range of seven (7) to eight (8) cents a
21 kilowatt hour and at today's gas prices on the combined
22 cycle gas turbine, it would be more like ten (10) cents a
23 kilowatt hour?

24 MR. HAROLD SURMINSKI: Yes, those numbers
25 sound reasonable.

1 MR. BOB PETERS: For the 500 megawatt
2 sale to Wisconsin, Manitoba Hydro is going to need Bipole
3 3 to bring additional energy down if the generating
4 source is in northern Manitoba?

5 MR. HAROLD SURMINSKI: Yes, certainly for
6 the -- the two (2), Conawapa and Keeyask, we definitely
7 need Bipole 3 and even more.

8 MR. BOB PETERS: Does that mean, Mr.
9 Surminski, that if the Corporation proceeds with Keeyask
10 and Conawapa, there will not only be Bipole 3 needed but
11 also Bipole 4?

12 MR. HAROLD SURMINSKI: No, it's a
13 relatively small increment of additional energy, and I
14 think earlier I'd stated that it would likely be AC
15 transmission for the remaining.

16 MR. BOB PETERS: I see, so rather than --
17 than bringing down the -- the total amount on the DC
18 system, you have an ability to -- to take it in
19 alternating current and put it on the grid?

20 MR. HAROLD SURMINSKI: Yes, and it would
21 be in the order of 400 megawatts as -- as the additional
22 alternating current transmission that would be required.

23

24

(BRIEF PAUSE)

25

1 MR. BOB PETERS: And the additional cost
2 for that transmission that you just mentioned is not
3 included in the capital expenditure forecast, is it?

4 MR. HAROLD SURMINSKI: No, it's not
5 included, that's right.

6 MR. BOB PETERS: And so needless to say
7 the IFF '01 that's before the board in this GRA then,
8 doesn't include the resources needed to serve the two
9 export sales, that is the 250 megawatt sale to Minnesota
10 and the 500 megawatt sale to Wisconsin, does it?

11 MR. HAROLD SURMINSKI: That -- that's
12 correct, yes. We -- the resource plan is based on domes
13 -- on current requirements without those two sales.

14 MR. BOB PETERS: And in addition, the
15 power resource plan that runs for some thirty-three (33)
16 years to 2042 doesn't include Keeyask as an assumed power
17 resource?

18 MR. HAROLD SURMINSKI: Right, not for the
19 -- the base case without these export sales.

20 MR. BOB PETERS: Mr. Warden, if these two
21 transactions come to fruition, and I'm certain Manitoba
22 Hydro hopes and expects they will, there'll be some
23 significant changes then on the Corporation's financial
24 statements?

25 MR. VINCE WARDEN: Yes, I agree.

1 MR. BOB PETERS: And does Manitoba Hydro
2 have, what I'll call and not meant in any other way then
3 just a word, an internal IFF on a go-forward basis
4 looking at some of these possibilities?

5 MR. VINCE WARDEN: No, we are actually in
6 the process of putting something together as -- as we
7 speak to -- to reflect the Wisconsin sale and the
8 addition of Keeyask into the -- that mix.

9 MR. BOB PETERS: It sounds like that's
10 IFF '07-2?

11 MR. VINCE WARDEN: Yes, although as we
12 approach the fall, it will probably blend into IFF '08-1.

13 MR. BOB PETERS: But you're going to
14 prepare an intermediate document at least for internal
15 discussion?

16 MR. VINCE WARDEN: That -- that is the
17 plan, yes.

18 MR. BOB PETERS: Is that a document that
19 Manitoba Hydro would be prepared to share with the board?

20 MR. VINCE WARDEN: We haven't
21 contemplated that at this time, Mr. Peters.

22 MR. BOB PETERS: Can you take my question
23 as a request for you to contemplate that, and let the
24 board know what -- the corporate view is on that -- on
25 that request?

1 MR. VINCE WARDEN: Sure, we'll do that.

2 MR. BOB PETERS: But -- but you will
3 agree on a -- on a high level, Mr. Warden, that there's
4 some pretty significant changes to IFF '07 if these
5 transactions proceed?

6 MR. VINCE WARDEN: Oh, absolutely, yes, I
7 would agree with that.

8 MR. BOB PETERS: And not only that, but
9 if you go out past, I'm looking at Tab 10 in the book of
10 documents, if you go out past the planning horizon of IFF
11 '07-1, there's some fairly major adjustments or impacts
12 that are going to be seen in the years just following
13 2017.

14 MR. VINCE WARDEN: Agreed. Just a point
15 of clarification though, the -- what's before this board,
16 is a rate application affecting the current fiscal year.
17 The request as you know was for a rate increase effective
18 April the 1st of 2008. The short term forecast will not
19 be affected by these sales in any way.

20 So I just want to be clear that a refiling
21 would not be necessary to support our rate application.

22 MR. BOB PETERS: And that's -- I accept
23 that as a valid point, Mr. Warden, and I'm certain the
24 board has that point. But in terms of looking at the
25 future, the future's going to look different in IFF '08-1

1 then it does in IFF '07-1.

2 MR. VINCE WARDEN: It -- it does, and my
3 -- or it will that is and my point is, that it's the long
4 term future that we're talking about. The short term
5 future I don't expect will look too different other than
6 what may be affected by -- or probably more so affected
7 by current water conditions.

8 MR. BOB PETERS: When I, when you
9 indicated that you're putting something together to -- to
10 get a more clear view of the financial future, Mr.
11 Warden, I take it that financial future goes out past the
12 end of IFF '07-1 and goes out for maybe fifteen (15)
13 years as opposed to ten (10)?

14 MR. VINCE WARDEN: Yes, for purposes of
15 scenario work that we do, analysis, we do go out twenty
16 (20) years.

17 MR. BOB PETERS: Thank you, Mr. Warden
18 and you can think that over and get back to the board
19 through your counsel and that would be appreciated.

20 MR. VINCE WARDEN: I will do that.

21 MR. BOB PETERS: Since I mentioned
22 Conawapa, I want to just turn to that sale, and we talked
23 about term sheets not coming to fruition. Mr. Warden,
24 Mr. Surminski, that Conawapa review and the possible
25 Ontario Hydro sale that did not occur resulted in claims

1 by Manitoba Hydro for compensation from Ontario Hydro.

2 Is that correct?

3 MR. VINCE WARDEN: Going back to the
4 cancelled sale? Yes --

5 MR. BOB PETERS: Yes.

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

7 MR. BOB PETERS: And in fact I think
8 you've told the Board that there may have even been
9 litigation over that point.

10 MR. VINCE WARDEN: Yes, yes there was.
11 There was a settlement reached before it went too far,
12 but yes, there was litigation at that time.

13 MR. BOB PETERS: Were the claims -- can
14 you -- can you tell the Board whether the claims for
15 reimbursement of costs included not only the Conawapa
16 costs but also Bipole 3 costs?

17 Do you recall that?

18 MR. VINCE WARDEN: My recollection is,
19 Mr. Peters, it only related to the costs incurred with
20 respect to Conawapa at that time.

21 MR. BOB PETERS: And you've indicated to
22 the Board that that matter has now been settled in full
23 or are there still payments expected or --

24 MR. VINCE WARDEN: It was settled a
25 number of years ago, yes.

1 MR. BOB PETERS: And -- and as a result
2 of that settlement, if monies were paid, those would have
3 been reflected in the financial statements?

4 MR. VINCE WARDEN: They were, yes.

5 MR. BOB PETERS: Do you recall what year
6 that was?

7

8 (BRIEF PAUSE)

9

10 MR. VINCE WARDEN: My memory on the date
11 is -- is not good, Mr. Peters. I -- I'm -- I would have
12 to -- I would have to get back to you on that one if --
13 if it's important to you.

14 MR. ROBERT MAYER: Try and decide
15 where's --

16 MR. VINCE WARDEN: Our new -- our new
17 member in the back row. Mid '90s, if that's close
18 enough, is -- mid to late '90s. I'll take probably in
19 the '90s.

20 MR. ROBERT MAYER: I can tell you it was
21 between 1988 and 1999. I know that for a fact. I
22 thought it was back in either the back end of the '80s
23 and -- or the front end of the '90s, but...

24

25 (BRIEF PAUSE)

1 CONTINUED BY MR. BOB PETERS:

2 MR. BOB PETERS: Mr. Warden, I don't want
3 you undertaking any further on that, but in terms of
4 proceeding with Conawapa or Keeyask, the first time
5 Conawapa came on the radar screen, there was an economic
6 justification hearing to determine the merits of that
7 proceeding, correct?

8 MR. VINCE WARDEN: Yes, I think we
9 referred to that as our Capital Plans Hearing. Yes, that
10 is correct.

11 MR. BOB PETERS: And does the Corporation
12 foresee a need for another capital plans hearing to deal
13 with construction post-Wuskwatim?

14 MR. VINCE WARDEN: I would say not, Mr.
15 Peters.

16 MR. BOB PETERS: Would you be relying on
17 -- for Conawapa the -- the previous -- the previous
18 decisions and reasons and justifications back at the
19 initial capital cost hearing?

20 MR. VINCE WARDEN: Well, I think there
21 were different circumstances at the time that -- that
22 don't necessarily apply today.

23 MR. ROBERT MAYER: Not the least of which
24 being that you are going to have to, in both of those
25 cases, go through a full clean environment commission

1 hearing, I trust.

2 MR. VINCE WARDEN: Yes, I expect so, Mr.
3 Mayer.

4

5 CONTINUED BY MR. BOB PETERS:

6 MR. BOB PETERS: Mr. Warden, still
7 keeping with you if I could, sir, changing gears,
8 Manitoba Hydro has recently been reported to be making a
9 contribution to the Canadian Museum of Human Rights.

10 You are aware of that?

11 MR. VINCE WARDEN: Yes, I am.

12 MR. BOB PETERS: And do you know the
13 specific amount that's -- that's been committed, sir?

14 MR. VINCE WARDEN: Yes. The -- the total
15 is -- is \$1.15 million -- one million one hundred and
16 fifty thousand dollars.

17 MR. BOB PETERS: And over what time
18 period is that donation to be made?

19 MR. VINCE WARDEN: The commitment was to
20 be -- was for payments to be made over a seven (7) year
21 period commencing -- I might just add, commencing in
22 2006.

23 MR. BOB PETERS: Does that suggest then
24 that some payments have already been made or they haven't
25 yet been made but the --

1 MR. VINCE WARDEN: Yes. There were
2 commitments made in 2006 for a payment schedule of seven
3 hundred and fifty thousand dollars (\$750,000) per year
4 over a seven (7) year period.

5 Two (2) payments were made in 2006 and
6 2007 and this year in 2008 a further commitment of four
7 hundred thousand dollars (\$400,000) was made to bring the
8 total up to \$1 million and 150 thousand.

9 MR. BOB PETERS: I might have misheard
10 you, Mr. Warden.

11 MR. VINCE WARDEN: I -- I may have
12 misspoke there. The -- it was seven hundred and fifty
13 thousand dollars (\$750,000) over seven (7) years. A
14 hundred and seven thousand dollars (\$107,000) per year.
15 Sorry about that.

16 MR. BOB PETERS: All right, thank you.
17 When it comes to donations to charitable organizations
18 and events as well as community sponsorships, is that a
19 matter that the Corporation deals with by way of a
20 policy, sir?

21 MR. VINCE WARDEN: Yes, our policy is
22 generally that we don't do it with -- we don't make
23 charitable donations except as approved by the president
24 and CEO.

25 So -- in virtually all cases --

1 essentially all cases any donation or grant is approved
2 through the president's office. There are some minor
3 exceptions to that in local communities where there might
4 be some incidental donations made to -- in the hundreds
5 of dollars perhaps to small charitable events.

6 But, for the most, part all donations are
7 approved through the president's office.

8 MR. BOB PETERS: And are you aware as to
9 whether there is an annual budget for that or is it dealt
10 with ad hoc?

11 MR. VINCE WARDEN: It is dealt with
12 pretty much ad hoc. The president has within his budget
13 a contingency amount and this is one of the draws on that
14 contingency amount.

15 MR. BOB PETERS: In addition to -- those
16 types of donations Manitoba Hydro is not paying any
17 income tax, correct?

18 MR. VINCE WARDEN: Correct.

19 MR. BOB PETERS: But it's making grants
20 in lieu of taxes to municipalities?

21 MR. VINCE WARDEN: We are.

22 MR. BOB PETERS: And what's the rationale
23 for doing that if there's not a legal requirement to do
24 that?

25 MR. VINCE WARDEN: I'm informed, Mr.

1 Peters, that that is, in fact, by Order in Council so
2 there is a legal requirement to make those grants in lieu
3 of taxes.

4 MR. BOB PETERS: So there's a recognition
5 that while not taxable in the municipality, the
6 Corporation should contribute revenues to the
7 municipality for its operations in that municipality?

8 MR. VINCE WARDEN: It does do that, yes.

9 MR. BOB PETERS: I want to turn to Mr.
10 Surminski for a minute on Exhibit 48, sir, and you may
11 need to look at this one.

12 But this dealt with the Wuskwatim Power
13 Limited partnership and some of the filings that were
14 made and I don't, for a minute, think that Mr. Page
15 wouldn't be the best witness on this but when I look at
16 the information provided to the Board and I may have you
17 at a disadvantage if you don't have it in front of you,
18 Mr. Surminski or Mr. Warden.

19 There were two (2) exhibits. One was
20 Exhibit 48 and then, subsequently, Exhibit 48-1 was
21 provided and we -- we dealt with those.

22 But on -- on reflection there would be,
23 Mr. Surminski, transmission losses in moving the
24 electrons from Wuskwatim to southern Manitoba, or at
25 least getting it on to the grid, correct?

1 MR. HAROLD SURMINSKI: Yes, that's
2 correct.

3 MR. BOB PETERS: And in -- in terms of
4 quantifying it, would it be 10 percent of the generated
5 amount? Is that the number that you use?

6 MR. HAROLD SURMINSKI: Yes, as an average
7 overall that's a -- a number we use.

8 MR. BOB PETERS: Where I'm going with
9 this, Mr. Warden, is that I -- I'm not sure that those
10 transmission losses are quantified and reflected in the
11 WPLP financial statements, and I wonder if you can
12 enlighten the Board as to whether they are in fact shown,
13 and if they're not shown, why they're not shown.

14 MR. VINCE WARDEN: Well, the transmission
15 losses would not be reflected until such time as
16 Wuskwatim becomes operational. So the financial
17 statements that you're referring to -- or maybe I'll ask
18 that question.

19 Are you referring to Exhibits 48, and 48
20 dash 1, when you're making that reference to financial
21 statements?

22 MR. BOB PETERS: I was, and I think those
23 came out of the actual financial statements of WPLP.

24

25

(BRIEF PAUSE)

1 MR. VINCE WARDEN: Just looking at these
2 exhibits very quickly though, Mr. Peters, there's no
3 reference to revenue. This is all on the cost side and,
4 therefore, the revenue would be -- the -- the
5 transmission losses would be reflected in the net revenue
6 realized from Wuskwatim generation, which would not be
7 reflected on these -- either of these exhibits.

8 MR. BOB PETERS: All right. And -- and
9 then in terms of a share of the transmission system
10 costs, those costs aren't reflected on the -- on the
11 exhibits are they, Mr. Warden?

12 MR. VINCE WARDEN: The transmission
13 costs, I believe are reflected on Exhibit 48.

14 MR. BOB PETERS: While you've identified
15 the specific transmission related to the project, there
16 aren't overall transmission system costs shared in any
17 fashion on those statements?

18 MR. VINCE WARDEN: No, the purpose of
19 these exhibits were to show -- to demonstrate how the
20 costs were being incurred and allocated to the -- to the
21 project.

22 It's not intended, I don't believe, to
23 show how the -- the revenue will be ref -- reflected, or
24 how the revenue will be allocated based on the costs
25 incurred, or the net revenue that would be realized from

1 the sale of the output of Wuskwatim, which would be
2 reduced by the transmission losses that would -- would be
3 incurred.

4 MR. BOB PETERS: From a conceptual basis
5 would you agree that a share of the overall system
6 transmission costs should be included in the costs, when
7 looking at the Wuskwatim -- the total Wuskwatim costs?

8 MR. VINCE WARDEN: No. I think again all
9 these exhibits are attempting to demonstrate is the --
10 the incremental costs that were incurred to build
11 Wuskwatim and the associate -- associated transmission.
12 When the revenue is -- is allocated or derived from --
13 from Wuskwatim output, then the -- it would be
14 appropriate to reduce that revenue by the transmission
15 losses in the system.

16 MR. BOB PETERS: All right, thank you.
17 Mr. Chairman, I have just two (2) or three (3) other
18 matters to cover, but I propose I do those right after
19 the lunch recess.

20 THE CHAIRPERSON: Very good, Mr. Peters.
21 See you all back at 1:15.

22

23 --- Upon recessing at 11:59 a.m.

24 --- Upon resuming at 1:23 p.m.

25

1 THE CHAIRPERSON: Okay, all present and
2 accounted for.

3 Mr. Peters...?

4 MR. BOB PETERS: Thank you, Mr. Chairman,
5 I apologize for being tardy. Exhibit --

6 MR. ROBERT MAYER: I have to accept
7 responsibility for this piece.

8 THE CHAIRPERSON: We have a canine
9 presence in the building.

10

11 (BRIEF PAUSE)

12

13 CONTINUED BY MR. BOB PETERS:

14 MR. BOB PETERS: Mr. Warden, in some of
15 the undertakings that have been filed including Manitoba
16 Hydro Exhibit 45, there was a discussion about some
17 capitalized O&M costs. And you won't need to refer to
18 that IR unless you feel through my questions you need it,
19 but it leads back to consideration and ensuring the
20 Board's understanding of matters that were broached
21 earlier, but I think have developed since.

22 Do you recall that in the IR process, the
23 PUB asked Manitoba Hydro questions, both in the first
24 round and in the second round, related to the impacts on
25 Manitoba Hydro's financial statements as a result of the

1 Accounting Standards Board changes in accounting
2 standards?

3 MR. VINCE WARDEN: The potential impacts,
4 yes, Mr. Peters.

5 MR. BOB PETERS: Yes, thank you, and do
6 you recall, Mr. Warden, that Hydro concluded that it
7 could continue at this time to apply the rate-regulated
8 accounting because of other sections in the CICA
9 handbook?

10 MR. VINCE WARDEN: Yes, there's no doubt
11 that we can continue to apply until IFR -- at least until
12 IFR standards are adopted in 2011.

13 MR. BOB PETERS: All right. And until
14 then the expectation currently is that there won't be
15 changes required?

16 MR. VINCE WARDEN: There won't be changes
17 required. We may choose, though, to early adopt if we
18 see that there is something clearly -- a direction that
19 we will clearly have to go then there may be some merit
20 in -- in doing so before 2011.

21 MR. BOB PETERS: Okay, thank you. And
22 you will recall, do you, that I had a discussion with Mr.
23 Derksen, and I -- I note here a transcript 817 to 824,
24 that for the years ending after January 1st, 2011, those
25 international financial reporting standards which you

1 refer to as IFRS, that will become operative for Manitoba
2 Hydro on a mandatory basis?

3 MR. VINCE WARDEN: Correct.

4 MR. BOB PETERS: And you've indicated to
5 the board, Manitoba Hydro may choose to restate its
6 financial statements earlier in the IFRS format, at least
7 leading into those mandatory requirement years?

8 MR. VINCE WARDEN: Yes, I don't
9 contemplate a restatement, but there may be certain
10 aspects of IFRS standards that we may choose to adopt
11 before the mandatory date.

12 MR. BOB PETERS: In essence the IFRS
13 becomes the new gap after the January 1st, 2011 year
14 ends?

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

16 MR. BOB PETERS: I went on with Mr.
17 Derksen to try to explore the impacts of IFRS and what
18 those would be on Manitoba Hydro's financial statements,
19 and in my words, I think Mr. Derksen essentially was
20 saying, it's perhaps premature to reach any conclusions
21 on that.

22 Do you recall that discussion?

23 MR. VINCE WARDEN: Yes.

24 MR. BOB PETERS: With that background,
25 Mr. Warden, I want to explore two aspects for the benefit

1 of the Board.

2 One is Mr. Derksen's comment, and he -- he
3 said it on the transcript, page 821, line 20. It was to
4 the effect that even though IFRS does not specifically
5 acknowledge rate regulated operations, there is a
6 discussion that IFRS may allow for the continued deferral
7 of utility costs, provided the regulator gives or
8 continues to allow such deferred charges in the
9 regulatory rate setting process.

10 MR. VINCE WARDEN: Well there is a -- a
11 fair bit of discussion going on about that very issue in
12 the industry right now. And essentially, it relates to
13 the capitalization of assets or costs and whether or not
14 some of the things we do today would qualify for
15 capitalization or whether they would have to be written
16 off to expense. And -- and the criteria or one (1) of
17 the major criteria in determining whether or not a cost
18 is eligible for deferral or capitalization, is whether or
19 not there is future benefit.

20 The discussion that is ongoing right now
21 is if -- if in the case of regulated utilities the
22 regulator were to provide assurance that there would be
23 cost recovery in the future. The question is whether or
24 not that would qualify as sufficient justification to
25 capitalize those costs and defer those costs and recover

1 those costs over future periods. And there really is not
2 a definitive answer to that question, at this time.

3 MR. BOB PETERS: All right, so the board
4 shouldn't read too much into Mr. Derksen's discussion
5 that may lead to the continued deferral of utility costs
6 provided the PUB accepts those?

7 MR. VINCE WARDEN: That's still an open
8 question.

9

10 (BRIEF PAUSE)

11

12 MR. BOB PETERS: Mr. Warden, if the IFRS,
13 as currently stated, doesn't change, are there costs that
14 you can show me in Manitoba Hydro's financial statements
15 that may have to be reflected or recorded differently?

16 MR. VINCE WARDEN: Yes, I think if we
17 refer to the annual report for the year end in March
18 31st, 2007, there are -- the first group of assets that
19 would be challenged, would be under the heading of
20 "Deferred Charges", so --

21 MR. BOB PETERS: And that's in no date on
22 the page 93 of the --

23 MR. VINCE WARDEN: That's -- that's
24 correct.

25 MR. BOB PETERS: -- of the last annual

1 return of the Corporation?

2 MR. VINCE WARDEN: That's -- that's right
3 yes. So we do, as you can see, we have a category under
4 Deferred Assets referred to as Regulated Assets, and
5 under GAAP as it currently exists, those -- those costs
6 are only subject to deferral and amortization because
7 they -- we are a regulated utility. So --

8 MR. BOB PETERS: Just if I could
9 interrupt, Mr. Warden, the -- the cost that you've drawn
10 to the Board's attention on note 8 of the financial --
11 the annual report which is Appendix 15 of Manitoba
12 Hydro's filing, those regulated asset numbers, they total
13 approximately \$115 million if you'll take my math.

14 MR. VINCE WARDEN: Yes, I agree with that
15 number.

16 MR. BOB PETERS: And you're telling the
17 Board that under IFRS, those may have to be -- those will
18 no longer perhaps be allowed to be taken as regulated
19 assets and deferred.

20 They would have to rather be captured in
21 current costs?

22 MR. VINCE WARDEN: That's -- yes, that's
23 a possibility.

24 MR. BOB PETERS: All right, so you've
25 drawn the Board's attention to -- to that \$115 million.

1 Are there other charges or costs that would also have to
2 be accounted for differently, if IFRS, as currently
3 constituted --

4 MR. VINCE WARDEN: Yes.

5 MR. BOB PETERS: -- comes in?

6 MR. VINCE WARDEN: Yes, probably the more
7 significant item is the capitalized overhead. We
8 currently capitalize approximately \$60 million per year
9 in overhead, and there -- it's unlikely we'll be able to
10 do that and un -- at least under the current accounting
11 procedures.

12 Our reading of -- and this is an early
13 reading, and an early interpretation of the IFRS
14 standards, but our reading is that we would have to
15 direct charge costs rather than through overhead.

16 And by it's nature, direct charging
17 overhead costs would be difficult for us,
18 administratively complex. So the whole amount of \$60
19 million would be potentially a charge against operations
20 in the year incurred.

21 So that's another category the -- our --

22 MR. BOB PETERS: Mr. -- Mr. Warden, I'm
23 going to interrupt if I could just to bring to the
24 Board's attention that specific item. And I don't want
25 you to lose your train of thought, but at -- at Tab 27 of

1 PUB Exhibit 12, which was the first book of documents
2 that I provided to the Board and Counsel, there is a --
3 there's a statement of O&A -- OM&A from 2005 to 2009.

4 And I wonder if your counsel can provide
5 you with that document at Tab 27 of -- of PUB Exhibit --

6 MR. VINCE WARDEN: Yes, we have it here.

7 MR. BOB PETERS: -- 12. Now just to
8 bring to the Board's attention, if I go down the 2009
9 year, down to right near the bottom, it has capitalized
10 overhead at \$64.5 million. That's the approximate number
11 that you were indicating to the Board would be Manitoba
12 Hydro's expected annual capitalized overhead expenses,
13 correct?

14 MR. VINCE WARDEN: That's correct.

15 MR. BOB PETERS: And I see on this same
16 page, Mr. Warden, that in the years prior to 2009, the
17 Corporation has been capitalizing overheads approximately
18 \$60 million a year in previous years, correct?

19 MR. VINCE WARDEN: Yes.

20 MR. BOB PETERS: And what would happen to
21 all of the previous years capitalized overheads if the
22 IFRS standards, as presently constituted, were in effect?

23 MR. VINCE WARDEN: This would be again
24 subject to our interpretation at this time, perspective
25 only, so the costs that have been capitalized in the past

1 would remain capitalized.

2 MR. BOB PETERS: So -- so there's no
3 backwards looking on the IFRS standards in terms of what
4 you've done in the past? If it's been accepted, will be
5 allowed to stay on your books?

6 MR. VINCE WARDEN: That's right.

7 MR. BOB PETERS: So going forward then
8 you wouldn't be able to capitalize -- would it -- would
9 it be the \$207 million 500 thousand number as well?

10 Or would it just be the \$64 million number
11 found -- found under column 2009 on the document at PUB
12 Tab 27 --

13 MR. VINCE WARDEN: Yes, it would -- it
14 would --

15 MR. BOB PETERS: -- Exhibit 12?

16 MR. VINCE WARDEN: -- be the \$64 million
17 number that would be subject to different accounting
18 treatment. The \$207 million that -- that is above that,
19 in that line above, is direct charge capital.

20 MR. BOB PETERS: Your understanding of
21 IFRS is that \$207.5 million will remain as a capitalized
22 order activity even under IFRS?

23 MR. VINCE WARDEN: Yes.

24 MR. BOB PETERS: Mr. Warden, I
25 interrupted you, and I appreciate your letting me do that

1 to show this to the Board, but you were also going to on
2 to I think another item where IFRS may have potential
3 impact on the -- the financial statements of Manitoba
4 Hydro.

5 MR. VINCE WARDEN: Yes, another major
6 area is in the accounting for pension costs. We
7 typically amortize experience gains and losses related to
8 pension -- pension costs over the remaining expected life
9 of -- lives of employees. And that is another area that
10 may be subject to, and that's in the order of \$30 million
11 that would be subject to different accounting treatment.

12 MR. BOB PETERS: Is that an annual
13 number, or is that a collective number?

14 MR. VINCE WARDEN: At this time that's --
15 that's a collective -- that's the unamortized balance,
16 but it could vary from year to year to year by a
17 significant amount depending on the experience of the
18 earnings on the pension fund.

19 MR. BOB PETERS: All right. Am I going
20 to find that readily in the annual report?

21 MR. VINCE WARDEN: There is a -- oh, you
22 won't find the deferred amount in the -- in the annual
23 report. You will find the amount of annual pension
24 expense under note 7.

25

1 (BRIEF PAUSE)

2

3 MR. BOB PETERS: So it's only the
4 deferred amount then that would be exposed to different
5 treatment under IFRS?

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

7 MR. BOB PETERS: And what happens if that
8 deferred amount goes negative? Is it also treated the
9 same way or just taken in -- in the year in which it was
10 reported?

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

12 MR. BOB PETERS: And that \$30 million
13 that you've mentioned is the cumulative total of the -- I
14 guess the gains and the losses over the years.

15 Over how many years has that accumulated?

16 MR. VINCE WARDEN: Well, it's a rolling
17 number so it -- it changes every year depending on the
18 experience in any given year so for as long as we've been
19 accounting for pension costs in the manner that we are
20 which is from the late '80s, that same methodology would
21 be employed.

22 MR. BOB PETERS: Mr. Warden, has Manitoba
23 Hydro prepared a mockup of the IFF reflecting the
24 implementation of the worst-case scenario with each of
25 the items?

1 MR. VINCE WARDEN: No, and I think that's
2 what Mr. Derksen was referring to as being premature.
3 We've -- I think we referenced the fact that we've gone
4 out with a request for proposals from consulting firms to
5 assist us with this exercise as have most utilities in
6 Canada, and we're just in the process of analyzing those
7 proposals.

8 Now, we expect by the fall of this year to
9 have a better handle on what the implications might be
10 and if it's -- if there's some reasonable certainty
11 around that, we would incorporate that perhaps into our
12 fall IFF.

13

14 (BRIEF PAUSE)

15

16 MR. BOB PETERS: If I'm trying to
17 quantify, Mr. Warden, the worst case scenario as -- as
18 we've discussed, I've heard your explanation on the
19 deferred assets of or deferred charges of 115 million,
20 the capitalized overhead's approximately 60 million a
21 year, and then a one (1) time adjustment for the pension
22 plan gains.

23 Is there any other item that Manitoba
24 Hydro faces exposure under, under the IFRS standards if
25 they were to be fully enacted, as currently?

1 MR. VINCE WARDEN: The way in which we
2 construct our activity rates which are being charged to
3 capital now whereby activity rates are comprised of an
4 hourly labour rate plus administrative costs and vehicle
5 costs and such, the construct of that may also be subject
6 to revision. I don't -- I haven't quantified that
7 though.

8 But that could be in the range of -- my
9 estimate is \$20 to \$30 million per year that we would
10 have to consider accounting for in a different manner.

11 MR. BOB PETERS: It's probably a good
12 choice of the word "construct."

13 Does it suggest then that Manitoba Hydro
14 will -- if IFRS is adopted as currently stated will have
15 to change the way it presently does business?

16 Would that be a fair statement?

17 MR. VINCE WARDEN: I think it's a fair
18 statement. It will affect the way we do business but a
19 lot of it will be behind the scenes though, so I don't
20 think it's going to have a major impact on the line
21 areas. The people that are providing service to our
22 customers I don't think will be affected in a material
23 way.

24 MR. BOB PETERS: Will it have a material
25 impact on your bottom line?

1 MR. VINCE WARDEN: Yes, it could very
2 well have a material impact on our bottom line.

3 MR. BOB PETERS: When you drew my
4 attention -- sorry, when you drew the Board's attention
5 to the regulated assets listed on note 8 on page 93 of
6 Appendix 15, being Manitoba Hydro's last annual report,
7 you didn't make reference to the specific deferred
8 charges above that.

9 And that's because they'll be treated
10 differently or the same under IFRS; that is they'll be
11 treated the same as you do now under IFRS and there won't
12 be a need to take them into current consideration?

13 MR. VINCE WARDEN: The regulated assets
14 would be the -- the first assets or the first charges
15 that would be -- would be subject to different -- perhaps
16 different treatment. But other deferred charges would
17 also be subject to some question.

18 The planning studies -- \$28 million in
19 planning studies on that same schedule is another --
20 another area that we would -- that would potentially be
21 affected by IFRS.

22 MR. BOB PETERS: Is that because they
23 have to pass the future benefits test?

24 MR. VINCE WARDEN: That's right.

25 MR. BOB PETERS: And so planning studies

1 is another one that maybe has a question mark beside it.
2 Any others in that deferred charges list?

3 MR. VINCE WARDEN: Certainly the
4 Affordable Energy Fund is one (1) that would have to pass
5 that same test that we referred to. The Power Smart
6 program's a large item that does have -- we've -- as
7 we've been able to demonstrate here, I think, in these
8 proceedings and also with our external auditors, the
9 Power Smart programs do have future benefits in that they
10 do result in additional revenues on the export market, so
11 I'm not expecting that to be a difficult area.

12 THE CHAIRPERSON: With respect to the
13 Power Smart on -- the subsidiary might be affected
14 though, Centra?

15 MR. VINCE WARDEN: Well, we -- we do --
16 as a matter of fact they're part of the regulated assets,
17 so if you look at Power Smart Programs Gas --

18 THE CHAIRPERSON: Thank you.

19 MR. VINCE WARDEN: -- that -- that is
20 Centra's Power Smart program.

21 I think, Mr. Peters, those would be the
22 major items that -- that would be affected -- potentially
23 affected.

24 THE CHAIRPERSON: If I may, what about
25 mitigation costs, would that be affected?

1 MR. VINCE WARDEN: There's uncertainty
2 around that as well. I think though we've been able to
3 demonstrate that mitigation costs are associated with
4 major projects and therefore it is appropriate to
5 capitalize those costs. How they're capitalized may be
6 affected as well though. Whether we'll -- we'll be able
7 to, there -- there may be a requirement to more
8 specifically associate those -- those mitigation
9 expenditures with specific capital projects.

10 THE CHAIRPERSON: And again, all these
11 items are accounting entries in a sense, rather than cash
12 impacts?

13 MR. VINCE WARDEN: Yes, that's right.
14 The cash impact should not -- not be an issue.

15 THE CHAIRPERSON: IFRS, does it also
16 affect the -- in the evaluation process items like
17 goodwill and asset write-ups?

18 MR. VINCE WARDEN: Yeah, our
19 interpretation of IFRS is that goodwill -- and we would
20 still go through an impairment test on goodwill and we
21 should be able to pass that test as we have in the past.

22 THE CHAIRPERSON: Thank you.

23

24 CONTINUED BY MR. BOB PETERS:

25 MR. BOB PETERS: Mr. Warden, a second and

1 related issue is to obtain Hydro's confirmation that a
2 new standard on intangible assets has been enacted by the
3 Accounting Standards Board to take effect as of October
4 1st, 2008.

5 MR. VINCE WARDEN: Yes.

6 MR. BOB PETERS: Would I be correct that
7 intangible assets would include the -- the goodwill you
8 just mentioned to the Chairman, as well as perhaps some
9 other items?

10 MR. VINCE WARDEN: I think goodwill is --
11 is the major item that we would have in terms of an intan
12 -- intangible assets. We do have an intangible asset
13 referenced on the Wuskwatim balance sheet and that
14 essentially is the transmission line, so we'll have to
15 re-look at that. It's probably though -- involves more
16 of a re-labeling than the change in accounting.

17 MR. ROBERT MAYER: Excuse me. How -- how
18 is a transmission line an intangible asset? I mean, I
19 can see that.

20 MR. VINCE WARDEN: Yeah, it...

21 MR. ROBERT MAYER: I can also touch it,
22 which I understand tangible means. Although I'm not
23 supposed to touch it.

24 MR. VINCE WARDEN: This is back into the
25 Wuskwatim statements again, but you'll -- if you recall -

1 - I don't have them in front of me -- but there -- there
2 is a -- an item there that represents the generating
3 station and another one (1) that represents the
4 transmission line. The transmission line is identified
5 as an intangible asset. It's mainly because there's no
6 ownership or equity in that transmission line by the
7 limited partnership.

8

9 CONTINUED BY MR. BOB PETERS

10 MR. BOB PETERS: Thank you, Mr. Warden.
11 The goodwill -- I find \$108 million of goodwill on page
12 82 of your annual report, which is Appendix 15 to your
13 filing.

14 Is that hundred (100) and -- \$108 million
15 the goodwill that you were referring to that may be
16 subject to the -- the new standard on intangible assets
17 by the Accounting Standards Board?

18 MR. VINCE WARDEN: Yes, but as I
19 indicated earlier, we don't expect that to be affected in
20 any way.

21 MR. BOB PETERS: That's because you
22 subject that to an annual impairment test?

23 MR. VINCE WARDEN: We do.

24 MR. BOB PETERS: And if -- it's Manitoba
25 Hydro's view that if you pass the impairment test, it

1 will remain as an intangible asset?

2 MR. VINCE WARDEN: That's correct.

3 MR. BOB PETERS: Do I take from that then
4 that that new standard on intangible assets, according to
5 Manitoba Hydro's current understanding, will have no
6 impact on Manitoba Hydro's 2009/'10 financial statements?

7 MR. VINCE WARDEN: Yes.

8 MR. BOB PETERS: If it's going to have no
9 impact, I suppose the next question about what -- whether
10 Manitoba Hydro intends to early adopt on that issue is --
11 is irrelevant, because it won't change the -- the
12 presentation in any way?

13 MR. VINCE WARDEN: Yeah, I agree with
14 that.

15 MR. BOB PETERS: Mr. Surminski, I want to
16 turn to you, sir. On Manitoba Hydro Undertaking 74,
17 Manitoba Hydro Exhibit 82, which was handed out this
18 morning, and in this one the normalized export prices
19 were sought together with some understanding as to how
20 those prior export prices can be brought current -- to a
21 current understanding.

22 I take from your answer that you adjusted
23 the average price by the flow conditions that were in
24 effect in the particular year in which the export was
25 made?

1 MR. HAROLD SURMINSKI: Yes, I used the
2 flow conditions and the relationship between flow
3 conditions and average prices.

4 MR. BOB PETERS: Is that an inverse
5 relationship?

6 MR. HAROLD SURMINSKI: Yes. High flows,
7 flow prices, and the opposite, yes.

8 MR. BOB PETERS: And so when I see the
9 flow adjustment factor listed on your chart, does that
10 tell me that when the flow adjustment is high that was
11 because the water flow was -- sorry, the prices were low
12 on the market that year?

13 MR. HAROLD SURMINSKI: Yes, 2005/'06 was
14 a record flow year for us. So that means that the price
15 showed up as five point one nine (5.19), but if we had
16 more normal flow conditions it should have been five
17 point nine seven (5.97), given all other factors being
18 equal.

19 MR. BOB PETERS: All right. And one (1)
20 of the other factors though is you also adjust it based
21 on natural gas prices, correct?

22 MR. HAROLD SURMINSKI: Yes.

23 MR. BOB PETERS: Is that based on actual
24 natural gas prices or on forecast natural gas prices?

25 MR. HAROLD SURMINSKI: Those were actuals

1 experienced for the year. I used an average number for
2 each of those years.

3 MR. BOB PETERS: And can you explain how
4 that adjustment factor is determined?

5 MR. HAROLD SURMINSKI: Generally we used
6 a heat rate of something like seven point five (7.5), a
7 mod -- it's basically a modifying factor for the natural
8 gas price in MMBtu, dollars per MMBtu. And if you use --
9 and the heat rate is really a conversion of -- of gas
10 into electricity.

11 So that relationship translates in that
12 way, so really a dollar MMBtu has I think point -- or I'm
13 not sure exactly what the number is but it -- it's
14 possible to convert the electricity price from the
15 natural gas price.

16 MR. BOB PETERS: What would happen if
17 that natural gas price doubled? What would happen to the
18 adjustment factor?

19

20 (BRIEF PAUSE)

21

22 MR. HAROLD SURMINSKI: It's -- I can't
23 exactly convert that, because it wasn't a -- a -- it
24 wasn't 100 percent of the total electricity price. There
25 was -- there was a percentage. Gas contributed to only a

1 percentage of the total electricity price.

2 MR. BOB PETERS: So if the price of
3 natural gas increased dramatically there would still be
4 an increase in the -- in the adjusted export price, but
5 it wouldn't be a one-to-one (1:1) ratio.

6 MR. HAROLD SURMINSKI: It's not one-to-
7 one (1:1), yes.

8 THE CHAIRPERSON: Do you have any idea of
9 relatively what would it be, if it's not one-to-one
10 (1:1)? Point eight (.8)? Point seven (.7)?

11 MR. HAROLD SURMINSKI: A half. Point
12 five (.5) maybe, yeah.

13 MR. BOB PETERS: Mr. Surminski, what was
14 the average price used for the -- for the gas price
15 adjustment factor?

16 Do you recall?

17 MR. HAROLD SURMINSKI: It was, I believe
18 around seven dollars (\$7) a MMBtu.

19

20 (BRIEF PAUSE)

21

22 MR. BOB PETERS: Mr. Surminski, still
23 with you. But on Manitoba Hydro Exhibit 83, which was
24 undertaking 75, can you indicate to the Board what was
25 the natural gas price assumption used in the negotiation

1 of the -- of the agreement.

2 MR. HAROLD SURMINSKI: Can you explain
3 which agreement you are talking about here?

4 MR. BOB PETERS: Manitoba Hydro is making
5 an assumption of natural gas prices when they -- when
6 they set their -- when the export price is determined,
7 correct?

8 MR. HAROLD SURMINSKI: Yes, that's
9 correct and that varies every year on -- our forecasts
10 have been going -- inching up every year.

11 MR. BOB PETERS: All right. Without
12 looking forward to your forecast because previously
13 you've claimed some proprietary information over those,
14 are you at liberty to disclose to the Board what -- what
15 price assumptions for natural gas were used in prior
16 years' export prices that you've disclosed on Exhibit 83?

17 MR. HAROLD SURMINSKI: These were sales
18 negotiated in around 1999 and 2000. They're -- they're
19 very old in terms of vintage.

20 MR. BOB PETERS: Suggesting that whatever
21 natural gas -- gas prices were forecast or even in effect
22 at that time, really bear no semblance to what has
23 transpired recently and what you forecast in the future?

24 MR. HAROLD SURMINSKI: Yes, at the time
25 our -- what we negotiated for export sales -- export

1 sales were not tied to our export price forecast. Things
2 were in a -- in a great state of transition at the time
3 and it became more what the market could bear and in fact
4 in those early years our export -- it was almost a
5 reverse -- our export price forecast was derived from --
6 from what were able to negotiate in the market; that was
7 our guide.

8 MR. BOB PETERS: Times have changed.

9 MR. HAROLD SURMINSKI: Yes. And as a
10 note, this highest sale here is actually a sale that's
11 indexed to natural gas prices and that is why the sale
12 turned out to be very high. Our counterparty did not --
13 did not have this same view of natural gas prices in the
14 long term so it turned out to be very favourable to
15 Manitoba Hydro.

16

17 (BRIEF PAUSE)

18

19 MR. BOB PETERS: If indexing to natural
20 gas is done, Mr. Surminski, does that mean that the price
21 of the export energy increases when the price of natural
22 gas increases?

23 MR. HAROLD SURMINSKI: The price of the
24 export sale increases, yes, according to the index at --
25 according to an index of natural gas prices. So there's

1 been a significant increase in that index since 2000 so
2 that's why the prices are -- turned out to be very, very
3 favourable to Manitoba Hydro.

4 MR. BOB PETERS: Can you indicate the
5 degree of correlation between the increase in natural gas
6 price and the increase in export price?

7 Is that something you can put on the
8 record?

9

10 (BRIEF PAUSE)

11

12 MR. HAROLD SURMINSKI: As far as
13 correlation it's -- it's similar to your earlier question
14 on, you know, what portion of the electricity price is --
15 is driven by gas. So, you know, it's not -- it's not a
16 one-to-one (1:1) relationship because there are other
17 fuel sources; coal and the US being a primary one for
18 off-peak.

19 So it's only a portion of the total price
20 that's driven by natural gas prices.

21 MR. BOB PETERS: And you don't want to
22 disclose what portion that is?

23 MR. HAROLD SURMINSKI: I can't -- I can't
24 even guesstimate. I could say maybe it's about half in
25 general, because coal off-peak is -- is primarily coal-

1 based and on-peak, which is about half the time, is
2 primarily gas-based.

3 MR. BOB PETERS: Do your agreements allow
4 for the on-peak pricing to change and the off-peak to
5 remain the same? Are they indexed differently?

6 MR. HAROLD SURMINSKI: These sales are
7 on-peak sales.

8 MR. BOB PETERS: The Exhibit 84 that you
9 provided this morning, Mr. Surminski, I think it's
10 something that we dealt with when Mr. Landry was here, in
11 the marginal cost calculation the US dollar was assumed
12 to be a dollar seventeen (\$1.17) Canadian, correct?

13 MR. HAROLD SURMINSKI: Yes, that was in
14 the 2006 vintage of marginal cost.

15 MR. BOB PETERS: And that was based on
16 Manitoba Hydro's then-forecast going forward?

17 MR. HAROLD SURMINSKI: Yes. Yes in 2006.

18 MR. BOB PETERS: But it wasn't a forecast
19 of what the exchange rate was going to be in 2008, for
20 example. It was the long term forecast that you used?

21 MR. HAROLD SURMINSKI: No, it was the
22 forecast for 2008 also.

23 MR. BOB PETERS: All right. And in terms
24 of doing marginal cost studies or calculations going
25 forward, would it be the Corporation's intention to

1 utilize the most current available forecast?

2 MR. HAROLD SURMINSKI: Yes, that is what
3 we would do every year is adjust for the -- the best
4 estimate forecast we have.

5 MR. BOB PETERS: Mr. Surminski and Mr.
6 Warden, I think my last area of questioning -- I was so
7 taken by that colour Exhibit 12 of Manitoba Hydro's, I've
8 turned back to it, the home heating and the comparisons.

9 Would you agree with me, Mr. Surminski or
10 Mr. Warden, that the cost of space heating by natural gas
11 and propane are driven primarily by market demand and
12 supply?

13 MR. VINCE WARDEN: Seem -- seems
14 reasonable, Mr. Peters, yes.

15 MR. BOB PETERS: All right, and would you
16 also agree that electricity costs are a result of
17 recognition of historic embedded cost-based rates and
18 regulation?

19 MR. VINCE WARDEN: Yes.

20 MR. BOB PETERS: And you'd agree that
21 space heating by natural gas and propane has increased
22 substantially, relative to space heating by electricity
23 in recent years?

24 MR. VINCE WARDEN: Yes.

25 MR. BOB PETERS: And on May 1st of this

1 year, Centra Gas request of this Board an approximate I
2 think it was 7 percent increase due to the cost of
3 primary gas, Mr. Warden?

4 MR. VINCE WARDEN: 7.4 percent increase,
5 yes.

6 MR. BOB PETERS: And as a result of that
7 increase -- that was approved by the Board?

8 MR. VINCE WARDEN: It was, yes.

9 MR. BOB PETERS: And as a result of that
10 approval, the average residential natural gas space
11 heating customer with a conventional or a mid-efficient
12 furnace will now pay more for space heating than a
13 similar customer heating by electricity?

14 MR. VINCE WARDEN: Yes, according to the
15 chart at -- at Exhibit 12.

16 MR. BOB PETERS: And Exhibit 12 doesn't
17 include your current application before this Board on the
18 electric side?

19 MR. VINCE WARDEN: No, that's correct. I
20 was just going to say the -- the costs are very close
21 between the mid-efficiency furnace and electric furnace
22 with electric in this Exhibit 961 annual cost compared to
23 nine forty-four (944) for a mid-efficiency furnace. So
24 applying 7 percent to the nine forty-four (944) will
25 bring the cost of -- of the mid-efficiency furnace

1 heating above electric.

2 MR. BOB PETERS: It'll push the mid-
3 efficiency furnace over a thousand dollars (\$1,000) on an
4 annual basis compared to the nine hundred and sixty one
5 (961) currently listed for electricity?

6 MR. VINCE WARDEN: Yes.

7 MR. BOB PETERS: And would anybody on the
8 panel be able to confirm that there's a historic
9 relationship between natural gas and oil prices?

10 MR. VINCE WARDEN: There is a -- a
11 correlation that has been established between natural gas
12 and oil prices. That doesn't seem to be holding exactly
13 today, but if you go back far enough in time there is
14 correlation.

15 MR. BOB PETERS: And was that correlation
16 somewhere in the range of nine (9) times a gigajoule for
17 the barrel of ga -- barrel of oil?

18 MR. VINCE WARDEN: Mr. Peters, I would
19 say seven (7) to nine (9) is -- is what I recollect it
20 being that -- that range.

21 MR. BOB PETERS: And you're aware, Mr.
22 Warden, that some current forecasts of oil prices are --
23 some are saying it may go as high as a hundred and fifty
24 (150) dollars US a barrel, maybe even two hundred (200)
25 dollars US a barrel.

1 MR. VINCE WARDEN: Yes, I'm not sure that
2 the same factors though that tied those that establish
3 that correlation can be applied going forward.

4 MR. BOB PETERS: What you're suggesting
5 to the Board is that while there may have been a
6 historical correlation, that may no longer be the -- the
7 correlation going forward?

8 MR. VINCE WARDEN: I think so. Although
9 again you have to look at that over the long term and
10 whether oil prices will stay at the levels they are today
11 or projected. Whether that will be sustained into the
12 long term, I think is still a -- a big question.

13 MR. BOB PETERS: And really the only way
14 we can measure if that correlation remains is if we do
15 use historic analysis some years from now.

16 MR. VINCE WARDEN: Correct.

17 MR. BOB PETERS: Mr. Warden, we've
18 touched on this previously but given the direction of the
19 relative pricing of these two (2) fuels, that is natural
20 gas and electricity, isn't it increasingly likely that a
21 number of developers and homeowners will be looking to
22 space heat by electricity rather than natural gas?

23 MR. VINCE WARDEN: Well, we've certainly
24 seen that trend with respect to water heating and if the
25 prices, the relative prices between electric and gas

1 remain, I think it's reasonable to assume that we'll see
2 that same trend in the future, yes, as we've seen with
3 water heating.

4 MR. BOB PETERS: And -- and, Mr. Wiens,
5 as the economist, you would -- you would expect the
6 rational acting consumer to vote with their chequebook
7 and maybe look for the most economic source of space
8 heat?

9 MR. ROBIN WIENS: They're going to
10 consider current prices, but I would hope they would also
11 consider the sustainability of those current prices as
12 well because they're making a decision that's going to
13 affect them for the long term.

14 MR. BOB PETERS: And what will Manitoba
15 Hydro tell them about the sustainability of the prices
16 long term?

17 MR. VINCE WARDEN: We traditionally have
18 not taken a position on what the price of natural gas
19 might be long term. As far as advising customers are
20 concerned, we certainly have our internal forecast for
21 other reasons, but we -- we don't provide that advice to
22 customers. We provide as much information as we can to
23 help them make a decision, but ultimately it's the
24 customer's decision as to what fuel source they use.

25 THE CHAIRPERSON: Mr. Warden, if Manitoba

1 Hydro through Centra enter into the long-term price and
2 term market for natural gas supply, in a sense I suppose
3 the Company would be taking a position because you'd be
4 offering a price presumably for five (5) years?

5 MR. VINCE WARDEN: We would, but even
6 there I'm not sure that that would be enough -- a long
7 enough duration for a customer to make a decision with
8 respect to the home heating source.

9

10 CONTINUED BY MR. BOB PETERS:

11 MR. BOB PETERS: Mr. Surminski, can you
12 remind the Board of what the market penetration rate is
13 right now for the gas side of the Corporation for space
14 heating in newly constructed homes?

15 Is it above 95 percent?

16 MR. ROBIN WIENS: There's nobody on this
17 panel, Mr. Peters, that can confirm that. I -- I would
18 think that the gas penetration for space heating in areas
19 that are served by gas would be still pretty high.

20 MR. BOB PETERS: And "pretty high" being
21 -- would you go so far as to guesstimate over 90 percent?

22 MR. ROBIN WIENS: Probably over 90
23 percent.

24 MR. BOB PETERS: And in light of our
25 previous discussion, there's a -- at least a possibility

1 that developers and homeowners will be looking to use
2 electricity as a source of energy for their space heat?

3 MR. ROBIN WIENS: We're not seeing any
4 signs of that yet, Mr. Peters, but I suppose it's
5 possible.

6 MR. BOB PETERS: And if you're not seeing
7 it in signs, that's for new construction with developers,
8 you're not seeing it either with conversions?

9 MR. VINCE WARDEN: Not that we're aware
10 of on this panel. I guess it points to the importance of
11 price signals, the appropriate price signals being
12 provided and our whole discussion on marginal costs and
13 why that's so important today.

14 MR. BOB PETERS: Just help me complete
15 that thought then, Mr. Warden.

16 You're suggestion is that consumers should
17 be aware that electricity costs will be moving towards
18 marginal costs and that may -- that should be taken into
19 account when they weigh that against natural gas as a
20 heat source?

21 MR. VINCE WARDEN: Yes, I think it's
22 appropriate that we do somehow provide that price signal.
23 We haven't quite figured that out how we're going to do
24 that yet, but that's discussion for future applications I
25 suppose, but I think it is important that that signal be

1 provided.

2 MR. BOB PETERS: And I think you've
3 answered my question but presently the Corporation isn't
4 sending any signal on -- on what marginal cost will be
5 for a residential consumer?

6 MR. VINCE WARDEN: No, that's right.

7 MR. BOB PETERS: Am I correct, Mr.
8 Surminski -- maybe -- maybe I finally get this right that
9 your load forecast that you have before the Board
10 Appendix 7.1 doesn't reflect a migration to electricity
11 as a primary heat source for new homes?

12 MR. VINCE WARDEN: Yes, we agree with
13 that.

14 MR. BOB PETERS: Going forward, that
15 remains a risk though, Mr. Warden and Mr. Surminski?

16 MR. VINCE WARDEN: Definitely a risk,
17 yes.

18 MR. BOB PETERS: And at this point in
19 time, the Corporation is not able to quantify it because
20 it hasn't seen a trend developing where electricity will
21 supplant natural gas as the fuel of choice for space
22 heating?

23 MR. VINCE WARDEN: We haven't seen a -- a
24 trend beginning yet in that direction. Nor I think it's
25 fair to say have we done the analysis that -- the

1 scenario analysis that would be necessary to support a
2 conclusion in that area.

3

4

(BRIEF PAUSE)

5

6 MR. BOB PETERS: Mr. Warden, I just want
7 to tidy up on a -- the IFRS' questions that I asked you.
8 When you drew the Board's attention to the deferred
9 charges at Note 8 of Appendix 15 on your last annual
10 report of the Corporation, and you indicated that there
11 were some regulated assets that may have to be treated
12 differently under IFRS, I understood from your answers
13 that under the probably worse case scenario, those would
14 have to be written off against retained earnings.

15 Is that what you were attempting to
16 suggest?

17 MR. VINCE WARDEN: Well, they may not be
18 eligible for capitalization for deferral against future -
19 - to match against for -- future revenues; yet to be
20 determined how they'd be written off though. If -- if in
21 fact we did determine that total of 115 million that we
22 were discussing earlier was not eligible for -- for
23 capitalization, then we would have dispose of that in
24 some manner. And I, at this point, I'm -- I'm not
25 certain how -- what manner that would be.

1 MR. BOB PETERS: On an annual basis, how
2 much do those items account for?

3 Do you have a -- an annual total?

4 MR. VINCE WARDEN: I -- I didn't actually
5 total up, but -- but we talked about the overhead, and
6 pension costs, and other deferrals so we would be looking
7 at an -- an order of magnitude of a \$100 to \$120 million
8 per year.

9 MR. BOB PETERS: Thank you, Mr. Chairman.
10 I again want to thank Messrs. Surminski, Thomas, Wiens,
11 and Warden for their answers to those questions -- much
12 appreciated. And I also appreciate the support they
13 received from their colleagues in the back.

14 THE CHAIRPERSON: Thank you, Mr. Peters.
15 I'm just going to just change slightly here because I'm
16 just sort of estimating how much time would be required.

17 Mr. Gange, do you have any questions,
18 follow-up questions?

19 MR. BILL GANGE: No follow-up questions,
20 thank you.

21 THE CHAIRPERSON: Thank you, sir.

22 Ms. McCaffrey, do you have any follow-up
23 questions on these issues?

24 MS. TAMARA MCCAFFREY: None at this time.

25 THE CHAIRPERSON: Thank you. So, Mr.

1 Williams.

2 MR. BYRON WILLIAMS: I'll be very --
3 hopefully very quick.

4 Just, I guess first of all there's one (1)
5 exhibit that -- of -- that we had hoped to introduce when
6 I was last cross examining Manitoba Hydro, and I think
7 with the concurrence of Ms. Ramage, it's titled,
8 "Selected North American Utilities Residential Average
9 Rates in US Currency." Mr. Gaudreau has copies.

10 Ms. Ramage, that's all right with you?

11 MS. PATTI RAMAGE: Yes, it is.

12 MR. BYRON WILLIAMS: I'll suggest an
13 exhibit number once Mr. Gaudreau whis -- whispers in my
14 ear, Mr. Chairman. My understanding is that Manitoba
15 Hydro's whispered in Mr. Gaudreau's ear, and the number
16 that they're suggesting is thirty-eight (38), so we'll
17 just wait for the nod from him.

18 THE CHAIRPERSON: Okay, subject to check,
19 thirty-eight (38).

20

21 --- EXHIBIT NO. COALITION-38: Document entitled,

22 "Selected North American Utilities
23 Residential Average Rates in US
24 Currency"

25

1 CONTINUED CROSS-EXAMINATION BY MR. BYRON WILLIAMS:

2 MR. BYRON WILLIAMS: And I really don't
3 have any questions about this. I think Mr. Wiens may
4 have some comments but, Mr. Wiens, at a -- at a high
5 level, you'll agree that this is -- this is just a --
6 it's drawn from the Edison Electric Institute Typical
7 Bills and Average Rates Report, Winter 2008, sir?

8 MR. ROBIN WIENS: We can confirm that's
9 an accurate extract from that document.

10 MR. BYRON WILLIAMS: Okay. I appreciate
11 that, Mr. Wiens, and -- and you'll also agree that in the
12 past Manitoba Hydro has used the Edison Reports to report
13 on rate comparisons although generally in the average
14 retail rather than average residential.

15 Would that be fair, sir?

16 MR. ROBIN WIENS: That's -- that's
17 correct, and you've given me an opening to say what I
18 wanted to say here so I'll take advantage of that.

19 We -- we do, but I want to say I have not
20 gone through and done any background checks on any of
21 these numbers. And typically when we use them even for
22 the broader domestic customer averages over all classes,
23 we do go through and check to see if there are any
24 anomalies that would explain any changes in the relative
25 position of these utilities; things that are not brought

1 out in the -- in the survey, and we have in the past
2 found such matters.

3 One (1) year we were surprised by finding,
4 I believe, it was an Ohio utility to have the lowest
5 average rates of any utility in North America, and when
6 we checked it out, what we found was that only
7 distribution costs were included in that rate; that they
8 had, in fact, deregulated in that particular
9 jurisdiction, and there were no transmission or energy
10 costs included.

11 So that's kind of an extreme example of
12 that type of an anomaly, but other things that we might
13 check is that -- are there any rate riders, temporary
14 rate riders, that are affecting it? For context we might
15 check, Well, how many customers does this utility
16 actually serve?

17 If it's a small part of a -- of a major
18 city that is served by one (1) utility and everything
19 else is served by somebody else and there's a big gap in
20 the -- in the relative values, we would want to
21 investigate into that.

22 So with that caveat, this is -- we have
23 confirmed that this is an accurate extract from the
24 document. Most of the utilities are served either by
25 Hydro or Appalachian Coal.

1 MR. BYRON WILLIAMS: Thank you, Mr.
2 Wiens, and -- and I appreciate that. And just one (1)
3 final follow-up following up on your -- your appropriate
4 cautions.

5 If I looked to the utilities selected, and
6 I'll suggest to you that utilities like AEPA Kingston
7 from Tennessee or Idaho Power Corp. from Oregon or AEP
8 from West Virginia, those would be utilities with which
9 Manitoba Hydro has had -- has some familiarity and in
10 fact, has used in terms of rate comparisons found in --
11 in this application in fact.

12 Would that be fair, sir?

13 MR. ROBIN WIENS: You're testing my
14 recollection but, subject to check, sure. We've
15 generally looked at them in the context of overall retail
16 averages rather than specific to a particular class, and
17 we have found some anomalies with respect to those
18 utilities with respect to overall averages, but for the
19 class comparisons we have not back-checked it.

20 MR. BYRON WILLIAMS: But subject to
21 check, and if -- if you're looking for a reference, I
22 think it's Tab 10 of the application, page 18. You'll
23 confirm that those are used in your comparison of -- of
24 average retail rates.

25 Sir, you'll accept that subject to check?

1 MR. ROBIN WIENS: We accept that, subject
2 to check.

3 MR. BYRON WILLIAMS: This -- and just the
4 -- the final questions go to Exhibit Manitoba Hydro 86
5 which was filed today, and it's in response to Manitoba
6 Undertaking Number 85, and I'm not -- not sure which
7 witness that goes to. That might be Mr. Surminski, I'm
8 not sure.

9 Mr. Surminski is giving me the nod so just
10 a couple of very quick questions. Actually this may go
11 to Mr. Wiens.

12 If I look at this table, the blue bars are
13 the US -- the -- in any given year, the average US and
14 Canadian export prices reflected in cents per kilowatt
15 hour.

16 Is that correct?

17 MR. HAROLD SURMINSKI: They're the sales
18 to US and Canadian entities in Canadian dollars, yes.

19 MR. BYRON WILLIAMS: Okay. And if I look
20 at the -- the line or the -- the light-blue line with
21 triangles around the three (3) cents per kilowatt hour,
22 that's reflective of the average domestic price for
23 general service large greater than 100 kV over this
24 period of time.

25 Is that right, sir?

1 MR. ROBIN WIENS: Yes, it is.

2 MR. BYRON WILLIAMS: And if I look to the
3 -- the red dot and line, that's reflective of the average
4 domestic price for the residential class.

5 Is that right?

6 MR. ROBIN WIENS: Yes.

7 MR. BYRON WILLIAMS: Just a last question
8 on this. If I look at the general service large for the
9 2008/'09 year, you'll see that it rises from around three
10 (3) to halfway between three (3) and four (4),
11 approximately.

12 Do you see that, first of all?

13 MR. ROBIN WIENS: Yes, I do.

14 MR. BYRON WILLIAMS: Would that reflect
15 both the 2.9 percent projected rate increase as well as
16 the proposed new rates for new and expanded load?

17 MR. ROBIN WIENS: Mr. Williams, what it
18 would be is the forecast revenue for that year from the
19 general service large class, augmented by whatever is in
20 the forecast for the -- for the energy-intensive rate
21 divided by the total --

22 MR. BYRON WILLIAMS: Okay.

23 MR. ROBIN WIENS: -- kilowatt hours.

24 MR. BYRON WILLIAMS: Thank you for that,
25 and Mr. Chairman, I have no further questions.

1 THE CHAIRPERSON: Thank you, Mr.
2 Williams. Ms. Ramage, do you have any redirect for your
3 panel?

4 MS. PATTI RAMAGE: Could I consult with
5 the panel for a moment?

6 THE CHAIRPERSON: Sure. Why don't we
7 take the break. It will give you -- does that work for
8 you? We take the break in allowing you to consult more
9 if you want?

10 MS. PATTI RAMAGE: Apparently we've
11 consulted. No, Mr. Anderson preempted a big part of our
12 redirect, and -- and it appears that -- that we won't be
13 putting any in so we can move forward or take the break
14 now, at -- at your will.

15 THE CHAIRPERSON: Oh, very good. Well,
16 thank you very much. I want to thank the panel very much
17 for your testimony, for being so forthcoming. Thank you
18 very much. We'll take the break and we'll be coming back
19 with MIPUG's witnesses, correct? Thank you.

20
21 --- Upon recessing at 2:22 p.m.

22 --- Upon resuming at 2:45 p.m.

23

24 THE CHAIRPERSON: Okay, we're changing
25 over now to the MIPUG witnesses and just before we begin,

1 I notice Manitoba Hydro -- Ms. Ramage isn't here but
2 they've distributed MH Exhibit Number 90. Oh, there she
3 is.

4 We just got your exhibit here and if you
5 want to put it on the record.

6 MS. PATTI RAMAGE: That would be the
7 Coalition Information Request of April 11th, and we
8 suggest it be -- be Manitoba Hydro Exhibit 90.

9 THE CHAIRPERSON: Very good. Thank you
10 very much.

11

12 --- EXHIBIT NO. MH-90: Response to Coalition
13 Undertaking of April 11th

14

15 THE CHAIRPERSON: Okay, Ms. McCaffrey, do
16 you want to introduce your witnesses and --

17 MS. TAMARA MCCAFFREY: Yes, I'd be happy
18 to. Good afternoon, folks. With me are two consultants
19 from Intergroup Consultants who are assisting myself and
20 MIPUG in terms of this application.

21 So I'll introduce Mr. Patrick Bowman and
22 Mr. Andrew McLaren. They've appeared before this Board
23 before. It's my intention that Mr. Bowman -- once -- Mr.
24 Bowman and Mr. McLaren are sworn, Mr. Bowman will take us
25 through the direct evidence filed on behalf of MIPUG and

1 then both gentlemen will be available for cross-
2 examination, with Mr. McLaren being available with
3 respect to the more technical aspects of -- of the
4 evidence, the prefiled evidence.

5 In terms of exhibits, the MIPUG pre-filed
6 testimony of Patrick Bowman and Andrew McLaren are noted
7 as MIPUG Exhibit Number 1, and once the gentlemen are
8 sworn, we can -- ask that -- that evidence be adopted and
9 marked. And similarly the MIPUG evidence, the responses
10 to the Public Utility Board's Information Request would
11 be MIPUG Exhibit Number 9, and that's Exhibit 9.1 through
12 9.12.

13 Oh, if I -- if I misspoke it would be the
14 Public Utility Board/MIPUG Information Request Exhibits
15 9; 9.1 through 9.12.

16 THE CHAIRPERSON: We're --

17 MS. TAMARA MCCAFFREY: If the witnesses
18 could be --

19 THE CHAIRPERSON: We're familiar with the
20 witnesses. Is there any change in their credentials
21 from? Swear them first, all right. We'll get it
22 straight eventually.

23

24 MIPUG PANEL:

25 PATRICK BOWMAN, Sworn

1 Good afternoon, Mr. Chair, members of the panel.

2 My areas of responsibility with respect to
3 the evidence that's been submitted MIPUG Exhibit 1, I
4 have overall responsibility for InterGroup's assignment
5 on the evidence, and for all of the matters contained in
6 the -- in the exhibit.

7 MS. TAMARA MCCAFFREY: Thank you, sir.
8 And with respect to the evidence that you prepared in
9 this regard, Mr. Bowman, do you adopt this evidence?

10 MR. PATRICK BOWMAN: Yes.

11 MS. TAMARA MCCAFFREY: Thank you. Now
12 similarly to you, Mr. McLaren, can you please state, sir,
13 what your role was in terms of the preparation of this
14 evidence. And by pre-filed evidence I'm also including
15 the responses to the Public Utility Board's Information
16 Request.

17 MR. ANDREW MCLAREN: Yes, good afternoon.
18 I was responsible for analyzing the impacts of Hydro's
19 proposals, directing analysis and modeling related to
20 Hydro's proposals and our proposals in the evidence, and
21 overseeing and preparing the attachments.

22 MS. TAMARA MCCAFFREY: Thank you very
23 much. Then, and Mr. McLaren, you adopt, sir, the
24 evidence that you prepared in this regard for this
25 Hearing?

1 MR. ANDREW MCLAREN: Yes, I do.

2 MS. TAMARA MCCAFFREY: Thank you. Then
3 formally the exhibits I would ask be marked accordingly
4 as MIPUG Exhibit 1, the pre-filed direct evidence, as
5 well as MIPUG Exhibits 9, 9.1 through 9.12, the Public
6 Utility Board/ MIPUG Information responses.

7 Just going briefly to highlight your
8 qualifications, as the Chairman's already indicated
9 they're familiar with -- with each of you and have seen
10 your qualifications before.

11 Would you like to highlight for us your
12 relevant qualifications with respect to electric utility
13 regulation and in a -- as well, if there's any additions
14 or changes to your Curriculum Vitae as filed.

15 MR. PATRICK BOWMAN: Yes, I've been
16 working the field of regulated utilities for
17 approximately ten (10) years. This is my fourth
18 appearance before this Board and I've appeared before
19 regulatory boards in a number of locations in Canada
20 including Newfoundland, Northwest Territories, and Yukon.
21 A -- a few of those appearances since the last time I was
22 before this Board.

23 The matters on which I -- I deal with in
24 the regulation of utilities includes areas related to
25 revenue requirement, cost of service, rate design, and

1 resource planning. And the -- my -- my appendix is set
2 out at Attachment A to the -- to the MIPUG Exhibit 1.

3 MS. TAMARA MCCAFFREY: Thank you, Mr.
4 Bowman.

5 And similarly, Mr. McLaren, can you
6 highlight for the Board your experience with respect to
7 electric utility regulation and, as well, industrial rate
8 design?

9 MR. ANDREW MCLAREN: I've worked for
10 eight (8) years as a consultant primarily in utility
11 regulation for clients that include electric utilities,
12 as well as industrial, and smaller commercial customers.
13 So you noted I appeared with Mr. Bowman here before this
14 Board during the 2006 Cost of Service proceeding.

15 Since that time I've continued working
16 with Northwest Territories Power Corporation on their
17 2006/'07 and '07/'08 General Rate Application. I also
18 prepared and filed evidence with Mr. Bowman before the
19 Newfoundland and Labrador Board of Commissioners of
20 Public Utilities on behalf of the island industrial
21 customers.

22 And I was lead consultant for the island
23 industrial customers in a rate design working group for a
24 two (2) tier marginal cost-based industrial rate and the
25 report for that rate design is currently before the

1 Newfoundland and Labrador Board.

2 MS. TAMARA MCCAFFREY: Thank you very
3 much, sir. I don't know if there's any questions from
4 the panel -- from the Board I should say or -- or any of
5 the other parties with respect to --

6 THE CHAIRPERSON: Ms. Ramage...?

7 MS. PATTI RAMAGE: Manitoba Hydro has no
8 questions.

9 THE CHAIRPERSON: Mr. Williams...?

10 MR. BYRON WILLIAMS: No questions, and we
11 don't take issue with the qualifications of either of the
12 witnesses.

13 THE CHAIRPERSON: Mr. Gange...?

14 MR. BILL GANGE: No, I -- I -- no
15 questions, Mr. Chair.

16 THE CHAIRPERSON: Okay. We're fine. We
17 accept the witnesses.

18

19 (VOIR DIRE CONCLUDES)

20

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

22 MS. TAMARA MCCAFFREY: Thank you. Now,
23 moving into the body of your evidence, Mr. Bowman, just
24 starting at the beginning in Section 1, the introduction
25 on page 1, I note, sir, that you've indicated that your

1 pre-filed testimony does not deal with matters related to
2 the general service large new or expanded loads that were
3 set up at Tab 10.3 of Hydro's filing.

4 Can you tell the Board why that is?

5 MR. PATRICK BOWMAN: Yes, with respect to
6 the filings and the engagement we have from the clients
7 we work for, MIPUG has asked us to set out at page 1 of
8 the -- of the pre-filed testimony, the industrial
9 customer group has asked us to look at matters in Hydro's
10 General Rate Application with a focus on the -- the
11 regulatory context, the normal regulatory review
12 principles and it related to revenue requirement, cost of
13 service, and rate design.

14 We -- it's the same assignment that
15 Intergroup has had for approximately twenty (20) years
16 working with MIPUG and -- on all of my previous four (4)
17 appearances here.

18 When we had been able to be through that
19 and discuss with the members, it was quite clear to us
20 that we are dealing with -- particularly in regards to
21 the revenue requirement portion of this hearing, quite a
22 -- quite a watershed rate application, and I can get into
23 that in a bit more detail as we go through and -- and
24 with that major item before us, it became -- it's
25 somewhat difficult to deal with that as well as the --

1 the substantial topic that relates to the new industrial
2 rate.

3 The -- when we talk about the new rate in
4 terms of the -- the discussion with the members as well
5 as our own review, it seems quite clear to us that what
6 is being put forward is a -- is a fairly material
7 departure or -- or compromise from the basic principles
8 on which one normally regulates utilities which would
9 lead to a need for quite a high standard of review.

10 We were given information that was
11 available; the six (6) pages in the original filing and
12 the -- the information has come in over time since then.
13 There was insufficient time and information to be able to
14 review that in a way that we could put a -- a fully
15 formed conclusion before this Board or indeed to
16 cooperate with complimentary experts in certain fields
17 that are -- are different than what we work in but that
18 are touched upon by the new industrial rate.

19 And as a result, the decision was made to
20 -- by -- by the members to focus in -- in the directions
21 that the Board has seen; the motion to have this
22 considered at a later date. So that's the reason it's
23 not addressed in our evidence.

24 MS. TAMARA MCCAFFREY: Now, in terms of
25 the things that you did look at, can you give the Board

1 an overview of what you considered in this application?

2 MR. PATRICK BOWMAN: Well, outside of the
3 matters I just discussed in terms of the -- the new
4 industrial rate which -- if -- if there is questions,
5 we'll deal with them as we can, but we -- we have not
6 provided any in the -- any pre-filed evidence on that
7 matter.

8 In terms of the things we did look at, our
9 focus in the materials was primarily on Hydro's revenue
10 requirement materials. We spent a fair bit of time
11 reviewing the cost of service materials, but I think it's
12 fair to say that in terms of the cost of service context
13 the -- the level of review or the standard of review for
14 this proceeding is somewhat -- somewhat different than --
15 than other areas given we've just been through a fairly
16 major methodology review on that, and our purpose wasn't
17 to -- to re-argue points out of that Hearing.

18 And some levels of review of the -- the
19 rate design component although with respect to the bulk
20 of firm rates there -- that -- that were relevant to our
21 review, there has been little aspects or very little
22 progress on the rate design topics.

23 MS. TAMARA MCCAFFREY: When I'm looking
24 at Section 1.1 of your -- of your evidence summarizing
25 your conclusions.

1 Would you like to high -- highlight these
2 for the board at the front end and then we'll go through
3 more detail, your evidence, dealing first with respect to
4 your comments on cost of service, at page 2.

5 MR. PATRICK BOWMAN: Well, our comments
6 on Cost of Service at page 2, are -- are basically what I
7 just went over. That -- that with respect to the Cost of
8 Service Study that's now before the board, that -- and
9 I'm referring to the --the full PCOSS '08, it -- it is --
10 it's a pleasant experience to be here with the study that
11 has recently been reviewed to that extent.

12 And -- and that we're -- we're not into
13 sort of the technical debate. Those are behind us.
14 We've -- we've spent the time and energy and -- and money
15 to do that, and so now we have what is sort of confirmed
16 as -- as a useful document, and -- and I guess the
17 biggest part of our -- of our comments is it's time to
18 get on and make -- make use of that major investment.

19 We have a few comments in respect of how
20 Hydro has -- has applied certain aspects of the Board's
21 recommendations. We didn't intend to revisit any of the
22 -- any of the arguments or -- or re-fight the -- the
23 battles, if one likes, from the -- the previous hearing.

24 MS. TAMARA MCCAFFREY: Now with respect
25 to rate design, you've indicated that there's been little

1 material progress, and we're going to deal with that a
2 little further later in the evidence.

3 Going now to the revenue requirement
4 portion of your evidence, sir, if you could take us
5 through what you looked at there.

6 MR. PATRICK BOWMAN: Well, our -- our
7 evidence is organized such as matters related to revenue
8 required to our -- our -- it's actually dealt with, in
9 Section 3 of the evidence, Cost of Servicing, Section 4
10 in to the extent Rate Design Arises, in Section 5.

11 Section 3 particularity reviews the
12 requested approvals for the -- the 2.9 percent rate
13 change as well as the long term forecast in the IFF and -
14 - and to some extent extending beyond the IFF.

15 And wha -- and I think it's fair to say,
16 and we're probably not the only ones making the same
17 comment, that IFF '07-1 is -- is quite a different
18 document or reflects quite a different forecast of
19 situation arising, than -- than has typically been seen
20 before this board before.

21 And in particular we focussed on a
22 comparison between '07-1 and IFF '02-1. And -- and this
23 -- I'm now at the top of -- of page 8, but just setting
24 out that we -- we wanted to be able to get our minds
25 around the -- the changes in Hydro's situation and -- and

1 the -- the forecast it sees unfolding.

2 MS. TAMARA MCCAFFREY: I'm just going to
3 stop you there, sir. It -- it -- I may have jumped ahead
4 a little bit. In terms of the issues that are sort of
5 setting the context for your evaluation with respect to
6 the revenue requirement on the cost of service portion,
7 are there specific key issues that arose from your review
8 of Manitoba Hydro's application?

9 And that you do discuss that somewhat in
10 Section 2 of your evidence. And just in terms of setting
11 the stage for your analysis --

12 MR. PATRICK BOWMAN: Yeah, that --

13 MS. TAMARA MCCAFFREY: --to highlight
14 those for the Board.

15 MR. PATRICK BOWMAN: -- yes, Section --
16 Section 2 was just where we -- where we put aside -- put
17 together a -- an overview of -- of Hydro's filing. This
18 -- this is something we typically do for -- for our own
19 benefit and to make sure that we're -- we're clear.

20 We -- what -- the notable thing that we
21 spent a bit of time on there is -- is respective Load and
22 System Supply which goes to page 7, and this is one of
23 the aspects in which IFF '07-1 is very different than --
24 than '02-1 as I was saying.

25 IFF '07-1 is now reflecting a forecast

1 that is in a fairly major expansionary period. It
2 reflects considerations that go somewhat beyond the next
3 ten (10) years, and -- and may not even yet pickup all of
4 the expansionary aspects that Hydro's dealing with, as we
5 heard earlier today in terms of a Keeyask project, which
6 is not -- not yet in there, but or -- or other cross-
7 border transmission or combus -- combustion turbines.

8 But nonetheless, it -- it reflects a -- a
9 fair change in terms of the requirements on the system;
10 the -- the delays in the wind coming into service
11 compared to some of the earlier forecasts, the DSM levels
12 that are somewhat different than the earlier forecasts.

13 For the first time it shows certain
14 shortfalls in terms of the --the dependable energy throu
15 -- throughout this period, and it's -- it's reflecting a
16 -- a need to have delays in certain retirements of the --
17 the thermal plants in order to -- to make the whole
18 system work.

19 And so that was just something we took a
20 bit of time to summarize at page 7, because we thought it
21 was -- it was relevant to the context of -- of the long
22 term forecast that we were reviewing.

23 MS. TAMARA MCCAFFREY: Okay. and in --
24 and in light of the -- that context now, sir, can you
25 take us through your review with respect to Hydro's

1 financial results and proposed increases to the overall
2 level of rate?

3 MR. PATRICK BOWMAN: Yes, now we're --
4 now we're talking about Section 3 of the evidence. And
5 we spend a bit of time, and in particular in this section
6 and -- and in some supporting documents in Attachment B,
7 as I said, reviewing what has happened over a longer term
8 and what is forecast to happen over a longer term.

9 And -- and in particular why we're facing
10 quite a different situation with respect to the financial
11 targets, the 75/25 debt/equity ratio and -- and the date
12 for its achievement than -- than had been, you know, the
13 -- the history for -- for those of us who've watched
14 Hydro for some time.

15 The -- I -- I can walk through the
16 details, but -- but the Board did ask Hydro an IR in
17 regards to the, you know, Quickly, easily, please put
18 forward a summary of the changes between IFF 02-1 and 07-
19 1. And -- and Hydro foreca -- noted four (4) factors.

20 And so our starting point was sort of to -
21 - to set out and try to understand those four (4) factors
22 and see the extent to which it was -- it was, you know,
23 explained to us what was happening.

24 MS. TAMARA MCCAFFREY: Would you like to
25 take us through them now?

1 MR. PATRICK BOWMAN: Well, the -- the I -
2 - I -- Interrogatory I'm referring to which was
3 PUB/Manitoba Hydro Round 1 63A. The -- the four (4)
4 factors are set out at the bottom of page 8 and to the
5 top of page 9 of our evidence. And -- and they form the
6 basis for the organization of Attachment B.

7 But in short that response notes that when
8 you com -- you know, wha -- asks, Why the deterioration?
9 Why do we no longer see targets being met in terms of
10 debt/equity or -- or even within the rise in IFF?

11 And -- and Hydro noted: special export
12 payment to the province, the 2002/'04 drought, higher
13 domestic loads, and lower rate increases, and higher
14 capital spending.

15 So we spent a bit of time, and probably
16 the best place to go is into Attachment B, which is
17 towards the back of the materials. And we -- we can
18 start at page B-6, which is a -- a graph that -- of -- of
19 the retained -- Hydro's retained earnings.

20 And, I don't know if most people have this
21 in colour or not, but it -- it's probably useful to -- to
22 walk through this and a couple of the subsequent pages to
23 understand where we ended up. The page B-6.

24 MS. TAMARA MCCAFFREY: It's Figure B.1-1,
25 "Comparison of Electricity Operation Retained Earnings,"

1 B.

2

3

(BRIEF PAUSE)

4

5 MR. PATRICK BOWMAN: Sorry, if you have
6 this in colour, you'll see that there's some in blue and
7 some in red. If not, I -- I believe the -- the blue
8 tends to print as a lighter colour and the other tends to
9 print as a -- the red tends to print as a darker colour.
10 So you might find that helpful to guide through this.

11 But we -- we -- this is a graph that is
12 titled at the top, "Comparison of Electricity Operation
13 and Retained Earnings." And on the -- on the horizontal
14 axis you'll see it starts about 2002/'03 and ends at
15 '17/'18, which is the end of the current IFF.

16 Just to get used to the style of these,
17 because we have a few more, what we did was the blue
18 vertical bars are the forecasts out of IFF 02-1, or the
19 lighter coloured vertical bars, that start in 2002/'03.
20 And, of course, that IFF ended in 2012/'13. The red line
21 is the actual since that time. And the red bars are the
22 current IFF.

23 So when you're tracking the retained
24 earnings, this is the place where you would fundamentally
25 see at least two (2) of those factors that Hydro noted as

1 being the reason for deterioration showing up, and in
2 particular, the drought and the special payment.

3 Starting with the special payment, we
4 looked back to IFF 02-1 and tried to figure out whether
5 that payment was indeed a reason for deterioration. And
6 we quickly concluded it wasn't, given that IFF 02-1 in
7 fact already had the special payment forecast in it, and
8 at the time it was forecast at \$254 million.

9 Now, the ultimate payment only ended up
10 being \$204 million. So in fact when you compare the two
11 (2) IFFs, it's actually a benefit in IFF 07-1, not -- not
12 a reason for deterioration. So we -- we didn't need to
13 dwell on that one.

14 In terms of the drought, the -- the red
15 line or that -- that's shown there with the actuals does
16 highlight the extent of the -- the drought that occurred.
17 It -- it really does show quite a drop compared to IFF
18 '02-1.

19 But what was really striking to us was how
20 quickly the Corporation actually recovered from the
21 drought, in -- in part due to water flows and in part due
22 to rate increases that were imposed. But we end up in a
23 situation today -- and looking forward in IFF '07-1 --
24 where compared to forecasts we're -- we're sort of right
25 back on the horse if you like. It's not a -- it's not a

1 -- a lingering effect as to why IFF '07-01 does not
2 achieve its targets.

3 So we -- we didn't find sort of discussion
4 of that -- that one (1) particular drought to be a
5 particularly persuasive reason why IFF '07-1 was failing
6 to reach the -- the financial targets.

7 MS. TAMARA MCCAFFREY: And you indicate
8 at page 9 of your evidence, sir, that essentially while
9 the effect of the drought was severe, it was entirely
10 neutralized within less than five (5) years.

11 That's essentially what you're telling us?

12 MR. PATRICK BOWMAN: Well, that's the
13 words that back up the line on page B-6 in the -- in the
14 chart, which is that the -- due to a combination of -- of
15 factors the -- the drought no longer is a reason that one
16 isn't on track to what was in IFF '02-1.

17 Overall though, when one looks at that
18 figure in B-6 what struck us was how sitting in this room
19 many years ago at the status update filing the first time
20 Hydro was effectively re-regulated after a long period
21 away from the Board in -- in the IFF '02-1 and the first
22 time that a 75/25 debt/equity target had been adopted, it
23 was quite a -- it -- it was thought to be quite an
24 optimistic forecast, or a good news story if you like,
25 that those -- those debt/equity ratios could be achieved.

1 IFF '07-1 is ahead of where we ever
2 expected we'd be in IFF '02-1. And -- and it's, you
3 know, the -- the theme is challenging times ahead. And I
4 think that -- that was something that -- that caused us a
5 bit of concern. So we sort of kept working our way
6 through the -- the items that Hydro had noted.

7 MS. TAMARA MCCAFFREY: And the next item
8 that you've identified on page 9 of your evidence, sir,
9 is the higher domestic loads and lower rate increases?

10 MR. PATRICK BOWMAN: Yes, this was one
11 that -- the third item in -- in the list that Hydro had
12 provided in that Interrogatory.

13 And if -- if you turn one (1) more page to
14 B-7, you'll see a chart that actually has even more
15 colours, believe it or not, for those who are fascinated
16 in detail. If you're not, you can spend time looking at
17 the height of the bars.

18 But this was our attempt to summarize
19 overall revenues and rate levels -- or overall revenues
20 and impacts of rate levels arising to Hydro between the
21 two (2) IFFs. And again, the lighter-coloured or blue
22 bars reflect the earlier IFF.

23 The darker-coloured or red bars reflect
24 the -- the current IFF '07-1. And the domestic and
25 export are identified separately depending on the -- the

1 shade of the bar.

2 But when you look at overall revenues
3 throughout the period, with the exception of '03/'04,
4 which -- which really does show the impact of the
5 drought on the overall revenues, you can see that in fact
6 compared to 02-1 overall revenues are higher in each year
7 than had been forecast. It partially explains the
8 previous graph as to overall retained earnings levels
9 being higher.

10 There's a couple of useful things to note
11 going on, on this graph. Wuskwatim starts to come in in
12 2011/'12 and '12/'13, so we see a bit of a jump in the
13 overall red bars through those years. But -- but
14 otherwise this is -- this is the forecast coming out of
15 the -- the IFF.

16 MS. TAMARA MCCAFFREY: And -- and does
17 this assume revenue from the new industrial rate, this
18 figure B.2-1 that you're looking at at page B-7?

19 MR. PATRICK BOWMAN: Yes, Figure B -- or
20 the page B-7, the figure that's there, does have revenue
21 from the new industrial rate built into the IFF forecast.
22 And we wanted to make sure that we understood how that
23 was impacting the overall picture.

24 And so we -- we move to page B-8, and we
25 did the equivalent chart but with no revenues forecast

1 from the new industrial rate. And -- and this comes out
2 of an Interrogatory, MIPUG to Manitoba Hydro Round 2
3 Question 2a(I), which provided an IFF assuming the rate
4 was -- was not approved.

5 And although the bars, as you go out in
6 time, are somewhat lower than they would have been, the
7 overall conclusion that we're talking about a overall
8 revenue forecast higher than within IFF '02-1 still
9 holds. And it -- it -- so it didn't necessarily explain
10 to us or didn't seem to bear out the -- the basic concern
11 over the level of revenues that was suggested in -- in
12 the -- Hydro's response to that PUB IR.

13

14 (BRIEF PAUSE)

15

16 MS. TAMARA MCCAFFREY: Thank you, Mr.
17 Bowman. What about the fourth factor, the higher capital
18 spending item that you've identified on that page 9 of
19 your evidence?

20 MR. PATRICK BOWMAN: Well, if you're
21 still in Attachment B, we have two (2) more charts, and
22 capital spending is the second of those charts. The
23 first one of the -- th remaining charts at B-9 is the --
24 is actually the level of rates. And if you remember
25 correctly I was just talking about a revenue level that's

1 asserted to be higher domestic loads and lower rate
2 increase.

3 This was our attempt to test the rate
4 increases and to see whether they indeed had been lower
5 than had been in IFF02-1. And outside of a very short
6 period in 2003/'04, understanding this graph took me a
7 while, but the red triangles, or the triangles at least,
8 show the current forecast of rates through the IFF
9 period. And this is -- those percentages are indexed to
10 the starting point of IFF '02-1. And the blue diamonds
11 would show the IFF '02-1. The -- the squares in the
12 early part are just the actuals.

13 So if you follow the track, as -- as
14 difficult as it is to -- to portray, the track is -- is
15 intended to show that outside of a very short period, in
16 fact ,rates throughout IFF '07-1 and actuals are higher
17 than they were in IFF '02-1. So lower -- lower overall
18 rate increases didn't bear out for us as a -- as a reason
19 for the -- the -- for the deterioration.

20 Now, the question, you were moving to
21 capital. The -- the last page, B-10, of this -- of this
22 series is attempting to portray the overall electricity
23 net plant and service. And unlike the first three (3)
24 factors I just went through, which upon review didn't
25 bear out as rationales for this deterioration in -- in

1 financial condition, higher spending on capital bears out
2 in spades, if you like. And -- and I don't think that
3 should be a surprise.

4 When you look through the -- the chart
5 that's at B-10, again, the same layout. Red is IFF '07-
6 1, and blue is IFF02-1. It -- it summarises electricity
7 net plant and service. It's important to note the
8 vertical axis starts at -- at 6 billion and goes to 12
9 billion. So there's a lot you don't see below this graph
10 that's -- would be a lot longer bars if we bothered to
11 put them in.

12 But where -- where the action is going on,
13 if you like, is in the blue bars is what was forecast in
14 the earlier IFF. The -- the line is the actuals, so
15 that's the spending over this period, particularly
16 focussed on bringing into service normal projects, normal
17 sustaining projects.

18 And then you really start to see, as you
19 move out towards the right in the IFF '07-1, the impacts
20 of -- of the three (3) projects that actually make it
21 into the IFF horizon: Wuskwatim in 2011/'12; Pointe du
22 Bois in 2015/'16, which is the refurbishment; and Bipole
23 3 in 2017/'18. So those -- those projects really start
24 to overwhelm the -- the calculations of -- of total
25 capital and the debt/equity ratio where we're ultimately

1 going.

2 The main concern we had when we did up
3 this graph is that, similar to IFF '07-1, if you stay
4 focussed on the ten (10) year horizon ahead of us, you
5 actually miss what's happening in year twelve (12), which
6 is Conawapa in the overall forecast. And now we -- here
7 it could be Conawapa and Keeyask plus cross-border
8 transmission. But nonetheless, Conawapa is at least
9 forecast in the overall capital spending.

10 So two (2) -- two (2) pages further back,
11 in page B-12, we tried to just pick up the -- the couple
12 of years hence impact of Conawapa to give some -- some
13 context. This is the graph that some of my staff call
14 the "spaghetti graph."

15 But it shows all of the different IFFs in
16 -- in all of their rainbow format. But it particularly
17 shows that when you're tracking the actuals compared to
18 IFF '02-1 and you're looking at these big projects, they
19 -- they just -- compared to anything else we're dealing
20 with, they're really quite overwhelming to the system and
21 to the types of ratios and -- and considerations that had
22 -- had been there in the past.

23 Now, Keeyask would be another factor on
24 top of this. But it -- it -- I think the fair word would
25 be it -- it really transforms the thinking about -- about

1 a debt/equity ratio as -- as a target, because all of
2 those dollars you see there are fundamentally, other than
3 what can be raised from ratepayers, fundamentally are
4 borrowed at the time the project comes into service.

5

6 (BRIEF PAUSE)

7

8 MS. TAMARA MCCAFFREY: And when you use
9 terms like transform -- I noticed a theme in your
10 evidence that you indicate that when you compare these
11 IFFs, they demonstrate this -- we're at a critical
12 junction in respect of regulating Manitoba Hydro. And
13 you state that at the bottom of page 9 of your evidence.

14 MR. PATRICK BOWMAN: Yes.

15 MS. TAMARA MCCAFFREY: In what ways do
16 you see the regulation of Manitoba Hydro needing to
17 evolve?

18 MR. PATRICK BOWMAN: Well, on top of the
19 four (4) things we looked at, where really, when you
20 consider not just five (5) years, but you consider the
21 horizon looking forward and -- and this capital spending
22 becomes a -- a dominant factor -- and I -- I should note
23 not -- not to be critical of capital spending, but to use
24 it as -- in -- in a way to be setting an overall
25 capitalization ratio.

1 When it becomes a dominant factor, it was
2 telling us one of the things that was going on as to why
3 the two (2) IFFs were different. And it was, in a sense,
4 hiding which just beyond the IFF. Not -- not to suggest
5 that's -- that's anyone's trying to hide anything. But
6 it's -- it's just outside the horizon, so you don't
7 necessarily see it show up in numbers.

8 We -- it -- it didn't strike us though as
9 -- as giving the full story as to all of the different
10 things that were going on. So we also did a review of
11 the operating and maintenance expenses compared to
12 forecast. And this, in -- in Attachment B, was
13 summarised at page B-14. But that -- that chart actually
14 had an error in it. And we -- we corrected it in
15 PUB/MIPUG-12.

16 It's -- it's the last page of -- of the IR
17 Response PUB/MIPUG-12, which I believe is marked as
18 Exhibit PUB-9, but I'm not positive.

19 MS. TAMARA MCCAFFREY: PUB/MIPUG Exhibit
20 9.

21 MR. PATRICK BOWMAN: And it's -- it's IR
22 Response 12. And it's the last page of -- page 2 of two
23 (2). And again it's a -- a spaghetti type of
24 graph, the spaghetti rainbow, showing each of the
25 subsequent IFFs and the overall forecast for operating

1 and maintenance expenses.

2 And two (2) or three (3) things struck us
3 out of this, one being that the extent to which each of
4 the subsequent IFFs had -- had really failed to track the
5 forecast from the previous IFF but -- but served to sort
6 of shift the -- the bar, if you like. And -- and as a
7 result, almost throughout the forecast was -- was at a
8 higher level than the previous forecast.

9 It was interesting to see IFF '05-1 that
10 had a -- had an actual decrease in O&M for one (1) year,
11 where the efficiencies of the new head office would hit
12 by the current -- their latest IFFs. Those -- those
13 don't result in decreases anymore. They just flow into
14 the O&M numbers.

15 But outside of that dip, it's -- it's
16 almost universal that you're seeing each IFF being not
17 just the effects of increases, forecasts, in previous
18 years, but -- but -- which would presumably pick up
19 inflation and other -- other forecast activities, but a
20 real upward shift year after year after year in terms of
21 the overall level of -- of operating and maintenance
22 expense.

23 And so we -- we put some -- some numbers
24 on this and -- and determined that really you're talking
25 about, over the period of concern, something like \$250

1 million in -- in overall shift and -- which is about two
2 (2) to three (3) percentage points in the overall
3 debt/equity ratio. So we -- we wanted to make sure that
4 that made it into the overall comparison.

5 But by the time you're done all of this,
6 the thing that caused us a challenge was trying to sit
7 down and look at a request for a 2.9 percent rate
8 increase, primarily justified on -- on building up
9 reserves and making progress towards targets, where
10 you're facing targets that -- I use the word -- are sort
11 of becoming transformed in the future.

12 You're chasing -- chasing a -- a number
13 that -- a 25 percent target that is in one sense not --
14 not really attainable, given the type of -- of future
15 that's there in terms of capital spending. But -- but
16 more important than that, you're chasing a number that --
17 that it -- it also wouldn't be -- it -- it's not
18 particularly meaningful in terms of looking at a specific
19 request for a rate increase. And why 2.9? Why -- why do
20 they -- does it need to happen in some years?

21 When we look at the series of rate
22 increases Hydro has requested, which is, you know, a GRA
23 that's filed and then three (3) months later, we -- they
24 -- they don't need the rate increase. And then a interim
25 of approval is granted, but then the interim approval

1 isn't picked up. But then they come back later and say -
2 - it's -- it's kind of a frenetic series of -- of, We
3 need it, we don't.

4 MR. ROBERT MAYER: We -- we have a clear
5 recollection of that --

6 MR. PATRICK BOWMAN: Yeah.

7 MR. ROBERT MAYER: -- Mr. Bowman.

8 MR. PATRICK BOWMAN: And -- and it's --
9 it becomes very difficult to reconcile the guidance of
10 this long-term -- term math is showing with this very
11 short-term sort of jagged series of -- of requests.

12 So when we were dealing with this -- this
13 forecast, if you like, and you don't have a meaningful,
14 stable forecast coming out of -- out of -- or a
15 meaningful ability to plan a stable rate change regime
16 coming out of that target, and -- and you're also not
17 sure the target will be meaningful in the longer term
18 context of -- of actually reaching, you know, reaching 25
19 percent by a certain date.

20 And I should note that we're -- we're
21 talking about actually needing to achieve retained
22 earnings levels of six (6), you know, say, \$6 billion
23 within the, you know, a few years beyond the IFF horizon,
24 which is just numbers way beyond what -- what we ever
25 talk about here, in order to reach 25 percent.

1 Putting all that aside, in a sense even
2 reaching the target isn't necessarily consistent with the
3 entire policy framework that people are dealing with for
4 pursuing new developments. And my example on that is
5 very clearly summarized with something like Wuskwatim,
6 where if you're trying to have 25 percent equity during
7 the IFF '02-1 that doesn't have Wuskwatim, and you're
8 also trying to have 25 percent equity in IFF '07-1, which
9 does have Wuskwatim in it, it seems to me you're trying
10 to get 25 percent equity for Wuskwatim by the day it
11 comes into service or shortly thereafter.

12 Since equity only comes from rates and it
13 becomes a rate pressure, you're effectively coming pretty
14 darn close to raising rates to pay for Wuskwatim, which
15 in a footnote we put in the quote from CEC -- I don't
16 want you to have to go back it -- but it effectively says
17 the premise of building it is it won't raise rates. I
18 think it's even a -- a sort of contingent condition. And
19 -- and we see that Wuskwatim's not generating its own
20 equity for -- for some time after it comes into service.

21 So you -- you really start to question
22 whether -- whether even reaching 25 percent in a -- in
23 that type of environment is -- is desirable or is
24 consistent with the policy context that we're dealing
25 with, the policy framework for developing new projects.

1

2 CONTINUED BY MS. TAMARA MCCAFFREY:

3 MS. TAMARA MCCAFFREY: Now, Mr. Bowman,
4 you're not suggesting that the debt/equity target of
5 75/25 is -- is no longer appropriate in a general sense
6 are you? Or are you thinking more particularly in term -
7 - in the context of rate regulation?

8 Can you clarify that for us?

9 MR. PATRICK BOWMAN: Well, yes, I'm
10 thinking particularly in the context of rate regulation.
11 If you're sitting on a board of directors of a utility,
12 you -- this is the kind of the thing you would want to be
13 attentive to, your overall financial targets, the level
14 of equity compared to debt.

15 And -- and it wouldn't -- it wouldn't only
16 be debt/equity. And I -- I don't want to overstate it.
17 Clearly, interest coverage becomes a pretty important
18 target when looking at Hydro as well. I'm not convinced
19 capital coverage is -- is monitored as much as a -- a
20 target as it is a statistic, but -- but interest coverage
21 clearly has a certain level of attention as well. But it
22 -- it may be meaningful as something you track or that
23 you pursue or you make plans towards if you're a board of
24 directors.

25 But the point I've been trying to make is

1 that if you're sitting in a different room, before a
2 different Board, this Board, and trying to set rates,
3 it's a -- it's a different tool that you need to have
4 available to you, because that one is not telling you
5 whether two point nine (2.9) is the right number or three
6 (3) is the right number to be, you know, to focus on a
7 very small change. But it -- it could be different
8 levels that you would look at.

9 It -- it's not -- I -- I don't know of a
10 single other utility in -- in Canada that's regulated --
11 anywhere -- that's regulated on the basis of determining
12 how much -- how poor the shareholders' equity position is
13 and how much rate payers need to try to put aside towards
14 the shareholders' equity. It's -- it's, I -- I would
15 say, basically quite unheard of.

16 But also in a regulatory context it -- it
17 creates a sort of catch 22 for this -- for this Board or
18 for people who have to review the filing, in terms of the
19 controls that are put on Hydro.

20

21 (BRIEF PAUSE)

22

23 MS. TAMARA MCCAFFREY: It puts the Board
24 in a difficult position, in terms of being concerned
25 about the ever growing capital spending, as far as its

1 impact on rates go. Is that what you're suggesting?

2 And -- and that perhaps this shouldn't be
3 the sole guide we use in terms of reviewing whether Hydro
4 needs higher and higher rates?

5 MR. PATRICK BOWMAN: Well, yes, not just
6 capital spending, but it puts the Board and people who
7 have to review the filing like us in a difficult position
8 if you're sitting here saying, I looked back over the
9 orders that have been in place. I see the directives to
10 Hydro to try to keep things like it's normal capital
11 spending and it's O&M under control.

12 We can debate whether they've done that,
13 but in the event that the Board is trying to achieve
14 controls of that sort which is exactly what a Board
15 should be here to do and in the event -- what is the tool
16 they have to be able to manage that?

17 Under the current framework for regulating
18 Hydro, the only tool that the Board has is overall level
19 of rates so if you don't find the responses that the --
20 the Board deems are necessary or the level of costs that
21 the Board deems are prudent, what does it do or what --
22 what do I recommend?

23 Well, giving lower levels of rates
24 certainly presents a challenge if you're concerned about
25 the level of reserves so the thought of -- of cutting

1 back on rates as some form of -- of means of control on
2 O&M spending doesn't get you very far. Giving higher
3 levels of rates still doesn't get you very far in terms
4 of overall levels of control. It becomes a very coarse -
5 - coarse tool for trying to enforce or establish
6 regulation in the way it would normally be understood for
7 a regulated utility.

8 MR. ROBERT MAYER: Well, Mr. Bowman, then
9 I'm hearing you say, and I think I was reading in -- I
10 did read your pre-filed testimony, sometime way back this
11 Board had recommended it get some control over Hydro's
12 capital expenditures.

13 Are you of the view that would be useful
14 in dealing with the problem you have now identified?

15 MR. PATRICK BOWMAN: Yes, Mr. Vice-Chair.
16 In fact, it's one (1) of our recommendations at page 16.
17 It's not a loan, and I -- I say it with some caution, in
18 particular, because one (1) of the other jurisdictions we
19 deal in is -- is Newfoundland where the Board has quite a
20 high level of control over the Utility's capital
21 expenditures, and it doesn't necessarily make the job
22 that much easier sometimes.

23 In fact, in Newfoundland the normal
24 interpretation of the Act is before the Utility can spend
25 anything over fifty thousand dollars (\$50,000) if I

1 remember correctly, it effectively needs the approval of
2 the Board.

3 So you have an annual capital budget come
4 to the Board, and the Board does almost a line-by-line
5 review of these things and has to -- and -- and at the
6 end of the day it -- it almost puts the onus on the Board
7 to regulate the Utility's capital program which has --
8 which has never been the intent of regulation.

9 So there -- there's a -- there's a right
10 way to do things and a wrong way to do things, but what
11 we focussed on in our evidence is trying to imagine,
12 envision, an evolution in the Manitoba regulatory
13 framework that didn't require those changes to the Act.

14 If -- if those changes to the Act could be
15 accomplished, it would probably be helpful, but it didn't
16 require those changes to the Act.

17 What it required was developing a way that
18 the Board gets itself more than one (1) lever of control;
19 more than just the control over the overall level of
20 rates.

21 But that effectively, it -- those -- those
22 increases in rates are to some extent contingent on
23 ensuring that -- that the dollars as a -- as first
24 priority rather than as the bottom of the -- of the line,
25 the bottom of the net income, are being targeted to the -

1 - the main -- the first concern that -- that we've heard
2 which is to ensure that reserves are there that
3 appropriately deal with risk, help ensure rate stability
4 and -- and help make sure that -- that debt levels are
5 kept under control.

6

7 CONTINUED BY MS. TAMARA MCCAFFREY:

8 MS. TAMARA MCCAFFREY: And I note that
9 you -- you also deal with this issue in response to
10 Public Utility Board MIPUG Number 3 in reference to the
11 Vice-Chair's question.

12 Following up on this theme then in terms
13 of the evolution of an approach regulating Manitoba
14 Hydro, you've referred to reserves. I might take you now
15 to your evidence at Section 3.1.3 and following, from
16 page 15 onward.

17 And -- and let's explore this issue of
18 other tools in which to -- to regulate Hydro.

19 MR. PATRICK BOWMAN: Yes. As you work
20 through Section 3.1, 3.11 deals with sort of why there
21 would be concerns about using a debt/equity as a -- as a
22 target in the current environment.

23 And 3.12 deals with the -- the challenges
24 of -- of using retained earnings or shareholder's equity
25 at the end of the day as the means to stabilize rates;

1 partially due to the level of -- of control the Board
2 has; partially due to the -- the thought that the Board's
3 control of the top line; and then all of these things in
4 between before you get to net income which is the one
5 that they're trying to have an effect on. I -- I've
6 written down the words "insufficient linkage," for what
7 it's worth.

8 Once we moved forward we -- we -- we said,
9 So how -- how does one go about evolving this? We deal
10 with it somewhat in 3.1.3, although I think in all
11 fairness, this is -- this is a -- a bit of a creative
12 exercise.

13 In -- in our original recommendations,
14 we're seeing there's effort needed to figure the way
15 through this, to evolve this. We have some thoughts. We
16 think there's some things you can get on with today.
17 They're more evolved by the time you get to IR PUB-6 than
18 they are in -- in 3.1.3.

19 But the idea is for some -- some way to
20 come up with effectively a -- a fairly comprehensive bulk
21 power stabilization mechanism that allows the Board to
22 have the determination of the level of rates, but also
23 the level of ballpark costs that Hydro reflects in its --
24 in its income statement in a given year as well as in --
25 as in a -- a separate mechanism.

1 We haven't necessarily identified exactly
2 the mechanism, although we have some thoughts on that.
3 There are some different models that are used. The one
4 thing we can say with some level of certainty is that
5 nobody else uses a model like this, whether you're small
6 or big.

7 We make comments on some of the smaller
8 utilities like Yukon or Northwest Territories who
9 actually manage a deferral account; one as a cash trust
10 and one as a -- as a -- basically an accounting entry on
11 the balance sheet; a regulatory liability or asset in
12 order to stabilize their water flows.

13 Newfoundland has a similar thing, but if
14 you look across to the big Hydro utilities, the net
15 effect on rate pairs isn't necessarily that different.
16 In Quebec they've got a system where the production
17 component of the utility, in that case, is deregulated,
18 but it's directed by law to sell a certain quantity of
19 power -- 165 terrawatt hours -- to the regulated
20 distribution utility every year at a fixed price of two
21 point nine (2.9) seven nine (79) cents.

22 It sells that same quantity at that same
23 price whether it's a drought or whether it's a flood.
24 The -- the swings occur outside of regulations. So if
25 you're a rate pair you're seeing the stability of a -- of

1 a -- a naturally offsetting balancing account that's
2 outside of -- outside of the -- the regulatory system.

3 In BC the new -- the new Heritage Act
4 actually sets up deferral accounts for this purpose, but
5 neither of these two (2) has a system where a regulated
6 utility accepts those swings as part of its net income
7 and uses it as part of its retained earnings and uses
8 those effectively as the means of stabilizing rates.
9 That's -- that's the component that really is quite
10 unheard of.

11 MS. TAMARA MCCAFFREY: Now, with respect
12 to that though, Mr. Bowman, and I know that you've also
13 dealt with this issue in PUB/MIPUG Number 4 as well as in
14 your evidence, we've also heard or seen in the rebuttal
15 evidence filed by Manitoba Hydro that a -- a notion of a
16 -- of a reserve for the purpose of managing risks is an
17 outdated concept, and I'm referring to page 14 of their
18 rebuttal evidence.

19 I've -- and we've also heard that it's
20 said that retained earnings does the same thing,
21 essentially. The debt/equity target does the same thing
22 that you're proposing a reserve fund at.

23 Would you agree with that?

24 MR. PATRICK BOWMAN: No, I don't agree,
25 primarily -- I primarily don't agree with the concept

1 that -- that it's somehow outdated, particularly due to
2 my comments earlier, that we're talking about where you
3 have regulated utilities that experience water flow
4 variation.

5 They found a way to do it, and they're
6 still in place. It's -- if you follow the discussion
7 from earlier today in respect of -- of financial
8 standards and someone views it through that or coming
9 financial standards and someone views it through that
10 lens, it's possible that all of these utilities will have
11 to reconcile in the coming years with -- with new
12 standards.

13 And -- and that the idea of -- of reserves
14 or deferrals in that context may -- may pose a certain
15 challenge. My inclination would be to say I would find
16 it unlikely that that will terribly trouble the
17 regulators who've established a mechanism to ensure that
18 rates meet -- reflect a certain level of stability; that
19 if -- if the utility needs to account for things a
20 certain way that's -- that's why it's -- that's why it's
21 financial reporting. It reports on the activities of --
22 of the utilities experiencing. It doesn't drive the
23 regulation.

24 The account -- accounting for a -- for a
25 factor doesn't necessarily drive the -- the decision made

1 by a regulator or the types of statements or -- or
2 factors looked at by a regulator in coming to the
3 decision on rates. The -- the regulator leads the dance,
4 if -- if you like.

5 MS. TAMARA MCCAFFREY: Would you -- and I
6 know you've done this already in the context of the --
7 the Public Utility Board MIPUG Interrogatory Response
8 Number 6 we referred to earlier.

9 Perhaps you'd like to take this
10 opportunity to elaborate for the board now on -- on
11 possibilities that they could consider in terms of
12 directionally in any event, approving the notion of a --
13 some sort of regulated reserve fund for the purpose of
14 risk management and rate stability?

15 MR. PATRICK BOWMAN: Well, yes as I was
16 saying earlier, by the time we got to the interrogatories
17 from the -- the PUB, they were thoughtful and posed some
18 -- some good questions and -- and allowed a fair bit of -
19 - of expansion on our part in terms of -- the how some
20 things might work.

21 I think it's -- it's fair to say that --
22 that a -- a concept is evolving. The main challenge we
23 have ahead of us is coming down very specifically on the,
24 what this board can do in this hearing as opposed to what
25 might be a concept that merits further explo --

1 exploration for -- for a subsequent hearing, or a
2 subsequent GRA or a special hearing on the topic or
3 whatever may be determined to be useful.

4 In PUB-6, what we've tried to do is
5 crystalize, to ensure there's no misunderstanding,
6 certain aspects of what we're talking about. For
7 example, there's a fair bit of time that people talk
8 about this being a drought reserve. We haven't said a
9 drought reserve. What we've talked about is something
10 that stabilizes over above -- power costs. Drought is
11 one (1) factor, it's not the only factor.

12 But nonetheless, what we've -- what we've
13 focussed on and particularly this is at the fourth page
14 of that -- of that response, is -- is coming up with the
15 way of -- of looking at what -- what the system might
16 work like, and in particular that was looking at what the
17 system might work like with one additional variation that
18 I haven't addressed yet.

19 But the idea that you can set aside -- set
20 up a mechanism to stabilize certain aspects of the PUB
21 power costs and ensure that those don't become -- don't
22 lead to certain instability in rates, also gives you the
23 opportunity to use that same mechanism to record a
24 certain level of export revenues, as we talked about in
25 the last hearing; above cost export revenues towards that

1 account on a normal basis in any given year and help to
2 build up the sense of -- of the reserve.

3 So, once we've been through the Cost of
4 Service Study, our recommendations in the -- in the Cost
5 of Service Review and -- and are summarized quite well,
6 in Board Order, coming out of that, 117/'06, that you've
7 got a certain level of export revenues. Those that flow
8 to the Cost of Service Study, now -- we now have a
9 methodology for how they'll be recorded in the Cost of
10 Service Study.

11 But it's not necessarily given, that all
12 of the export revenues necessarily flow through to the
13 Cost of Service Study. There may be a lot better ways to
14 think about using certain portion of the export revenues
15 then simply throw -- flowing them back through lower
16 rates today. You know, it's the difference of dollars in
17 your jeans compared to something that's been -- that's
18 been put aside to deal with the future -- the future risk
19 of -- of drought -- about power supply variations.

20 The concept of a -- of a relatively
21 discreet reserve, and -- and as I noted, I'm using that
22 term loosely -- it could take a number of forms -- but
23 the concept of relatively discreet reserves conveniently
24 also matches quite well with the concept of setting aside
25 certain levels of those export revenues for -- for the

1 time when they're needed.

2 The question in PUB-6 was asking us more
3 about that second aspect: targeting a certain level of
4 the export revenues to the reserves. And it was asking
5 us what that would look like and in -- in page 4 or 5
6 there, which I can expand upon if it's helpful.

7 It basically just shows that in the event
8 one could proceed to have rates set such that in this
9 example \$130 million of export revenues in any forecast
10 year were not being reflected back in lower rates today,
11 but instead were being set aside.

12 This gives an image of how that might look
13 in terms of the -- the financial statements or the -- the
14 approvals from this Board in that test year, and it does
15 it through two (2) steps.

16 The first is -- the first column in that
17 was the -- showing the existing situation coming out of
18 Hydro's filings which defines a concept in one (1) of
19 their IR responses, COALITION/MH-1-1(A). It defines a
20 concept that -- that is sort of called ex -- extra-
21 provincial revenues net although it's not really -- it's
22 not really net the way that we'd normally think about it.
23 It's -- it's really a number that is very useful in
24 crystalizing all of those costs that are very subject to
25 water flow variations and export market variations.

1 It's -- and -- and the way Hydro's defined
2 it is ex -- the sum of export revenues less the sum of
3 all fuel and purchase power less all water rentals to
4 come to a number that's effectively the -- the component
5 of -- of all of those costs that swing based on -- on
6 water flows and export markets in their filing in the
7 test year that's forecast that -- that number would be
8 213 million.

9 What we're saying is if one was -- and
10 that 213 million in effect is showing up in the Cost of
11 Service Study. Each of those line items is showing up in
12 the Cost of Service study and is showing up in the level
13 of rates paid by other people.

14 If there were a way to consider some
15 portion of that, able to not flow to rates, in this
16 example it considers 130 million because that's what
17 we're asked, to not flow to rates it effectively
18 calculates that.

19 As a result instead of two hundred and
20 thirteen (213), you'd have 83 million that would be the
21 maximum Hydro would be allowed to record out of that --
22 that item into its net income in that given year. To the
23 extent export revenues less fuel and power purchased and
24 less water rentals exceeded 83 million that would define
25 the amount of dollars being set aside for the -- the

1 liability or -- or the concept of reserves.

2 Now, we used the 130 million because it's
3 what we were asked to use. It -- that can only happen to
4 the extent one actually is making up the difference in
5 rates, and we're not suggesting that within, you know,
6 any -- any near term.

7 The last column there considers how that
8 might then be met as well with the concept that
9 addressing with the Board it expresses a concern that --
10 that pretty soon you might end up with double counting,
11 and it addresses the fact that the -- the monies being
12 set aside here might be suitably also recognize via an
13 adjustment in the type of interest coverage ratios that
14 Hydro targets.

15 So that as a result of having over time a
16 reserve of this type built up there isn't the same need
17 for an interest coverage target at -- at one point two
18 (1.2) or higher. This example uses one point fifteen
19 (1.15). Although, previously, Hydro's used one point one
20 (1.1) as well.

21 MS. TAMARA MCCAFFREY: Now, sir, you've
22 taken us through Table 1 on page 4 of the evidence of the
23 PUB/MIPUG Interrogatory 6. Just so that the Board and
24 everyone in the room is clear, what you're recommending
25 today is that this is a -- a concept that be looked at

1 and developed further.

2 I note at the bottom of page 5, and you
3 can clarify for the Board what exactly you're
4 recommending in this regard, but you've indicated that in
5 the event the Board confirms directionally this form of
6 approach review of options via a future proceeding which
7 seem to be an order.

8 Would you like to elaborate on the types
9 of things that the Board might direct that Hydro look at
10 if they were to indicate further consideration on this
11 matter would be warranted.

12 MR. PATRICK BOWMAN: Well, we have raised
13 this issue before and our concern coming into this is are
14 we just going to end up putting out some thoughts that
15 maybe get a bit of focus but that can't practically be
16 applied coming out of a hearing. And so we didn't want
17 to end up with that type of position.

18 And, so, in terms of the overall
19 recommendations for this hearing, and as it evolves a bit
20 from what was shown in the PUB-6-IR, it would seem that
21 there is a potential to start on the concept today and
22 not delay. It may be that certain aspects of it require
23 confirmation over time, but the types of numbers we're
24 talking about in terms of getting started are not huge,
25 and they're probably not going to hit significantly the

1 -- the necessary refinements as this really gets moving.

2 But the concept revolves around confirming
3 a rate -- the rate increase for Hydro out of this Hearing
4 -- but at the same time, that rate increase being
5 effectively contingent on a certain cap on the numbers
6 that I was talking about, the water flow variations,
7 being about, you know, with a rate increase in this case
8 \$31 million, the cap being \$31 million lower than they're
9 currently forecast.

10 The net effect would be that that -- if
11 everything arises as per forecast, the \$31 million would
12 be at the end of the year, the -- the dollars that are
13 recorded on Hydro's books for the time being as a
14 regulatory liability. Something that this Board will
15 expect is made available to it in the future and is not
16 net income; basic definition of the regulatory liability.

17 That can be done right off, you know, in -
18 - in this proceeding, and it can carry forward for some
19 time. It's not the type of numbers or the type of
20 mechanism that requires perfect refinement. The
21 regulatory liability should not be able to go below zero.
22 If Hydro has a -- a drought year, there would end up
23 being nothing available, but if it has a very good year,
24 there would be a fair bit more available.

25 But it's something that we could -- we

1 could show some numbers along the lines of what's in PUB-
2 6 in a table if that was helpful for people.

3 But the idea is in making sure that when
4 you're talking about a 2.9 percent rate increase, and
5 there is a -- a justifiable case to be made that a
6 predictable rate change regime makes sense today.

7 A overall 2.9 percent rate increase is not
8 outside the bounds of what one might want to implement
9 given the information that's available here; that there's
10 a way to ensure that that rate increase is -- is actually
11 achieving the intended purpose which is making sure that
12 -- that those type of dollars are available for the --
13 for the stabilizing book power costs in the future.

14 What I'm -- I'll just make one (1) more
15 comment that I noted down which is that effectively we're
16 talking about doing something that's revenue-neutral to
17 customers here. It's the same rate increase that Hydro's
18 talking about. And it's revenue-neutral to the total
19 resources that are being put aside for the purposes of
20 reserves.

21 MS. TAMARA MCCAFFREY: Thank you very
22 much. Mr. Chair, I'm just noting the time. Could I just
23 have a moment to confer with Mr. Bowman?

24 THE CHAIRPERSON: Of course.

25

1 (BRIEF PAUSE)

2

3 CONTINUED BY MS. TAMARA MCCAFFREY:

4 MS. TAMARA MCCAFFREY: In the -- the
5 minutes remaining, Mr. Bowman, we'll move through your
6 evidence and to the extent that we can that maybe -- so
7 that for those that are following along -- you make a
8 number of specific comments on page 17 in Section 3.2 of
9 your evidence with regards to the revenue requirement.

10 Why don't we go through and sum up your
11 observations there?

12 MR. PATRICK BOWMAN: Well, we -- Section
13 3 -- we figured it was a revenue requirement application,
14 so we better comment on some of the things that are
15 actually in the revenue requirement rather than just wait
16 -- set the overall rates, so -- near the end of the day.

17 Section 3.2 of the application reviews
18 some specific line items that we thought merited comment
19 in the -- in the application as filed. It starts off
20 generally reviewing the request for the 2.9 percent
21 increase and the extent to which it -- it is fair and
22 reasonable.

23 But really we're -- the -- the line items
24 that we're talking about really start to show up on -- on
25 page 20, and in -- in the minutes we have available

1 perhaps I can go through the individuals and -- and we'll
2 -- we'll probably be able to finish on time.

3 Page 20 starts with a topic of sinking
4 funds. I think the topic of sinking funds has been
5 reasonably well canvassed. This is not something that
6 Hydro or the Board independently can do is to stop
7 putting aside sinking funds, but it appears to be
8 something that should be pursued to the extent of
9 recommendation from this Board, that it should be pursued
10 as helpful, that would be a useful thing to have in an
11 order, I would imagine.

12 The -- in essence though, Hydro borrows
13 debt with sinking funds against it that imposes costs est
14 -- which are estimated at \$93 million over the IFF '01
15 period.

16 It exposes Hydro to certain risks related
17 to interest rate spreads and as Mr. Warden noted earlier,
18 it -- it provides little benefits. The IR's had -- had
19 effectively said the same thing, that if you go through
20 the list of things in terms of what benefits the sinking
21 funds provide, in this day and age you're left with very
22 few.

23 We also note that, you know, BC Hydro has
24 been relieved of its sinking fund requirements in 2005 by
25 -- by its Minister, and -- and I know that in -- in other

1 places where there is not a sinking fund requirement,
2 people are -- are -- these are not the norm for utilities
3 these days. They may still be the norm for Crown
4 utilities but even in those cases, people are working to
5 get -- get away from them.

6 So I think with -- without belabouring the
7 point, it would seem to be appropriate to find a way to -
8 - to encourage and -- and help Hydro get on with -- with
9 elim -- getting rid of the sinking fund requirement, and
10 that's probably particularly true before we go out and
11 borrow \$10 billion to emb -- embark on a major phase of
12 capital expansion. I would think it's -- it's probably
13 timely.

14 The second unit -- the next item we
15 comment on there at the bottom of page 21, is Brandon
16 Unit Number 5. I think that this is also a topic that
17 has evolved somewhat with -- with carbon taxes being
18 announced and the like.

19 We would just note that when you're
20 dealing with a hydraulic-based utility, even one that's
21 interconnected, maintaining some level of thermal
22 resources is -- is necessary and prudent and as a result,
23 maintaining Brandon Number 5 for system security reasons
24 seems to be something that should be pursued as long as -
25 - as the facility is in an engineering capacity to be

1 able to do that.

2 It doesn't necessarily mean that one would
3 run it for economic reasons or to make profitable sales
4 of power. It primarily means that one has it available
5 as a resource in order to be able to design its system
6 and enhance the hydraulic capability in its system and --
7 and these resources compliment that in respect of
8 drought.

9 If something changes in respect to
10 bringing on a combine cycle combustion turbine, it may
11 change the -- the conclusions, but at this point, we --
12 we would just underline that -- that it would be a type
13 of resource that one would want to keep in place on a
14 hydraulic system.

15 Page 22, we comment to some extent, on the
16 matters that were discussed today in respect of
17 capitalization and deferral of costs. I don't know that
18 we're coming down on those any different than -- than
19 where Hydro is -- is effectively recommending.

20 The main flavour that we seek to add
21 through this, is again to remind people that the purpose
22 of our review and the purpose of -- of a regulatory
23 review is for setting rates. It's not the same as -- as
24 an accounting perspective.

25 Accounting standards may allow someone to

1 reflect something as an asset and they may not. They may
2 allow you to defer a cost and they may not. That doesn't
3 necessarily drive a conclusion by a Board such as this,
4 that it wants to bring a cost -- spread a cost over five
5 (5) years, in -- when it's looking at setting rates.

6 There are a lot of utilities who end up
7 having to have two sets of books, one for regulatory
8 purposes that reflect certain deferrals. And -- and then
9 the financial reporting people will -- will report on it
10 as they see fit, whether they've recorded it as an asset
11 or not, or a def -- or a liability or not. And I just
12 wanted to make sure that we -- we've emphasized the --
13 the rate-setting context.

14 And against that backdrop, Hydro's
15 treatment of DSM costs seems -- seems appropriate, we
16 wanted to note, and in particular, if -- if DSM costs
17 were sought to be expense in the year incurred, I think
18 that could be a very strong decenter (phonetic) to take
19 on DSM at any given time.

20 But utility's O&M costs are sometimes a
21 little harder to get reviewed and -- and maintained over
22 time than -- than something that's going to capital like
23 a DSM program. So I think keeping it in a deferred
24 context for over fifteen (15) years is probably
25 appropriate and helps ensure the program operates at the

1 necessary levels.

2 The Board asked a question about
3 accounting for plant cost related to uneconomic
4 generation and I think I've pretty much addressed that in
5 respect to Brandon 5. The Boa -- Hydro did what I
6 thought was a good job of setting out why the other items
7 were not uneconomic generation.

8 And I would just note that where there is
9 generation that will not have the same economic life as
10 the current accounting life. From what we can tell Hydro
11 has appropriately incorporated that into its depreciation
12 rates. And particularly that's true of Point du Bois
13 today. So in terms of accelerating the depreciation on
14 that, so that it -- it reflects the economic life of the
15 remaining plant.

16 In respect of planning studies, in -- in
17 general -- well the comments are set out there, I don't
18 need to go on, but there's -- there does seem to be, in,
19 for rate stability reasons, they want to maintain a
20 practice of -- of amortizing those over a certain period.

21 And the -- the last point, is -- is merely
22 to note that in respect of the revenue requirement and
23 what we've seen and reviewed in Appendix B, it would seem
24 important for this board to reiterate its -- its -- a
25 concern over maintaining a level of -- of operating and

1 maintenance expenses at a -- at as low a level as is
2 consistent with -- with the obligations of the Utility.

3 We do conclude with a couple of comments
4 on the function -- functionalization of O&M and I think
5 they may have been misinterpreted to some extent. So
6 just to clarify that.

7 Our concern with respect to the
8 functionalization was that when you're measuring OM&A
9 costs per customer, it's a type of metric that is useful
10 when you talk about distribution costs. It's not
11 particularly useful when you look at something like
12 generation costs, because Hydro's generation costs aren't
13 changing as it adds customers to the system. They don't
14 -- they don't track in that way. They're not linked that
15 way.

16 The generation is going to be there in any
17 given year. It might be sold to exports it might be sold
18 too domestic, but just because you add a bunch of
19 domestic customers doesn't mean its generation costs
20 change by that -- that great an amount.

21 So -- so if, in terms of tracking OM&A per
22 customer, if its going to be thought of as -- as
23 important metric, you know, focusing on -- on, I would
24 say, distribution or -- or customer service, those types
25 of functions, makes more sense.

1 The other caution I have on the OM&A cost
2 per customer, is the overall evidence that's being put
3 forward in this proceeding in respect to things like
4 marginal costs, is that it's not very expensive to add
5 customers, or it's not very expensive to add -- add load
6 to a distribution system. And tracking distribution
7 costs per customer would -- would seem to imply that each
8 new customer brings with it a full load of cost,
9 particularly on the O&M side.

10 And -- and I'm not sure that's entirely
11 consistent with the basic case on the -- the marginal
12 costs of distribution, but I don't intend to belabour
13 that.

14 MS. TAMARA MCCAFFREY: I note the time;
15 it's 4:00. I can tell you that this concludes the
16 revenue requirement portion of the direct evidence and
17 so, tomorrow morning we can start from Section 4, the
18 cost of service evidence.

19 THE CHAIRPERSON: Very good, we'll look
20 forward to it. Okay, we'll adjourn for the night. Thank
21 you.

22

23 (WITNESSES RETIRES)

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25 --- Upon adjourning at 4:01 p.m.

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Certified correct,

Cheryl Lavigne