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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
March 12th, 2008
Pages 1063 to 1279

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1 --- Upon commencing at 9:04 a.m.

2

3 THE CHAIRPERSON: Okay folks, let's see
4 if we can get going. Good morning everyone.

5 Mr. Williams, whenever you're ready.

6

7 MANITOBA HYDRO REVENUE REQUIREMENT AND DEMAND SIDE

8 MANAGEMENT PANEL RESUMED:

9 VINCE WARDEN, Resumed

10 WILLY DERKSEN, Resumed

11 IAN PAGE, Resumed

12 HAROLD SURMINSKI, Resumed

13 LLOYD KUCZEK, Resumed

14

15 CONTINUED CROSS-EXAMINATION BY MR. BYRON WILLIAMS:

16 MR. BYRON WILLIAMS: Thank you and good
17 morning Members of the Board. Mr. Warden, I'd just like
18 to start out by talking to you about adjectives for a
19 second.

20 I hope I'm using the proper term. And --
21 and just to start out, you have appeared before Vice-
22 Chairperson Mayer on a number of occasions, is that
23 right, sir?

24 MR. VINCE WARDEN: Yes, I've had that
25 pleasure.

1 MR. BYRON WILLIAMS: Oh, you're good.
2 You've heard Vice-Chairperson Mayer speak from time to
3 time?

4 MR. VINCE WARDEN: Yes.

5 MR. BYRON WILLIAMS: So if Vice-
6 Chairperson Mayer described himself to you as quiet,
7 retiring and extremely -- and -- and as an extremely shy
8 person, is that an observation with which you would
9 readily concur?

10 MS. PATTI RAMAGE: Could you point out
11 where in the application this is?

12 MR. BYRON WILLIAMS: The relevance will
13 become apparent in a minute.

14 MR. ROBERT MAYER: And you can take the
15 word -- the suffix person off of the end of Chair.

16 MR. BYRON WILLIAMS: Is that -- is that--

17 MR. VINCE WARDEN: Well, no, I wouldn't
18 necessarily agree.

19

20 CONTINUED BY MR. BYRON WILLIAMS:

21 MR. BYRON WILLIAMS: And thank you for
22 that, Mr. Warden and it won't -- won't be much longer.
23 So even though he may gen -- genuinely feel he is quiet,
24 retiring and genuinely shy, you, based on your own
25 observations, might not be prepared to accept his self

1 description, his self adjective.

2 Would that be fair, sir?

3 MR. VINCE WARDEN: Well, I -- I would
4 have to hear Mr. Mayer describe himself that way before I
5 would agree or disagree.

6 MR. BYRON WILLIAMS: That's fine. But
7 based on what you've seen to-date, you -- you might rely
8 on other evidence or observations that you might consider
9 more reliable than his own self-description.

10 Would that be fair?

11 MR. VINCE WARDEN: Well, at Manitoba
12 Hydro we -- we prefer to deal with facts rather than
13 perceptions.

14 MR. BYRON WILLIAMS: Now moving to this
15 proceeding - thank you for the reminder, Ms. Ramage - the
16 Corporation's applying for a rate increase of close to 3
17 percent.

18 Is that correct, sir?

19 MR. VINCE WARDEN: 2.9 percent, yes.

20 MR. BYRON WILLIAMS: And that's close to
21 3 percent?

22 MR. VINCE WARDEN: It is, although the
23 area and roadway lighting is considerably less than 3
24 percent.

25 MR. BYRON WILLIAMS: Fair enough. And

1 you'll agree that as the applicant, Manitoba Hydro, has
2 an obligation to justify its rate increases?

3 MR. VINCE WARDEN: Absolutely.

4 MR. BYRON WILLIAMS: And you'll agree
5 with me that it's conceivable that in the course of this
6 proceeding -- proceeding Manitoba Hydro, in justifying
7 its rate increase, may seek to justify its forecast
8 expenditures using adjectives such as "prudent," and its
9 DSM programs using adjectives such as "aggressive"?

10 That's conceivable?

11 MR. VINCE WARDEN: Yes.

12 MR. BYRON WILLIAMS: And you'd agree with
13 me as -- as well, that other parties to this proceeding
14 without doubting the sincerity of Manitoba Hydro's self
15 evaluation might take issue with those self-descriptions
16 or self-adjectives.

17 Would that be fair, sir?

18 MR. VINCE WARDEN: I believe that's their
19 role, yes.

20 MR. BYRON WILLIAMS: We'll come to --
21 back to that a little later. And, Mr. Warden, I always -
22 - I had through your counsel just directed your attention
23 -- I -- I don't think anyone else needs to turn here --
24 but to Volume III, Appendix 12.11, page 2 of 8, which is
25 a table which describes Manitoba Hydro's operating,

1 maintenance, and administrative OM&A expenses for the --
2 in certain years.

3 Is that right, sir?

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

5 MR. BYRON WILLIAMS: And again without
6 going into the messy details of the -- of the table, what
7 it does, at about the sixth line down, is provide a
8 calculation of the labour and benefit costs per
9 equivalent full-time employee for certain years.

10 Is that right, sir?

11 MR. VINCE WARDEN: Yes.

12 MR. BYRON WILLIAMS: For example, for the
13 2005 year labour and benefits per EFT were about seventy-
14 three thousand (73,000).

15 Would that be right?

16 MR. VINCE WARDEN: Seventy-two thousand
17 (72,000) is referenced on this table we're looking at --

18 MR. BYRON WILLIAMS: I'm -- I'm probably
19 going off the old version so, that -- that's fair enough,
20 sir.

21 MR. VINCE WARDEN: Okay, thank you.

22 MR. BYRON WILLIAMS: And for 2007 it's
23 about seventy (70) -- is it seventy-six thousand (76,000)
24 on your version?

25 MR. VINCE WARDEN: It is, yes.

1 MR. BYRON WILLIAMS: And you're
2 projecting the labour and benefits per EFT to be about
3 eighty thousand (80,000) for 2009.

4 Would that be correct, sir, based this
5 table?

6 MR. VINCE WARDEN: Yes.

7 MR. BYRON WILLIAMS: And as -- as the
8 Coalition and Mr. Harper worked during this proceeding is
9 -- is that a -- a number that they can rely out -- rely
10 upon, in terms of a reasonable proxy for the average cost
11 per EFT including labour and benefits, sir? Eighty
12 thousand (80,000)?

13 MR. VINCE WARDEN: Yes. I -- that --
14 that is definitely what's in our forecast. I -- I did
15 mention in earlier remarks that the actual expenditures
16 are coming in somewhat lower than that or considerably
17 lower than that because of some recruitment difficulties
18 we are having. Nevertheless on an average basis that,
19 for forecast purposes, yes, you can rely on that number.

20 MR. BYRON WILLIAMS: So if we're looking
21 at the numbers for EFTs in '08/'09 recognizing that
22 they're -- this is just an average number, eighty
23 thousand (80,000) is a -- a good number to use?

24 MR. VINCE WARDEN: Eighty thousand
25 (80,000) per EFT which includes all employee benefits,

1 and all overtime which in our business is quite
2 considerable as well. Yes, that's the average.

3

4 (BRIEF PAUSE)

5

6 MR. BYRON WILLIAMS: Now this is a -- I'm
7 gonna jump around a little bit on OM&A issues just for
8 the next few minutes, but just in terms of the -- let's
9 take, and you don't need to turn here, but IFF 0701 --
10 that IFF, would it be fair to say went before the Hydro
11 Board in October of 2007.

12 Would that be right, sir?

13 MR. VINCE WARDEN: No, actually, I
14 believe it was November of 2007.

15 MR. BYRON WILLIAMS: Thank you for that.
16 And the fiscal year starts in April of -- April 1st,
17 2007, is that right?

18 MR. VINCE WARDEN: Yes, it does.

19 MR. BYRON WILLIAMS: So, when the IFF
20 went before the Board in November of -- of 2007, it would
21 reflect somewhere between, what, five (5) to seven (7)
22 months of actual -- of -- of the actual information for
23 that year.

24 Would that be correct, sir?

25 MR. VINCE WARDEN: Yes.

1 MR. BYRON WILLIAMS: So, barring
2 unforeseen circumstances, it would tend to be a fairly
3 accurate reflection of where the Corporation is at that
4 point in time of the year, and where it's likely to be at
5 the end of the year.

6 Would that be fair, sir?

7 MR. VINCE WARDEN: Under normal
8 circumstances, that is correct. However, we don't always
9 -- in fact, we rarely, it seems, these days, face normal
10 circumstances. Water conditions can have a very big
11 influence on -- on the final results of any fiscal year.
12 And this year, as we're finding, OM&A, as well, has a
13 fairly significant impact on final results.

14 MR. BYRON WILLIAMS: That's all well and
15 good, sir, but with -- with that amount of data in, you
16 would expect the IFFs to be a -- a fairly accurate
17 statement of where you are, kind of, in November of '07,
18 and barring material changes, a fairly accurate predictor
19 of where you expect to be at the end of the year,
20 correct?

21 MR. VINCE WARDEN: Given the
22 qualifications I just referenced, that's correct.

23 MR. BYRON WILLIAMS: Thank you. I'm
24 going off of memory here, but would the last full oral
25 rate hearing dealing with the General Rate Application of

1 Manitoba Hydro, would I be right in suggesting to you
2 that that took place in the spring or early summer of
3 2004?

4 Is that your recollection, sir?

5 MR. VINCE WARDEN: Yes.

6 MR. BYRON WILLIAMS: Would it be fair to
7 say that the Corporation has gone well over three (3)
8 years since undergoing cross-examination in terms of
9 justifying its costs and revenues?

10 Would that be fair, in terms of a General
11 Rate Application?

12 MR. VINCE WARDEN: It does -- there -- we
13 did have a cost of service study review in between, and
14 there was some -- I believe, some review of costs at that
15 time as well.

16 MR. BYRON WILLIAMS: In terms of having
17 it -- a detailed examination, the last GRA was -- was
18 back over three (3) years ago though.

19 Is that right, sir? Oral examination.

20

21 (BRIEF PAUSE)

22

23 MR. BYRON WILLIAMS: I'm not sure a lot
24 turns on it, Mr. Warden, if...

25 MR. VINCE WARDEN: Yeah, the -- the fir -

1 - the last proceeding was in 2004, this filing was in
2 August of 2007, so between those dates, yes.

3 MR. BYRON WILLIAMS: Thank you. And,
4 again, I don't think you need to turn here, but the
5 reference I'm using, just for your benefit, is the IFF-
6 07-01, Tab 10, page 38.

7 If -- if I looked at the Corporation's --
8 and I see you're turning there -- if I looked at the
9 Corporation's finan -- expenses for the -- the rate year
10 of 2008/'09, you're looking at expenses of about 1.45
11 billion.

12 Is that right, sir? That's for '08/'09.

13 MR. VINCE WARDEN: Excuse me, Mr.
14 Williams, you're referring to page 38 of the IFF
15 document, is that correct?

16 MR. BYRON WILLIAMS: I believe so, yeah.

17 MR. VINCE WARDEN: And that's...

18 MR. BYRON WILLIAMS: The electric
19 operations --

20 MR. VINCE WARDEN: Electric -- electric
21 operations --

22 MR. BYRON WILLIAMS: Yes, projected
23 operating statement, sir.

24 MR. VINCE WARDEN: Would -- would you
25 mind just repeating your question then, please?

1 MR. BYRON WILLIAMS: No problem. And I'm
2 sorry for not directing you there more carefully.

3 For the -- for the forecast year '08/'09,
4 you're looking at a forecast of expenses for the electric
5 operations of 1.45 billion.

6 Is that right sir?

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

8 MR. BYRON WILLIAMS: And the number 1
9 expense in terms of size is finance expense, being 426
10 million.

11 Would that be right, sir?

12 MR. VINCE WARDEN: Yes.

13 MR. BYRON WILLIAMS: Number 2 is
14 operating and administrative costs being about 360
15 million.

16 Is that right, sir?

17 MR. VINCE WARDEN: Correct.

18 MR. BYRON WILLIAMS: You'd accept,
19 subject to check, that that -- those two (2) together
20 total about 786 million.

21 Would that be fair?

22 MR. VINCE WARDEN: Yes

23 MR. BYRON WILLIAMS: So slightly over
24 half of the Corporation's forecast expenses in 2008/'09
25 flow from those two (2) lines.

1 Is that right, sir?

2 MR. VINCE WARDEN: Yes.

3

4 (BRIEF PAUSE)

5

6 MR. BYRON WILLIAMS: Mr. Warden, it seems
7 so long ago now, but I think on late Monday afternoon
8 you'll recall we had a bit of a discussion regarding the
9 strategic planning of the Corporation.

10 Is that right, sir?

11 MR. VINCE WARDEN: We did have that
12 discussion, yes.

13 MR. BYRON WILLIAMS: And you -- you
14 assisted me by noting that the strategic plan was a key
15 mechanism to identify goals, establish targets for key
16 measures and strategies to achieve those targets.

17 Is that fair, sir?

18 MR. VINCE WARDEN: Yes.

19 MR. BYRON WILLIAMS: And again, I -- I
20 don't think you need to turn here, but I wonder if you'd
21 agree with me that in the 2005/'06 strategic plan at page
22 10:

23 "In terms of the goal of improving
24 corporal -- corporate financial
25 strengths, one (1) of the four (4)

1 strategies set out there was to
2 benchmark key corporate processes
3 against other recognized leaders."

4 Do you recall that, sir?

5 MR. VINCE WARDEN: Yes.

6 MR. BYRON WILLIAMS: And focusing only on
7 process benchmarking, you'll agree with me that when the
8 Coalition posed the question to you, Manitoba Hydro
9 stated in its response to COALITION-2-43(a) that no
10 formal process benchmarking has been undertaken on a
11 corporate level?

12 Do you recall that, sir?

13 MR. VINCE WARDEN: Yes, I do.

14

15 (BRIEF PAUSE)

16

17 MR. BYRON WILLIAMS: And I wonder if
18 you'll agree with me that if we look to the 2007/'08
19 Corporate Strategic Plan. The strategy of improving
20 corporate strength or the goal of improving corporate
21 strength no longer refers to process benchmarking at page 5
22 of 8.

23 Would that be fair, sir?

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

25 MR. BYRON WILLIAMS: Instead, a new item

1 that appears there is

2 "develop corporate and business unit
3 performance measures."

4 Would that be right, sir?

5 MR. VINCE WARDEN: Yes.

6

7 (BRIEF PAUSE)

8

9 MR. BYRON WILLIAMS: And would it also be
10 fair to say that with respect to the -- a specific
11 strategy to develop Corporate and business unit
12 performance measures, the terms of reference and/or work
13 plan have not yet been developed, sir? I'm referring to
14 COALITION-1-8.

15 MR. VINCE WARDEN: Yes, I'll agree with
16 that.

17 MR. BYRON WILLIAMS: So just -- just in
18 terms of that -- the -- under the strategies for
19 improving corporate financial strength, it's fair to say
20 that corporate process benchmarking is off the table.

21 Is that right, sir?

22 MR. VINCE WARDEN: Not necessarily, no.
23 Within the broader strategy of corporate and business
24 unit performance measures, benchmarking could very well
25 be included within that broader definition.

1 MR. BYRON WILLIAMS: But we don't know
2 that yet because the terms of reference or work plan have
3 not yet been developed?

4 MR. VINCE WARDEN: That -- that's
5 correct, yes.

6 MR. BYRON WILLIAMS: Okay.

7 MR. VINCE WARDEN: Mr. Williams, I might
8 just mention it -- it is a matter of priorities,
9 resources, time to do certain tasks around Hydro, and we
10 have had to, because of the resources -- limitations that
11 we've had, we've had to do prioritization.

12 So it's not like we've neglected this
13 necessarily and that we don't have other performance
14 measures in place, but there -- there's some work to be
15 done in this area and it just hasn't risen up on the
16 priority list at this time.

17 MR. BYRON WILLIAMS: Thank you for that,
18 Mr. Warden. In terms of -- and if you're looking again
19 for a reference, the next reference is COALITION-1-73.

20 In terms of comparing -- Manitoba Hydro's
21 costs with those of comparable utilities either in terms
22 of total costs or individual functions. My understanding
23 is that Manitoba Hydro's evidence in -- in this
24 proceeding is that it -- it has not recently participated
25 in any formal benchmarking exercises comparing its costs

1 with those of comparable utilities.

2 Would that be fair, sir?

3 MR. VINCE WARDEN: Well, it really does
4 depend on -- on the definition of benchmarking. We do
5 participate in a -- and -- and we have done for many,
6 many years, participated in a cost comparison with other
7 utilities. We -- we participated in a -- a performance
8 evaluation of program with other utilities sponsored by
9 the Canadian Electrical Association. So, we do compare
10 our costs through that process and we have done, as I
11 mentioned, for a number of years.

12 MR. BYRON WILLIAMS: Now if I looked for
13 the most recent filing of the Canadian Electrical
14 Association process or organization, would that have been
15 back in 2003/04 the most recent one (1), sir?

16 MR. VINCE WARDEN: I would have to
17 double-check that, Mr. Williams, but that's possible.

18 MR. BYRON WILLIAMS: You -- you could
19 check that if you would. I believe that's the one (1)
20 that's on the record though, if you'll undertake to do --
21 do so.

22 MR. VINCE WARDEN: Yes, we'll undertake
23 to do that.

24

25 --- UNDERTAKING NO. 38: Manitoba Hydro to provide

1 Coalition the most recent
2 filing post 2003/2004 of the
3 Canadian Electrical
4 Association process in which
5 Manitoba Hydro participated,
6 if available
7

8 CONTINUED BY MR. BYRON WILLIAMS:

9 MR. BYRON WILLIAMS: Now --

10 MR. VINCE WARDEN: Just to be clear, Mr.
11 Williams, are you asking for a more updated version of
12 that to be filed or just to confirm the -- the last one
13 (1) on record is 2002/03.

14 MR. BYRON WILLIAMS: Yeah, and I wasn't
15 very -- very clear on that. If there is a more updated,
16 one (1) we'd love to see it, Mr. Warden.

17 MR. VINCE WARDEN: Okay, we'll undertake
18 to do that.

19 MR. BYRON WILLIAMS: There is one (1) on
20 the -- on the record and so if there's one (1) more
21 recent, we'd love to see it.

22 MR. VINCE WARDEN: Understand, thank you.

23 MR. BYRON WILLIAMS: Now, and just going
24 back to my question though, the -- the question posed by
25 the Coalition in First Round Number 73(a) was:

1 "whether Hydro had recently
2 participated in any benchmarking
3 exercises comparing its costs with
4 those of comparable utilities either in
5 terms of total costs or individual
6 functions."

7 And Hydro's answer was that it had not
8 recently participated in any formal benchmarking
9 exercises comparing its costs with those of comparable
10 utilities.

11 So just so I understand it, is that your -
12 - Hydro's position?

13 MR. VINCE WARDEN: Yes, and I think
14 that's why I proceeded my previous answer with it really
15 depends on the definition of benchmarking.

16 We would interpret benchmarking to be a --
17 a more in depth review of processes to ensure that when
18 the benchmarking exercise is taking place that the
19 functions -- the processes that are being compared one
20 (1) to the other are truly comparable. That's the -- the
21 essence of benchmarking whereas the performance
22 evaluations that we referred to that was filed in
23 2002/03, if that's the year, is more of a high level
24 comparison.

25 MR. BYRON WILLIAMS: That's fair, and --

1 and it is important for the purposes of benchmarking to
2 make sure that as you -- you'll agree me, as you've
3 stated, to make sure the comparisons are truly
4 comparable.

5 Is that right, sir?

6 MR. VINCE WARDEN: Yes, for benchmarking
7 purposes that is true.

8 MR. BYRON WILLIAMS: And there are groups
9 out there or there are organizations out there such as
10 the PA consulting group, for example, which are -- have
11 the capabilities to -- to perform -- perform these
12 benchmarking studies.

13 Is that correct, sir?

14 MR. VINCE WARDEN: There are a number of
15 firms out there that will do this for a substantial fee.
16 We've talked to a few of them. We decided, at this
17 point, not to pursue that, but we don't rule it out for
18 the future.

19 MR. BYRON WILLIAMS: Are -- are you
20 aware, sir, that -- are you aware, sir, that in Hydro One
21 out of Ontario retained a PA consulting group to do a
22 distribution benchmarking study using information from
23 2004/06 which was filed with the Ontario Energy Board?

24 MR. VINCE WARDEN: I'm not aware of that
25 specific study, but there are numerous studies out there

1 that are done by other utilities.

2 MR. BYRON WILLIAMS: Okay. Are you aware
3 whether Manitoba Hydro participated in that study?

4 MR. VINCE WARDEN: I'm not personally
5 aware of that, no.

6

7 (BRIEF PAUSE)

8

9 MR. BYRON WILLIAMS: Mr. Warden --

10 MR. VINCE WARDEN: But -- I wonder, Mr.
11 Williams, if I could just for clar -- for clarification
12 if I could just get a better definition what that study
13 was just to be -- to ensure whether or not Manitoba Hydro
14 was a participant.

15 MR. BYRON WILLIAMS: And I actually, Mr.
16 Warden, with permission of your counsel I have a
17 reference for you that I'll -- I'll share.

18 MR. VINCE WARDEN: Thank you.

19

20 (BRIEF PAUSE)

21

22 MR. BYRON WILLIAMS: Mr. Warden -- and I
23 certainly can share the document with the Board if the
24 Board is interested.

25 THE CHAIRPERSON: Go a bit further.

1

2 CONTINUED BY MR. BYRON WILLIAMS:

3 MR. BYRON WILLIAMS: Okay. Mr. Warden,
4 just drawing your attention to page 3-14 -- and just for
5 the clarification of both Hydro and the Board, it's a --
6 it's quite a big document, in total, over a hundred (100)
7 pages, but I've provided a few excerpts just to assist
8 Mr. Warden in this.

9 So, turning to the last page in the
10 excerpt I've provided to you, Mr. Warden, at least
11 referring you to page 3-14, I wonder if you'd agree that
12 Manitoba Hydro appears to be one of the thirteen (13)
13 utilities which participated in the recent distribution
14 benchmarking study undertaken by the Ontario -- or the PA
15 Consulting Group on behalf of Hydro One.

16 MR. VINCE WARDEN: Yes, Mr. Williams. It
17 does appear that Manitoba Hydro did participate in this.
18 I might just mention that the business units; that is,
19 customer service and marketing, transmission
20 distribution, power supply -- often do participate in --
21 in studies on their own which I, personally, may not be
22 aware of. And this -- this appears to be the case in
23 this instance.

24 MR. BYRON WILLIAMS: And -- and that's no
25 -- that's no problem, Mr. Warden. I'm not suggesting

1 that you were. I just want to follow it through a little
2 bit, though.

3 You're aware that -- or perhaps you're not
4 aware that -- but if I draw your attention to page 1.4,
5 which is the first page, under "Background and Study
6 Objectives", the first line, you're aware that Hydro One
7 was asked by the Ontario Energy Board to form -- form a
8 high level benchmarking study in support of revenue
9 requirements in a rate proceeding.

10 Do you see that, sir?

11 MR. VINCE WARDEN: I see that, yes.

12 MR. BYRON WILLIAMS: And I wonder if
13 you'll agree with me or accept, subject to check, that
14 the benchmarking study looked at data from 2004 to 2006
15 on subjects such as cost per kilometre, cost per
16 customer, asset replacement rates, reliability, safety,
17 meter reading, and tree trimming, sir?

18

19 (BRIEF PAUSE)

20

21 MR. BYRON WILLIAMS: If you're looking
22 for a reference, if you go just down to the bottom of
23 page 1.4, it'll give you an idea of some of the -- the
24 subjects that they studied, sir.

25

1 (BRIEF PAUSE)

2

3 MR. VINCE WARDEN: I don't see those
4 specific references, Mr. Williams but, you know, I'll
5 take your word for it. That could very well be included
6 as part of this review.

7 It does point to some of the -- the
8 difficulties with benchmarking though, because -- for the
9 utilities that are referenced on page 314 of this
10 document you provided me with, to ensure that they are
11 truly comparable would involve much more than a few
12 conversations over the telephone.

13 So when they refer to a high level
14 benchmarking study -- I assume this was very, very high
15 level, because to do a comparable basis of all those
16 functions that you just referenced, would take a great
17 deal of time and effort and cost to perform that
18 properly.

19 So I would be very suspect of the results
20 of this review.

21 MR. BYRON WILLIAMS: And, Mr. Warden,
22 just -- and clearly you weren't so -- you -- you were not
23 aware that Manitoba Hydro was participating --

24 MR. VINCE WARDEN: Just to be clear,
25 though, Mr. Williams, we get calls every day from people

1 asking us to participate in surveys and --

2 MR. BYRON WILLIAMS: That's fine.

3 MR. VINCE WARDEN: -- and, you know, that
4 could be as simple as a telephone conversation. And --
5 and they, you know, could list our name here for that
6 just --

7 MR. BYRON WILLIAMS: Okay.

8 MR. VINCE WARDEN: -- that brief
9 telephone encounter.

10 MR. BYRON WILLIAMS: I wonder, sir, if --
11 if you could go back to -- to your people and -- and ask
12 them -- come back with a bit more information in terms of
13 the extent of their participation.

14 It's quite an extensive study, in total
15 being over a hundred (100) pages, and if they have any
16 methodological concerns with the -- the document, that
17 would be helpful.

18 MR. ROBERT MAYER: Mr. Warden -- and
19 while you're at it, I'd appreciate being -- I think the
20 Board would appreciate knowing is if and how much you
21 paid for it -- for your participation.

22

23 CONTINUED BY MR. BYRON WILLIAMS:

24 MR. BYRON WILLIAMS: They wouldn't -- oh,
25 they wouldn't have paid Ontar -- O would have paid.

1 (BRIEF PAUSE)

2

3 MR. VINCE WARDEN: We'll make some
4 inquiries, Mr. Williams.

5 MR. BYRON WILLIAMS: And when you're
6 making inquiries, Mr. Warden, and -- and I'll ask you to
7 subject -- to accept this, subject to check. The -- the
8 document, as a whole, provides results for a number of
9 corporations that -- the only one that is named is Mani -
10 - Ontario ONE. The rest are named by code.

11 I wonder if you would go back to your
12 people if you would, and review this study and -- and
13 then consider whether you would share with us which --
14 which one (1) of the firms, in question, Manitoba Hydro
15 is in the study?

16 If you'd release the cloak of anonymity
17 sir?

18 MR. VINCE WARDEN: Mr. Williams, for the
19 reasons I gave earlier, I -- I might be suspect about the
20 results of this, but nevertheless, we will look further
21 into it and if it's appropriate to file this information,
22 we will certainly do so.

23

24 --- UNDERTAKING NO. 39: Manitoba Hydro to indicate to
25 Coalition what their

1 participation was in the
2 benchmarking study, how much
3 it cost, and which one of the
4 firms Manitoba Hydro is in
5 the study
6

7 THE CHAIRPERSON: Mr. Williams, if you'd
8 file one (1) copy of it with us, we'll share it between
9 the three (3) of us rather than --

10 MR. BYRON WILLIAMS: Okay. And it's a --
11 I'll have to do that -- actually, I can do that now. And
12 I think I should on -- Manitoba Hydro, I think should
13 have at least one (1) copy of the entire document.

14 THE CHAIRPERSON: I think the other
15 parties might want one (1) too. Maybe we can double-side
16 it for you.

17 MR. BYRON WILLIAMS: I do have smaller
18 excerpts just --

19 THE CHAIRPERSON: Thank you.

20 MR. BYRON WILLIAMS: -- convenience-wise,
21 so if parties are only wanting to get a flavour of it, I
22 certainly have those here. I just didn't want to copy
23 the whole --

24 THE CHAIRPERSON: Sometimes it's
25 difficult because it could be taken out of context.

1 MR. BYRON WILLIAMS: Yeah. Okay.

2

3 CONTINUED BY MR. BYRON WILLIAMS:

4 MR. BYRON WILLIAMS: And, Mr. Warden, I -
5 - I've also shared with you another document, a smaller
6 document prepared by the Hay Group called "2000
7 Comparison of Labour Rates and Overtime Policy."

8 Do you see that, sir?

9 MR. VINCE WARDEN: Yes, I see that.

10 MR. BYRON WILLIAMS: And -- and again,
11 Mr. Warden, this -- were you -- if I draw your attention
12 to page 3 of this document, you'll see something titled
13 "Survey Participation and Organizational Profile."

14 Do you see that, sir?

15 MR. VINCE WARDEN: Yes, I do.

16 MR. BYRON WILLIAMS: And it looks like
17 Manitoba Hydro was one (1) of the fourteen (14)
18 organizations that agreed to participate in this survey
19 along with other utilities such as BC Hydro, ATCO, Hydro
20 Quebec.

21 Would that be your interpretation of this
22 page as well, sir?

23 MR. VINCE WARDEN: Yes.

24 MR. BYRON WILLIAMS: And just so I -- I
25 know, and again, without suggesting anything, were you

1 aware that Manitoba Hydro participated in this study,
2 sir?

3 MR. VINCE WARDEN: I'm not specifically
4 aware of this -- this study. However, I am aware that we
5 do participate in a number of different labour rates
6 comparison studies across Canada by different
7 organizations.

8 So this one doesn't surprise me at all.

9 MR. BYRON WILLIAMS: So -- and -- and
10 again, given it's a study you're not famil -- familiar
11 with, sir, I'll just direct your attention to the page 3,
12 if I would, to the heading "Survey Benchmark Positions."

13 Do you see that, sir? Page -- just -- I
14 don't know if it's numbered, sir, just the third page in.

15 Do you have that, sir?

16 MR. VINCE WARDEN: I do.

17 MR. BYRON WILLIAMS: And, again, you'll
18 see that the -- the purpose of this paper, at least as --
19 as relayed by the Hay Group, was that the Ontario Energy
20 Board had directed Hydro One Networks:

21 "...to engage an independent party to
22 develop a comparison of labour rates
23 and overtime policies among Hydro One,
24 other competitive Ontario electricity
25 distributors, and other Canadian

1 utilities as identified in the high
2 level benchmarking survey."

3 Do you see that, sir?

4 MR. VINCE WARDEN: Yes, I do.

5 MR. BYRON WILLIAMS: And it appears that
6 three (3) positions were selected as the survey benchmark
7 positions, as they represented a large component of the
8 Hydro One workforce, sir.

9 Do you see that?

10 MR. VINCE WARDEN: Yes.

11 MR. BYRON WILLIAMS: And those three (3)
12 job classifications were Field Operator/Manager, Design
13 Engineer and Power -- Powerline Maintainer.

14 Is that fair, sir?

15 MR. VINCE WARDEN: Yes.

16 MR. BYRON WILLIAMS: Would you -- if you
17 would again, go back to your people and just agree to
18 come back to the Board with an understanding of their
19 participation in the process and any thoughts they have
20 about its methodology or conclusions, sir?

21 MR. VINCE WARDEN: Yes, I'll do that.

22

23 --- UNDERTAKING NO. 40: Manitoba Hydro to indicate to
24 Coalition their understanding
25 of Hydro's participation in

1 and thoughts about "2000
2 Comparison of Labour Rates
3 and Overtime Policy"
4

5 MR. BYRON WILLIAMS: That's -- that's
6 great. Mr. Chairman, I don't know if the Board would
7 like to -- to see this study or whatnot?

8 THE CHAIRPERSON: Yes.

9 MR. BYRON WILLIAMS: I actually have
10 copies of that for the --

11 MR. ROBERT MAYER: Mr. Warden, could you
12 confirm for us, please, Hydro One; that is the -- is that
13 the transmission portion of what used to be Ontario
14 Hydro, or is it a little broader than that?

15 MR. VINCE WARDEN: It includes
16 distribution, Mr. Mayer.

17 MR. ROBERT MAYER: Thank you.

18 THE CHAIRPERSON: You should give it an
19 exhibit number, Mr. Williams.

20 MR. BYRON WILLIAMS: I think we're up to
21 Coalition Number 8.

22 THE CHAIRPERSON: Subject to check.

23

24 --- EXHIBIT NO. COALITION-8:

25 Study: 2000 Comparison of Labour Rates

1 and Overtime Policy

2

3 MR. BYRON WILLIAMS: And I would propose
4 that the -- the full excerpt from the other study, being
5 "Hydro One Distribution and Benchmarking Study," by --
6 performed by PA Consulting Group be titled Coalition
7 Number 9.

8 THE CHAIRPERSON: Very good.

9

10 --- EXHIBIT NO. COALITION-9:

11 Full excerpt from study "Hydro One
12 Distribution and Benchmarking Study"
13 performed by PA Consulting Group

14

15 CONTINUED BY MR. BYRON WILLIAMS:

16 MR. BYRON WILLIAMS: Mr. Warden, I thank
17 you for that, and -- and like -- like you, I'm not sure
18 what results will be, but I think they might be helpful
19 to the Board.

20 Mr. Warden, I think I'll wait. I'll give
21 you a chance to review it at a later date, if you want to
22 come back to me, so --

23 MR. VINCE WARDEN: Yes, we'll do that,
24 Mr. Williams. Thank you.

25 MR. BYRON WILLIAMS: Okay. I'm going to

1 direct Hydro's panel, just for a couple of seconds, to
2 the -- its rebuttal evidence, and page 5 of their
3 rebuttal evidence. And, again, just for a couple of
4 seconds, if I might.

5 And as you're looking at page 5 of the
6 rebuttal evidence, you might also want to have in -- in
7 hand, the PUB Exhibit 12, "Bob's Book" as we -- as -- as
8 I've described it -- just Tab 7. And, again, it's a lot
9 of paper shuffling just for a couple of questions.

10 And, again, I'm not sure if this goes to
11 Mr. Warden, but who -- I'll just direct it to you.

12 If we look at the top of Hydro's rebuttal
13 evidence on page 5 of 65 there's a table called "OM&A
14 Costs Manitoba Hydro Electric Operations."

15 Do you see that?

16 MR. VINCE WARDEN: Yes.

17 MR. BYRON WILLIAMS: And you see that
18 under the -- the second column being the -- the results
19 for 202/'03 there's a suggestion that the actual OM&A
20 expenditures for Manitoba Hydro electric operations were
21 \$320.6 million.

22 Do you see that?

23 MR. VINCE WARDEN: Yes, I do.

24 MR. BYRON WILLIAMS: And if I would just
25 draw your attention to Tab 7 of the PUB book of

1 documents, page 2 of that, there's a response to
2 COALITION-2-18. And for the year ending March 31st, 203,
3 there's a suggestion that for op -- electric operations,
4 operating and administrative, the actual OM&A costs were
5 272 million.

6 Do you see that?

7 MR. VINCE WARDEN: Yes, I see that.

8 MR. BYRON WILLIAMS: Would I be correct
9 in suggesting to you that for the -- the table that
10 appears in the rebuttal evidence for the actual OM&A for
11 Hydro electric operations that the figure should actually
12 be 272 million not 320.6 million?

13 MR. VINCE WARDEN: Mr. Williams, it
14 appears that for purposes of comparing to forecast, the
15 total forecast, we've used consolidated operations on the
16 table in the rebuttal evidence, whereas the table in Tab
17 7 is electric operations only.

18 MR. BYRON WILLIAMS: And, Mr. Warden, you
19 may be -- you may be conceding too much. I think it
20 might only be for this -- this one (1) column.

21 So in -- in fairness to -- to Hydro, I
22 just want to finish, but you'd agree that the title is
23 "Manitoba Hydro Electric Operations," and if we were
24 looking for the actual results of OM&A for 202/'03, it
25 should be 272 million not 320.6 million, sir?

1 MR. VINCE WARDEN: You're correct, Mr.
2 Williams.

3 MR. BYRON WILLIAMS: And again looking at
4 the forecast for 202/'03 --

5 THE CHAIRPERSON: What tab are you at
6 now, Mr. Williams?

7 MR. BYRON WILLIAMS: I'm flipping over
8 just to Tab 9 of the PUB book of documents.

9 THE CHAIRPERSON: Thank you.

10

11 CONTINUED BY MR. BYRON WILLIAMS:

12 MR. BYRON WILLIAMS: And again, Mr.
13 Warden, just going to page 5 of the rebuttal, the
14 suggestion by Hydro for the '02/'03 year is that the
15 forecast is three twenty-two point nine (322.9).

16 But if I direct your attention to the IFF-
17 02-01 which appears on the first page of Tab 9 of the PUB
18 book of documents, it would appear that the OM&A should
19 actually have been forecasted 283 million, Mr. Warden.

20 Would that be right, sir? I'm referring
21 to cost of operations.

22

23 (BRIEF PAUSE)

24

25 MR. VINCE WARDEN: Mr. Williams, I think

1 if you hearken back to a previous proceeding we did have
2 some presentation issues with respect to subsidiaries.
3 And I think this IFF-02 document that we're referencing
4 under Tab 9 highlights that issue; that is the 283
5 million cost of operations number that's referenced here.

6 Just looking at what is included in the
7 other revenue number in that same document it appears
8 that the -- the netting of subsidiaries had taken place
9 on -- in this document and had subsequently been changed
10 for presentation purposes to be absolutely clear. It was
11 only a presentation issue, but nevertheless I think
12 that's what's happening is here is we're seeing that
13 difference again.

14 So, subject to check, I believe that is
15 the reason we're seeing the difference that you're --
16 you're referencing.

17 MR. BYRON WILLIAMS: Okay, well, just so
18 I'm clear though are you suggesting that IFF-02-1
19 forecast OM&A expenditures for electric operations of
20 \$322.9 million which is what appears in the rebuttal page
21 5?

22 Like can we agree that that number's
23 wrong, Mr. Warden before we go to the --

24

25

(BRIEF PAUSE)

1

2 MR. VINCE WARDEN: Again, Mr. Williams,
3 as we indi -- as you pointed out earlier, very correctly,
4 that 2002/'03 year, in the rebuttal evidence, was
5 consolidated for that one (1) year only and likewise the
6 322.9 number is consolidated.

7 So we are comparing consolidated versus
8 electric operations only. And, you know, it's resulting
9 in some confusion here. But that -- that is the
10 difference, it would appear.

11 MR. BYRON WILLIAMS: Okay. Now -- and so
12 just so I understand, Mr. Warden, I'm going to suggest to
13 you that the rest of the table actually deals on being --
14 on page 5, actually deals with electric.

15 And it's just this one (1) column that's
16 an issue.

17 MR. VINCE WARDEN: Yes, I think we agreed
18 to that earlier.

19 MR. BYRON WILLIAMS: Okay. That's great.
20 Now -- so do we have an actual number that you think
21 should fit into the forecast from the IFF or do we have
22 that \$11 or \$16 million issue with subsidiaries that's
23 outstanding?

24 MR. VINCE WARDEN: Just to be absolutely
25 certain, Mr. Williams, I think I'd prefer to take that as

1 an undertaking, so we can come back with that number so
2 there isn't any further confusion going forward.

3

4 --- UNDERTAKING NO. 41: Manitoba Hydro to provide
5 Coalition with actual number
6 that it thinks should fit
7 into the forecast from the
8 IFF

9

10 CONTINUED BY MR. BYRON WILLIAMS:

11 MR. BYRON WILLIAMS: And -- and I
12 appreciate that. And if you also would -- just because
13 we've had problems with that subsidiary issue in the
14 past, if you would provide, not just the number but the
15 derivation, if -- if you would, Mr. Warden, just a -- in
16 -- in your response, just a brief explanation of how you
17 arrived at that number, sir?

18 MR. VINCE WARDEN: Yes.

19 MR. BYRON WILLIAMS: And I do have one
20 (1) table that I -- I'd ask -- that I think is on the
21 Board secretary's desk and it's -- it's pulled directly
22 out of an interrogatory response, Ms. Ramage, so I don't
23 think it will be controversial.

24 Mr. Gaudreau, it's a table called
25 "Operating and Administrative Expense Per Customer.

1 Target Versus Actual 2004'05 to 2006/'07."

2

3

(BRIEF PAUSE)

4

5

MR. BYRON WILLIAMS: And, Mr. Warden,
6 this -- what I -- what I've done and it's -- if there's
7 poor quality typing, it'll be the Byron Williams poor
8 quality typing that takes the -- I've just exc -- excer -
9 - excerpted part of the response of PUB-2-7.

10

And I wonder if you'd agree, subject to
11 check, that this is an accurate representation of those
12 figures, sir?

13

MS. PATTI RAMAGE: Mr. Williams, you
14 wouldn't know which sub-letter 2-7, off hand, do you?

15

MR. BYRON WILLIAMS: I don't know the
16 sub-letter, Ms. Ramage, but I have the pretty graph if
17 you're looking for it, so I can just pass it to you.

18

19

(BRIEF PAUSE)

20

21

MS. PATTI RAMAGE: That's 7D for anyone
22 who's following along.

23

24

CONTINUED BY MR. BYRON WILLIAMS:

25

MR. BYRON WILLIAMS: Thank you, Ms.

1 Ramage, and I apologize for not putting the sub-letter on
2 the -- I was pretty -- pretty excited that I actually got
3 the columns in a straight line; that was a major
4 achievement for me.

5 And I guess I'd suggest that this be
6 marked as Coalition Number 10.

7

8 --- EXHIBIT NO. COALITION-10:

9 Table entitled "Operating and
10 Administrative Expense Per Customer.
11 Target Versus Actual 2004'05 to
12 2006/'07"

13

14 CONTINUED BY MR. BYRON WILLIAMS

15 MR. BYRON WILLIAMS: And, Mr. Warden,
16 you'll agree with me that the Corporation, as part of its
17 strategic plan for a particular year, sets out a target
18 for an OM&A cost per customer; is that right, sir?

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

20 MR. BYRON WILLIAMS: And referring you to
21 the table, being Coalition-10, if I were to look at the
22 Corporate's -- Corporation's target based on its
23 strategic plan for the 2006/'07 year, that figure would
24 be six hundred and twelve dollars (\$612) per customer.

25 Would that be right, sir?

1 MR. VINCE WARDEN: Yes, sir.

2 MR. BYRON WILLIAMS: And at the end of
3 the year when -- when all the -- the nickels and dimes
4 were counted, the actual was six hundred and twenty-six
5 (626) in OM&A per customer.

6 Is that right, sir?

7 MR. VINCE WARDEN: Yes.

8 MR. BYRON WILLIAMS: So that would be a -
9 - a little bit higher; would that be fair?

10 MR. VINCE WARDEN: It's a little bit
11 higher, yes.

12 MR. BYRON WILLIAMS: And if I were to go
13 back one (1) more year to 2005/'06, the target for OM&A
14 per customer was six hundred dollars (\$600), is that
15 right, sir?

16 MR. VINCE WARDEN: Yes.

17 MR. BYRON WILLIAMS: With the actual
18 results being, again, higher at six hundred and nine
19 dollars (\$609) per customer; is that right, sir?

20 MR. VINCE WARDEN: Correct.

21 MR. BYRON WILLIAMS: And for 2004/'05,
22 the -- the target was five hundred and eighty-four
23 dollars (\$584) per OM&A per customer; is that right, sir?

24

25 (BRIEF PAUSE)

1

2 MR. VINCE WARDEN: Yes.

3 MR. BYRON WILLIAMS: And the actual would
4 be five hundred and ninety-one (591) per customer, sir?

5 MR. VINCE WARDEN: Correct.

6 MR. BYRON WILLIAMS: And would it be fair
7 to say that I'd have to go back to the '03/'04 year to --
8 in terms of years in which we've been completed to find
9 the last time the Corporation's actual costs per customer
10 was less than the Corporation's target?

11 MR. VINCE WARDEN: Well I can maybe do a
12 little bit better than that, Mr. Williams. I can inform
13 you that the actual cost per customer is considerably
14 below target this current fiscal year.

15 The target for electric is six hundred and
16 forty dollars (\$640) per customer. Just to update this
17 table, for '07/'08 the target is six hundred and forty
18 dollars (\$640) per customer, the actual is six dollars
19 and eight -- six dollars and eight -- six hundred and
20 eight dollars (\$608) per customer, sorry.

21 MR. BYRON WILLIAMS: And that was about
22 what we -- we'd estimated for '07/'08 but -- well I do
23 want to go back to my -- my actual question which was:
24 In the years that have been completed prior to the --
25 where we are in '07/'08 the last time that the -- the

1 Corporation's actual results were superior to the
2 Corporate strategic plan target was back in 2003/'04; is
3 that right, sir?

4 MR. VINCE WARDEN: Going back in history,
5 yes. I was just trying to provide a bit of an update as
6 to where we are currently.

7 MR. BYRON WILLIAMS: And in '03/'04, that
8 was the year in which short term cost reductions were
9 undertaken to mitigate the -- the cost of the drought; is
10 that right, sir?

11 MR. VINCE WARDEN: That is our evidence,
12 yes.

13 MR. BYRON WILLIAMS: And it was also the
14 -- the last year that we had a General Rate Application.
15 Would that be fair?

16 MR. VINCE WARDEN: Yes.

17 MR. BYRON WILLIAMS: And we'll get to the
18 issue of -- of where you are in '07/'08 in just a couple
19 of minutes.

20 Mr. Chairman, just in terms of -- I need
21 some water in any event. Would it be convenient to take
22 a break just right now?

23 THE CHAIRPERSON: Sure we can take an
24 early break.

25

1 --- Upon recessing at 9:54 a.m.

2 --- Upon resuming at 10:20 a.m.

3

4 THE CHAIRPERSON: Okay, welcome back
5 everyone.

6 Mr. Williams...?

7

8 CONTINUED BY MR. BYRON WILLIAMS:

9 MR. BYRON WILLIAMS: And we're not coming
10 to them immediately, but in the absence of a -- a
11 beautiful book like the Public Utilities Board has two
12 (2) interrogatories that may be popping up in next twenty
13 (20) minutes or so are PUB First Round Number 20 and
14 Coalition Second Round Number 52.

15

16 (BRIEF PAUSE)

17

18 MR. BYRON WILLIAMS: Mr. -- and again,
19 Mr. Warden, if -- if you're not the right person you'll
20 just send me to the other witness. I don't know if I've
21 every actually spoken to Mr. -- Mr. Page, so if I'm --
22 you'll just send me where I should -- should go.

23 But if I look...

24

25 (BRIEF PAUSE)

1 MR. BYRON WILLIAMS: And again I -- I
2 don't think you need to turn here, but the -- the
3 reference is from the IFF-07-01 from Tab 10, page 11,
4 that's the blue book. Are you...

5 MR. IAN PAGE: Yes, I have that.

6 MR. BYRON WILLIAMS: Okay. A lot of
7 scrambling for a simple question. If I look at that IFF
8 at page 11, you'll agree with me that OMA is projected to
9 be in total 64 million higher than the previous forecast.

10 Is that right?

11 MR. IAN PAGE: Yes.

12 MR. BYRON WILLIAMS: I'm all excited,
13 this might be a first time -- this page.

14 And in part it's due to higher costs
15 associated with maintaining an aging infrastructure, is
16 that right?

17 MR. IAN PAGE: Yes, that's what it says
18 there.

19 MR. BYRON WILLIAMS: And you agree with
20 that?

21 MR. IAN PAGE: Yes, I do.

22

23 (BRIEF PAUSE)

24

25 MR. BYRON WILLIAMS: And again you -- you

1 unique to Manitoba Hydro. I can't comment on the average
2 age of assets of other utilities though.

3 MR. BYRON WILLIAMS: Okay. The -- the
4 reference, if you'll accept, subject to check, from PUB-2-
5 28, Manitoba Hydro states that most North American
6 utilities' assets have average equipment ages exceeding
7 thirty (30) years.

8 Would you accept that, subject to check?

9 MR. WILLY DERKSEN: Yes, sir.

10 MR. BYRON WILLIAMS: So again without
11 elaborating, the issue of aging assets is not unique to
12 Hydro.

13 MR. WILLY DERKSEN: Yes, that's correct.

14 MR. BYRON WILLIAMS: Whether you're Hydro
15 One in Ontario or Bonneville Power in the US northwest
16 it's an issue.

17 Would that be fair?

18 MR. WILLY DERKSEN: I'd agree with that.

19

20 (BRIEF PAUSE)

21

22 MR. BYRON WILLIAMS: And would it be fair
23 to say that when the Corporation is -- assessing its
24 assets for the purposes of determining appropriate
25 expenditures, it's not just age that you -- you look at --

1 at a -- at a high level?

2 Would that be fair?

3 MR. WILLY DERKSEN: Absolutely.

4 MR. BYRON WILLIAMS: Among other things
5 I'm gonna give you a long list. You consider customer
6 requests and growth patterns? That's one (1) thing?

7 MR. WILLY DERKSEN: Yes.

8 MR. BYRON WILLIAMS: You consider the
9 asset's condition? Would that be fair?

10 MR. WILLY DERKSEN: Yes.

11 MR. BYRON WILLIAMS: You consider the
12 asset's performance, correct?

13 MR. WILLY DERKSEN: Yes.

14 MR. BYRON WILLIAMS: You consider its
15 failure rate, is that correct?

16 MR. WILLY DERKSEN: We would consider the
17 failure rates of similar assets, yes.

18 MR. BYRON WILLIAMS: Yeah. You consider
19 employee and public safety. Would that be fair?

20 MR. WILLY DERKSEN: Absolutely.

21 MR. BYRON WILLIAMS: You consider, among
22 other things, manufacturer's recommendations. Would that
23 be fair?

24 MR. WILLY DERKSEN: Yes.

25 MR. BYRON WILLIAMS: And, at the same

1 time, you're balancing issues relating to appropriate
2 costs and revenues. Would that be fair?

3 MR. WILLY DERKSEN: Yes, sir.

4 MR. BYRON WILLIAMS: And, so, it's fair to
5 say that age, by itself, does not determine where spending
6 is required.

7 Would that be correct, sir?

8 MR. WILLY DERKSEN: Age, by itself, is
9 certainly not the only factor in spending requirements.

10 MR. BYRON WILLIAMS: And -- and if you're
11 looking for a reference, Mr. Derksen, I'm just moving --
12 just at a -- again, a high level. I don't think it's
13 controversial; the Coalition 2-52. I think Ms. Ramage has
14 a copy nearby if you're -- I did give her one.

15 MR. WILLY DERKSEN: Okay, I've got it.

16 MR. BYRON WILLIAMS: Just going back to my
17 -- my last point: You'll agree with me that the
18 monitoring assessment and maintenance and, if necessary,
19 replacement of assets is an ongoing, dynamic and complex
20 process.

21 Would you agree with that, sir?

22 MR. WILLY DERKSEN: Yes, sir.

23 MR. BYRON WILLIAMS: And it raises some
24 challenges in terms of prior -- priorti -- prioritization
25 in the context of limited financial and human resources.

1 Is that right, sir?

2 MR. WILLY DERKSEN: Yes, sir.

3 MR. BYRON WILLIAMS: And I wonder if -- if
4 you'd agree with me that if the asset management focus was
5 strictly on improving or maintaining asset condition
6 without due consideration, to a degree, of the resultant
7 risk mitigation, this could result in unnecessarily high
8 expenditure levels?

9 MR. WILLY DERKSEN: Are you suggesting
10 that if we blindly replaced everything without considering
11 the probability factors of failure, it would be higher
12 costs than if we did consider the risk of failures as
13 well?

14 MR. BYRON WILLIAMS: Yes.

15 MR. WILLY DERKSEN: I'd agree with that,
16 yes.

17 MR. BYRON WILLIAMS: And thank you for
18 rephrasing my question in a better way than I asked it.

19 I'm going to come back to the issue of
20 prioritization -- Mr. Buhr will correct me if I screw up
21 on that -- in a minute.

22 But I'd like to put a bit more precision on
23 the role that aging infrastructure is having as a -- as a
24 cost driver.

25 And I guess, is that you again, Mr.

1 Derksen?

2 MR. WILLY DERKSEN: I think so.

3 MR. BYRON WILLIAMS: And again, I don't
4 think you need to turn here, but in Coalition Manitoba
5 Hydro 1-36, we asked Manitoba Hydro to set out the annual
6 maintenance spending on maintaining sustaining existing
7 assets for -- for each of the years from 2004/'05 through
8 2008/'09.

9 Do you recall that, sir?

10 MR. WILLY DERKSEN: Yes, sir.

11 MR. BYRON WILLIAMS: And would it be fair
12 to say that the Corporation's position is that the
13 segregation of operating and administrative expenses
14 associated with maintaining and sustaining existing assets
15 versus customer service or other operational costs of the
16 Utility is not readily available?

17 MR. WILLY DERKSEN: That's our response.
18 And the point that we're trying to make there is that the
19 management of the distribution and transmission systems
20 and -- and the generation systems are not -- the cost of
21 managing and -- and maintaining them is not segregated in
22 the manner that you've requested.

23 MR. BYRON WILLIAMS: That's fine. I'm
24 just trying to get a sense of how this is driving costs.

25 You'll -- you'll also recall that the --

1 the PUB, in Second Round Interrogatory 2-28, asked for an
2 OM&A cost and staff EFT increases since 2004 defined by
3 components such as new capital projects, First Nation
4 initiatives, rehabilitation requirements and ongoing OM&A.

5 Do you recall that, sir?

6 MR. WILLY DERKSEN: Yes, sir.

7 MR. BYRON WILLIAMS: And it would be fair
8 to say that Hydro again was not able to specifically
9 identify OM&A projects as ongoing versus rehabilitation.

10 Would that be fair, sir, or you weren't
11 able to provide that degree of segregation?

12

13 (BRIEF PAUSE)

14

15 MR. WILLY DERKSEN: Could you just repeat
16 that question, please?

17 MR. BYRON WILLIAMS: You weren't able to
18 divide the information between rehabilitation requirements
19 and ongoing OM&A as requested?

20 MR. WILLY DERKSEN: I -- I think that's
21 the issue. Rehabilitation and ongoing OM&A are -- are
22 very fuzzy as to where one stops and the other one starts.

23 And in order to develop an information
24 system that would -- would itemize or segregate those
25 items, one would have to have a very specific rules-based

1 approach to when is it ongoing and when does it become
2 rehabilitation.

3 MR. BYRON WILLIAMS: That's fair enough.
4 And again, I'm just trying to get a bit more precision on
5 -- on how this is driving costs.

6 In -- in terms of -- again, if you're
7 looking for a reference, it's the Hydro's response to
8 COALITION-1-36(a). Again, Hydro indicated that the issue
9 of aging infrastructure applies to most divisions but most
10 specifically to power supply, transmission and
11 distribution, and customer service and marketing.

12 Is that right, sir?

13 MR. WILLY DERKSEN: Yes, sir. Those are
14 the business units that are charged with the
15 responsibility of maintaining those assets.

16 MR. BYRON WILLIAMS: So if I'm looking for
17 the impact of -- of aging infrastructure as a cost driver,
18 in terms of EFTs, I would be most likely to look in power
19 supply, transmission and distribution, and customer
20 service and marketing.

21 Would that be fair, sir?

22 MR. WILLY DERKSEN: Yes, sir.

23 MR. BYRON WILLIAMS: And I wonder if you
24 could assist me by turning to the Corporation's response
25 to PUB/Manitoba Hydro 1-20 Sub --

1 MR. ROBERT MAYER: Excuse me, Mr.
2 Williams, I -- I'm now getting totally confused, and I
3 don't do this really well. But aging infrastructure and a
4 major problem in that area is customer service and
5 marketing as opposed to building dams?

6 Could somebody explain how -- what kind of
7 aging infrastructure we have in customer service and
8 marketing please?

9 MR. WILLY DERKSEN: Yes. Customer service
10 and marketing looks after the maintenance of the
11 distribution system.

12 MR. ROBERT MAYER: Oh, okay.

13

14 CONTINUED BY MR. BYRON WILLIAMS:

15 MR. BYRON WILLIAMS: And I apologize to
16 the Board if I was confusing them. It won't be the first
17 time or probably the -- probably the last.

18 Mr. -- Mr. Derksen, again I'm -- I'm
19 directing you to the Corporation's response to
20 PUB/Manitoba Hydro 1-20 Sub B and in particular, the
21 tables that are attached to it.

22 Do you have that, sir?

23 MR. WILLY DERKSEN: Yes, sir.

24 MR. BYRON WILLIAMS: And again, just to
25 recap, Hydro's indicated that when we're looking -- the

1 issue of -- of aging infrastructure applies most
2 specifically to power supply, transmission, distribution,
3 customer service and marketing, correct?

4 MR. WILLY DERKSEN: It does, yes.

5 MR. BYRON WILLIAMS: And what we are -- we
6 will see when we shortly turn to the schedules attached to
7 PUB/Manitoba Hydro 1-20 Sub B are the EFT changes from
8 2004/'05 to 2008/'09 by business unit.

9 Is that right, sir?

10 MR. WILLY DERKSEN: Yes, sir.

11 MR. BYRON WILLIAMS: And -- and just --
12 there is a bit of caution that we should use when we look
13 at these numbers, in fairness to the Corporation. It's --
14 it's my understanding that Centra Gas EFTs are not tracked
15 separately so that they would be included in these results
16 as well?

17 MR. WILLY DERKSEN: They are included in
18 those results --

19 MR. BYRON WILLIAMS: Yeah, and --

20 MR. WILLY DERKSEN: -- that's correct.

21 MR. BYRON WILLIAMS: -- I just wanted to
22 make that point in fairness, Mr. Derksen.

23 MR. WILLY DERKSEN: The -- the point I
24 think that we're trying to make there is that there are no
25 Centra Gas specific EFTs although there are certain EFTs

1 that primarily work on gas distribution operations.

2

3

(BRIEF PAUSE)

4

5 MR. BYRON WILLIAMS: I want to -- we're
6 going to have -- it's -- it's just going to be not for
7 long but a bit of cumbersome weaving through the pages,
8 Mr. Derksen.

9 Turning to page 5 of 9 of this response,
10 would -- would I be correct in suggesting to you that the
11 number of EFTs within Manitoba Hydro at the end of fiscal
12 year '06/'07, was five thousand nine hundred and ninety-
13 one (5,991).

14 Would that be right, sir?

15 MR. WILLY DERKSEN: That would be the
16 number of EFTs, on average, throughout the year.

17 MR. BYRON WILLIAMS: Thank you for that
18 clarification. I appreciate that.

19 And if I move over to page 7 of 9, would I
20 be correct in suggesting to you that for the -- it's the --
21 -- Hydro had forecast at this point in time, that the
22 number, on average, during the course of the year of EFTs
23 would be six thousand two hundred and forty-eight (6,248).

24 Would that be right, sir?

25 MR. WILLY DERKSEN: Yes, that's correct.

1 I should say "average" may not be the correct terminology
2 for that either. My point I was trying to make is that
3 it's not the year end number of employees, but it does
4 represent the total number of hours compensated to Hydro
5 employees divided by the normal number of -- of hours.

6 MR. BYRON WILLIAMS: So it's the -- in
7 terms of the '06/'07 number, it's -- it's the best
8 information kind of which you consider representative of -
9 - of what it looked like during the course of the year.

10 MR. WILLY DERKSEN: Absolutely.

11 MR. BYRON WILLIAMS: And again realizing
12 that there's been some changes but for '07/'08 again, it's
13 the best number that you -- that you had at that time.

14 MR. WILLY DERKSEN: That's our forecast.

15 MR. BYRON WILLIAMS: Yeah.

16 MR. WILLY DERKSEN: Yes.

17 MR. BYRON WILLIAMS: Okay, and just to --
18 again at a high level, the -- the forecast for 2008/'09
19 was for six thousand three hundred and twenty-one (6,321)
20 positions, referring you to page 9 of 9, sir?

21 MR. WILLY DERKSEN: Yes, sir.

22

23 (BRIEF PAUSE)

24

25 MR. BYRON WILLIAMS: Now I want to turn

1 your attention back to -- to page 6 of 9, and to the
2 "Divisional Category of Power Supply."

3 Do you see that, sir, in the -- the bottom
4 third of the paper?

5 MR. WILLY DERKSEN: Yes, sir.

6 MR. BYRON WILLIAMS: You see that the
7 actuals for '06/'07 for power supply were fourteen (14) --
8 one thousand four hundred and five (1,405).

9 Would that be fair, sir?

10 MR. WILLY DERKSEN: Yes.

11 MR. BYRON WILLIAMS: And the forecast for
12 '07/'08 was one thousand five hundred and thirty-seven
13 (1,537).

14 Is that right?

15 MR. WILLY DERKSEN: Yes.

16 MR. BYRON WILLIAMS: It'd be fair to say
17 that between the actuals and the forecast, you were, at
18 that point in time, forecasting a hundred and thirty-two
19 (132) more positions.

20 Would that be right?

21 MR. WILLY DERKSEN: Yes, sir.

22 MR. BYRON WILLIAMS: And focusing, Mr.
23 Derksen, if I might, on activities that would be charged
24 to OM&A, i.e., not capitalized for construction or new
25 generation, of those hundred and thirty-two (132) new

1 staff forecasted, can you indicate how many were added to
2 this area to address the area -- the issue of aging
3 infrastructure?

4 MR. WILLY DERKSEN: Well, again, as we've
5 said before, Mr. Williams, we cannot definitively say how
6 many of them were added as a result of aging
7 infrastructure and how many were added as a result of --
8 of other items.

9 But on an overall perspective, if I -- if I
10 looked at power supply throughout the -- that time frame,
11 if you just give me a minute here, 2005 to 2009,
12 approximately ninety-three (93) positions -- ninety (90)
13 positions were added for operating purposes over that time
14 frame.

15 And the -- the prime reasons for operating
16 related, I think, to increased environmental monitoring
17 required, it was to increase -- the bulk of it is -- is
18 increased operational activities and -- and which aging
19 infrastructure is -- is one (1) of the drivers of that.

20 And approximately seventy (70) of that
21 total was related to increased operational requirements,
22 and the other ones are primarily related to participation
23 in the export marketplace.

24 MR. BYRON WILLIAMS: So just to backup in
25 terms of the figure you used, was it about ninety (90)?

1 MR. WILLY DERKSEN: Yes, sir.

2 MR. BYRON WILLIAMS: And of those ninety
3 (90), are you suggesting that seventy (70) of them were --
4 were directed towards issues relating to either capital
5 projects or OM&A related to aging infrastructure?

6 MR. WILLY DERKSEN: Of those ninety (90),
7 seventy (70) of them were related to OM&A. That excludes,
8 entirely, those persons that were focused on additions
9 related to capital requirements.

10 MR. BYRON WILLIAMS: So -- and just so I'm
11 clear, the cost associated with those seventy (70) would
12 appear on the OM&A on the financial statement?

13 MR. WILLY DERKSEN: Yes, sir.

14 MR. BYRON WILLIAMS: Okay. And that's for
15 the period from 2005 through 2009, sir?

16 MR. WILLY DERKSEN: Yes.

17 MR. BYRON WILLIAMS: And just so I'm again
18 precise, that's from 2004/'05 through 2008/'09, sir?

19 MR. WILLY DERKSEN: Yes, that's correct.

20 MR. BYRON WILLIAMS: Can you give me the
21 breakdown, by year, for those seventy (70) positions, sir?

22 MR. WILLY DERKSEN: I don't have that
23 readily available by year, so I think it's -- it's --
24 that's the summary for that whole time frame which is --
25 you know, takes us from 2005 to our forecast year.

1 MR. BYRON WILLIAMS: Would you undertake
2 to provide that by year, sir?

3 MR. WILLY DERKSEN: I could do that.

4

5 --- UNDERTAKING NO. 42: Manitoba Hydro to provide
6 Coalition with breakdown, by
7 year, of the seventy (70)
8 positions related to OM&A

9

10 CONTINUED BY MR. BYRON WILLIAMS:

11 MR. BYRON WILLIAMS: And that was on power
12 supply, correct?

13 MR. WILLY DERKSEN: Yes, that was power
14 supply.

15 MR. BYRON WILLIAMS: Can we perform the
16 same exercise for transmission and distribution, Mr.
17 Derksen?

18 Let me start this way. If we look at
19 transmission and distribution between '06 /'07 actual and
20 '07/'08 forecast, you're moving from two thousand and five
21 (2005) to two thousand and ninety-seven (2097) positions.

22 Is that right, sir?

23 MR. WILLY DERKSEN: Yes, that's correct.

24 MR. BYRON WILLIAMS: And transmission and
25 distribution in '08/'09 is actually one (1) less at two

1 thousand and ninety-six (2096).

2 Would that be fair, sir?

3 MR. WILLY DERKSEN: Yes.

4 MR. BYRON WILLIAMS: Leaving aside again
5 issues of capital, looking at numbers to -- that go to the
6 bottom line of OM&A, as reported in the financial
7 statements, can you indicate of the ninety-two (92)
8 positions forecast for '06/'07 -- to increase from '06/'07
9 to '07/'08, how many of those were related to aging
10 infrastructure?

11 MR. WILLY DERKSEN: Again, I have not got
12 it year over year. But from the 2005 to 2009 time frame,
13 approximately eighty (80) EFTs were increased to meet
14 operating and maintenance requirements.

15 MR. BYRON WILLIAMS: And that's within
16 transmission and distribution?

17 MR. WILLY DERKSEN: Yes, that's correct.

18 MR. BYRON WILLIAMS: And you'd undertake
19 to provide it to me by year, sir?

20 MR. WILLY DERKSEN: Yes, sir.

21

22 --- UNDERTAKING NO. 43: Manitoba Hydro to indicate for
23 Coalition, of the ninety-two
24 (92) positions forecasted to
25 increase from '06/'07 to

1 '07/'08, how many of those are
2 related to aging
3 infrastructure
4

5 CONTINUED BY MR. BYRON WILLIAMS:

6 MR. BYRON WILLIAMS: And would I be fair
7 in suggesting to you, if I look at the 2000 -- the
8 forecast for 2008/'09 being one (1) less than the forecast
9 for 2007/'08, that at the time this document was prepared,
10 you didn't anticipate adding additional positions in
11 transmission distribution for the budget year? The
12 revenue -- the '08/'09 year.

13 MR. WILLY DERKSEN: Well, it does show
14 that there's one (1) new position according to this but
15 the net would be one (1) reduction after considering a
16 reduction in the other category, and I don't have the
17 details of what the other category might be.

18 It might be -- it could be a reduction over
19 time requirements or some other related factor.

20 MR. BYRON WILLIAMS: So if I was looking
21 and focusing exclusively on the transition from '07/'08
22 til '08/'09, I wouldn't see a lot of growth in EFTs
23 relating to aging infrastructure in that particular year.

24 Would that be fair?

25 MR. WILLY DERKSEN: Yes. I think what's

1 happening in our business units is that there -- there's a
2 requirement to ramp up and get trainees in place so that
3 we can meet the future requirements.

4 And that's, I think, why you're seeing this
5 manifest itself; that there's not a ramp-up in '08/'09 as
6 well because there is such a substantial increase during
7 '07/'08 to get the trainees and get them trained so that
8 they can meet the requirements of -- of the Utility.

9 MR. BYRON WILLIAMS: So we're not seeing a
10 lot of growth in '08/'09 with regard to transmission
11 distribution?

12 MR. WILLY DERKSEN: That's our evidence,
13 yes.

14 MR. BYRON WILLIAMS: And painful as this
15 is, I just want to finish up with customer service and --
16 and marketing. And if I look at the actuals for '06/'07
17 to the forecast for '08/'09, it appears that we're moving
18 from -- by about five (5) positions to the forecast --
19 excuse me, let me start -- do this more elegantly.

20 '06/'07 actuals are one thousand five
21 hundred and thirty-one (1,531), is that right, sir?

22 MR. WILLY DERKSEN: Yes, sir.

23 MR. BYRON WILLIAMS: '07/'08 forecast for
24 customer service and marketing is one thousand five
25 hundred and thirty-six (1,536).

1 Is that right?

2 MR. WILLY DERKSEN: Yes.

3 MR. BYRON WILLIAMS: And then there is a
4 forecast growth in '08/'09 of one thousand five hundred
5 and seventy-eight (1,578) -- or to one thousand five
6 hundred and seventy-eight (1,578).

7 Is that right, sir -- oh, excuse me. I
8 misspoke.

9 There's a forecast growth in '08/'09 to one
10 thousand five hundred and seventy-three (1,573), is that
11 right, sir?

12 MR. WILLY DERKSEN: Yes, that's the
13 correct number.

14 MR. BYRON WILLIAMS: And again, just
15 focusing on numbers that go to OM -- OM&A, how many can be
16 attributed to issues related to aging infrastructure?

17 MR. WILLY DERKSEN: Well, the total that
18 are attributable to operating matters between '05 and '09
19 is approximately eleven (11). It's not a high number and
20 that's because there are some other things that are going
21 on in that business unit.

22 And I can't tell you, again, directly how
23 much of that would -- how much of the net amount or the
24 gross amount would be related to aging infrastructure.
25 It's to meet all of the requirements that they have.

1 MR. BYRON WILLIAMS: So we're looking at
2 about eleven (11) EFTs, sir?

3 MR. WILLY DERKSEN: Eleven (11) was the
4 operating EFT increase that's forecast over that time
5 frame.

6 MR. BYRON WILLIAMS: And that's from the
7 2004/'05 year out to 2008/'09, sir?

8 MR. WILLY DERKSEN: Yes, that's correct.

9 MR. BYRON WILLIAMS: And, again, would you
10 undertake to provide that, year by year, please?

11 MR. WILLY DERKSEN: Yes, sir.

12

13 --- UNDERTAKING NO. 44: Manitoba Hydro to indicate to
14 Coalition how much of the net
15 or gross amount can be related
16 to aging infrastructure, year
17 by year

18

19 CONTINUED BY MR. BYRON WILLIAMS:

20 MR. BYRON WILLIAMS: Again, if you're
21 looking for a reference, Mr. Derksen, I'm referring you to
22 Coalition First Round Number 36 Sub C.

23 Do you have that, Mr. Derksen?

24 MR. WILLY DERKSEN: Yes, I do.

25 MR. BYRON WILLIAMS: You were anticipating

1 me, were you?

2 MR. WILLY DERKSEN: No, sir, I was not.

3 MR. BYRON WILLIAMS: The question posed in
4 that Information Request was whether Manitoba Hydro had
5 developed a plan or strategy regarding its approach to
6 managing aging infrastructure.

7 Is that right, sir?

8 MR. WILLY DERKSEN: That's the question,
9 yes.

10 MR. BYRON WILLIAMS: And you were also
11 requested, if so, to provide a copy.

12 Is that correct?

13 MR. WILLY DERKSEN: Yes.

14 MR. BYRON WILLIAMS: And the Corporation's
15 response was:

16 "Requirements relating to aging
17 infrastructure are addressed at
18 divisional levels and incorporated into
19 budgets as necessary."

20 Is that the Corporation's position?

21 MR. WILLY DERKSEN: Yes, sir.

22 MR. BYRON WILLIAMS: So, would I be
23 correct in -- in saying to you that if I was looking for a
24 -- any such strategy document for the overall operations,
25 that that document doesn't exist?

1 MR. WILLY DERKSEN: That's correct. But
2 as we've represented -- and I think we responded in
3 Coalition -- is it 2-52 -- we have a broad array of -- of
4 management systems that demonstrate or -- the overall
5 management of -- of the operating facilities of the
6 organization.

7 MR. BYRON WILLIAMS: And we'll come to
8 that in -- in just a second. I have a few questions about
9 CAMELOT and items like that. Just one (1) second.

10 Mr. Derksen, before moving towards that
11 direction, I just want to -- Mr. Derksen, just before
12 moving ahead, I -- I want to back up for a second and ask
13 you to consider a hypothetical, and it's -- it's not very
14 far from reality, but I'm going to suggest to you, for the
15 purposes of the hypothetical, that my new home has a new
16 roof with new shingles.

17 Are you prepared to accept that, sir?

18 MR. WILLY DERKSEN: Yes, sir.

19 MR. BYRON WILLIAMS: And the manufacturer,
20 and I'm told I have to trust him, says that those shingles
21 should have a life of about twenty (20) years.

22 Is that fair, sir? You'll accept that?

23 MR. WILLY DERKSEN: Yes, sir.

24 MR. BYRON WILLIAMS: And I wonder if you'd
25 agree with me, as well, that the shingles age with time,

1 but that doesn't necessarily mean we have to spend more
2 money on maintenance of the shingles for each year.

3 Would that -- would you agree with that,
4 sir?

5 MR. WILLY DERKSEN: Unless other events
6 happen in between such as you've increased the size of
7 your home or you've had a hailstorm or a windstorm or
8 something like that.

9 MR. BYRON WILLIAMS: You're a cautious,
10 careful witness and that's good. I appreciate that.

11 And also when the manufacturer suggests
12 that the -- the roof has as -- the shingles, excuse me,
13 have a twenty (20) year life cycle, that doesn't
14 necessarily mean that I'm going to have to replace those
15 shingles in twenty (20) years.

16 Would you accept that, sir?

17 MR. WILLY DERKSEN: I'd agree.

18 MR. BYRON WILLIAMS: And as you've pointed
19 out, replacement and even repairs will depend on the
20 weather, sun exposure, and other factors.

21 Would that be fair?

22 MR. WILLY DERKSEN: Yes.

23 MR. BYRON WILLIAMS: And depending on
24 those other factors, the life of the shingles might only
25 be fifteen (15) years or it might, indeed, be twenty-five

1 (25) years.

2 Would you accept that?

3 MR. WILLY DERKSEN: Seems reasonable.

4 MR. BYRON WILLIAMS: And so if I'm a --
5 and this is a tremendous leap of faith, but if I'm a
6 prudent, reasonable homeowner, what I need to do is make a
7 periodic assessment of the conditions of the shingles to
8 determine their state.

9 Would that be fair, sir?

10 MR. WILLY DERKSEN: Yes, sir.

11 MR. BYRON WILLIAMS: Are you familiar with
12 the -- the phrase or the term "asset condition
13 assessment"?

14 MR. WILLY DERKSEN: I understand what it
15 means. I -- I don't know if there's a specific technical
16 meaning for that.

17 MR. BYRON WILLIAMS: Well, would it be
18 fair to say that many utilities undertake comprehensive
19 asset condition assessments that serve to identify the
20 condition of all their assets, prioritize the assets, and
21 -- and then develop plans in terms of addressing their --
22 the problems?

23 MR. WILLY DERKSEN: I can't really speak
24 to other utilities, but it seems reasonable and
25 appropriate that a utility, in order to manage its assets,

1 would have to continually assess the condition of its
2 assets to make sure that its maintenance procedures are
3 appropriate to the requirements.

4 MR. BYRON WILLIAMS: And you're aware,
5 without necessarily being aware of specific practices of
6 utilities, that one (1) tool that many utilities use are
7 asset condition assessment -- that -- that kind of
8 approach.

9 Are you aware of that, sir?

10 MR. WILLY DERKSEN: Well, I'm not sure
11 what you mean specifically by "asset condition
12 assessment." Yes, utilities would have to assess the
13 condition of their assets, and if that's what you mean by
14 that, obviously they'd have to be doing that, but if
15 there's a -- a more technical definition of "asset
16 condition assessment," I'm not familiar with it.

17 MR. BYRON WILLIAMS: And -- and just to
18 assist you, Mr. Derksen, if I -- if I might, what I'd like
19 to -- and I provided these documents I believe to your --
20 your counsel, Ms. -- Ms. Ramage, the -- I'd like to
21 provide to you the three (3) documents, namely, (1), a
22 filing with the Ontario Energy Board called "Asset
23 Condition Assessment" which is an eleven (11) page
24 document; and then an excerpt from an asset condition
25 assessment summary report prepared by Hatch Acres; and

1 then a -- also a review of industry best practices reviews
2 for Hydro One prepared by EPRI Solutions.

3 Do you have those documents, sir?

4 MR. WILLY DERKSEN: Yes, we have them.

5 MR. BYRON WILLIAMS: And again, Mr.

6 Chairman, I'm not sure if the Board would like to see
7 those or not, but I do have copies or excerpts available
8 if the Board is interested.

9 THE CHAIRPERSON: That would be helpful.

10

11 (BRIEF PAUSE)

12

13 THE CHAIRPERSON: Mr. Williams, do you
14 want to assign numbers?

15 MR. BYRON WILLIAMS: I'll recommend
16 numbers that you could assign to them, Mr. Chairman.

17 The first document I'd like to refer the
18 Board to is the Asset Condition Assessment is the -- the
19 title. It's a -- I believe a eleven (11) page document
20 which was filed with the Ontario Energy Board, and I -- I
21 believe that's Coalition Number 11.

22

23 --- EXHIBIT NO. COALITION-11:

24 Document entitled "Asset Condition
25 Assessment" filed with the Ontario

1 Energy Board by Hydro One

2

3 THE CHAIRPERSON: Who filed it with the
4 Ontario Energy Board?

5 MR. BYRON WILLIAMS: Hydro One. Number 2,
6 I would recommend be Asset Condition Assessment Summary
7 Report of Hydro One Transmission Assets, and I would
8 recommend that be Coalition Number 12.

9

10 --- EXHIBIT NO. COALITION-12:

11 Asset Condition Assessment Summary
12 Report of Hydro One Transmission Assets

13

14 THE CHAIRPERSON: Yes.

15 MR. BYRON WILLIAMS: And, Mr. Chairman,
16 just mindful of previous comments, the actual asset
17 condition document, in its entirety, is very, very -- it's
18 not huge, but it's quite large and so this is -- I -- I've
19 included the -- the summary from it. Certainly, if Hydro
20 or other parties are -- are looking for the entire
21 document, we're -- we're happy to file it. And again this
22 was filed with the Ontario Energy Board.

23 And third is actually one (1) of -- its --
24 its title is Industry Best Practices Review for Hydro One,
25 and it was submitted by EPRI Solutions of Knoxville,

1 Tennessee, USA. And I would note that it is actually an
2 appendix. It is actually an appendix to the Asset
3 Condition Assessment of Hydro One, and I'd suggest that
4 that be marked as COALITION-13.

5

6 --- EXHIBIT NO. COALITION-13:

7 Industry Best Practices Review for Hydro
8 One, submitted by EPRI Solutions of
9 Knoxville, Tennessee, USA; an appendix
10 to Asset Condition Assessment of Hydro
11 One

12

13 THE CHAIRPERSON: So COALITION-13 is
14 actually originally an appendix to COALITION-11?

15 MR. BYRON WILLIAMS: To COALITION-12.

16 THE CHAIRPERSON: To 12, okay.

17 MR. BYRON WILLIAMS: Yes, sir.

18 THE CHAIRPERSON: Thank you.

19

20 CONTINUED BY MR. BYRON WILLIAMS:

21 MR. BYRON WILLIAMS: And Mr. Derksen --
22 and I don't want -- want to spend a -- a lot of time on
23 this; Mr. Harper, will certainly want to discuss this when
24 he appears -- but you were asking a bit -- for a bit more
25 of a -- a definition and I'm going to suggest to you at

1 least in terms of -- I can proceed?

2 THE CHAIRPERSON: Please.

3

4 CONTINUED BY MR. BYRON WILLIAMS:

5 MR. BYRON WILLIAMS: I'm going to suggest
6 to you that in terms of how Ontario Hydro defines -- or
7 Hydro One, excuse me, defines "asset condition assessments
8 -- I'll just refer you to page 1 of 11 of Coalition
9 Exhibit 11, line 15.

10 At least, how they define it, is that is
11 one of the tools that they used to detect and quantify the
12 extent of asset degradation of transmission system
13 equipment and to provide a means of estimating remaining
14 asset life, based on its condition.

15 Do you see that, sir?

16 MR. WILLY DERKSEN: Yes, sir.

17 MR. BYRON WILLIAMS: And this information
18 is used to help establish maintenance refurbishment or
19 replacement requirements based on the asset's ability to
20 perform reliably.

21 Is that right, sir?

22 MR. WILLY DERKSEN: That's what it says,
23 yes.

24 MR. BYRON WILLIAMS: And -- and without
25 belabouring the point, it also notes that they're either

1 asset assessment tools which on Hydro or which can be used
2 such as incident investigations and special end of life
3 studies.

4 Would that be correct, sir?

5 MR. WILLY DERKSEN: Yes.

6 MR. BYRON WILLIAMS: And just again,
7 because I don't want to -- to belabour this, but going to
8 page 3 of 11 and referring you to lines 5 through 8, and
9 then you'll see that what Ontario Hydro -- or excuse me,
10 what -- what this study does, is prioritizes asset classes
11 into three (3) groups: Priority 1 being those with high
12 value and high risk; Priority 2 being those with moderate
13 value and high risk; and Priority 3 being those with low
14 value and low risk.

15 Do you see that, sir?

16 MR. WILLY DERKSEN: I see that.

17 MR. BYRON WILLIAMS: Does this assist you
18 in understanding what I'm meaning by an asset condition
19 assessment, sir?

20 MR. WILLY DERKSEN: Yes. I believe that
21 would be the standard definition as I understood it.

22 MR. BYRON WILLIAMS: And you're aware that
23 -- or at least hopefully from this, that Hydro One, in
24 Ontario, conducts asset condition assessments which are
25 reviewed by its regulator?

1 Are you aware of that, sir? Or will you
2 accept that, subject to check?

3 MR. WILLY DERKSEN: I could accept that,
4 yes.

5 MR. BYRON WILLIAMS: And are you also
6 aware -- and if you're looking for a reference, you can
7 look to the first page of -- of Coalition Number 11 --
8 that Hydro One's asset condition assessments are prepared
9 by independent third parties? In this case, Hatch Acres
10 International.

11 MR. WILLY DERKSEN: I see that this report
12 was prepared by them, and what I was just thinking over
13 was whether the assessments are prepared independently by
14 a consultant or whether to what extent that it's a
15 collaborative approach.

16 MR. BYRON WILLIAMS: And I -- I accept
17 that, and I think you -- you put a -- it -- and again, I
18 guess we'll have to read through the documents, but you'll
19 -- I'd suggest to you it's a collaborative approach
20 involving an independent consultant.

21 Would you agree with that, sir?

22 MR. WILLY DERKSEN: That would seem
23 reasonable.

24 MR. BYRON WILLIAMS: Excuse me. And
25 again, just referring you to Coalition Number 13, and

1 mindful of your comments about collaboration, but you're -
2 - I wonder if you're aware or if you would accept, subject
3 to check, that Ontario or excuse me, that Hydro One also
4 retains an industry firm to review industry best practices
5 of other leading utilities?

6 I wonder if you'd accept that subject to
7 check, sir?

8 MR. WILLY DERKSEN: Yes, I could accept
9 that.

10 MR. BYRON WILLIAMS: Now you had referred
11 earlier to Manitoba Hydro's response to COALITION/Manitoba
12 Hydro 2-52 Sub A, and you recall that the -- the question
13 posed by the Coalition in that Information Request, was
14 whether Manitoba Hydro had under -- had performed any
15 asset condition assessments to the term in the current
16 state of its infrastructure and if yes, to please provide.

17 Is that correct, sir?

18 MR. WILLY DERKSEN: That was the question,
19 yes.

20 MR. BYRON WILLIAMS: And would I be fair
21 in saying that no asset condition assessments were
22 provided?

23 MR. WILLY DERKSEN: I would say that the -
24 - the response demonstrates or illustrates that Manitoba
25 Hydro performs ongoing asset condition assessments of its

1 operating system, but it would be fair to say that there's
2 no formal company-wide report that was submitted as a
3 response to this question.

4 MR. BYRON WILLIAMS: And just so I'm
5 clear, and I appreciate your clarification, would it be
6 fair to say that there's no -- not only that that report
7 was not provided, but would it be fair to say that such a
8 report does not exist?

9 MR. WILLY DERKSEN: There is no corporate
10 report entitled "Asset Condition Assessments", that's
11 correct.

12 MR. BYRON WILLIAMS: So -- and just so I
13 understand Hydro's approach then, at the -- the
14 prioritization, in terms of risk and value, is done at the
15 individual business units, not at the -- the corporate as
16 a whole prior -- prioritizing these expenditures.

17 Is that correct, sir?

18 MR. WILLY DERKSEN: I think at the -- at
19 one (1) level, it's -- it's done at the business -- at the
20 Divisional level and business unit level, but the results
21 of those conditional assessments do work themselves into
22 overall discussions about budgetary requirements from a
23 corporate perspective.

24 MR. BYRON WILLIAMS: When you use the word
25 "conditional assessments," are there actual documents that

1 -- that work themselves up to the higher level -- similar
2 to what I'm -- I'm referring you to in -- in terms of
3 Ontario?

4 MR. VINCE WARDEN: Mr. Williams, maybe
5 I'll just respond -- respond briefly to that question.
6 And we will certainly read through the documents that
7 you've provided in 11, 12, and 13 -- COALITION 11, 12, and
8 13.

9 We do, at Manitoba Hydro, have very
10 sophisticated tools for -- for assessing the condition of
11 assets. And as a matter of fact, we're looking at
12 replacing a note -- a system that's been in place at
13 Manitoba Hydro for a number of years, and -- and the tools
14 on the marketplace are very sophisticated, to the point
15 that it's almost like replacing the customer billing
16 system. The cost of replacing the maintenance management
17 system is in that same league and so we are currently
18 looking at -- at doing just that.

19 It is important because it does point to
20 when assets -- critical assets of the Corporation are due
21 for maintenance and the cost of -- of maintaining those
22 assets.

23 We don't produce a -- a comprehensive
24 report, but nevertheless, those -- those outputs of the
25 system that we do -- the maintenance systems that we do

1 have make their way into the operating budget requests as
2 Mr. Derksen has indicated. They make their way into the
3 operating budget request and form part of the OM&A
4 forecast that is before this Board.

5 MR. BYRON WILLIAMS: And just so I'm --
6 and I'll come back to your tools in a second, Mr. Warden,
7 but just so I'm clear, in an earlier interrogatory
8 response which the Corporation indicated that -- which we
9 went over in cross-examination that prior -- priorities
10 are set at the Divisional level, and the Corporation still
11 stands by that position?

12 MR. VINCE WARDEN: The budgets are put
13 together at the Divisional level. The -- the maintenance
14 requirements are assessed at the Divisional level and
15 those make their way into the -- the budget requests that
16 come forward for ultimate approval.

17 MR. BYRON WILLIAMS: And just so I
18 understand again for the purposes of prioritizing at a
19 corporate-wide level, what documentation, in terms of
20 prioritizing between different assets of different risks
21 and different values at the Executive level, does Manitoba
22 Hydro have?

23 MR. VINCE WARDEN: Well, at the Executive
24 level, each vice president that is responsible for his or
25 her particular business unit would have lots of

1 documentation that they would use to support their budget
2 requests that make their way to Executive committee for --
3 for ultimate approval.

4 MR. BYRON WILLIAMS: At the Executive
5 committee level for the purposes of weighing and
6 prioritizing assets -- let me put it another way -- in
7 terms of this, is this a bottom-up process or a top-down
8 process, Mr. Warden?

9 MR. VINCE WARDEN: This -- what we're
10 talking about now, the asset maintenance assessment
11 condition justification process is bottom-up.

12 MR. BYRON WILLIAMS: And at the Executive
13 Committee level -- the amount of information available in
14 terms of prioritizing on a corporate-wide basis -- would
15 be different and less than what's prepared at the
16 divisional level?

17 MR. VINCE WARDEN: Well, by necessity. It
18 would be highly summarized, yes.

19 MR. BYRON WILLIAMS: And there's no kind
20 of overarching document, such as I'm suggesting to you,
21 prepared in Ontario for review of the -- the Ontario
22 Energy Board setting out those priorities and values on a
23 corporate-wide basis.

24 Is that fair?

25 MR. VINCE WARDEN: Well, I haven't had an

1 opportunity to review the documents yet to see exactly
2 what is presented for approval at -- at Hydro One, but
3 until I do that I probably shouldn't comment.

4 MR. BYRON WILLIAMS: Okay. And let's not
5 talk about Ontario. But just to go back to my point,
6 there's no overarching kind of corporate strategy document
7 -- which pulls together the -- the asset condition
8 assessments from each department, in terms of their --
9 their ranking and value, is there?

10 MR. VINCE WARDEN: Well, there's no formal
11 document that comes together at Executive Committee but
12 each -- as I mentioned, each Vice-President would have
13 their own documentation to support their -- request for
14 operating funds before Executive Committee.

15 MR. BYRON WILLIAMS: And again -- in terms
16 of developing at the divisional level, prioritizations in
17 terms of assets and the pace at which they should be
18 replaced or -- or rehabilitated, does Manitoba Hydro
19 retain any independent or outside consultants to assist in
20 that process, sir, or to review that process?

21 MR. VINCE WARDEN: We try to limit the
22 involvement of consultants for -- for cost reasons.

23 MR. BYRON WILLIAMS: And in recent years,
24 let's say the last four (4) -- four (4) years has Manitoba
25 Hydro conducted an independent review of industry best

1 practices, as compared to Manitoba Hydro's with regard to
2 asset condition assessments?

3 MR. VINCE WARDEN: Not that I'm
4 particularly aware of, but on the other hand we haven't
5 seen -- I -- I don't think there's -- an urgent need that
6 we've recognized. I might just back up a little bit.

7 Mr. Williams, you started off with
8 comparing the cost of -- of replacement of assets to your
9 roof and just -- I think that is a good example because we
10 have, at Manitoba Hydro, we have a roof replacement
11 program and there is a -- there is a program that looks at
12 that very issue as to when it's -- the optimum time to
13 replace roofs. Because again in our business if a roof
14 starts leaking, it can be a very expensive exercise to
15 repair the damage that might cause to the equipment, the
16 sophisticated equipment we have in some of our facilities.

17 So the roof replacement program is an
18 important program. It's a standalone program that is
19 maintained.

20 And does it make its way to Executive
21 Committee? No. But we know it's there and we -- we trust
22 that it's operating appropriately, because we -- we
23 minimize the cost of damage from roof replacement.

24 MR. BYRON WILLIAMS: Thank you for that.
25 You mentioned before "sophisticated tools" and I -- I just

1 wanted to follow up on that very quickly.

2 With regard to -- and again the reference
3 is COALITION-2-52, Mr. Warden or Mr. Derksen, if you're
4 looking. In terms of the hydraulic generating stations,
5 the HDVC converter station, or major water control
6 stations, that infrastructure is -- would it be fair to
7 say is currently managed by a computerized maintenance
8 management system called "Applied Maintenance Planning
9 Systems" or AMPS, A-M-P-S?

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

11 MR. BYRON WILLIAMS: And it's the main
12 tool used to plan and schedule maintenance tasks and
13 inspections.

14 Is that right, sir?

15 MR. VINCE WARDEN: It is.

16 MR. BYRON WILLIAMS: Would I be correct in
17 suggesting to you that AMPS is less than state of the art?

18 MR. VINCE WARDEN: Yes. And I -- and I
19 indicated earlier that we've had that in place at Manitoba
20 Hydro for -- many years and IT served the Corporation --
21 Corporation well. It is due for replacement however, and
22 that's what we're looking at doing right now.

23

24 (BRIEF PAUSE)

25

1 MR. BYRON WILLIAMS: Are you familiar with
2 the term "capital and maintenance long term", the acronym
3 being CAMELOT, C-A-M-E-L-O-T?

4 MR. VINCE WARDEN: Yes.

5 MR. BYRON WILLIAMS: I like that acronym.
6 It's -- and as I understand it, it's currently used to
7 record and prioritize a portfolio of potential projects
8 again in the area of power supply.

9 Is that correct, sir?

10 MR. VINCE WARDEN: It's used primarily in
11 power supply, although it is used elsewhere in the
12 Corporation as well.

13 MR. BYRON WILLIAMS: Would I be correct in
14 suggesting to you that CAMELOT is less than state of the
15 art?

16 MR. VINCE WARDEN: Well, like the AMPS
17 System, it's -- it is due for replacement. We're looking
18 at that replacement as well. It's not in the same order
19 of magnitude in terms of cost of replacement as is the
20 much larger AMPS System. But not all of our systems are
21 state of the art.

22 They have to be -- they -- we use -- we get
23 as much useful life out of -- we can -- as we can out of
24 our systems just as we do on our roofs. So -- but when
25 they reach the end of their useful life then they have to

1 be replaced, and both AMPS and CAMELOT are in that
2 condition.

3 MR. BYRON WILLIAMS: And -- and just so
4 I'm clear, in terms of CAMELOT would you characterize it
5 as less than state of the art?

6 MR. VINCE WARDEN: It's due for
7 replacement.

8 MR. BYRON WILLIAMS: Fair enough.

9 MR. ROBERT MAYER: Is it in fact Kennedy
10 era?

11 MR. VINCE WARDEN: It goes back a long
12 ways.

13 MR. BYRON WILLIAMS: Mr. Chairman, I'm
14 making quite good progress and -- well, I'm not going to
15 be done by lunch time but I -- I will be done before the
16 end of the day.

17 But I wonder if I could stand down for two
18 (2), minutes with your permission?

19 THE CHAIRPERSON: Sure.

20

21 --- Upon recessing at 11:17 a.m.

22 --- Upon resuming at 11:25 a.m.

23

24 THE CHAIRPERSON: Okay, Mr. Williams, we
25 have a different conception of time than the people that

1 made clocks.

2 MR. BYRON WILLIAMS: Well, it's three (3)
3 days in, it's not bad to have a -- an extra short -- short
4 break.

5

6 CONTINUED BY MR. BYRON WILLIAMS:

7 MR. BYRON WILLIAMS: I want to go back to
8 -- to Information Request First Round PUB Number 20, which
9 is the -- shows the change in equivalent full-times from
10 2004/'05 to 2008/'09 by business unit.

11 Do you have that Mr. Derksen?

12 MR. WILLY DERKSEN: Yes, sir.

13

14 (BRIEF PAUSE)

15

16 MR. BYRON WILLIAMS: And in particular I
17 want to -- in particular I want to direct your attention
18 to page 7 of 9, which -- shows the -- some comparisons
19 between the '06/'07 actual and the '07/'08 forecast.

20 Do you have that, sir?

21 MR. WILLY DERKSEN: Yes, sir.

22 MR. BYRON WILLIAMS: And we've done this
23 before but just for purposes of continuity. The '06/'07
24 actuals are five thousand nine hundred and ninety-one
25 (5,991) EFTs, subject to the caveats you pronounced

1 earlier, sir.

2 MR. WILLY DERKSEN: Yes, that's correct.

3 MR. BYRON WILLIAMS: And the '07/'08

4 forecast is six thousand two hundred and forty-eight

5 (6,248), sir. Is that right?

6 MR. WILLY DERKSEN: Yes.

7 MR. BYRON WILLIAMS: And would I be right

8 in suggesting to you that that is a two hundred and fifty-

9 seven (257) EFT difference between the actuals for '06/'07

10 and the forecast for '07/'08?

11 MR. WILLY DERKSEN: Your math is correct,

12 yes.

13 MR. BYRON WILLIAMS: And when we look at

14 that two hundred and fifty-seven (257) EFT difference,

15 it's comprised of one hundred and sixty-three (163) new

16 and ninety (90) -- ninety-four (94) overtime vacancies and

17 other.

18 Would that be fair, sir?

19 MR. WILLY DERKSEN: Yes.

20 MR. BYRON WILLIAMS: Now just for more --

21 more precision on the overtime vacancies and others and --

22 and again, I don't know if you need to turn here, but in

23 your response to COALITION-2-16(a), page 4 of 5, you

24 indicated of those ninety-four (94) positions, eighty-nine

25 (89) were vacancies.

1 Is that right, sir? 2-16(a), page 4 of 5.

2 MR. WILLY DERKSEN: I've got it. Just
3 give me a second.

4 MR. BYRON WILLIAMS: At the bottom line.

5 MR. WILLY DERKSEN: I'm just looking,
6 trying to get the right page here. Yes, that's correct.

7 MR. BYRON WILLIAMS: Thank you, and thank
8 you for your -- your carefulness as well.

9 So -- so when if you put together the --
10 the one hundred and sixty-three (163) new positions plus
11 eighty-nine (89) vacancies, would it be fair to say that
12 Manitoba Hydro, based upon this -- this response, was
13 looking about -- filling about two hundred and fifty (250)
14 positions in 207/'08? Two fifty-two (252) to be precise?

15 MR. WILLY DERKSEN: Again, there is a
16 difference in terminology. This is not a position count.
17 This is the effective full-time, and so the number of EFTs
18 would of increased by that amount.

19 MR. BYRON WILLIAMS: And thank you, and
20 that's an important clarification. So the -- you're
21 looking at filling, in one (1) vehicle or another, about
22 two hundred and fifty (250) EFTs between the two (2)
23 years?

24 MR. WILLY DERKSEN: Yes, and that would be
25 a net number as well.

1 MR. BYRON WILLIAMS: Where -- and to
2 assist both the Coalition, Mr. Harper, we're ten (10)
3 months in to 2007/'08. Can you give me some sense, of
4 those two hundred and fifty (250) EFTs, how many have been
5 filled?

6 MR. WILLY DERKSEN: As Mr. Warden said
7 earlier, we have still about two hundred (200) vacancies
8 right now, and so we have not been as successful as we had
9 forecasted to be.

10 MR. BYRON WILLIAMS: Would I be correct in
11 suggesting then if you were looking at filling two hundred
12 and fifty (250) that you filled fifty (50).

13 Would that be fair, sir?

14 MR. WILLY DERKSEN: Well, that would be
15 fair on a net basis again. And again considering the EFT
16 versus positions, the number of -- of positions hired
17 would be substantially different than that over the course
18 of the year.

19 MR. BYRON WILLIAMS: So we're looking at
20 about, again subject to the -- the caveats you've
21 expressed, about two hundred (200) unfilled EFTs.

22 Would that be fair?

23 MR. WILLY DERKSEN: Yes, that's correct.

24 MR. ROBERT MAYER: Mr. Derksen, earlier
25 you -- or moments ago, you referred to them as vacancies.

1 And so I take it there is a difference between vacancies
2 which you'll put a body into and an EFT which may be a
3 composite of a number of things.

4 MR. WILLY DERKSEN: Yes, there is a
5 difference, for sure.

6

7 CONTINUED BY MR. BYRON WILLIAMS:

8 MR. BYRON WILLIAMS: Associated -- and Mr.
9 Derksen if my language is imprecise you'll continue to
10 correct me, okay? And I appreciate it.

11 Associated with the two hundred (200)
12 unfilled, can you provide an estimate of the savings, in
13 2007/'08, associated with those, sir?

14 MR. WILLY DERKSEN: I think Mr. Warden
15 earlier discussed a number of approximately \$16 million
16 dollars favourable in operating expense to date, and that
17 would largely be associated with that.

18

19 (BRIEF PAUSE)

20

21 MR. BYRON WILLIAMS: And is it the
22 Corporation's position that the two hundred (200) unfilled
23 EFTs are exclusively there by virtue of your difficulty in
24 filling the positions? Are they all attributable to the
25 recruiting problem, in other words?

1 (BRIEF PAUSE)

2

3 MR. WILLY DERKSEN: There are some other
4 factors that play, Mr. Williams. There's -- there are
5 some delays in filling positions, with respect to moving
6 to the new building. There are some other things that go
7 on in different departments that cause delays for various
8 reasons.

9 So some of it would be due to the
10 difficulty of -- of attracting, and others would be due to
11 the timing of -- of other events.

12 MR. BYRON WILLIAMS: And that's what I
13 want to zone in on. In terms of the difficulty in
14 attracting or recruiting, of those two hundred (200), how
15 many are associated with that?

16 MR. WILLY DERKSEN: Well, it would be the
17 majority, but it wouldn't have a number specifically.

18 MR. BYRON WILLIAMS: And by majority, is
19 it -- is it -- just to get a -- realizing you don't have
20 a number, it's over a hundred (100).

21 Is it over a hundred and fifty (150)?

22 MR. WILLY DERKSEN: I don't have that
23 number, Mr. Williams.

24 MR. BYRON WILLIAMS: Are you able to get
25 that number, Mr. Derksen?

1 (BRIEF PAUSE)

2

3 MR. DERKSEN: Again, it's difficult,
4 because as Mr. Mayer indicated, positions and vacancies
5 and EFTs are very similar, and we talk about them as if
6 they're the same item, but they're not the same item. And
7 so our hiring processes are focused on individual people
8 in positions and our EFT representations are based upon
9 work performed.

10 So coming up with a precise number, I don't
11 think would be possible.

12 MR. BYRON WILLIAMS: And -- and I
13 appreciate -- appreciate that. And recognizing that it's
14 more than fifty (50), you're unable to come up with the
15 precise number, are you able to come up with a -- a range
16 with which you would feel comfortable?

17 MR. WILLY DERKSEN: I'll undertake to --
18 to look into that, yes.

19

20 --- UNDERTAKING NO. 45: Manitoba Hydro to indicate to
21 Coalition of the two hundred
22 (200) EFTs how many are
23 delayed by difficulty in
24 recruiting

25

1 MS. SUSAN PROVEN: I have to ask a
2 question at this point. I guess, as a member of the
3 public, I would -- you know, if I heard that Hydro was
4 short people, and that there were jobs, I -- I would
5 probably want to see these listed somewhere.

6 Would your website show the kind of
7 positions that you're looking for?

8 MR. WILLY DERKSEN: Yes, it does.

9 MS. SUSAN PROVEN: So I went on your
10 website out of curiosity, and I saw two (2) positions. So
11 I don't know, maybe I wasn't looking in the right place.
12 Where -- like would they -- all those hundred (100)
13 positions, or whatever we're talking about, would they all
14 be listed on there?

15 MR. WILLY DERKSEN: Normally we do post
16 those internally first, but I would have to check.
17 Different recruitment strategies are used, and I know we
18 have -- our website does provide for applicants to apply
19 online.

20 And I'm not -- obviously I'm not familiar
21 with the total number that are posted on there. I -- I
22 would have to have a review of that.

23 MS. SUSAN PROVEN: Thank you.

24 MR. VINCE WARDEN: I -- I might just
25 mention, Ms. Proven, the -- our website is not -- doesn't

1 provide the kind of information that -- that an applicant
2 or someone with a curiosity as to what jobs might be
3 available -- it doesn't provide as good of information as
4 we would like.

5 It's another one of those programs that
6 we're looking at replacing, and we -- we will probably
7 have a different look to our website hopefully, very soon.

8

9 CONTINUED BY MR. BYRON WILLIAMS:

10 MR. BYRON WILLIAMS: And, Mr. Derksen, I
11 think you for your undertaking. And just to be precise,
12 that's -- that specifically was to attempt to provide a
13 range in terms of the EFTs associated with the recruiting
14 issue.

15 Is that correct, sir?

16 MS. PATTI RAMAGE: I think it's to first
17 assess whether it's possible to provide a range and if
18 possible then to go down.

19 MR. BYRON WILLIAMS: And that's fair, Ms.
20 -- Ms. Ramage, and I -- I didn't mean to -- to - although
21 I would have liked to go farther, I -- I misunderstood.

22

23 CONTINUED BY MR. BYRON WILLIAMS:

24 Now, Mr. Derksen, in -- in terms of the two
25 hundred (200) EFTs, the majority you've confirmed are from

1 -- are related to recruiting, that's right?

2 MR. WILLY DERKSEN: Yes, that's correct.

3 MR. BYRON WILLIAMS: You also indicated,
4 if I understand correctly, that some of them are
5 associated with positions not filled in -- in anticipation
6 of synergies associated with the new building.

7 Is that right?

8 MR. WILLY DERKSEN: That would be one (1)
9 of the reasons, yes.

10 MR. BYRON WILLIAMS: And how many?

11 MR. WILLY DERKSEN: Again, I don't have a
12 number for that because there is no company-wide program.
13 Individual departments and -- or divisions I should say --
14 would have -- would be holding off for various reasons,
15 and one (1) of the reasons would be related to their
16 anticipation of -- of moving to the new building and
17 different requirements emanating from that.

18 MR. BYRON WILLIAMS: Surely, you have an
19 estimate?

20 MR. WILLY DERKSEN: I don't have an
21 estimate, no.

22 MR. BYRON WILLIAMS: It's less than --
23 than half obviously if over half are recruit -- are
24 associated with -- with recruiting.

25 Is that right, sir?

1 MR. WILLY DERKSEN: Yes.

2 MR. BYRON WILLIAMS: Is it less than a
3 quarter?

4 MR. WILLY DERKSEN: I don't know that.

5 MR. BYRON WILLIAMS: Would you be able to,
6 using the bottom-up process, be in a position to estimate
7 that, sir, after further research?

8 MR. WILLY DERKSEN: I -- I think that's a
9 very difficult type of question to answer again because
10 there are a lot of uncertainties associated with this.

11 The -- the problem that I'm thinking of is
12 that there may be five (5) contributing reasons as to why
13 an individual division may not have posted a -- a vacancy
14 at this point in time.

15 And if that pers -- if that division
16 assessed those reasons they might say, Well, yes, it's 20
17 percent because of that new building, and 20 percent
18 because of this, and 20 percent because of that. And if
19 we add all of those things together, we could come up
20 with, Yes, that's a good decision to hold off on -- on
21 hiring that particular position.

22 But I don't think it will give you a
23 correct correlation to say, The company is holding off "X"
24 number of positions as a result of -- of restraining costs
25 until the move to the new building is complete.

1 MR. BYRON WILLIAMS: So if -- if I
2 understand you correctly, you're more cautious in terms of
3 being able to provide an estimate in terms of any savings
4 and EFTs from the new building than you would be in -- in
5 dealing with the issue of how many vacant EFTs are
6 associated with recruiting issues.

7 Is that fair?

8 MR. WILLY DERKSEN: Yes.

9 MR. BYRON WILLIAMS: And in fact, you --
10 in -- in your view, it is not possible to provide a
11 reliable estimate of the number of EFTs that might be
12 associated with synergies or productivity enhancements
13 associated with the new building.

14 Would that be fair?

15 MR. WILLY DERKSEN: Would you just repeat
16 that question, please?

17 MR. BYRON WILLIAMS: I -- I just want to
18 be clear how far we can take this. In your view, you're
19 not able to provide a reliable forecast or estimate of the
20 associated number of EFTs that would be related to
21 productivity savings enabled by the new building?

22 MR. WILLY DERKSEN: Now you're going into
23 the future are you? This is not of the two hundred (200)
24 we're talking about?

25 MR. BYRON WILLIAMS: And -- and you know

1 what, Mr. -- you're quite right, and let's start with the
2 -- let's start with the -- with 2007/'08 first. You're
3 not able to provide a reliable estimate in terms of the
4 EFTs for the 2007/'08 year that are -- that might be being
5 held off because of the new building?

6 MR. WILLY DERKSEN: That's correct.

7 MR. BYRON WILLIAMS: Okay. And thank you
8 for your -- my -- my question was imprecise. Let's go on
9 to that though.

10 For -- looking to the '08/'09 year, are you
11 able to provide a reliable estimate of the number of EFTs
12 that will not have to be filled as a result of the new
13 building.

14 MR. WILLY DERKSEN: No, sir, we've made no
15 forecast of that specifically for that year. I believe
16 Mr. Warden has talked earlier about the comprehensive
17 approach to managing operating costs that the Company has.

18 And the new building will be one (1) of the
19 factors that will allow us to achieve productivity, but
20 being very specific as to the number of EFTs in a given
21 year or even on an overall basis, would be very difficult.

22 We'd be going into territory again
23 ultimately as to say what otherwise would have happened if
24 we hadn't built the new building, and it becomes very
25 difficult. Times change, requirements change and so on.

1 MR. BYRON WILLIAMS: Just -- I'll approach
2 that answer in two (2) ways -- just to confirm the
3 Corporation has no forecast of EFT savings associated with
4 the new building in the '08/'09 year.

5 Is that right? And maybe I'm
6 misunderstanding?

7 MR. VINCE WARDEN: Mr. Williams, I think
8 when we went over the cost of the new building and the
9 cost that would have to be -- it's cost savings that would
10 have to be realized in order to offset when rebuilding, we
11 did refer to some level of productivity would have to be
12 achieved in order to make that happen. We've been
13 hesitant to put out a precise number. We -- we know,
14 anecdotally, from what the experience of others has been
15 from amalgamating their work forces into a central
16 location.

17 We have been hesitant because we think
18 we're already very productive. Can we achieve further
19 productivity savings in the 10 percent range? Possibly.
20 We don't know for sure.

21 But in order to offset -- to make the new
22 building totally cost-neutral, if we're going to achieve
23 those savings solely through employees -- reductions in
24 numbers of employees, it would be equivalent -- close to a
25 10 percent productivity increase.

1 We have equated that to two hundred (200)
2 employees.

3 MR. BYRON WILLIAMS: Two hundred (200)
4 from which number, Mr. Warden, in terms of EFTs? Just so
5 I'm clear.

6 Are you talking two hundred (200) from the
7 -- let's go through the range. The '06/'07 actuals, the
8 '07/'08 forecast or the '08/'09 forecast?

9 MR. VINCE WARDEN: And, Mr. Williams,
10 that's where we don't have that precision. The estimates
11 of productivity savings are -- are very simply based on
12 two thousand (2000) people in the new head office. 10
13 percent of that is two hundred (200), and it equates to
14 about \$20 million per year.

15 MR. BYRON WILLIAMS: So if my clients were
16 looking for some precision, you're not able to tell --
17 let's start -- use the '07/'08 -- or let's use the '06/'07
18 figure of five thousand nine hundred and ninety-one
19 (5,991) EFTs.

20 Are you able to suggest that that number
21 would be five thousand seven hundred and seventy-one
22 (5,771) as a result of the new building?

23 MR. VINCE WARDEN: No, Mr. Williams. I
24 just went through some of the assumptions that would be
25 necessary if we were to achieve some kind of a

1 productivity savings.

2 That, we've been informed, has been
3 achieved by others that have brought their work forces
4 together as we are doing with the new downtown building.

5 MR. BYRON WILLIAMS: And -- and, Mr.
6 Warden, and I appreciate your -- your candour, and maybe I
7 misunderstood your conversation with Mr. Peters last --
8 last week.

9 At that point in time, I interr --
10 interpreted you as being pretty confident that you are
11 going to achieve those -- those savings.

12 Would I be right to say that there is some
13 doubt in your mind that you will be able to achieve those
14 productivity savings?

15 MR. VINCE WARDEN: Well, I certainly
16 didn't mean to imply confidence that we would, in fact,
17 achieve those. There is some uncertainty of course.
18 We're going into a whole new environment.

19 We -- we have to make some assumptions
20 going forward. Will we achieve that? I really can't say
21 with confidence that -- that we will.

22 I know when the -- I referred back to the
23 study that was done in 1999, when we were looking at
24 building a new facility on -- on Wilkes Avenue, and there
25 was some considerable review done at that time and the

1 productivity savings increases were estimated in the 2 to
2 3 percent range. So is it 2 percent? Is it 10 percent?
3 Is it 7 percent? We -- we simply don't know at this point
4 in time.

5 We -- we will certainly strive to achieve
6 productivity -- maximum productivity savings as we always
7 do.

8 MR. BYRON WILLIAMS: And just so I
9 understand your answer then I'm going to go back to a
10 couple of your previous statements.

11 But when you looked at this issue in the
12 1990's of a relocation, the best estimate you had was
13 productivity savings of 2 to 3 percent?

14 MR. VINCE WARDEN: Yes.

15 MR. BYRON WILLIAMS: And analytically, if
16 you could assist me in terms of what you were looking at
17 in -- in the 1990s versus today, what is there,
18 analytically, about this new building which would enable
19 the productivity savings to increase -- to triple or to
20 increase by even more than that?

21 MR. VINCE WARDEN: Oh, I didn't imply that
22 they would, Mr. Williams. I'm just telling you what the
23 experience of others has been.

24 And the experience of others -- this goes
25 back to also the 1999 study productivity savings. 10, 15,

1 20 percent range were being experienced by others, at that
2 time, as well.

3 The study team that looked at it, at that
4 time, were being conservative and -- and estimating
5 savings in the 2 to 3 percent range. We know they're --
6 or at least, we believe, we don't know, we believe there
7 should be savings in bringing our work force together.

8 We'll be doing things more efficiently.
9 Just looking at such things as common use of -- of copier
10 -- photocopiers and print machines and what -- you know,
11 the synergies that'll be realized through things of that
12 nature, there will be savings.

13 What that number amounts to though, I -- I
14 can't precisely identify.

15 MS. SUSAN PROVEN: I just want to
16 interject, Mr. Williams. I don't want to take you off
17 track but you know, when others have done this, there must
18 be some period of adjustment too before that productivity
19 kicks in.

20 And I'm just thinking, are there any
21 studies -- have you looked at any experiences of others
22 when you refer to these experiences of others where it
23 takes a period of time to bring the staff into the new
24 picture?

25 And there will be -- I've heard it referred

1 to as "the valley of despair" where, you know, there are
2 some people who -- it takes time for them to come along
3 and -- and to sort of function in the new scenario.

4 Are there any studies that you are familiar
5 with that speak to that drop in productivity that, albeit,
6 maybe is temporary? But just -- is that something the
7 Corporation talks about?

8 MR. VINCE WARDEN: It seems reasonable
9 that there will be a period of adjustment. We haven't --
10 I'm not aware of any specific study that speaks to that or
11 -- or quantifies that.

12 We have been, to the extent possible,
13 communicating with staff, preparing staff. I think every
14 -- most staff are looking forward to the -- to the move in
15 a positive way although parking's an issue.

16 But nevertheless -- but nevertheless, I
17 think most staff are -- we -- we have -- by the way, we
18 have what is called a -- we've labeled a Work-Smart
19 Program and the Work-Smart Program is looking at all --
20 all the savings that can be realized by moving downtown.

21 The copier situation I referred to earlier,
22 the numbers of printers that will be reduced, the amount
23 of paper that we're using is -- is another fairly major
24 savings. We've gone through what is called a "trim
25 exercise" at Head Office and it's quite amazing the -- the

1 amount of files that we've been able to either send to
2 permanent storage or -- or dispose of -- recycle.

3 So we'll -- we'll be working in, what we
4 think is, a much more efficient environment than we were
5 previously. More -- taking advantage of technology more-
6 so than we have in the past.

7 And I think all staff are looking at this
8 as -- as an opportunity to make that transition. So I
9 haven't heard a lot of negative comments going forward. I
10 -- I'm not expecting there'll be a significant dip in
11 productivity from the move. Initial dip in productivity
12 that is.

13 MR. BYRON WILLIAMS: And I -- I don't want
14 to belabour this issue much longer but I -- I do have a
15 few more I want to follow-up on, and one (1) just goes --
16 it's a mathematical issue.

17 I believe we discussed earlier that if we
18 look at the average cost in terms of labour and benefits
19 per EFT we're -- for '08/'09 we're looking at about eighty
20 thousand (80,000), is that right?

21 MR. WILLY DERKSEN: That's what is shown
22 on the appendix, yes.

23 MR. BYRON WILLIAMS: So just going back to
24 the -- to the math if you're looking at theoretically two
25 hundred (200) people at -- at eighty thousand (80,000)

1 that gets me to -- to 16 million, not 20 million.

2 Would that be right?

3 MR. WILLY DERKSEN: Yes, but there are
4 other costs associated with EFTs and positions as well:
5 facilities costs, training costs, and -- and that would
6 account for the -- the for other component.

7 MR. BYRON WILLIAMS: That's very helpful.
8 So the other twenty thousand (20,000) is related to
9 facilities costs and training -- training costs?

10 MR. WILLY DERKSEN: Well, and -- and other
11 costs as well. It's -- as Mr. Warden talked about there's
12 -- there's printing costs, there's all sorts of related
13 costs.

14 MR. BYRON WILLIAMS: So all in, when we're
15 looking at staff for Manitoba Hydro we're -- we're talking
16 about one hundred thousand dollars (\$100,000) per EFT.

17 Is that a fair number?

18 MR. WILLY DERKSEN: Well, I think it's a
19 reasonable number to use for the purposes that we're using
20 it for. I -- I don't think that we've -- there's any
21 magic to that number to say that you could say Manitoba
22 Hydro's cost is -- is "X" amount per EFT on a broad-brush
23 basis, but it is reasonable for the estimating that we're
24 doing on -- on productivity savings.

25 MR. BYRON WILLIAMS: It's the best number

1 you have?

2 MR. WILLY DERKSEN: Yes.

3 MR. BYRON WILLIAMS: Again, Mr. Warden,
4 you -- you talked about if I -- my notes are right a work
5 smart -- activities.

6 Is that right, sir?

7 MR. VINCE WARDEN: Work Smart Program,
8 yes.

9 MR. BYRON WILLIAMS: Is there any
10 documentation associated with that, in terms of the
11 potential savings the Corporation's looking at?

12 MR. VINCE WARDEN: Well, the -- the
13 program or at least the -- the project was initiated to
14 facilitate the transition to the new head office. It
15 wasn't really formed for the -- for the purpose of -- of
16 estimating synergies, so there's no document that would
17 support a specific synergy savings number.

18 MR. BYRON WILLIAMS: And just probably the
19 last cleanup -- well, the last two (2) cleanup questions
20 before the break -- the Wilkes Study, what -- what year
21 was that undertaken again?

22 MR. VINCE WARDEN: 1999.

23 MR. BYRON WILLIAMS: Do you believe it
24 might have some value in offering insight into some of the
25 issues associated with the -- the new building, sir?

1 MR. VINCE WARDEN: It was quite a
2 different concept than the new building, so no I don't
3 believe it would.

4 MR. BYRON WILLIAMS: Now, I've heard you
5 both in discussion with Mr. Peters and again today in --
6 in discussing the issue of the new building with -- with
7 me, and -- and if I misstated you please correct me, but I
8 think you indicated that you were relying on anecdotal
9 information from other -- the experiences of other
10 companies.

11 Is that right?

12 MR. VINCE WARDEN: Largely, yes.

13 MR. BYRON WILLIAMS: Mr. Chairman, I've
14 going to reflect on that over lunch. I may have a couple
15 more questions about the new building but not many, and
16 then I'll be moving into the area of -- of debt/equity.

17 THE CHAIRPERSON: Very good, Mr. Williams.
18 We'll take our lunch break now. Thank you.

19

20 (BRIEF PAUSE)

21

22 MR. BYRON WILLIAMS: Mr. Chairman, just so
23 I don't mislead the Board I'm just looking over my notes,
24 I probably have twenty (20) minutes on -- on the new
25 building still to come.

1 --- Upon recessing at 11:55 a.m.

2 --- Upon resuming at 1:20 p.m.

3

4 THE CHAIRPERSON: Okay, welcome back
5 everyone. Mr. Williams, you had another twenty (20)
6 minutes on the head office you were saying?

7 MR. BYRON WILLIAMS: You're not supposed
8 to remind me of -- my -- time estimates, Mr. Chairman,
9 but I'll --

10 MS. PATTI RAMAGE: Excuse me, just before
11 you begin, Mr. Williams.

12 MR. BYRON WILLIAMS: Yeah.

13 MS. PATTI RAMAGE: We -- Manitoba Hydro
14 has distributed responses to two (2) undertakings, and I
15 was wondering if we could have them entered before we get
16 going for the afternoon?

17 THE CHAIRPERSON: Yes, we could, eighteen
18 (18), for Undertaking Number 16 and nineteen (19) for
19 Undertaking Number 13.

20 MS. PATTI RAMAGE: That's right. And
21 also, Mr. Derksen wanted an opportunity to address a
22 comment made by Ms. Proven this morning, because he's --
23 he's looked at Manitoba Hydro's website and thought he
24 might be able to provide her with some more information
25 with respect to those comments.

1 THE CHAIRPERSON: Mr. Derksen...?

2 MR. WILLY DERKSEN: Yes, thank you. Yes,
3 I reviewed the website, and under the "Careers for
4 Manitoba Hydro", there's training programs. And the
5 primary recruitment strategy for operational staff in
6 Manitoba Hydro is through the training programs. And on
7 the website there's a calendar listed that shows
8 approximately two hundred (200) training vacancies for the
9 year. So that's primarily where the new staff in the
10 operations area will be coming from.

11

12 (BRIEF PAUSE)

13

14 THE CHAIRPERSON: The two hundred (200)
15 training positions, are they what you would call an EFTS,
16 or are they a portion of one?

17 MR. WILLY DERKSEN: To the extent that
18 those persons would be employed by the Company for the
19 year, they would be included in our EFT counts.

20 THE CHAIRPERSON: Thank you, sir.

21 Mr. Williams...?

22

23 CONTINUED BY MR. BYRON WILLIAMS:

24 MR. BYRON WILLIAMS: Yes, and I can just
25 advise the Board that -- very quickly I referred to my

1 notes over -- over lunch, and I -- I do have a little bit
2 more to go on this city -- or the Winnipeg new
3 headquarters.

4 And I have two (2) other sections that I
5 will deal with after that, that being debt equity and also
6 -- borrowing optimization. If it's any consolation, there
7 were two (2) other issues that I was planning to address
8 today, those being elasticity and impacts by consumption
9 level. But upon reflection and also noting the time, I
10 think they're probably more appropriate for Mr. Wiens. So
11 I'm going to be deferring those two (2) sections, and I've
12 advised Ms. Ramage of that fact.

13 Mr. Derksen, just to follow up very -- very
14 quickly on -- perhaps you can reclarify for me, and I may
15 be the only one not grasping this, the difference between
16 an EFT and a position.

17 MR. WILLY DERKSEN: Yes, a position is an
18 open staff vacancy in the Corporation, where an employee
19 is hired to fill a vacancy or to meet requirements. If
20 that employee works for a full year with no overtime, that
21 employee would be the equivalent of one (1) EFT. If that
22 employee only worked for six (6) months of the year, it
23 would represent only a - a half (1/2) of an EFT.

24 MR. BYRON WILLIAMS: And just to follow
25 one -- one second more, and again I pro -- I apologize for

1 my denseness.

2 A position, is that a -- the -- the term
3 "position," is that a reflection of vacancies?

4 MR. WILLY DERKSEN: Yes.

5 MR. BYRON WILLIAMS: And you -- along with
6 tracking EFTs, would it be fair to say, for management
7 purposes, you track positions?

8 Would that be fair, sir?

9 MR. WILLY DERKSEN: Yes, positions are
10 used as part of the organizational management structure.

11 MR. BYRON WILLIAMS: And so you would
12 track them on an annual basis? For -- what I'm trying to
13 get at, Mr. Derksen, is if I went to you would you be able
14 -- could you tell me how many positions there were in
15 2004/'05, 2005/'06, et cetera?

16 Do you track that in that manner, sir?

17 MR. WILLY DERKSEN: No, sir, we don't.

18 MR. BYRON WILLIAMS: So is position a
19 different term than headcount?

20 MR. WILLY DERKSEN: Yes, it is, although
21 it relates very similar to headcount. A filled position
22 would be the equivalent of a headcount.

23 MR. BYRON WILLIAMS: And filled positions
24 or headcounts you would track on an annual basis.

25 Is that right, sir?

1 MR. WILLY DERKSEN: Headcounts would vary
2 from pay period to pay period because of the seasonal
3 nature of -- of our organization's requirements.

4 So on an annual basis, the best
5 representation of headcount is EFTs, and that's why we use
6 EFTs.

7 MR. BYRON WILLIAMS: Okay. I -- I think
8 we'll -- that's enough struggling along on that subject.
9 Others may -- may choose to follow.

10 Just finishing up on the new building, and
11 -- and, Mr. Warden, you had two (2) discussions in terms
12 of the new building with Mr. Peters. Do you recall that,
13 sir?

14 Or you recall some discussions with Mr.
15 Peters in -- in terms of the new building?

16 MR. VINCE WARDEN: Yes, I do.

17 MR. BYRON WILLIAMS: And it's hard to keep
18 track of how many discussions you've had, I'm sure. But
19 in your most recent discussion -- and I guess I'll draw
20 your attention to PUB Exhibit 12, Tab 24, which is New
21 Head Office Expense Analysis.

22 Do you have that, sir?

23 MR. VINCE WARDEN: I do.

24 MR. BYRON WILLIAMS: And you -- you've had
25 some discussion with Mr. Peters in terms of the figure of

1 22.8 million.

2 And -- and as I understand your most recent
3 discussion with him, the 22.8 million is incremental for
4 the very first year alone.

5 Is that right, sir?

6 MR. VINCE WARDEN: Yes.

7 MR. BYRON WILLIAMS: And then if we were
8 looking out in subsequent years, the figure you would use
9 is -- I've heard various figures, such as 18.6 or 18.75
10 million, in that range though?

11 MR. VINCE WARDEN: Yes, Mr. Williams, on
12 the next page I referred to the 18.75 million. And I
13 suggested to Mr. Peters, that that would be the
14 appropriate number if we're looking for an annual impact
15 of the -- an annualized impact of the new head office.

16 The 18.7 million would be more appropriate
17 to substitute on page 1 of that document in place of the
18 18.3 million and the 4.6 million.

19 MR. BYRON WILLIAMS: Thank you for that
20 clarification. Now if I was focussing on the '08/'09
21 year, would the proper figure -- alone, would the proper
22 figure be the twenty-two point eight (22.8)?

23 MR. VINCE WARDEN: For the very first full
24 year of operation of the head office, so for the '08/'09
25 year, yes, I would agree 22.8 million.

1 MR. BYRON WILLIAMS: Okay, thank you. And
2 again, you'll correct me if I'm mistaken.

3 But my understanding is that the new head
4 office is scheduled to come into service on or about May
5 2008?

6 MR. VINCE WARDEN: June 30th, 2008, is the
7 official date that we have.

8

9 (BRIEF PAUSE)

10

11 MR. BYRON WILLIAMS: So for the June 30th,
12 2008 -- and again, just want a clear -- would the twenty-
13 two point (22.) -- if you look at the -- the -- the
14 forecast for the '08/'09 year, would that 22.8 million be
15 built into the Corporation's cost estimates for '08/'09?

16 MR. VINCE WARDEN: Well actually not. The
17 fact that June 30th, 2008, is partway through the '08/'09
18 fiscal year, that number would be prorated to reflect that
19 partial year. So the 22.8 million reflects one (1) full
20 year of operation, the very first year.

21 MR. BYRON WILLIAMS: And that's what I was
22 trying to get at. So three-quarters (3/4s) of the cost
23 would be in the '08/'09 forecast.

24 Is that right?

25 MR. VINCE WARDEN: That's fair.

1 MR. BYRON WILLIAMS: So three-quarters
2 (3/4s) of the depreciation increases, the financing
3 increases, and the operating costs would be found within
4 the forecast for '08/'09?

5 MR. VINCE WARDEN: I'm sorry, Mr. Peters -
6 - or -- or Mr. Williams. I'm sorry, I didn't hear that
7 question.

8 MR. BYRON WILLIAMS: You just -- just
9 insulted Mr. Peters.

10 So if I look, going down, Mr. Peters' -- or
11 the -- the table here at Tab 24, three-quarters (3/4s) of
12 that twenty-two point eight (22.8) would be in the -- in
13 the '08/'09 year, just so I understand?

14 MR. VINCE WARDEN: Yeah, I just want --
15 I'm thinking whether three-quarters (3/4s) -- given that
16 it's, you know, the first quarter is gone, three-quarters
17 (3/4s) would be approximately right, yes.

18 MR. BYRON WILLIAMS: On a going-forward
19 basis, am I correct in suggesting that Manitoba Hydro's
20 forecast O&M -- OM&A includes a prod -- productivity
21 allowance of 1 percent a year?

22 MR. VINCE WARDEN: Typically, going
23 forward, we do build a productivity allowance of 1 percent
24 per year in, yes.

25 MR. BYRON WILLIAMS: And if you're looking

1 for a source just to double-check me it's PUB-1-37 -- 1-
2 37(C).

3 Would it be fair to say that, on an annual
4 basis, this represents between \$3 and 4 million based on
5 OM&A costs at 360 million for 2008/'09?

6 MR. VINCE WARDEN: Well, typically we
7 would look at the -- the 1 percent productivity
8 improvement to be applied to the labour costs only.

9

10 (BRIEF PAUSE)

11

12 MR. BYRON WILLIAMS: And just so I
13 understand that, 1 percent is only to labour costs, and
14 labour costs amount to about 75 percent of OM&A?

15 Is that right, sir?

16 MR. VINCE WARDEN: Approximately 75
17 percent, yes.

18 MR. BYRON WILLIAMS: So we're back to
19 another three-quarters (3/4s) in terms of all of OM&A?

20 Is that right?

21 MR. VINCE WARDEN: We -- Mr. Williams,
22 we're talking in very rough terms here. If we -- we could
23 be much more precise than that.

24 MR. BYRON WILLIAMS: That's fair enough.
25 Those forecast productivity savings for '08/'09 and moving

1 forward, do they include savings from the new head office?

2 Or are the new head office savings in
3 additi -- in addition to those forecast productivity
4 savings?

5

6 (BRIEF PAUSE)

7

8 MR. VINCE WARDEN: I think, Mr. Williams,
9 the best answer I can give you on that is that we -- when
10 we look at productivity savings on labour, it's -- it's a
11 1 percent from all sources. That is, everything we do
12 contributes towards productivity savings.

13 And it's difficult to isolate the head
14 office and say a portion -- or that will be incremental to
15 the productivity savings that we normally forecast. So we
16 should not, as a result of the new head office, see large
17 increases in cost and -- and we don't.

18 And the reason for that is because we're --
19 we're able to achieve productivity savings from not only
20 the head office but from other contributing factors as
21 well.

22 Work Smart program that I mentioned earlier
23 is just one (1) of those things that is going to improve
24 productivity at Manitoba Hydro. And upon reflection, that
25 -- that particular program applies to more than just --

1 just labour. There are other savings that go along with
2 that.

3 MR. BYRON WILLIAMS: Just so -- and I may
4 have missed your answer, and so I'll just re-ask.

5 Am I to assume then that the forecast 1
6 percent productivity saving related to the labour cost
7 component of OM&A for 2008/'09 implicitly includes the new
8 headquarters?

9

10 (BRIEF PAUSE)

11

12 MR. VINCE WARDEN: Yes, I think based on
13 what I just said, that implicitly includes that savings,
14 yes.

15 MR. BYRON WILLIAMS: And I think I have
16 your point, but I just want to come at it a bit of a
17 different way, Mr. Warden, just to make sure I've got it
18 tied down.

19 Again, recognizing that you're not
20 promising this, but in your discussion with Mr. Peters,
21 you suggested that savings from the new head office might
22 be roughly 20 million from the transcript, page 623?

23 MR. VINCE WARDEN: Yes, I was providing
24 calcu -- what -- productivity savings of 10 percent would
25 translate into.

1 MR. BYRON WILLIAMS: And you indicated
2 that those would be primarily through labour savings,
3 which show up in OM&A?

4 Is that figure correct?

5 MR. VINCE WARDEN: Yes.

6 MR. BYRON WILLIAMS: Does the 2008/'09
7 OM&A forecast include a downward revision to reflect the
8 savings from the new head office and there -- thereby
9 offset the increase in depreciation and financing costs
10 that are being built into the forecast for '08/'09?

11 MR. VINCE WARDEN: The savings, with
12 respect to lease costs that we referenced earlier, have
13 been removed from the forecast.

14 There has been the productivity saving of 1
15 percent that we referenced earlier that has been removed
16 from the forecast. So to that extent there is some --
17 some offset that's provided in the forecast, yes.

18 MR. BYRON WILLIAMS: Just so I'm clear,
19 the -- the lease costs are about what -- 2 million? Would
20 that be fair? Oh, 3.6 million, sorry.

21

22 (BRIEF PAUSE)

23

24 MR. VINCE WARDEN: We just want to double-
25 check that lease number, Mr. Williams. It does look a

1 little bit on the low side, but we just want to confirm
2 that.

3

4

(BRIEF PAUSE)

5

6 MR. ROBERT MAYER: We're not holding you
7 against this time limit, Mr. Williams.

8

9 CONTINUED BY MR. BYRON WILLIAMS:

10 MR. BYRON WILLIAMS: I appreciate that.

11 MR. VINCE WARDEN: Mr. Williams, it might
12 be good if we took an undertaking on this to be perfectly
13 clear. The -- the lease costs -- the current lease costs
14 I know are -- are greater than the 3.6, but there's a
15 question as to the operating costs of some of those
16 facilities to the extent that they'll be offset.

17 So there might have been some netting that
18 took place in -- in terms of deriving the 3.6 number. So
19 we -- we should confirm that.

20 MR. BYRON WILLIAMS: That -- that's fine,
21 and I just want to go to the -- the other point -- the
22 part of your answer.

23 In -- in terms of what might be coming out
24 in terms of -- you mentioned lease costs, the other thing
25 you mentioned was a partial contribution to the 1 percent

1 productivity offset on labour costs associated with OM&A.

2 Is that right?

3 MR. VINCE WARDEN: I was just confirming
4 that the 1 percent productivity in labour costs is in the
5 forecast.

6 MR. BYRON WILLIAMS: And I may have
7 misunderstood your answer. I thought when you -- I was
8 asking you if the 2008/'09 -- okay, so you're confirming
9 it's in the forecast, but that's only at most \$3 or \$4
10 million.

11 Is that right, sir? Not that it's only,
12 but it's -- that's -- that's the maximum.

13 MR. VINCE WARDEN: Yes.

14 MR. BYRON WILLIAMS: And apart from lease
15 costs and the reality that OM&A productivity is built into
16 the 2008/'09 forecast, there are no other downward
17 revisions to OM&A costs for 2008/'09 that you can relate
18 to the new headquarters, sir?

19 MR. VINCE WARDEN: There are no other
20 downward -- downward revisions, as Board Member Proven
21 indicated earlier. In fact, there may be a temporary
22 increase in costs as a result of the transition to the new
23 head office facility, and there will be some disruption
24 associated with that. So there could, in fact, be some
25 increases in costs which we have not factored into the

1 forecast either.

2 MR. BYRON WILLIAMS: So for the 2008/'09
3 year, would you agree with me that it would be difficult,
4 from the perspective of a rate payer, to assume that the
5 transition to the new headquarters is revenue neutral?

6 MR. VINCE WARDEN: Yeah, I think I
7 conceded earlier that it -- it will be very, very, very
8 difficult to track, going forward, the -- the incremental
9 costs, if there are any, associated with the new facility.

10 We -- we have the anecdotal evidence to go
11 on that may or may not materialize. We are committed to
12 keeping our costs as low as possible as we always do, but
13 tracking the productivity savings is very difficult.

14 And as a matter of fact, over the lunch
15 hour I took advantage of talking to people that have
16 looked at this very issue, and -- and they've confirmed to
17 me that the -- the tracking of productivity -- even though
18 there is anecdotal evidence out there to the extent that
19 there's -- there are savings in the range of 10 to 20
20 percent -- tracking is almost impossible.

21 MR. BYRON WILLIAMS: And just to go back
22 to my question -- just for one (1) year. I'm not talking
23 about tracking it through time.

24 I'm going to suggest to you that if I look
25 at the forecast for 2008/'09, the Corporation's expected

1 revenues and costs, that there are more costs going in
2 associated with the new head office than there are offsets
3 going out in term -- so that it's not revenue neutral.

4 Do you agree with that statement, sir?

5 MR. VINCE WARDEN: Well, you can suggest
6 that, Mr. Williams. The fact is whenever a new asset is
7 brought into service, there are costs associated with that
8 new asset. The cost of the new head office are -- are
9 reflected in our forecast.

10 All the things we do as a corporation to
11 keep our costs low -- which I think we've been very
12 successful at, compared to all of our peers -- are because
13 of productivity improvements that we've seen over -- over
14 the years.

15 MR. BYRON WILLIAMS: I do intend to move
16 on, but just in terms -- I made a suggestion.

17 Are you disagreeing with it or agreeing
18 with it? That's all I'm asking.

19 MR. VINCE WARDEN: You're suggesting that
20 the costs of -- the depreciation and interest costs of the
21 new building are included -- included in our '08/'09
22 forecast. And yes, I'm agreeing with that.

23 MR. BYRON WILLIAMS: That was part of my
24 suggestion, Mr. Warden, and that they outweigh any savings
25 in the '08/'09 year that might accrue.

1 That's all -- you know, and I'd just like
2 your position, and then I'll move on.

3 MR. VINCE WARDEN: Well, the savings that
4 are in our forecast and -- I'd like to give you a yes/no
5 answer, but it's -- it's -- it has to be qualified. It
6 really does -- and I indicated, much earlier in the
7 proceeding, that we are one of the largest contributors to
8 our variance or under-expenditure this year.

9 One of the reasons we're experiencing a
10 good -- a favourable year -- in '07/'08 is because of the
11 under-expenditure in OM&A.

12 Now, there's a lot of reasons for that,
13 which you went through with Mr. Derksen to a -- to a large
14 extent. Part of it is, though, anticipation of moving
15 downtown. We are not filling certain positions because of
16 the move downtown, so we're -- we're keeping our costs as
17 low as we possibly can.

18 There will be offsets to the extent -- I --
19 I would like to be able to say there are -- there are
20 going to be productivity savings of 10 percent, but I -- I
21 just don't know at this point.

22 MR. BYRON WILLIAMS: Thank you, Mr.
23 Warden, for your patience. I think we'll -- we'll leave
24 that -- that subject.

25 I want to move to the issue associated with

1 the debt/equity. And I do have some excerpts from the
2 record, just for ease of convenience, that I'm going to
3 ask Mr. Gaudreau to distribute.

4 I have shared them with my colleague, Ms.
5 Ramage, and I don't think she -- I'll leave it to her. If
6 she has any objections, she can let me know. I'm
7 referring to four (4), Ms. Ramage: the Debt/Equity
8 1998/'99; the Financial Targets; the Long-Term Debt and
9 Bond Ratings; and the excerpt from Standard & Poor's.

10 MS. PATTI RAMAGE: Yes, I understand these
11 are all -- already -- this is just a -- a summary of
12 information on the record so Manitoba Hydro has no reason
13 to object to this information --

14 MR. BYRON WILLIAMS: And, Mr. Chairman,
15 I'll apologize, but I'll -- I'll ask for guidance from Mr.
16 Gaudreau in terms of exhibit numbers as we -- and then
17 we'll proceed with the discussion.

18

19 (BRIEF PAUSE)

20

21 MR. BYRON WILLIAMS: Mr. Chairman, Ms.
22 Ramage instructs me that the first one, Debt/Equity,
23 should be marked Coalition-14.

24

25 --- EXHIBIT NO. COALITION-14: Excerpt: Debt/Equity

1 MR. BYRON WILLIAMS: Is that okay, Mr.
2 Gaudreau?

3 And the second one, Financial Targets, we
4 could -- I could suggest be Number 15.

5
6 --- EXHIBIT NO. COALITION-15: Excerpt: Financial
7 Targets

8
9 MR. BYRON WILLIAMS: Number 16, I would
10 suggest would be Long-Term Debt and Bond Ratings.

11
12 --- EXHIBIT NO. COALITION-16:
13 Excerpt: Long-Term Debt and Bond
14 Ratings

15
16 MR. BYRON WILLIAMS: And number 17 would
17 be the excerpt from Standard Poor's -- Standard & Poor's.

18
19 --- EXHIBIT NO. COALITION 17: Excerpt: Standard &
20 Poor's

21
22 MR. BYRON WILLIAMS: And thank you for
23 your assistance, Ms. Ramage.

24
25 CONTINUED BY MR. BYRON WILLIAMS:

1 MR. BYRON WILLIAMS: I just want to
2 indicate, Mr. Chairman, that Mr. Gaudreau had confided to
3 me that he wasn't getting enough exercise during the
4 payday lending hearing, so I felt obliged to -- to assist
5 him. And I do appreciate it. It's a bit inconvenient for
6 him, so I appreciate his assistance.

7

8 (BRIEF PAUSE)

9

10 MR. BYRON WILLIAMS: Mr. Gaudreau, have I
11 -- are you -- are we all caught up? Thanks.

12

13 (BRIEF PAUSE)

14

15 CONTINUED BY MR. BYRON WILLIAMS:

16 MR. BYRON WILLIAMS: Thank you. Mr.
17 Warden, you had a, I thought, a very interesting and
18 helpful discussion with Mr. Peters -- and I can assure it
19 was last Tuesday -- on the subject of financial targets
20 and debt/equity as it relates to risk. So I'm not going
21 to repeat that part of it. I am going to ask you to help
22 me tie down some basic points for my -- my clients on some
23 of these issues.

24 And I guess I direct your attention, first
25 of all, to Coalition-14. Subject to the year -- that is

1 the chart, Mr. Warden, "Debt Equity 1998/'99 through
2 2008/'09 Forecast."

3 Do you have that, sir?

4 MR. VINCE WARDEN: Yes, I do.

5 MR. BYRON WILLIAMS: And I'm going to ask
6 you a specific question about the 2002 year.

7 But leaving aside that year, I wonder if
8 you would agree that this is a -- an accurate reflection
9 of the Corp -- Corporation's year-end debt equity ratio
10 for this period of time, running from 1998/'99 out through
11 the 2009 -- 2008/'09 forecast, sir?

12 MR. VINCE WARDEN: It looks correct, Mr.
13 Williams, subject to specific check. But yes, it looks
14 right.

15 MR. BYRON WILLIAMS: And the -- the source
16 for all the numbers but one would be the PUB/Manitoba
17 Hydro First -- First Round 62(a).

18 The -- the one that I'm -- I'm just trying
19 to make sure that I have straight in my head relates to
20 the 2002 year, the year ending March 31st, 2002, because
21 in the response to PUB/Manitoba Hydro-1-62, I believe the
22 Corporation -- actually I've got it.

23 You know what, Mr. Warden? The -- the
24 numbers are -- excuse me. I've done a -- made an error.
25 The proper number for 2002 should be seventy-seven twenty-

1 three (7723).

2 So I'm going to -- we can -- I've just
3 clarified this for myself, so we can skip this. I
4 apologize for that.

5

6 (BRIEF PAUSE)

7

8 MR. BYRON WILLIAMS: No, excuse me, there
9 is a problem. Here's -- here's the problem, I apologize.

10 Mr. Warden, in PUB/Manitoba Hydro-1-62 --
11 and it's a small point, but I do want to clear it up --
12 (a). For the 2002 year, the actual debt/equity ratio is
13 listed as 78/22.

14 In the response to Coalition/Manitoba
15 Hydro-1-82(g) it's indicated that the actual result was
16 77/23. So I'm just trying to -- and maybe if you can just
17 -- even if you can't answer that now, if you could just
18 undertake to examine that and see if you can assist me.

19 MR. VINCE WARDEN: Seventy-seven twenty-
20 three (77/23), Mr. Williams, if we refer to the most
21 recent annual report of the Manitoba Hydro Electric Board
22 on page 100, the debt/equity ratios are listed there for a
23 ten (10) year period. And 77/23 is the number that's
24 listed there.

25 This, I might just add, is on a

1 consolidated basis. So we're looking at the consolidated
2 -- consolidated operations of Manitoba Hydro.

3 MR. BYRON WILLIAMS: I thank you for that.
4 I -- I want to turn just very quickly to Coalition Number
5 16.

6 And I wonder if you'll accept, subject to
7 check, that this is an accurate compilation from the Long-
8 Term Debt and Bond Rating Report of DBRS from November 29,
9 2007, sir?

10

11 (BRIEF PAUSE)

12

13 MR. VINCE WARDEN: Yes, I will accept
14 that.

15 MR. BYRON WILLIAMS: And just to go
16 through the -- the history very quickly, according to --
17 to DBRS, or its report, Manitoba Hydro's long-term debt
18 was rated at -- as an "A" in 2002. And then for the years
19 from 23 to current, it was rated as an "A," in brackets,
20 "high."

21 Is that right, sir?

22 MR. VINCE WARDEN: Yes.

23 MR. BYRON WILLIAMS: And this will be a --
24 a simple question for you to answer.

25 Do I take it that "A," in brackets, "high"

1 is -- is a better rating than just a simple "A"?

2 MR. VINCE WARDEN: Yes.

3 MR. BYRON WILLIAMS: Is that right? So we
4 see a slight improvement from 2002 to 2003, and then
5 steady as she goes, moving forward.

6 Is that right, sir?

7

8 (BRIEF PAUSE)

9

10 MR. VINCE WARDEN: Mr. Williams, just for
11 clarity -- and I think this -- this is true of all ratings
12 of Manitoba Hydro -- it's a flowthrough rating of the
13 Province of Manitoba. So even though we are talking
14 Manitoba Hydro, this is the Province of Manitoba, which
15 flows through to the Manitoba Hydro Electric Board.

16 MR. BYRON WILLIAMS: Okay, thank you for
17 that clarification.

18 I want to turn to Coalition Number 17,
19 which is -- you'll accept, subject to check -- is a two
20 (2) page excerpt from a Standard & Poor's analysis from
21 November of 2007, sir?

22 MR. VINCE WARDEN: Yes.

23 MR. BYRON WILLIAMS: And I want to draw
24 your attention, I -- I've given you pages 3 and 4. And
25 first of all, I'd like to draw your attention under

1 "Accounting" to the second paragraph there that says:

2 "In analysing Manitoba Hydro's risk --
3 financial risk profile, Standard &
4 Poor's considers long-term debt net of
5 sinking funds and total debt net of
6 sinking fund assets of Canadian 634
7 million was Canadian 6.6 billion."

8 Do you see that, sir?

9 MR. VINCE WARDEN: I do.

10

11 (BRIEF PAUSE)

12

13 MR. BYRON WILLIAMS: And you'll see at the
14 bottom of this first page, Standard & Poor's has presented
15 a peer comparison for the Manitoba Hydro Electric Board.

16 Do you see that, sir?

17 MR. VINCE WARDEN: Yes.

18 MR. BYRON WILLIAMS: And some of the
19 comparators are Hydro Quebec, also BC Hydro.

20 You see that?

21 MR. VINCE WARDEN: Yes.

22 MR. BYRON WILLIAMS: And again, at the
23 very bottom line you see a debt is calculated by Standard
24 & Poor's for Manitoba Hydro of \$6.686.7 (sic) billion.

25 Do you see that, sir?

1 MR. VINCE WARDEN: Yes.

2 MR. BYRON WILLIAMS: And that's an average
3 of the past three (3) fiscal years for Manitoba Hydro.

4 Do you see that?

5 MR. VINCE WARDEN: Yes.

6 MR. BYRON WILLIAMS: Okay. And just, I'm
7 going to go to BC Hydro as well, and just you'll -- you'll
8 see a figure there of 7.769.5 (sic) billion for BC Hydro,
9 sir?

10 MR. VINCE WARDEN: Correct.

11 MR. BYRON WILLIAMS: And turning to --
12 just to the top of the next page, you'll see, again, the
13 peer comparison goes on to look -- look at debt and equity
14 combined for -- for these firms.

15 And for the first column, representing
16 Manitoba Hydro it's three (3) year average was 7.874
17 billion.

18 Do you see that, sir?

19 MR. VINCE WARDEN: I do.

20 MR. BYRON WILLIAMS: And moving over two
21 (2) columns to the right for BC, it's got 9.208 billion.

22 Do you see that, sir?

23 MR. VINCE WARDEN: Yes.

24 MR. BYRON WILLIAMS: Now I just want to
25 draw your attention down to the Table 2 on -- on this, the

1 "Hydro Electric Board Financial Summary."

2 And -- and we can -- as I understand it if
3 -- if we go down to the adjusted ratios, which is the --
4 the second heading on this table, you'll see that BC -- or
5 excuse me, Standard & Poor's has calcu -- the third line
6 from the bottom -- has calculated Manitoba Hydro's debt to
7 divide it by debt/equity average over the past three (3)
8 fiscal years to be eighty-four point nine (84.9).

9 Do you see that, sir?

10 MR. VINCE WARDEN: Yes, I do.

11 MR. BYRON WILLIAMS: And I'll suggest to
12 you that they calculated that by taking -- going up a bit
13 -- the debt figure of 6.686.7 (sic) billion and dividing
14 that by the debt/equity figure of 7.874 billion.

15 Would you accept that, sir?

16 MR. VINCE WARDEN: Yes.

17 MR. BYRON WILLIAMS: And generally, you
18 may calculate your debt/equity ratio differently, but you
19 don't take real issue with Standard & Poor's methodology,
20 do you, sir?

21 MR. VINCE WARDEN: I don't.

22 MR. BYRON WILLIAMS: And so the way that
23 they calculate it, based on a three (3) year average, is
24 debt divided by debt and equity.

25 Is that right, sir?

1 MR. VINCE WARDEN: Yes.

2 MR. BYRON WILLIAMS: And they make some
3 adjustments for sinking funds in their analysis.

4 Is that right, sir?

5 MR. VINCE WARDEN: Yes. They use net
6 debt, yes.

7 MR. BYRON WILLIAMS: And the average they
8 find for Manitoba Hydro is about eighty-five (85) debt to
9 fifteen (15) equity, roughly over the last three (3)
10 years.

11 Is that fair?

12 MR. VINCE WARDEN: Yes.

13 MR. BYRON WILLIAMS: I wonder -- I wonder,
14 and I don't know if you have a calculator nearby, but if
15 you can perform a similar calculation for me for BC Hydro
16 and Power Authority.

17 And -- and I wonder if you'd agree, first
18 of all that the calculation for BC Hydro, going down to
19 the bottom line of page 3, would be 7.769.5 (sic) billion.
20 Do you see that, Mr. Warden?

21 I see Mr. Page has his calculator there.

22 MR. VINCE WARDEN: You're -- would you
23 just repeat your last question please, Mr. Williams?

24 MR. BYRON WILLIAMS: Yeah.

25 MR. VINCE WARDEN: I was looking when I

1 should have been listening, sorry.

2 MR. BYRON WILLIAMS: What I'd just like
3 you to do is replicate the calculation of debt divided by
4 debt and equity for BC Hydro.

5 MR. VINCE WARDEN: Oh, sure.

6 MR. BYRON WILLIAMS: And first of all,
7 would you agree that you would do so by dividing 7.76. --
8 or 7.769.5 (sic) billion by 9 billion, two hundred and
9 eight point two (208.2)?

10 MR. VINCE WARDEN: Yes.

11 MR. BYRON WILLIAMS: And Mr. Page has had
12 his calculator going, I think. I wonder if you'd agree,
13 subject to check, that the -- the figure is 84.37.

14 MR. IAN PAGE: Yes, that's correct.

15 MR. BYRON WILLIAMS: So by Standard &
16 Poor's calculation over the last three (3) years, the BC
17 Hydro debt/ equity ratio has been eighty-four point four
18 (84.4) debt to fifteen point six (15.6) equity.

19 Would that be right, sir?

20 MR. IAN PAGE: Yes, that's what that
21 shows.

22 MR. BYRON WILLIAMS: And that would be
23 quite similar to Standard & Poor's calculation of Manitoba
24 Hydro's ratio over the last three (3) years of eighty-five
25 85 debt to 15 percent equity?

1 Poor's, of course, is trying to -- for their purposes of
2 pure rating, is also trying to use that consistent
3 approach, is it not, sir?

4 MR. VINCE WARDEN: And I think they do,
5 yeah.

6
7 (BRIEF PAUSE)

8
9 MR. VINCE WARDEN: Mr. Williams, I just
10 want to confirm the -- the largest difference that we have
11 in the calculation is the inclusion of contributions in
12 aid of construction which Manitoba Hydro does include in
13 its debt/equity calculation, as does BC Hydro, and they --
14 that's -- the 70/30 number is the number they -- they
15 publish in their annual report. It's also the number that
16 is accepted by BCUC in -- in the regulatory process.

17 MR. BYRON WILLIAMS: Now, we're going to
18 follow up on that, Mr. Warden.

19 First of all, I wonder if you'd -- just
20 focussing on contribution in aid of construction first of
21 all, I wonder if you'd agree that for Manitoba Hydro, if
22 you took that contribution in aid -- in aid of
23 construction out, it would make about a 2 percentage point
24 difference, sir?

25 MR. VINCE WARDEN: I haven't specifically

1 done that calculation, but I can accept it would be
2 approximately in that range, yes.

3 MR. BYRON WILLIAMS: Okay. Now, so you
4 would suggest that the -- the current position of BC Hydro
5 is that its debt/equity ratio is properly calculated at
6 seventy/thirty (70/30).

7 Is that right, sir?

8 MR. VINCE WARDEN: That's the one we use,
9 and that's the one BC Hydro uses. So yes, I'm confident
10 that it's properly calculated.

11 MR. BYRON WILLIAMS: Are you aware of any
12 changes to BC Hydro's debt/equity ratio as of January 17th
13 or 18th, 2008, sir?

14

15 (BRIEF PAUSE)

16

17 MR. BYRON WILLIAMS: I can assist you, Mr.
18 Warden, if...

19 MR. VINCE WARDEN: Thank you.

20

21 (BRIEF PAUSE)

22

23 MR. VINCE WARDEN: Mr. Williams, I'm --
24 the copy -- sorry, I'm just passing these along. The copy
25 that you provided is not really clear, but can you direct

1 me as to what --

2 MR. BYRON WILLIAMS: I'd be happy to, Mr.
3 Warden.

4 MR. VINCE WARDEN: Thank you.

5 MR. BYRON WILLIAMS: And certainly if the
6 Board would like to see them -- what I've provided to you,
7 Mr. Warden, is an extract from the BC Hydro 2009/2010
8 revenue requirement application from Appendix C, page 22
9 of 37.

10 And I could certainly share it with the
11 Board.

12 THE CHAIRPERSON: Please. Please. It is
13 better than guessing.

14

15 CONTINUED BY MR. BYRON WILLIAMS:

16 MR. BYRON WILLIAMS: And, Mr. Warden, if
17 you -- if you go down to the -- the bottom line, you'll
18 see that there's a -- a statement -- well, let's start
19 with the -- we'll wait until the Board has this. I
20 apologize.

21 MS. PATTI RAMAGE: Mr. Chair, if I could
22 just make a comment at this juncture. We -- we dealt with
23 this this morning, having documents thrown at the
24 witnesses, and we're dealing with it again.

25 And perhaps we can get some direction from

1 the Board, because under the rules, when a party puts an
2 intervention in, the rules require the documents be -- be
3 provided ahead of time. And I'm concerned in terms of
4 putting these documents to the witnesses on the fly and
5 expecting to have informed answers.

6 This morning we had some fairly substantial
7 documents put to them, and I don't know that we're getting
8 the best information out of our panel when we -- when
9 we're getting them in this sort of time frame, and I -- it
10 might be helpful to get some direction.

11 MR. BYRON WILLIAMS: And certainly if
12 Manitoba Hydro wants to stand down for a few minutes. I
13 would have just assumed that they'd be on top of these
14 things like we are.

15 THE CHAIRPERSON: I do not think this one
16 is going to be particularly lengthy, is it, Mr. Williams?

17 MR. BYRON WILLIAMS: No, but I'm certainly
18 -- if -- if Ms. Ramage feels that there's been an
19 unfairness, certainly, I have no objection to them
20 standing down for a few minutes.

21 MR. VINCE WARDEN: Why don't you carry on,
22 Mr. Williams --

23

24 CONTINUED BY MR. BYRON WILLIAMS:

25 MR. BYRON WILLIAMS: Okay.

1 MR. VINCE WARDEN: -- subject to the
2 Chairman's approval, and we'll see where it goes.

3 I, you know, this -- this is a filing in --
4 before BCUC, it looks like, and we've been preoccupied
5 with our own filing here. And, you know, we do -- we do
6 know what's been published in their annual reports.
7 There's a reference to -- in -- in the footnote here to
8 the debt/equity ratio declining as a result of increase in
9 capital expenditures, which we're all familiar with; the
10 aging infrastructure which we've talked a lot about;
11 increasing demand from customers.

12 So there might be very legitimate reasons
13 why their debt/equity ratio or their target is -- is
14 increasing as it is.

15 MR. BYRON WILLIAMS: And -- and, Mr.
16 Warden, that's fair, and you're doing very well on the
17 fly.

18 But you'll agree with me that the actual
19 reported results, in this extract from the Hydro revenue
20 requirement, are a natural debt to GAAP equity of 80
21 percent. Is that right, sir?

22 MR. VINCE WARDEN: Well, that's my issue
23 here. It doesn't agree with the annual report -- the
24 published annual report, which is 70/30. So to the extent
25 that they've qualified this in their filing, we'd have to

1 look at the whole filing in order to -- in order to
2 ascertain why there's a difference between their filing
3 and what's in their published annual report. And we can--

4 MR. BYRON WILLIAMS: That's fair.

5 MR. VINCE WARDEN: -- and we can provide
6 published annual reports for you from BC Hydro if you
7 like. We can file those, but the number I can tell you is
8 70/30 in their -- in their annual report.

9 MR. BYRON WILLIAMS: Okay, and --

10 MR. ROBERT MAYER: Is GAAP equity
11 something different than ordinary equity?

12 MR. VINCE WARDEN: Well, I think with the
13 -- with the move to IFRs, there is going to be some
14 transitional definitional requirements. And -- and BC
15 Hydro is -- is saying that their -- at least, I'm
16 interpreting this -- it's kind of an unusual way of
17 presenting a debt/equity ratio. But I'm interpreting this
18 that it's in accordance with GAAP and not IFRS. And we'll
19 --

20 THE CHAIRPERSON: Well, we are all kind of
21 new to this. But just reading it, it seems clear this is
22 not something that BC Hydro has done. It says the
23 province amended the definition of equity for regulatory
24 purposes.

25 MR. BYRON WILLIAMS: And -- what I'd

1 suggest, Mr. Chairman, if I might, is certainly -- and,
2 Ms. Ramage, in fairness to your witness, what we can do
3 is, if you want to go and come back at a -- it won't take
4 long when you come back, I guarantee you.

5 But if -- if you have additional comment,
6 and I'll reserve the right if there's additional
7 questions.

8 THE CHAIRPERSON: What was your question
9 though, Mr. Williams?

10 MR. BYRON WILLIAMS: Well, I guess the --
11 I wanted to confirm what Hydro's new reported results are
12 and what their new target is.

13 MR. VINCE WARDEN: Manitoba Hydro's new
14 target?

15 MR. BYRON WILLIAMS: BC Hydro.

16 MR. VINCE WARDEN: Why are we concerned --
17 well.

18 MR. BYRON WILLIAMS: Why are we concerned,
19 because you've certainly used it as a comparator in the
20 past, sir. And I'm --

21 MR. VINCE WARDEN: And those comparisons
22 are valid, Mr. Williams. They're -- we have published
23 documents that show what those ratios are compared to
24 ours.

25 MR. BYRON WILLIAMS: So I guess that'll be

1 the point of dispute, Mr. Chairman.

2 MR. VINCE WARDEN: Well, I don't know why
3 it's a point of dispute. This is -- this is an extract
4 from a -- some kind of a filing that we've had no -- no
5 opportunity to review.

6 MR. BYRON WILLIAMS: And if you have
7 further comment, I'll -- I'll leave it at that. And we'll
8 -- I'll move on to my next subject.

9 THE CHAIRPERSON: I think that is fair.
10 Mr. Warden, if Manitoba Hydro wants to put something on
11 the record on this, that is up to you.

12 MR. VINCE WARDEN: Okay, thank you.

13

14 (BRIEF PAUSE)

15

16 MR. BYRON WILLIAMS: The -- Mr. Chairman,
17 I'm just moving on to the -- the final subject.

18

19 (BRIEF PAUSE)

20

21 THE CHAIRPERSON: Mr. Williams --

22 MR. BYRON WILLIAMS: Yes.

23 THE CHAIRPERSON: -- turning to this
24 schedule, which would have been Coalition-18 if we were
25 taking it in, were you headed towards explaining or having

1 Mr. Warden explain what the Province of BC had done in
2 effect of changing the target for the Corporation?

3 MR. BYRON WILLIAMS: If Mr. Warden's not
4 aware, I think it's more effective to do it through Mr.
5 Harper, Mr. Chairman.

6 THE CHAIRPERSON: Very good.

7 MR. BYRON WILLIAMS: The -- the -- because
8 I think it will be helpful to the Board's ultimate
9 deliberations. And -- and, if, you know, and frankly, Ms.
10 Ramage, if -- if -- I understand your point, so...

11 MS. PATTI RAMAGE: I'm concerned here,
12 though, because this isn't in Mr. Harper's evidence. Now
13 we're seeing it for the first time, I don't know what's
14 coming out and we're going to be reacting to it on the fly
15 again.

16 And -- and it's suggesting that we're not
17 aware but we haven't had an opportunity to see it until
18 this afternoon when it was distributed to the rest of the
19 -- the parties in this room.

20 THE CHAIRPERSON: Why do you not go on,
21 Mr. Williams, and we will ponder this when we have the
22 break.

23

24 CONTINUED BY MR. BYRON WILLIAMS:

25 MR. BYRON WILLIAMS: I want to move to the

1 your portfolio being long -- long term fixed rate debt?

2 Would that be a fair characterization, sir?

3 MR. VINCE WARDEN: Yes. The -- the
4 balance of the portfolio that isn't floating is fix -- a
5 long term fixed.

6 MR. BYRON WILLIAMS: So you have a mix
7 currently of about 20 percent floating, which is more
8 short term, and 80 percent fixed, which is more long term
9 in -- is that fair, sir?

10 MR. VINCE WARDEN: Well, I just don't want
11 to confuse the terms "short term" and "floating." The --
12 the floating could be in place for a very long term, it's
13 just that the rate is subject to change on a periodic
14 basis.

15 MR. BYRON WILLIAMS: And so it's the
16 subject to change versus the fixed is the distinction
17 you're drawing, sir?

18 MR. VINCE WARDEN: Correct.

19 MR. ROBERT MAYER: I understand fixed term
20 debt, and some people have it on their mortgages for up to
21 five (5) years, but when you're dealing with floating debt
22 is it tied to something? I mean, me as a bank customer
23 the best I can do is tying it somehow to prime.

24 How do you tie -- is your floating debt
25 tied to something or is that just a negotiable item?

1 MR. VINCE WARDEN: Yes, typically our
2 Canadian floating rate is tied to a banker's acceptance
3 type rate which is -- is just a benchmark that's used in
4 Canada.

5 Our US debt is benchmarked against a LIBOR
6 rate which is, again, a benchmark that is used for
7 purposes of setting that rate.

8

9 CONTINUED BY MR. BYRON WILLIAMS:

10 MR. BYRON WILLIAMS: And just in terms of
11 the -- in terms of, I want to turn to the Corporation's
12 policy in terms of floating rate debt, and if you're
13 looking for a reference it's COALITION-185(a), Mr. Warden.

14

15 (BRIEF PAUSE)

16

17 MR. VINCE WARDEN: Yes, we have it here,
18 Mr. Williams.

19 MR. BYRON WILLIAMS: Okay. Thank you, Mr.
20 Derksen, as well.

21 Would it be fair to say -- as a policy
22 reason for -- or as a policy Manitoba Hydro limits the
23 level of floating rate debt in the Corporation's debt
24 portfolio to no more than 30 percent of total debt
25 outstanding?

1 Is that correct, sir?

2 MR. VINCE WARDEN: It is.

3 MR. BYRON WILLIAMS: Would it also be fair
4 to say, notwithstanding that 30 percent total limit, it
5 typically manages the level to be within a range of
6 15 percent to 25 percent of total debt?

7 MR. VINCE WARDEN: Yes.

8 MR. BYRON WILLIAMS: Would it be accurate
9 or fair to describe that 15 to 25 percent range as target
10 guidelines?

11 Would that be some -- a phraseology you'd
12 accept, sir?

13 MR. VINCE WARDEN: Yes.

14 MR. BYRON WILLIAMS: And again, just going
15 off your response to this interrogatory, I understand your
16 position is that you use these target guidelines to one,
17 ensure that the Corporation provides ratepayers with the
18 economic benefits provided by a floating rate debt --
19 that's part of the -- the policy -- while ensuring that a
20 prudent level of interest rate stability is maintained for
21 debt servicing costs through fixed long-term debt.

22 Is that right, sir?

23 MR. VINCE WARDEN: Right.

24 MR. BYRON WILLIAMS: So in shorthand, and
25 I'll elaborate in a minute, the fixed long-term rate

1 addresses the -- the issue of interest rate stability,
2 while the, perhaps, in general, more economic benefits are
3 provided by the floating rate debt?

4 That's kind of the Corporation's approach?

5 MR. VINCE WARDEN: In general that's true,
6 yes.

7 MR. BYRON WILLIAMS: And by "economic
8 benefits," generally you mean that short-term interest
9 rates are lower than long-term interest rates in a typwar
10 -- typical upward-sloping yield curve?

11 MR. VINCE WARDEN: That's correct.

12 MR. BYRON WILLIAMS: There may be others
13 in the room besides me who aren't that familiar with a
14 typical upward-sloping yield curve.

15 Generally, what -- what that means is that
16 the borrowing rate for short -- for shorter-term periods
17 of time is less expensive than for longer terms?

18 Is that generally what that means, sir?

19 MR. VINCE WARDEN: That's what a normal
20 yield curve looks like, yes, lower short-term rates,
21 higher long-term rates.

22 MR. BYRON WILLIAMS: And it's called the
23 "normal yield curve" because it's -- because it's
24 generally representative of the prevailing situation in
25 the market more often than not?

1 MR. VINCE WARDEN: Yes, I agree with that.

2 MR. BYRON WILLIAMS: And the opposite of
3 it -- and the opposite of it is an inverted yield curve,
4 which would show higher short-term rates than long-term
5 rates.

6 Is that fair?

7 MR. VINCE WARDEN: Yes.

8 MR. BYRON WILLIAMS: And it would be fair
9 to say that the period during which the market faces
10 inverted or flat-yield curves are less frequent than the
11 normal conditions.

12 Would that be fair, sir?

13 MR. VINCE WARDEN: Yes.

14

15 (BRIEF PAUSE)

16

17 MR. BYRON WILLIAMS: Looking out over
18 time, would -- would you agree with me that Manitoba
19 Hydro's forecast generally is for short-term rates to be
20 lower than long-term rates through to 2018, sir?

21 I've got a reference if you need it,

22 COALITION-2-77(c).

23 MR. VINCE WARDEN: We would have no reason
24 to believe that the yield curve wouldn't be normal over
25 time.

1 MR. BYRON WILLIAMS: And I just want to
2 move to the -- we talked a little bit about the
3 Corporation's debt-management strategy.

4 And you'd agree with me that Manitoba
5 Hydro's position is that the fundamental debt-management
6 objective of Manitoba Hydro's treasury division is to
7 provide stable, low-cost funding?

8 Is that right, sir?

9 MR. VINCE WARDEN: Yes, it is.

10 MR. BYRON WILLIAMS: And I want to -- to
11 address both those issues, one (1) being stable and the
12 other being low cost.

13 I wonder if you'd agree with me that if my
14 sole objective was stable funding, I might tend to finance
15 for a longer term and -- and fixed term, say twenty-five
16 (25) or thirty (30) years, to lock in your rates, if that
17 was your sole objective was stability?

18 MR. VINCE WARDEN: Yes.

19 MR. BYRON WILLIAMS: And fixing rates for
20 that period of time would provide stability for those --
21 those debt terms, obviously.

22 Correct?

23 MR. VINCE WARDEN: Correct.

24 MR. BYRON WILLIAMS: Would you also agree
25 with me that assuming a normal yield curve and assuming

1 I'm a bit of a risk taker and that my sole objective was
2 lower cost, in terms of borrowing, I might finance using
3 shorter-term instruments, turning to the -- it's cheaper?

4 MR. VINCE WARDEN: Cheaper, recognizing
5 that it's -- there's risk.

6 MR. BYRON WILLIAMS: And that's exactly
7 the tradeoff, is it not, Mr. Warden?

8 MR. VINCE WARDEN: Yes, it is, and that's
9 why it's appropriate to have -- the right balance.

10 MR. BYRON WILLIAMS: Now -- and if -- if
11 someone in the Corporation's not prepared to answer that,
12 this is fair.

13 But from your -- in your rebuttal evidence
14 you -- you cite something that's in a Coalition response,
15 BMO Nesbitt Burns' article, "Is There an Optimal Mix of
16 Fixed and Floating Rate Debt?"

17 Is that an article that's familiar to the
18 Corporation, at least at a high level?

19 MR. VINCE WARREN: Yes.

20 MR. BYRON WILLIAMS: And I don't want to
21 spend long on the article.

22 But at a general level, I wonder if you'd
23 agree that the writers considered ten (10) years of daily
24 data and looked at the costs and earnings volatility of a
25 group of hypothetical debt portfolios, ranging from 100

1 percent fixed through to 100 percent floating.

2 Does that sound like a fair description,
3 sir?

4

5 (BRIEF PAUSE)

6

7 MR. VINCE WARREN: Yes.

8 MR. BYRON WILLIAMS: And, at least as --
9 as the reported results of -- of that study, I wonder if
10 you would agree that at 100 percent floating, the
11 borrowers was paying lower interest costs, but quarterly
12 earnings were most variable, because interest rates change
13 over time.

14 Will -- would you agree that is a fair
15 summary?

16 MR. VINCE WARREN: You would expect to see
17 that, yes.

18

19 (BRIEF PAUSE)

20

21 MR. BYRON WILLIAMS: And with 100 percent
22 fixed -- fixed funding, you'll agree as well that interest
23 costs for the borrower were the highest in this study, but
24 with considerably lower variability and earnings than the
25 100 percent floating case.

1 You'd agree with that -- that result?

2 MR. VINCE WARREN: Yeah, recognizing -- I
3 -- I do want to point out, however, this was -- in our
4 business ten (10) years is a very short time. And
5 therefore, it's not entirely representative of what we
6 would experience over the long term. We have assets, as
7 you know, that -- that have service lives that go out to a
8 hundred (100) years. And therefore, ten (10) years is
9 really a very short period of time.

10 And when you look at any ten (10) year --
11 one (1) ten (10) year period, you're going to see some
12 fluctuations, as was evidenced in this -- in this -- BMO
13 study. But again, it's not representative of our
14 business.

15 MR. BYRON WILLIAMS: You don't disagree
16 with my suggestion that at a hundred (100) percent fixed
17 funding, interest costs to the borrower were the -- the
18 highest, but there was considerably lower variability than
19 in the 100 percent floating.

20 That would be fair?

21 MR. VINCE WARREN: Yes, I -- I did qualify
22 that, though. I was -- I think it's important that we
23 understand that we're looking at a very short and specific
24 period of time. We -- to come to any real conclusions, we
25 would have to look at that over a much extended period of

1 time.

2 MR. BYRON WILLIAMS: I wonder if you'd
3 also agree -- and if -- and if you're not able to, that's
4 fine.

5 But would you also agree with me that in
6 the study there were cases in between the 100 percent
7 endpoints, where the interest costs were lower than that
8 of the 100 percent fixed case, but with lower earnings
9 volatility as well.

10 Or is that something you're able to answer,
11 sir, if you look at the 40/60 point or the 69/31 point?

12 MR. VINCE WARREN: Could you just give us
13 a more specific reference please?

14

15 (BRIEF PAUSE)

16

17 MR. BYRON WILLIAMS: If you look to the --
18 the third page, "The Efficient Frontier for Debt
19 Portfolio."

20

21 (BRIEF PAUSE)

22

23 MR. VINCE WARREN: Yes, Mr. Williams,
24 and your question again, would you mind repeating that?

25 MR. BYRON WILLIAMS: No, and -- and I

1 apologize, Mr. Warden. I'm getting tired.

2 The -- there are cases between the extremes
3 of 100 percent fixed and 100 percent floating where the
4 interest costs were lower than the 100 percent fixed, but
5 there was also learning -- lower earnings volatility than
6 the 100 percent fixed.

7 Do you see that, sir, the 69/31 point, the
8 40/60 point?

9

10 (BRIEF PAUSE)

11

12 MR. VINCE WARREN: Mr. Williams, I -- I do
13 want to make sure I understand your question, the question
14 you're putting before us. So again, I'm going to have to
15 -- to ask you to repeat it one more time.

16 MR. BYRON WILLIAMS: And I apologize I'd
17 certainly -- I have copies of the table. It -- it's
18 referenced in the record.

19 If I look to -- let's go to the -- the 69
20 percent to 31 percent, that's a situation where the
21 interest costs were lower than the 100 percent of fixed
22 case and there was also lesser -- lower earning
23 volatility.

24 You'll agree with that?

25 MR. VINCE WARDEN: Yes. I'll agree with

1 that. What this table is showing is the range of yields,
2 interest rate yields at various mixes of debt that is
3 floating rate debt -- debt versus fixed debt. And -- and
4 yes, I agree with your last statement.

5 MR. BYRON WILLIAMS: So taking that 69/31
6 point, the borrowing costs were lower and it was also, in
7 this particular case, less volatility than the 100 percent
8 fixed.

9 That's fair?

10 MR. VINCE WARDEN: For -- for the -- this
11 period of time that was under review. Again though, I do
12 have to make the comment that for our purposes this is a
13 very short period of time not representative of our debt
14 portfolio.

15 MR. BYRON WILLIAMS: Now I just want to
16 spend a few more minutes on the development of you -- we --
17 -- we spoke previously I'll remind you, of your -- the
18 policy of 30 percent floating.

19 Do you recall that, sir?

20 THE CHAIRPERSON: Mr. Williams, I think
21 we'll take the break now. You indicated you were a little
22 tired and we've got something we want to think about, too.

23 So, we'll have our afternoon break now.

24

25 --- Upon recessing at 2:30 p.m.

1 --- Upon resuming at 2:48 p.m.

2

3 THE CHAIRPERSON: Okay then. Just for
4 indications because of schedules and things we'll be
5 closing at five minutes to 4:00, just so we don't like
6 we're charging off into the night without any warning.

7 Ms. Ramage, you've got another undertaking,
8 another exhibit here, number 20?

9 MS. PATTI RAMAGE: That's correct and
10 that's Manitoba Undertaking 11 in the transcript.

11 THE CHAIRPERSON: Thank you. By the way
12 we weren't quite sure where Mr. Williams is going in that
13 matter just before we broke.

14 But just a couple of comments. First of
15 all, the Board is somewhat familiar with the BC
16 Government's penchants of -- of setting capital targets
17 for Crowns. We -- we have this just by the way general
18 notice in the Autopac hearings because the BC Government
19 thereby Order in Council set capital requirements for --
20 for ICBC.

21 Anyway, we had a couple of other thoughts.
22 Manitoba Hydro has used BC Hydro as a comparator in the
23 past. Debt and equity ratio was a matter of the
24 application. As well, the Corporation has placed rating
25 agency reports before us and those reports relate to

1 debt/equity ratios as well.

2 In addition to that debt and equity ratio
3 as an important financial indicator is referenced by the
4 Board orders themselves.

5 On that note, on the other side as they
6 say, Ms. Ramage is completely correct in another way. I
7 mean the panel doesn't know where it's coming from, so
8 we'd just appreciate it, Mr. Williams, if you could
9 liaison with your counterpart before we come to Mr.
10 Harper's time and perhaps by then they will feel more
11 comfortable with what you are putting in front of them.

12 MR. BYRON WILLIAMS: Yeah. And I
13 certainly -- I'm not sure I would apologize for anything
14 from the -- this morning, because -- in terms of the
15 benchmarking studies. But for -- for this afternoon, Mr.
16 Chairman, for Hydro, and I should have shared that with
17 them, so from my perspective.

18 And I'll chat with Ms. Ramage and we'll see
19 if we can reach an amenable position. If not then -- then
20 we -- I won't put anything on the record without
21 discussing it with Ms. Ramage, Mr. Chairman.

22 THE CHAIRPERSON: Yes, it is fine, it is
23 not a hanging offence, Mr. Williams, it is okay.

24 Okay, if you want to carry on now.

25

1 CONTINUED BY MR. BYRON WILLIAMS:

2 MR. BYRON WILLIAMS: I'm always glad to
3 hear that it's not hanging offence, Mr. Chairman.

4 Mr. Warden, we had been talking at a high
5 level about a -- to a certain degree in terms of the --
6 the mix between floating and fixed, it's a balancing act
7 and there's some tradeoff between stability and costs at a
8 high level.

9 You'll agree with that?

10 MR. VINCE WARDEN: Stability cost -- cost
11 and risk, yes.

12 MR. BYRON WILLIAMS: Yes, and that's
13 correct. And without asking you to elaborate, my
14 understanding of the Corporation's position is that the --
15 the right balance between cost, stability and -- and risk
16 is a floating debt rate somewhere between 15 percent and
17 25 percent; is that right?

18 MR. VINCE WARDEN: To a maximum of 30,
19 yes.

20 MR. BYRON WILLIAMS: Okay. In your view
21 if you go to a 5 percent floating debt rate, you're giving
22 up too much in terms of economic benefit?

23 MR. VINCE WARDEN: I'd agree with that,
24 yes.

25 MR. BYRON WILLIAMS: And if you go to

1 31 percent floating debt, you're giving up too much in
2 terms of stability and risk; would that be fair?

3 MR. VINCE WARDEN: Yes.

4 MR. BYRON WILLIAMS: And, also, 31 percent
5 floating debt would be violating longstanding corporate
6 policy; would that be right, sir?

7 MR. VINCE WARDEN: It would.

8 MR. BYRON WILLIAMS: And in terms of that
9 corporate policy, can you advise me whether there is a --
10 a Board Minute establishing that 30 percent limit, sir?

11 MR. VINCE WARDEN: Yes, there would be but
12 as you've indicated, Mr. Williams, it is longstanding so
13 it goes back many, many years.

14 MR. BYRON WILLIAMS: So, just so I
15 understand, when you say "many, many years" are we talking
16 ten (10), twenty (20)?

17 How far back does it go, sir?

18 MR. VINCE WARDEN: More than twenty (20).

19 MR. ROBERT MAYER: Before you were able to
20 put it on a computer, right?

21 MR. VINCE WARDEN: Exactly. I think it
22 was trimmed.

23

24 CONTINUED BY MR. BYRON WILLIAMS:

25 MR. BYRON WILLIAMS: On that -- on that

1 point, Mr. Warden, is there an actual paper copy of that
2 policy buried within the -- the archives of the
3 Corporation somewhere?

4 MR. VINCE WARDEN: Yes, I'm sure there is.

5 MR. BYRON WILLIAMS: Would you be able to
6 provide my clients with a copy of that?

7 MR. VINCE WARDEN: Yes.

8

9 --- UNDERTAKING NO. 46: Manitoba Hydro to provide
10 Coalition a copy of the
11 longstanding corporate policy
12 establishing the 30 percent
13 limit

14

15 CONTINUED BY MR. BYRON WILLIAMS:

16 MR. BYRON WILLIAMS: And so -- and just to
17 make sure that, apparently it was first initiated over
18 twenty (20) years ago, do I have that correct, sir?

19 MR. VINCE WARDEN: That's my estimation,
20 yes.

21 MR. BYRON WILLIAMS: Okay. And again, I -
22 - I'm not asking for precision in terms of that.

23 At the Board level, can you advise me when
24 the 30 percent limit was last reviewed? It would be
25 twenty (20) years ago, sir?

1 MR. VINCE WARDEN: We have not found it to
2 be an issue that requires Board attention so the Board has
3 not been asked to look at that for a number of years. It
4 would not be twenty (20) years ago, though, it would have
5 been sometime fewer years ago than that that the Board did
6 -- did look at this issue.

7 MR. BYRON WILLIAMS: And accepting that
8 answer, would it be fair to say that it's been some time
9 since -- more than a year or two (2) since the -- the
10 30 percent limit was reviewed by the Board?

11 MR. VINCE WARDEN: Yes, that would be
12 fair.

13 MR. BYRON WILLIAMS: Just let's say that
14 the Corporation found itself in circumstances where it was
15 at 27 percent floating and 73 percent fixed.

16 Am I correct in suggesting to you that that
17 would be with -- within the policy but outside the
18 guidelines?

19 MR. VINCE WARDEN: Yes.

20 MR. BYRON WILLIAMS: So 26 percent would -
21 - or, excuse me, 27 percent would be bad even though it's
22 within the policy limits.

23 MR. VINCE WARDEN: Well, I wouldn't say it
24 would necessarily be bad. It's within the policy limits
25 and, therefore, it's acceptable.

1 MR. BYRON WILLIAMS: If you have a 15 to
2 20 percent target guidelines, do you still need the 30
3 percent cap?

4 MR. VINCE WARDEN: 15 to 25?

5 MR. BYRON WILLIAMS: Yeah, did I misspeak?
6 Mr. Warden, yeah, if you have a 15 to 25 percent target
7 guidelines, do you still need a 35 -- or excuse me, a 30
8 percent cap?

9 MR. VINCE WARDEN: Yes, recognizing that
10 there may be circumstances where the guidelines may be
11 temporarily exceeded, and you don't want to be in vi --
12 violation of a Board-approved policy.

13 So, yes, a 30 percent limit is still --
14 still required.

15 MR. BYRON WILLIAMS: Let's just turn to
16 the guidelines for a second. 15 to 25 percent on --
17 that's ten (10) -- that's a ten (10) percentage point
18 range.

19 Is that right, sir?

20 MR. VINCE WARDEN: Yes.

21 MR. BYRON WILLIAMS: On \$7 billion of
22 debt, would you agree that that's about a \$700 million
23 range?

24 MR. VINCE WARDEN: That has the potential
25 to flip between floating and fixed, yes.

1 MR. BYRON WILLIAMS: In terms of the
2 target guidelines, I'd assume that they were more recently
3 enacted than twenty (20) years ago.

4 Would that be fair, sir?

5 MR. VINCE WARDEN: No, no, the target
6 guidelines have been in place for an extended period of
7 time as well.

8 MR. BYRON WILLIAMS: More than twenty (20)
9 years ago, sir?

10 MR. VINCE WARDEN: Yes, they would have
11 been set at approximately the same time as the 30 percent.

12 MR. BYRON WILLIAMS: Were they set by the
13 Board? Or at what level were they set, sir? And if
14 you're not able to...

15 MR. VINCE WARDEN: The 30 percent was --
16 was set by the Board or was approved by the Board.
17 Whether the Board specifically approved the target range
18 of ten (10) to twenty (20) -- of fifteen (15) to twenty-
19 five (25), I would have to confirm that.

20 MR. BYRON WILLIAMS: And if you can't
21 answer this, I understand. So are the target guidelines
22 really the guidelines set out by Manitoba Hydro
23 management?

24 MR. VINCE WARDEN: As I indicated in my
25 previous response, Mr. Williams, whether the Board has

1 specifically approved that, I haven't reviewed it for some
2 time so I would have to confirm that.

3 MR. BYRON WILLIAMS: When were the target
4 guidelines last reviewed by Manitoba Hydro management?

5 MR. VINCE WARDEN: We review our -- our
6 financing strategy on a very regular basis. So, yes,
7 several times a year.

8 MR. BYRON WILLIAMS: In terms of the
9 target guidelines being 15 to 25 percent floating debt,
10 can you -- is there a -- a company document setting out
11 the -- the guidelines and also setting out rules for --
12 for applying the range?

13

14 (BRIEF PAUSE)

15

16 MR. VINCE WARDEN: Other than the
17 previously referenced Board-approved document, there's no
18 other document, Mr. Williams.

19 MR. BYRON WILLIAMS: Okay, and -- and I
20 just want to follow this up one (1) more step, Mr. Warden.
21 You'll agree with me that whether you're at the high end
22 of the range, the middle, or the low end of the range,
23 those choices will have consequences in terms of costs to
24 the Corporation, risk to the Corporation, and stability.

25 Would -- you'd agree with that generally?

1 MR. VINCE WARDEN: Yes.

2 MR. BYRON WILLIAMS: And in terms of
3 providing guidance to -- to Hydro staff, in terms of when
4 they should be aiming for the high, the middle, or the
5 low, am I right in suggesting to you that there's no
6 formal documentation on that, sir?

7 MR. VINCE WARDEN: Well, there is a
8 financing strategy that is developed between Treasury --
9 the Treasury division -- and -- and my office and that --
10 there's a -- a formalization of that that's approved every
11 year.

12 MR. BYRON WILLIAMS: But in terms of
13 guidance into the -- in terms of the range and trading off
14 cost, risk, and stability, is there some formal
15 documentation of that.

16 That's what I'm asking, sir?

17 MR. VINCE WARDEN: Financing strategy
18 document that I just referred to is -- is the document
19 that would set that out.

20 MR. BYRON WILLIAMS: And is that on the
21 record of this proceeding?

22 MR. VINCE WARDEN: Well, no, it's -- it's
23 an internal document that's used just for -- to confirm
24 what the position is -- is of the Corporation for the
25 ensuing year.

1 MR. BYRON WILLIAMS: And within that
2 internal document, there's guidance in terms of where on
3 the range, Manitoba Hydro should be and the trade-offs
4 involved?

5 MR. VINCE WARDEN: Well, it's looking at
6 the financing requirements for the ensuing twelve (12)
7 month period, and there is a discussion as to where the
8 optimum -- what the optimum source of those funds will be,
9 whether they be long-term or short-term or floating and
10 fixed.

11 MR. BYRON WILLIAMS: The range being
12 between 15 to 25 percent, the midpoint of that range would
13 be 20 percent.

14 Would you agree with me on that, sir?

15 MR. VINCE WARDEN: Yes.

16 MR. BYRON WILLIAMS: And I don't know if
17 you have the Corporation's response to COALITION-1-85(b)
18 nearby, sir?

19

20 (BRIEF PAUSE)

21

22 MR. BYRON WILLIAMS: 1-85(b)?

23 MR. VINCE WARDEN: Yes, I have it here,
24 Mr. Williams.

25 MR. BYRON WILLIAMS: And what the answer

1 to this Information Request does is outline the percentage
2 of floating rate debt at each quarter and during the past
3 three (3) fiscal years.

4 Is that right, sir?

5 MR. VINCE WARDEN: Yes.

6 MR. BYRON WILLIAMS: And you'll accept
7 that there's thirteen (13) quarters identified in this --
8 this period, sir?

9 MR. VINCE WARDEN: That looks right, yes.

10 MR. BYRON WILLIAMS: Would I be correct in
11 suggesting to you of the thirteen (13) quarters, Manitoba
12 Hydro has been above the 20 percent mid-range once in the
13 last of those thirteen (13) quarters -- at the end of
14 those thirteen (13) quarters, sir?

15 MR. VINCE WARDEN: Yes, we've been above
16 once and -- and very close to 20 percent on a number of
17 occasions.

18 MR. BYRON WILLIAMS: So the floating rate
19 debt at the other twelve (12) quarter ends was less than
20 20 percent?

21 MR. VINCE WARDEN: Yes.

22

23 (BRIEF PAUSE)

24

25 MR. BYRON WILLIAMS: Can you advise me

1 whether in the past five (5) years Manitoba Hydro's
2 conducted an independent review of its current target
3 range and also how it applies that target range?

4 MR. VINCE WARDEN: We have not conducted
5 an independent review, however, we do compare our floating
6 rate debt compared to other utilities in Canada. And
7 Manitoba Hydro is -- is probably at the high end of the
8 floating rate compared to other utilities with some
9 exceptions. Probably BC Hydro would be the -- the major
10 exception.

11 MR. BYRON WILLIAMS: And in -- in terms of
12 BC Hydro, and if you're looking for a reference, it's
13 COALITION-2-78. Its target guidelines being 26 percent to
14 46 percent floating rate.

15 You'd agree with me that those are
16 considerably higher than Manitoba Hydro's?

17 MR. VINCE WARDEN: Yeah, I indicated they
18 were the exception. They -- they do have a very
19 aggressive floating rate debt portfolio. Manitoba Hydro
20 would probably be ranked second in Canada in terms of
21 aggressiveness though.

22 MR. BYRON WILLIAMS: And in terms of --
23 just going back to my original question -- and if I missed
24 the answer, I apologize -- there's been no independent
25 review of Manitoba Hydro's debt optimization approach or

1 strategy in the last five (5) years.

2 Would that be fair?

3 MR. VINCE WARDEN: That's -- that's
4 correct, yes.

5 MR. BYRON WILLIAMS: Can we agree that
6 Manitoba Hydro currently holds in excess of \$7 billion in
7 debt, sir?

8 MR. VINCE WARDEN: Yes.

9 MR. BYRON WILLIAMS: Would it be fair to
10 say that if Manitoba Hydro reduced its interests costs by
11 one (1) basis point, i.e., 0.01 percent, this would
12 represent a savings to consumers of about what, seven
13 hundred thousand (700,000) annually?

14 Would that be fair?

15 MR. VINCE WARDEN: I think my decimal
16 point in the right place but --

17 MR. BYRON WILLIAMS: Only one (1) -- one
18 (1) mere basis point --

19 MR. VINCE WARDEN: Yeah.

20 MR. BYRON WILLIAMS: -- that would seven
21 hundred thousand (700,000), sir?

22 MR. VINCE WARDEN: Yeah. Yes, that's
23 right.

24 MR. BYRON WILLIAMS: And a mere five (5)
25 basis points would be a saving annually of 3.5 million.

1 Can we agree on that?

2 MR. VINCE WARDEN: Yeah, you have to, of
3 course savings in -- in one (1) year could be offset by
4 costs in another year. As the risk -- you can't ignore
5 the risk, you can't just simply say you should've borrowed
6 -- had more floating rate debt in any one (1) year without
7 looking at it over the very long term, which we -- we do
8 and that's why we think that the optimum -- optimum mix of
9 -- of floating fixed is reflected by our -- our policy.

10 MR. BYRON WILLIAMS: Just so I have your
11 answer, though, a mere five (5) basis points would amount
12 to 3.5 million, sir?

13 MR. VINCE WARDEN: Yes, it would. That's
14 the calculation.

15 MR. BYRON WILLIAMS: Mr. Chairman, I could
16 take a couple minutes to review my notes but I think,
17 subject to that, I think I am done.

18 THE CHAIRPERSON: Okay, Mr. Williams, just
19 take a few minutes and check your notes.

20

21 --- Upon recessing at 3:09 p.m.

22 --- Upon resuming at 3:10 p.m.

23

24 MR. BYRON WILLIAMS: Mr. Chairman, subject
25 to the undertakings, I have no further questions.

1 THE CHAIRPERSON: Thank you, Mr. Williams.
2 We have a couple more exhibits here from
3 Manitoba Hydro with undertakings.

4 Ms. Ramage...?

5 MS. PATTI RAMAGE: Yes, thank you, Mr.
6 Chair. I'd suggest Manitoba Hydro, Undertaking Number 26
7 be entered as Exhibit 21 and Undertaking 27 be entered as
8 Exhibit MH-22.

9 THE CHAIRPERSON: Thank you very much.

10

11 --- EXHIBIT NO. MH-21: Response to Undertaking 26

12

13 --- EXHIBIT NO. MH-22: Response to Undertaking 27

14

15 THE CHAIRPERSON: So, Ms. McCaffrey for
16 MIPUG, do you want to finish the day up?

17 MS. TAMARA MCCAFFREY: I'd be delighted to
18 do so.

19

20 CROSS-EXAMINATION BY MS. TAMARA MCCAFFREY:

21 MS. TAMARA MCCAFFREY: Good afternoon,
22 folks on the Manitoba Hydro Panel and Members of the
23 Board.

24 For the record, I'm Tamara McCaffrey and
25 I'm going to be relying on several documents to start our

1 conversation: Appendix 34, which is the 2006/'07 Power
2 Resource Plan you'd like to have handy; Appendix 35,
3 which is the 2007/'08 Electric Load Forecast; and finally
4 Appendix 45, which is the 2007/'08 Power Resource Plan.

5 I can tell you that Appendix 45 is also
6 conveniently found at the Public Utilities Board's book of
7 documents in Tab 15. And I'll give everyone a moment to -
8 - to have those before that -- I'm going to start with
9 Appendix 45.

10

11 (BRIEF PAUSE)

12

13 MS. TAMARA MCCAFFREY: Okay. I'm looking
14 now at Tab 15 of the Public Utility Board book of
15 documents which contains Appendix Table A-1 from Appendix
16 45.

17

18 (BRIEF PAUSE)

19

20 MS. TAMARA MCCAFFREY: This is an excerpt
21 from the Power Resource Plan and a few preliminary
22 questions just to set the framework, okay?

23 When was this plan prepared?

24 MR. HAROLD SURMINSKI: It's part of our
25 annual planning cycle. We start in the spring and -- and

1 finalize in mid-summer and get -- it's actually June/July
2 is when we get Corporate approval for it.

3 MS. TAMARA MCCAFFREY: So that's 1997?
4 This one was prepared -- would have been prepared and
5 finalized in the summer of 1997?

6 Oh -- and I'm tired, and I haven't even
7 been doing anything yet.

8 MR. HAROLD SURMINSKI: Yes, 2007.

9 MS. TAMARA MCCAFFREY: Okay. Well, given
10 my little misstatement then, we can't say anything about
11 the line there with respect to the 2006 baseload forecast,
12 it's 2007?

13 MR. HAROLD SURMINSKI: Yes, I've noticed
14 it --

15 MS. TAMARA MCCAFFREY: Cleared that up.

16 MR. HAROLD SURMINSKI: -- and it's
17 prevalent throughout some of the other documents that
18 include these tables.

19 MS. TAMARA MCCAFFREY: Yes, Mr. Surminski,
20 and -- and you cleared that up for us earlier in the week.

21 Now, does this forecast include the new
22 export contracts that Manitoba Hydro has recently
23 announced regarding Minnesota?

24 MR. HAROLD SURMINSKI: No, it does not.
25 We only include committed contracts in -- in a resource

1 plan and even if they're term sheet at times we do not
2 include that unless we have reasonable certainty that they
3 will actually -- actually take place and be signed in the
4 future.

5 MS. TAMARA MCCAFFREY: Well, that makes
6 sense.

7 Do you know how that -- those new export
8 contracts would affect these forecasts at all?

9 MR. HAROLD SURMINSKI: In terms of -- are
10 you asking in terms of surplus energy?

11 MS. TAMARA MCCAFFREY: Yes.

12 MR. HAROLD SURMINSKI: We -- not -- not
13 greatly because any firm surplus energy that we have, we
14 treat as uncommitted firm sales so when we have a
15 dependable energy surplus into the future that we don't
16 have contracts for, we, in fact, use a placeholder and
17 imagine and expect that we will have firm contracts when
18 the time comes or at a later time.

19 So in -- in our resource plan, we value
20 that dependable surplus at our long-term expected prices -
21 - export prices -- firm export prices -- into the long
22 term.

23 MS. TAMARA MCCAFFREY: Okay. So you leave
24 yourself a little bit of wiggle room there in terms of
25 things that might change?

1 MR. HAROLD SURMINSKI: Well, in the past,
2 we -- we treated the surpluses as opportu -- and priced
3 them as opportunity sales, and -- and we thought that was
4 not appropriate because it was underpricing because in
5 fact, we -- we have been selling out all our surplus as
6 we get near to -- to the time when they're taking place so
7 we have adopted the policy of or the practice of -- of
8 valuing those at long-term firm prices.

9

10 (BRIEF PAUSE)

11

12 MS. TAMARA MCCAFFREY: That's very -- very
13 helpful, Mr. Surminski.

14 Other than the export contracts then, are
15 there any other material changes to the assumptions that
16 were made at the time that -- that this forecast was
17 prepared that you now know today that might have an impact
18 with respect to total resources -- and demand?

19 MR. HAROLD SURMINSKI: As Mr. Page informs
20 me, one (1) difference possibly is the Wuskwatim in-
21 service date had -- we had at the time of preparation of
22 this assumed 2012. That was the spring of '07. In the
23 summer, there was some indication that we could advance to
24 '11 and the IFF, in fact, assumed the advancement 2011.
25 But we're -- we're probably back to 2012 now.

1 MS. TAMARA MCCAFFREY: So it probably
2 won't happen in any event?

3 MR. HAROLD SURMINSKI: Yes.

4 MS. TAMARA MCCAFFREY: All right. What
5 I'd like to go through now is take you through a bit of a
6 comparison between the 2006/'07 Power Resource Plan and
7 the 2007/'08 Power Resource Plan.

8 So if you could have those two (2)
9 documents before you. That's Appendix 34 and Appendix 45.

10 MR. HAROLD SURMINSKI: Yes, I have that.

11 MS. TAMARA MCCAFFREY: Okay. With respect
12 to these documents, the relevant table is Table A.1: the
13 System Firm Energy Demand and Dependable Resources Table
14 that we've been talking about a little bit.

15 Lets look at the bottom of the table. In
16 terms of the surplus line, would you agree with me, Mr.
17 Surminski, that the numbers in 2007 and '08 are generally
18 a lot lower than the 2007/'08 version of the Power
19 Resource Plan -- or that is the -- the 2008 are lower than
20 the 2006 version?

21 MR. HAROLD SURMINSKI: 2007 versus '06.
22 Do you mean surpluses and all across the bottom line?

23 MS. TAMARA MCCAFFREY: Yes.

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

1 MS. TAMARA MCCAFFREY: If we -- for the
2 base of our discussion, if we look at the '08/'09 year
3 which is the first column on the 2006 base forecast, as
4 well as the '07, we see there at the surplus you're
5 projecting a 765 gigawatt hour surplus, which is then
6 decreased to 527 in the next years base load forecast,
7 correct, sir?

8 MR. HAROLD SURMINSKI: Yes, I see that.

9 MS. TAMARA MCCAFFREY: And we've already
10 heard reference to the energy deficits that are now
11 showing up in 2009/'10 -- the 2010/'11 year, 2011/'12 year
12 and then the 2020/'21 year, which are not shown anywhere
13 in the 2006 forecast, correct?

14 MR. HAROLD SURMINSKI: Yes, that is a
15 difference from 2 -- 2006, I agree.

16 MS. TAMARA MCCAFFREY: And Mr. Williams
17 has already covered this point with you, that with respect
18 to the first years where we see a deficit for the first
19 time in this 2007 report, the amount of domestic demand
20 does not exceed the total power resources.

21 Is that correct, sir?

22 MR. HAROLD SURMINSKI: Yes, we've gone
23 through that previously. Yes, I agree.

24 MS. TAMARA MCCAFFREY: Can you tell the
25 Board a little bit more about what these deficits mean

1 from an energy planning perspective? Specifically, how
2 likely are these deficits to materialize and what it would
3 mean to domestic customers if they do in fact occur?

4 MR. HAROLD SURMINSKI: These would occur
5 only under our very worst flow condition that we plan for,
6 which is that 1940/'41 flow condition. It's got a
7 relatively low probability of occurring. It's -- well
8 I'll just say it's a low probability.

9 And what was the other part of the
10 question?

11 MS. TAMARA MCCAFFREY: Well, you can
12 certainly -- and feel free to elaborate with respect to
13 that. I'm trying to understand this as much as possible.
14 You talk about a low probability, I think somewhere in
15 your -- your evidence, perhaps in the resource plan. I
16 believe I saw 4 percent hydrologic probability of
17 occurring.

18 Is that somewhere -- is that your
19 recollection? I don't know if I pronounced that right:
20 hydrologic?

21 MR. HAROLD SURMINSKI: Yeah, I think that
22 would -- would apply. There were probably four (4) events
23 in the hundred (100) years, so that would be the -- the 4
24 percent.

25 MS. TAMARA MCCAFFREY: Thank you, because

1 I was going to ask you to explain that -- that term to me.

2 Does this impact your -- your export
3 strategy at all, having these deficits now appearing?

4

5 (BRIEF PAUSE)

6

7 MR. LLOYD KUCZEK: Our export strategy is
8 generally focused on selling surpluses or possibly
9 generation that isn't constructed, but it's not -- we --
10 we don't sell -- and generally, it's part of our strategy
11 to sell in periods where we have deficits so if -- if it
12 impacts it, it impacts it to the sense that we stay away
13 from those markets and -- or during -- stay away from
14 those time periods.

15

16 (BRIEF PAUSE)

17

18 MS. TAMARA MCCAFFREY: Mr. Kuczek, are you
19 referring there to more the short-term sort of opportunity
20 sales because that's what it would impact or...?

21 MR. LLOYD KUCZEK: No, long-term actually.
22 When we're selling long-term, we sell long-term only if
23 it's available on a firm basis and on the short-term
24 market. We have strategies; short-term, long-term, mid-
25 term type strategies, and they -- they all vary but we

1 only sell what resources we generally -- what resources
2 that we have on a firm basis so if we're deficit, we don't
3 sell in that period whether it's short-term, long-term, or
4 mid-term. That strategy's consistent.

5 MS. TAMARA MCCAFFREY: With respect to the
6 firm contracts that you already have though -- the firm
7 export contracts that you already have -- that's what's
8 bringing it in as the surplus. You still have those
9 obligations that you have to meet?

10 Is that right, sir? Either of you can --
11 can jump in.

12 MR. LLOYD KUCZEK: I'm sorry, I'm not sure
13 I understood the question.

14 MR. HAROLD SURMINSKI: Is your question
15 the firm contracts are the cause of our deficits or -- and
16 reductions in surplus?

17 MS. TAMARA MCCAFFREY: My question was
18 that you still have to meet existing firm obligations;
19 that is, contracts you've already made historically that
20 are still in effect now.

21 MR. HAROLD SURMINSKI: Yes, that's why we
22 include them as -- as firm commitments and -- and they eat
23 away at our surplus that we had last year.

24

25 (BRIEF PAUSE)

1

2 MS. TAMARA MCCAFFREY: Moving right along
3 then here, folks, Hydro has identified some bridging
4 options.

5 In the -- in the unlikely event that these
6 deficits were to occur, could you tell us about that?

7 MR. HAROLD SURMINSKI: Yes, we -- we did
8 not take any actions in this resource plan because the
9 deficits were relatively small and -- but we considered
10 several possibilities. I would have to actually look at
11 the resource plan but imports are a possibility and -- and
12 actually the -- the contracts themselves, we -- we can
13 always book out or -- or buy out our contracts on a short-
14 term basis.

15 MS. TAMARA MCCAFFREY: Thank you for that,
16 Mr. Surminski.

17 And what about gas fire generation? Is
18 that another option?

19 MR. HAROLD SURMINSKI: Well, in relatively
20 short-term it, you know, takes two (2) or three (3) years
21 at least to -- to get approval and build gas fire
22 generation so it is -- it is an option, but it's -- it
23 takes a little longer than three (3) years.

24 MS. TAMARA MCCAFFREY: It's not something
25 that -- that could be useful in the -- in the short-term

1 were the deficits to arise in the next three (3) years
2 then?

3 MR. HAROLD SURMINSKI: Yes, that's right.

4 MS. TAMARA MCCAFFREY: Are you fairly
5 confident that -- that Manitoba Hydro would be able to
6 import the power needed to meet their obligations or is
7 there some risk with respect to that strategy?

8 MR. LLOYD KUCZEK: There's very little
9 risk, extremely low risk, but we wouldn't be able to
10 negotiate some sort of arrangement for this -- that --
11 those volumes of that magnitude.

12 MR. HAROLD SURMINSKI: And especially with
13 our hydraulic system we could be importing in off-peak
14 hours and -- and storing it in our reservoirs so there is
15 a lot of generation in -- in our export market area --
16 off-peaks generation because we've talked about it in the
17 past. Coal plants run in the off-peak hours -- baseload
18 generation -- so we're -- we're confident we can always
19 get energy in and we have reservoir storage to -- to move
20 it around to when we exactly have to use it in our system.

21 MR. LLOYD KUCZEK: Yeah, and just to add
22 to that the -- the markets that we deal in are -- are
23 usually capacity restricted as opposed to energy
24 restricted so there's lots of energy available on the
25 markets. It's -- they're driven by capacity demands as

1 opposed to energy demands, which is the reverse of
2 Manitoba Hydro for the most part.

3 MR. HAROLD SURMINSKI: And also the
4 capacity demands may be highest in the summer. All other
5 seasons would have surplus capacity available.

6 MS. TAMARA MCCAFFREY: All right, thank
7 you for that.

8 In terms of major hydro and transmission
9 projects that are assumed in the versions of the power
10 resource plan, when I compare both Table A-1s from the '06
11 base forecast and the '07, the output from the existing
12 hydro pass that's projected as well as with Wuskwatim and
13 Conawapa are the same in both versions, is that correct,
14 sir?

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

17 MS. TAMARA MCCAFFREY: And I appreciate
18 your answer that it's unlikely that the Wuskwatim date is
19 going to be moved up.

20 Do you have any idea when you'll know that
21 for sure or is it pretty likely -- are you -- it's a
22 pretty sure bet now, is it? Looking over at Mr. Warden --

23 MR. HAROLD SURMINSKI: After looking at
24 Mr. Warden but --

25 MS. TAMARA MCCAFFREY: Don't doze off on

1 me, Mr. Warden.

2 MR. VINCE WARDEN: I was listening
3 intently waiting for her -- Mr. Surminski's answer
4 actually. It depends a lot on the awarding of the civil
5 contract, and it could very well still move to 2011, but
6 our best estimate now is 2012.

7 MS. TAMARA MCCAFFREY: I think I remember
8 that you talked about that contract. Would the tenders be
9 going out in the summer? Or when do you expect to have a
10 decision on that?

11 MR. VINCE WARDEN: The tenders will be
12 going out soon. I don't have a specific date on that
13 though.

14 MS. TAMARA MCCAFFREY: Now the Keeyask
15 generating station, that's not included in these
16 forecasts, correct?

17 MR. HAROLD SURMINSKI: Yes, it does -- it
18 does not show up as -- as a resource although we are
19 keeping it. We're protecting the plant to be able to --
20 to come in earlier than Conawapa and it could be, as I
21 testified earlier, instead of Conawapa or it could be in
22 conjunction with. The two (2) plants could go together if
23 we have favourable export sales.

24 MS. TAMARA MCCAFFREY: I think that --
25 that I've read somewhere that you're expecting that

1 Keeyask could provide enough power for three hundred
2 thousand (300,000) homes or something. Is that a
3 conservative estimate? I think I've read that in the -- a
4 newspaper article.

5 MR. HAROLD SURMINSKI: Yes. That
6 conversion to -- to homes is -- is also different. There
7 -- there's many ways that you can do it though, it's --
8 it's a large number.

9 MR. ROBERT MAYER: That's a 600 megawatt
10 plant, isn't it?

11 MR. HAROLD SURMINSKI: Yes, we're
12 designating at about six hundred and twenty (620)
13 actually.

14

15 CONTINUED BY MS. TAMARA MCCAFFREY:

16 MS. TAMARA MCCAFFREY: So do you have any
17 idea of -- is 2008 going to be a pivotal year for Keeyask
18 in -- in terms of decisions being made as to whether it's
19 going to go forward?

20 I'll tell you why I'm asking you that
21 question. You -- have you -- there was a newspaper
22 article that was brought to my attention. I don't want to
23 get in trouble here if I bring up a -- it's from the
24 Winnipeg Free Press from January 20th, but it was an
25 article by Mary Agnes Welsh and this journalist indicates

1 that -- that 2008 would be a -- a pivotal year for the
2 Keeyask project.

3 I wonder what -- what Hydro's view is? Do
4 you think you're going to have a decision on that at the
5 end of this year?

6 MR. HAROLD SURMINSKI: Yes. It is --
7 negotiations are -- are nearing an end. We see some
8 target dates that are within this year and so as being a
9 pivotal year, I would say yes.

10 MS. TAMARA MCCAFFREY: Target dates for
11 what? Contingencies to come to fruition in terms of
12 whether it goes ahead or not or what do you mean by that,
13 sir?

14 MR. HAROLD SURMINSKI: More so the
15 negotiations with our First Nations partners, the
16 development agreement -- the overall development agreement
17 -- the power purchase agreement, all those -- the -- the
18 body of -- of agreements that -- that go along with the
19 project. That was one (1) of our first hurdles was -- was
20 getting, at least, the parties on board and agreeing to
21 allow, if that's the word, to participate in the project
22 and -- and being on board with our plans if we chose to go
23 in that -- in that particular direction.

24 The plan is also to -- to put -- to have
25 this agreement shelf-ready. It's not necessarily that

1 we'll proceed with the plant, but we'll have the
2 agreements as being shelf-ready and whenever the
3 conditions are appropriate, we'll be able to commit to the
4 plant.

5 So the agreements are not -- do not mean a
6 commitment to the plant. They just mean that we've got
7 the approvals that we can go ahead and apply for the
8 environmental licence and -- and the whole process that
9 goes with that.

10 MS. TAMARA MCCAFFREY: Thank you for that,
11 Mr. Surminski.

12 With respect to the Wuskwatim, given that -
13 - Mr. Warden, you're confirming that it's still a
14 possibility that Wuskwatim is advanced another year, would
15 that impact the energy deficit that you're projecting in
16 2007?

17 MR. HAROLD SURMINSKI: The -- the 2007
18 table does include the 2012 date.

19 MS. TAMARA MCCAFFREY: Yes, but if it was
20 moved up a year would that affect the --

21 MR. HAROLD SURMINSKI: "Up" meaning
22 advanced? Advanced a year?

23 MS. TAMARA MCCAFFREY: Advanced a year,
24 yeah.

25 MR. HAROLD SURMINSKI: It would reduce the

1 deficits.

2 MR. ROBERT MAYER: In the interim, sir, I
3 noticed that on that table, Kelsey re-rendering doesn't
4 show anything.

5 MR. HAROLD SURMINSKI: It does not show
6 anything in terms of dependable energy. This table is
7 meant for the low-flow dependable energy and it -- there --
8 -- there is average energy available.

9 Kelsey is -- is an under-designed plant --
10 under-designed in terms of it cannot handle all the flow
11 going through the location efficiently. There just isn't
12 enough turbines -- turbine capacity, so what we're doing
13 with re-rendering is expanding the turbine capacity, but
14 we'll be picking up only the higher flows.

15 MR. ROBERT MAYER: I understand. I've
16 flown over it enough times. There always seems to be
17 water going around -- around it.

18 MR. HAROLD SURMINSKI: Yes.

19 MR. ROBERT MAYER: Often seems to be water
20 going around it?

21 MR. HAROLD SURMINSKI: The spill, yeah.
22 That's the spill energy that goes through the spillway
23 instead of through the turbines because the turbines were
24 just not sized sufficiently for that location. The plant
25 was originally built -- built for -- for the Thompson

1 load, and there's a history of -- of why it was
2 undersized.

3

4 CONTINUED BY MS. TAMARA MCCAFFREY:

5 MS. TAMARA MCCAFFREY: With respect to the
6 Brandon Unit 5, Mr. Peters and Mr. Williams have already
7 spent some time on this so I only have one (1) or two (2)
8 questions for you.

9 Just confirming, this unit is now shown as
10 being in service through 2008/'19 and that's still the
11 plan. Correct?

12 MR. HAROLD SURMINSKI: Yes, that is the
13 plan in our resource plan, yes. That's somewhat related
14 to our licensing; the time frame we have when -- when we
15 anticipate the licensing continuing to. We could always
16 extend the date depending -- and we are in the licence
17 application process.

18 We don't know what the environmental
19 licence may come up with in terms of, you know, it won't
20 be closure of the plant but they may say, We'll only grant
21 you a license of ten (10) years or seven (7) years and
22 you'll have to come back and review your licence after
23 that time.

24 MS. TAMARA MCCAFFREY: And it goes without
25 saying I suppose, but I'll say it. If Brandon Unit 5 were

1 closed by 2012, that would create firm energy supply
2 deficit.

3 Correct, Mr. Surminski?

4 MR. HAROLD SURMINSKI: That's correct.

5

6 (BRIEF PAUSE)

7

8 MR. HAROLD SURMINSKI: The deficits will
9 not be there in all years because there is -- there's
10 years when they are greater than eight hundred and thirty-
11 seven (837). So only in years where the surpluses are
12 less than 837 gigawatt hours would deficits actually show
13 up.

14

15 (BRIEF PAUSE)

16

17 MS. TAMARA MCCAFFREY: Thank you for that,
18 sir.

19 Well, we're moving right along here.
20 Demand side management: I have a few questions in this
21 area. I -- we'll see how -- how far we get in the few
22 minutes remaining.

23

24 (BRIEF PAUSE)

25

1 MS. TAMARA MCCAFFREY: With respect to
2 demand side management, conceptually does Manitoba Hydro
3 view this as a resource option?

4 MR. LLOYD KUCZEK: We do.

5 MS. TAMARA MCCAFFREY: All right. I'm
6 going to take you now to Appendix 9.1, the 2006 Power
7 Resource Power Smart Plan, and in particular, I'm going to
8 look at a table in this appendix, Table A-3, which is
9 conveniently found in the Public Utilities Board's book of
10 documents at Tab 31, at page 3.

11 MR. ROBERT MAYER: That's numbered page 3
12 as opposed to page 3 in?

13 MS. TAMARA MCCAFFREY: You know, I don't
14 think -- my -- my page isn't numbered other than by me.
15 It's -- it's -- there's an A-3 in the top corner, and it's
16 the third page in from the version that I have at page --
17 at Tab 31. But it's Table A-3. It's Annual Energy
18 Savings Gigawatt Hours -- from 2006.

19 MR. ROBERT MAYER: Yes.

20

21 CONTINUED BY MS. TAMARA MCCAFFREY:

22 MS. TAMARA MCCAFFREY: I see you -- sorry,
23 I see you have the -- the table before you. Just going
24 through it, this table shows all your DSM programs by the
25 type of customer.

1 Is that right, sir?

2 MR. LLOYD KUCZEK: Correct.

3 MS. TAMARA MCCAFFREY: With respect to the
4 process that Manitoba Hydro uses to identify and develop
5 its DSM programs, can you take me through that process? I
6 know you've discussed it somewhat, but if you could go
7 through it again, please.

8 MR. LLOYD KUCZEK: Well, I'll -- I'll go
9 back maybe a few years just to maybe help out a bit, but
10 what we did is we undertook a market potential study and
11 we had done this previous to, oh, it was during '03/'02.
12 And we had done this in earlier years as well, but this
13 was an update.

14 By undertaking a market potential study
15 what we did there was identified what the opportunities
16 were and then through that process, we moved from
17 identifying all opportunities to identifying what we
18 viewed as the economic opportunities.

19 We then proceeded down the path of
20 designing programs to see if it made sense to offer
21 specific programs on specific technologies to customers.
22 And I'm not sure where you want me to take you from there.

23 MS. TAMARA MCCAFFREY: Well, in -- in
24 terms of the making sense part, how do you -- how do you
25 decide whether it makes sense to -- to take it forward?

1 MR. LLOYD KUCZEK: Okay. Generally
2 speaking we look at it from two perspectives: We look at
3 it from the perspective of the specific technology, or the
4 customer sector. And -- and the second perspective is
5 just looking at it from an overall portfolio perspective.

6 And so some programs that we do or
7 initiatives that we offer are just in support of the
8 overall initiative. That would be general advertising and
9 promotion of energy conservation concepts and attitudes
10 and specific technologies.

11 We've talked about the TRC. We use the TRC
12 to assess it as the first step. That test is used to
13 determine whether or not a specific opportunity is
14 economic, irrespective of who pays. We use the RIM test
15 to help us decide how much Manitoba Hydro may contribute
16 to -- in terms of incentives for a program.

17 MS. TAMARA MCCAFFREY: Thank you, sir.
18 When I'm looking at this table, and I'm looking down in
19 the -- about the middle of the page where it deals with
20 the industrial programs.

21 MR. LLOYD KUCZEK: Yes.

22 MS. TAMARA MCCAFFREY: Can you describe
23 these programs a little bit for us? You've got three (3)
24 listed here: performance optimization, efficient motors,
25 and bio-energy.

1 MR. LLOYD KUCZEK: I'll do my best, but
2 this is actually an area of responsibility that doesn't
3 fall under me.

4 Performance optimization is a all-
5 encompassing program that looks at the process --
6 processes within an industry. And it doesn't look at a
7 specific technology, but includes all technologies and the
8 processes involved including things like minimizing waste
9 costs and stuff like that. And it -- and so the program
10 is all-encompassing to capture opportunities within the
11 industrial industry through that program. So it's --
12 that's an all-encompassing program.

13 The Efficiency Motors Program -- just one
14 (1) sec.

15 Yes, the -- the second one was the Quality
16 Motor Program and that currently is just being assessed.
17 There isn't a program currently being offered.

18 Bio-energy is another program that's
19 currently being assessed, and that is involve -- that
20 involves producing electricity and heat recovery, and
21 we're looking at launching a program there as well. At
22 this point, I -- I don't believe that program is fully
23 designed and approved at this point.

24 MS. TAMARA MCCAFFREY: Is that similar to
25 non -- a non-utility generation, a NUG-type option?

1 MR. LLOYD KUCZEK: I believe the
2 difference is the -- the -- this -- this particular
3 initiative would be used to displace that customer's
4 generation or demand requirements only, whereas non-
5 utility generation would be hooked up into our system
6 providing us with the generation that we would integrate
7 into our system.

8 MS. TAMARA MCCAFFREY: Thank you, that's -
9 - that's very helpful.

10 How do you estimate the energy savings
11 here? What kind of analysis is involved in that?

12 MR. LLOYD KUCZEK: There's a number of
13 ways of doing that. One (1) of the ways is to using -- is
14 to use engineering calculations, and there's a number of
15 standards that I think are used for that. Another method
16 is, is to measure the actual savings so you -- you
17 actually do a pre and post measurement before and after
18 you implement your -- your measures.

19 And there is a third, and I'm trying to
20 recall what the third is but there is -- there is a third,
21 I believe.

22 MS. TAMARA MCCAFFREY: And one (1) of the
23 outputs of your analysis of the savings is something like
24 you might see on Public Utility Board book of documents at
25 Tab 33 where you've got Table 4.3.2.5. It's electric

1 levelized utility costs.

2 But what you have there is a sense per
3 kilowatt saved measure basically?

4 MR. LLOYD KUCZEK: Yeah, that's -- that's
5 different actually. That's taking what we have determined
6 as being the energy savings and doing a levelized
7 calculation to determine what the levelized energy cost
8 is, and that calculation involves having your energy
9 savings that you're expecting into the future and doing a
10 discounted calculation.

11 MS. TAMARA MCCAFFREY: Okay. And I'm
12 going to go back to that in a moment. But just carrying
13 on with this table, if we can go through it, the row -- I
14 look down here, and I see the row that says "Conservation
15 Subtotal" and that's about midway through the page.

16 It's a number -- the number I'm looking at
17 for the '07/'08 year, and I -- the print is very small --
18 but the second column is 171 gigawatt hours, correct, sir?

19 MR. LLOYD KUCZEK: Correct.

20 MS. TAMARA MCCAFFREY: So just for
21 clarity, this would be the sum of the expected DSM energy
22 savings for all the programs that are listed above it?

23 MR. LLOYD KUCZEK: Correct.

24 MS. TAMARA MCCAFFREY: And then when I
25 look further down -- a little bit further down the table,

1 looking at gigawatt hours, Impacts at Generation, and I
2 see the number one hundred and ninety-three (193).

3 Are you with me?

4 MR. LLOYD KUCZEK: Yes.

5 MS. TAMARA MCCAFFREY: Now is that the 171
6 gigawatt number that's grossed up or adjusted for line
7 losses to get to the "at generation" -- and I put that in
8 quotation marks -- number?

9 Is that right, sir?

10 MR. LLOYD KUCZEK: You're correct.

11 MS. TAMARA MCCAFFREY: And then further
12 down the table we see that we would add to that 88
13 gigawatt hours for the supporting codes and standards, and
14 that is, as I understand it and quote, "at the meter"
15 quote, number.

16 Am I right, sir?

17 MR. LLOYD KUCZEK: Correct.

18 MS. TAMARA MCCAFFREY: And then when I
19 look at the Customer Service Initiative Rules, with a
20 figure of 10 gigawatt hours, can you tell me what type of
21 programs are involved in that line, sir?

22 MR. LLOYD KUCZEK: The Customer Service
23 Initiatives are programs of -- some support programs that
24 we offer; Cost Recovery programs that we estimate some
25 energy savings associated through those programs, and

1 those programs are -- are auditing services that we offer.

2 Our loan program that we offer -- and this
3 is net of any -- any savings that we would realize through
4 our incentive-based programs which are on the top of the
5 page -- geothermal is actually included in that, as well,
6 as a -- as it is a -- not an incentive-based program, so
7 it's within that category as well.

8 MS. TAMARA MCCAFFREY: All right. Now if
9 we sum up -- up all those different programs, we get 269
10 gigawatt hours at the meter, or the 305 gigawatt hours at
11 generation on the table.

12 You're with me there, sir?

13 MR. LLOYD KUCZEK: Yes.

14 MS. TAMARA MCCAFFREY: And in 2008/'09
15 that number would be 484 gigawatt hours for 2006 to 2017:
16 Impacts at Generation number.

17 Am I right, sir?

18 MR. LLOYD KUCZEK: I was reaching for my
19 calculator, assuming you were going to make me calculate
20 something. I'm sorry, I lost you there.

21 MS. TAMARA MCCAFFREY: I'm looking at just
22 the -- just one (1) year over: Impacts at Generation,
23 2006. I believe you already calculated it. The 2006 to
24 2017 line, Impacts at Generation. And I'm looking at the
25 2008/'09 column and I see the number 484 gigawatt hours

1 there.

2 MR. LLOYD KUCZEK: Correct.

3 MS. TAMARA MCCAFFREY: And then further
4 down the table, I see a row that says, "To-date gigawatt
5 hour impacts at generation," and the number that you have
6 there is six hundred and eighty-six (686). And I'm again
7 in the '07/'08 column.

8 And that would be the cumulative savings of
9 DSM for the years up to 2007/'08. Am I right, or is that
10 something different?

11 MR. LLOYD KUCZEK: I believe it's up to
12 '05/'06. It would be the -- the savings that we achieved
13 prior to developing this plan. And so within this plan,
14 we have a column that starts with '06/'07 and then
15 '07/'08, so that number is what we achieved prior to that,
16 I believe.

17 MS. TAMARA MCCAFFREY: Okay. And given
18 your -- your slight qualifier, if it turns out that it's
19 something different, you can let us know. But we'll take
20 -- take your answer as is.

21

22 (BRIEF PAUSE)

23

24 MS. TAMARA MCCAFFREY: All right. Now
25 we're at the bottom of the table, and I'm looking again in

1 the '07/'08 columns. The total gigawatt hours at
2 generation figure is 1,350 gigawatt hours which; as I
3 understand it, would be the total of all cumulative DSM
4 savings prior to 2007/'08, plus the amounts expected to be
5 realized in 2007/'08.

6 Is that correct, sir?

7 MR. LLOYD KUCZEK: Yeah. Realized in
8 '06/'07 and '07/'08.

9

10 (BRIEF PAUSE)

11

12 MS. TAMARA MCCAFFREY: Thank you, Mr.
13 Kuczek, that's very helpful. We're moving quickly. I'm
14 mindful of the Board's comments. We have about five (5)
15 more minutes. Perhaps we'll carry on. We'll see how far
16 we get.

17 I'm going to take you to Appendix 9.1
18 again, which is the 2006 Power Smart Plan. And I'm
19 looking at Table 4 on page 8.

20

21 (BRIEF PAUSE)

22

23 MS. TAMARA MCCAFFREY: If -- if --

24 MR. LLOYD KUCZEK: I have it.

25 MS. PATTI RAMAGE: Excuse me, Ms.

1 McCaffrey --

2 MS. TAMARA MCCAFFREY: Under the 2000 --

3 MS. PATTI RAMAGE: -- can I get the
4 reference again, just before you -- the reference again?
5 I've put away my binders.

6 MS. TAMARA MCCAFFREY: You know, I'm
7 looking at the 2006 Power Smart Plan. It's Appendix 9.1
8 and I'm looking at page 8 of that document.

9 MS. PATTI RAMAGE: Thank you.

10

11 CONTINUED BY MS. TAMARA MCCAFFREY:

12 MS. TAMARA MCCAFFREY: I see you've got it
13 now, Ms. Ramage.

14 I'm looking at Table 4 and I'm looking at
15 the 2007/'08 column and I'm seeing the annual cost line.
16 And this table is the Electric DSM Utility Budget 2006/'07
17 to 2017/'18, is what's reflected here in -- and I see in -
18 - the annual cost line is \$47 million.

19 Is that right, sir?

20 MR. LLOYD KUCZEK: Correct.

21 MS. TAMARA MCCAFFREY: Now, with respect
22 to the MIPUG/Manitoba Hydro First Round IR-11 -- and
23 that's Answer B -- it says -- I -- I'll read it to you.
24 If you need it you can -- you can refer to it, but you
25 probably won't.

1 It says that:

2 "The amortization and interest cost
3 forecast for DSM for 2007/'08 are \$24.6
4 million."

5 Can you explain to me what the difference
6 would be between that response, which is looking at DSM
7 costs by customer class and the data that we have at
8 Table 4 of your 2006 Power Smart Plan.

9 MR. VINCE WARDEN: Ms. McCaffrey, can you
10 give us the reference again. And I think --

11 MS. TAMARA MCCAFFREY: Yes.

12 MR. VINCE WARDEN: -- what we're referring
13 to on Table 4 is the capital expenditures by year, whereas
14 your other reference is to the amortization of those
15 expenditures, so two (2) quite different numbers.

16 But if you can just give us that reference
17 again, we'll just confirm that.

18 MS. TAMARA MCCAFFREY: Sure. I'll give
19 you the reference again. It's MIPUG/Manitoba Hydro First
20 Round Number 11(b), where -- with respect to system
21 capacity and energy resources and DSM, you were asked to
22 please update the response to MIPUG/Manitoba Hydro 117(c)
23 from the 2004 General Rate Application showing DSM costs
24 by customer class.

25 So you were asked to do that by showing the

1 cost by customer class in this response?

2 MR. LLOYD KUCZEK: Yes. And that's not
3 amortization, that's actual cost. Correct.

4 And I'm not sure if we're getting there but
5 there -- the -- what's -- what's included in our
6 application, I believe, is reflective of what's in our '07
7 Power Smart Plan as opposed to our '06 Power Smart Plan,
8 and I'm looking at some help down the aisle here.

9 But -- but that -- that's what's in our
10 IFF, so I assume that's -- I didn't respond to MIPUG 1-
11 11(b).

12 MS. TAMARA MCCAFFREY: I think we'll leave
13 it there for now and we can come back to it after -- after
14 the break. I -- I just note the time, it's five (5) to
15 4:00.

16 But you've been very helpful and we've
17 covered a -- a lot of ground. Thank you very much to the
18 panel.

19 THE CHAIRPERSON: Thank you, Ms.
20 McCaffrey. So we will adjourn now until March the 25th,
21 at which time we will invite the present panel back again
22 for return engagement. So we will see you all then.
23 Thank you.

24

25

(WITNESSES RETIRE)

1 --- Upon adjourning at 3:56 p.m.

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5 Certified correct,

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10 Cheryl Lavigne

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