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MANITOBA PUBLIC UTILITIES BOARD

Re: MANITOBA HYDRO'S APPLICATION  
FOR APPROVAL OF NEW ELECTRICITY RATES  
FOR 2010/11 AND 2011/12

Before Board Panel:

Graham Lane - Board Chairman  
Robert Mayer, Q.C. - Board Member

HELD AT:

Public Utilities Board  
400, 330 Portage Avenue  
Winnipeg, Manitoba  
April 6, 2011  
Pages 5136 to 5332

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1 --- Upon resuming at 9:38 a.m.

2

3 THE CHAIRPERSON: Okay. Good morning,  
4 everyone. Mr. Williams, whenever you're ready.

5 MR. BYRON WILLIAMS: Yes, good morning,  
6 Mr. Chair and Mr. Vice-Chair and Hydro panel. Mr.  
7 Chairman, before beginning there's two (2) exhibits, with  
8 the consent of my learned friends, I'd like to  
9 distribute, and I believe they have one (1) as well that  
10 relates to -- to our exhibit.

11 So the first would be a -- the first page  
12 of which is a graph with pretty colours on it, Bloomberg  
13 Manitoba Series F-302. And based upon Mr. Peters'  
14 advice, we're suggesting it be marked as CAC/MSOS Exhibit  
15 19. Mr. Singh will correct -- correct Mr. Peters if --  
16 if necessary.

17 And the second one is a five (5) page  
18 document, Government of Canada marketable bonds, and  
19 that's CAC/MSOS Exhibit number 20. And, Ms. Boyd, you  
20 may have something as well.

21 MS. MARLA BOYD: Thank you.

22 MR. BOB PETERS: Just if I could  
23 interrupt at the urging of my friend as he tries not to  
24 gloat. The -- I am corrected by Mr. Singh, and marked as  
25 CAC/MSOS Exhibit 19 was some long-term economic forecast

1 information. I think it was TD Economics information.  
2 So the first exhibit, Mr. Chairman, will be CAC/MSOS  
3 Exhibit 20. That'll be the chart -- or sorry, the graphs  
4 with the colours on them, and the pages with the tables  
5 of numbers will be CAC/MSOS Exhibit 21, and I apologize.

6

7 --- EXHIBIT NO. CAC/MSOS-20:           Graph, Bloomberg  
8   Manitoba Series F-302

9

10 --- EXHIBIT NO. CAC/MSOS-21:  
11                                       Five (5) page document, Government of  
12                                       Canada marketable bonds

13

14                                       THE CHAIRPERSON:    Very good.

15                                       MR. BYRON WILLIAMS:   And, Mr. Chairman,  
16 there's really no need for my friend to apologize. I  
17 think it's my responsibility, so I just wanted to lay a  
18 bit of blame on him.

19                                       MS. MARLA BOYD:    Mr. Chairman, the -- the  
20 third document, I suppose, that Mr. Williams has referred  
21 to is one (1) prepared by Manitoba Hydro, which is a  
22 broader perspective on the Bloomberg information that  
23 will be of assistance to the Board as we begin to look at  
24 what's now been marked as CAC Exhibit 20. And we would  
25 propose it be marked as a Manitoba Hydro exhibit. We

1 would suggest 109 is the appropriate number.

2 THE CHAIRPERSON: Okay. I don't think we  
3 have that one.

4

5 (BRIEF PAUSE)

6

7 MS. MARLA BOYD: Thank you. I have  
8 nothing further.

9 THE CHAIRPERSON: Okay, 109 it is.

10

11 --- EXHIBIT NO. MH-109: Document prepared by Manitoba  
12 Hydro regarding the Bloomberg  
13 information

14

15 MR. BYRON WILLIAMS: And, Mr. Chairman,  
16 at the risk of burdening you with too much more paper at  
17 this point in time, the other document that the Board may  
18 find helpful this morning is Appendix 85, which is the  
19 Manitoba Hydro 2011 -- 2010/2011, 2011/'12 debt-  
20 management strategy, and I believe that's Appendix 85.

21 And Mr. Chairman, just before we -- we  
22 start with Mr. Schulz, and -- and the Hydro panel, I can  
23 indicate the -- that I will have some questions for Mr.  
24 Cormie, so that we'll -- and we'll coordinate that with  
25 Manitoba Hydro perhaps at lunch, but I would expect to

1 pose them tomorrow.

2                   And I can also indicate, and Mr. -- Mr.  
3 Chairman, you -- the Board will know our clients have a  
4 great deal of interest in energy efficiency, low-income  
5 energy efficiency, and low-income rates, and just in --  
6 but just in reviewing the -- the conversation between Mr.  
7 Peters and the Hydro panel, just for the purposes of  
8 efficiency, our clients are of the view that in that  
9 area, we're better focussed on Mr. Chernick and Mr.  
10 Colton, so we won't be posing -- requiring the presence  
11 of Mr. Kuczek.

12                   I have one (1) bookkeeping Power Smart  
13 request to put to Mr. Warden, who -- who hopefully will  
14 be able to -- to assist me so that we don't require Mr.  
15 Kuczek's assistance.

16

17 MANITOBA HYDRO PANEL:

18                   VINCE WARDEN, Resumed

19                   DARREN RAINKIE, Resumed

20                   MANFRED SCHULZ, Resumed

21

22 CONTINUED CROSS-EXAMINATION BY MR. BYRON WILLIAMS:

23                   MR. BYRON WILLIAMS: Mr. -- Mr. Warden,  
24 you're aware that the 2008/'09 Manitoba Hydro Power Smart  
25 annual review is filed on this record as Appendix 40,

1 subject to check?

2 MR. VINCE WARDEN: Yes. Good morning,  
3 Mr. Chairman, Mr. Vice-Chairman. Mr. Williams, I am  
4 aware, yes, that has been filed.

5 MR. BYRON WILLIAMS: And I believe Mr.  
6 Kuczek's evidence is that the 2009/2010 review is still  
7 in the process of being completed.

8 Does that -- do you recall that, sir?

9 MR. VINCE WARDEN: Yes, I do.

10 MR. BYRON WILLIAMS: And I'm asking  
11 Manitoba Hydro that in the event the 2009/'10 Power Smart  
12 annual review is completed before the hearing is  
13 completed, if you would underta -- take to file that,  
14 sir?

15 MR. VINCE WARDEN: Yes, we'll take that  
16 as -- as an undertaking.

17

18 --- UNDERTAKING NO. 119: Manitoba Hydro to file the  
19 2009/'10 Power Smart annual  
20 review if completed before  
21 the hearing is concluded

22

23 CONTINUED BY MR. BYRON WILLIAMS:

24 MR. BYRON WILLIAMS: Good morning, Mr.  
25 Schulz.

1 MR. MANFRED SCHULZ: Good morning, one  
2 (1) and all. Good morning, Mr. Williams.

3 MR. BYRON WILLIAMS: Mr. Schulz, we  
4 shared with you, I guess, last week the document now  
5 marked as CAC/MSOS Exhibit number 20. Is that correct?

6 MR. MANFRED SCHULZ: Correct.

7 MR. BYRON WILLIAMS: And you've had a --  
8 and you certainly have a response to it in a -- in a --  
9 in Hydro's exhibit, but you've had an opportunity to  
10 examine the -- the graphs and the -- and the  
11 calculations, and would it be fair to say that while you  
12 may have some minor quibbles with it at a high level,  
13 you're prepared -- or at a -- generally directionally the  
14 -- the figures presented are accurate to the best of your  
15 knowledge?

16 MR. MANFRED SCHULZ: Yes. The -- the  
17 quibbles, as you describe them, are, I think, the  
18 information that you have provided in this exhibit as  
19 quarterly data. We typically would be looking at  
20 information that might perhaps be more granular on a  
21 monthly or -- or a weekly basis, perhaps even daily  
22 depending on the data series.

23 As well, when we were trying to replicate  
24 precisely the numbers as indicated on the table, I think,  
25 in the last page of the exhibit, we were out a little

1 bit. And I think that might just be a small  
2 technicality. Not significant, I think, to the general  
3 observational conversation, perhaps, that we may be  
4 having here today.

5 MR. BYRON WILLIAMS: And I thank you for  
6 that, Mr. Schulz, and for your cooperation in -- in  
7 confirming to a -- a large degree, the calculations.  
8 Just in terms of Bloomberg, they're a -- a well-respected  
9 data service for information regarding the trade and  
10 market value of bonds. Would that be fair, sir?

11 MR. MANFRED SCHULZ: Correct.

12 MR. BYRON WILLIAMS: And of course,  
13 Manitoba Hydro makes ex -- ex -- extensive use of their  
14 data in their day-to-day operations. Would that be fair?  
15 Or extensive use of their data on a regular basis?

16 MR. MANFRED SCHULZ: As you've indicated,  
17 Bloomberg is a very reliable well-known source of  
18 financial market indications and we certainly do use that  
19 on a regular basis.

20 MR. BYRON WILLIAMS: And I wonder if I  
21 could direct you to the last page of the Exhibit --  
22 CAC/MSOS Exhibit 20. And you'll see a -- a lot of  
23 numbers there, sir. Do you see those?

24 MR. MANFRED SCHULZ: Numbers are my life,  
25 I rather enjoyed seeing this.

1                   MR. BYRON WILLIAMS:    I'm going to have to  
2 reflect on the insight that provides about you, Mr.  
3 Schulz, but I'm glad you shared that.

4                   And if -- if we look at the left-hand  
5 side, and you -- you mentioned this, the -- the -- the  
6 graphs are comprised of quarterly data of March, June,  
7 September, and December dates going back to 2002.  Would  
8 that be fair, sir?

9                   MR. MANFRED SCHULZ:    Correct.  And as I  
10 interpret this, the starting point is December 15th, 2002  
11 and the concluding point is March 15th, 2011.

12                   MR. BYRON WILLIAMS:    Thank you very much  
13 for that, sir.  And if we look across the top of this,  
14 I'm going to call it a table for lack of a better word,  
15 you'll see the F-302 number in the top left-hand corner.  
16 Do you see that, sir?

17                   MR. MANFRED SCHULZ:    I do.

18

19   (BRIEF PAUSE)

20

21                   MR. BYRON WILLIAMS:    Mr. Schulz, you'll  
22 agree that while numbers are your life, microphones are  
23 not?

24                   MR. MANFRED SCHULZ:    I take no  
25 responsibility for the microphones, thank you.

1                   MR. BYRON WILLIAMS:   And the series F-302  
2 denotes the Bloomberg Manitoba specific series.  Is that  
3 your understanding, sir?

4                   MR. MANFRED SCHULZ:   Correct.

5                   MR. BYRON WILLIAMS:   And still looking  
6 across the top of this table, you'll see at the very top  
7 from left to right, three (3) months out to thirty (30)  
8 years.  Do you see that, sir?

9                   MR. MANFRED SCHULZ:   I certainly do.

10                  MR. BYRON WILLIAMS:   And that reflects  
11 the -- that information's been provard -- provarded --  
12 provided ranging from three (3) month to thirty (30) year  
13 bonds.  Would that be fair, sir?

14                  MR. MANFRED SCHULZ:   Correct.

15                  MR. BYRON WILLIAMS:   And the second line  
16 from the top, again, recognizing the quar -- that this is  
17 quarterly data, presents the -- the maximum revealed on  
18 this table, and there's also a minimum that are -- those  
19 are the -- the minimums observed on this table.  Would  
20 that be fair, sir, that's your understanding?

21                  MR. MANFRED SCHULZ:   Yes.

22                  MR. BYRON WILLIAMS:   And in the middle of  
23 the max and the minimum is the average, which I believe  
24 you've -- you've indicated you've tried to replicate and  
25 you've come fairly close, but not perfectly?

1                   MR. MANFRED SCHULZ:    We tried to  
2 replicate the actual numbers in the quadrant of cells in  
3 here.  In here, we may have been out a basis point or  
4 two, and it relates to the technicality of closing price  
5 versus bid price and -- and something of that magnitude.

6                   We actually did not validate the averaging  
7 numbers based on having reliance on the good capabilities  
8 of you and your consultants to do averaging, so we didn't  
9 actually quantify the averaging, but we can move forward  
10 on having reliance on those figures.

11                  MR. BYRON WILLIAMS:   And, Mr. Schulz, you  
12 mentioned some ob -- caveats a -- about the information,  
13 and I'll suggest to you that there might be one (1) more  
14 you might want to add is in that Manitoba Hydro -- while  
15 this reflects, you know, information from certain periods  
16 of time, Manitoba Hydro is relatively opportunistic in  
17 deciding when it wants to go to the market.  It doesn't  
18 go to the market every day.

19                  MR. MANFRED SCHULZ:   Well, we certainly  
20 do not go to the market every day for long-term debt.  I  
21 don't know if I would define ourselves as being  
22 opportunistic.  We do look for opportunities in the  
23 broader sense to take advantage of market conditions in  
24 order to arrive at stable, low-cost financing that would  
25 be in the best interests of Manitoba Hydro.

1                   MR. BYRON WILLIAMS:   Fair enough, and I  
2 thank you for that.  And -- and you'll agree that, when  
3 it comes to long-term bonds, you're not out in the market  
4 every day buying them?

5                   MR. MANFRED SCHULZ:   Correct.

6                   MR. BYRON WILLIAMS:   And I want --

7                   MR. ROBERT MAYER:   Mr. -- Mr. Schulz,  
8 opportunistic is not necessarily a bad word.  Only when  
9 it applies to politicians is it considered a bad word.

10

11 CONTINUED BY MR. BYRON WILLIAMS:

12                   MR. BYRON WILLIAMS:   And recall as well  
13 you're dealing with lawyers, sir.

14                   MR. MANFRED SCHULZ:   Many of my best  
15 friends are lawyers.  I harbour no prejudice there.

16                   MR. BYRON WILLIAMS:   I wish I could say  
17 the same.

18                   The -- now, I'll -- I'll take you in the -  
19 - to the extreme right-hand side of the -- the graph, the  
20 thirty (30) year bond line, and you'll -- you'll have to  
21 probably work down with me, but the very first line there  
22 is for the date of -- of March the 15th, 2011.  Do you  
23 see that, sir?

24                   MR. MANFRED SCHULZ:   I do.

25                   MR. BYRON WILLIAMS:   And if we go to the

1 extreme right-hand side of that line, we see that the  
2 interest rate on that date was 4.55 percent. Do you see  
3 that, sir? You'll confirm that?

4 MR. MANFRED SCHULZ: Correct.

5 MR. BYRON WILLIAMS: And I just want to  
6 move down to September 15th, 2010, which is two (2) lines  
7 lower. At that point in time, the number was somewhat  
8 lower at 4.42 percent, would that be fair, sir?

9 MR. MANFRED SCHULZ: Correct.

10 MR. BYRON WILLIAMS: And moving down just  
11 three (3) lines now to December 15th, 2009, you'll see  
12 the -- the result on that particular day was 4.8 percent  
13 for thirty (30) year bonds. Do you see that, sir?

14 MR. MANFRED SCHULZ: I do.

15 MR. BYRON WILLIAMS: And -- and I want to  
16 go all the way down to the middle of the page, June 15th,  
17 2007. And you'll see on the extreme right-hand side the  
18 figure 5.03 percent. Do you see that, sir? I'm going to  
19 June 15th, 2007.

20 MR. MANFRED SCHULZ: 5.03 percent,  
21 correct.

22 MR. BYRON WILLIAMS: And if you can just  
23 keep -- and perhaps -- you indicated you had ten (10)  
24 fingers yesterday, so one (1) of those fingers on the  
25 five point zero three (5.03), and go all the way across

1 to the three (3) month bond for that same date, being  
2 June 15th, 2007. And you'll see that the price on that  
3 date for the three (3) month bond reported by Bloomberg  
4 was 4.67 percent, sir. Do you see that?

5 MR. MANFRED SCHULZ: I do.

6 MR. BYRON WILLIAMS: And while that's a  
7 thirty-six (36) basis point difference, at that point in  
8 time the price of three (3) month bonds as compared to  
9 thirty (30) month bonds was relatively close.

10 Would that be fair, sir?

11 MR. MANFRED SCHULZ: That's correct.

12 MR. BYRON WILLIAMS: And if -- if we can  
13 imagine that we were drawing a line on a graph from the  
14 three (3) month figure to the thirty (30) year figure,  
15 that line, while inclining slightly, would be relatively  
16 flat. Would that be fair, sir?

17 MR. MANFRED SCHULZ: Correct. And I  
18 think you've taken that one (1) step further and actually  
19 depicted that on one (1) of your graphs.

20 MR. BYRON WILLIAMS: Yes, I -- I think we  
21 have probably a bit more information in there, so I was  
22 just trying to keep it at a level I could understand for  
23 -- for just a second. Now, if we could go back up to the  
24 December 15th, 2009 date, sir, you'll see a short --  
25 three (3) month bonds at that point in time were 0.3

1 percent. Would that be fair?

2 MR. MANFRED SCHULZ: Correct.

3 MR. BYRON WILLIAMS: And going back to  
4 the number we repeated before, at that point in time  
5 thirty (30) years were 4.8 percent, correct?

6 MR. MANFRED SCHULZ: Correct.

7 MR. BYRON WILLIAMS: And that would be a  
8 four hundred and fifty (450) basis point or 4.5 percent  
9 difference, sir. Would that be fair?

10 MR. MANFRED SCHULZ: Correct.

11 MR. BYRON WILLIAMS: And doing my line  
12 drawing exercise, if I was drawing a line from the three  
13 (3) month December 15th, 2009 to the thirty (30) year,  
14 that would be a relatively steep line. Would that be  
15 fair, sir?

16 MR. MANFRED SCHULZ: Yes, we would define  
17 that as a fairly steep upwardly-sloped yield curve.

18 MR. BYRON WILLIAMS: And just to the last  
19 -- I just want to draw your attention to the most recent  
20 date on this table, being March 15th, 2011. We see the  
21 three (3) month bond there at 1.06 percent as compared to  
22 the thirty (30) year bond at 4.55 percent, sir?

23 MR. MANFRED SCHULZ: Yes, I see that.

24 MR. BYRON WILLIAMS: And if we were  
25 drawing that line, it would be a lot steeper than the

1 June 15th, 2007 line but somewhat less steep than the  
2 December 15th, 2009 line. Would that be fair, sir?

3 MR. MANFRED SCHULZ: Correct.

4 MR. BYRON WILLIAMS: Mr. Schulz, I -- I  
5 want to turn you to the graphs, and I, with -- with your  
6 indulgence, will perhaps explain one (1) or two (2). And  
7 then I suspect you may have some comments after that.  
8 The -- but let's turn to the very first graph on the  
9 first page of Exhibit CAC/MSOS 20.

10 And just before -- before we get to the --  
11 the lines, let's look at the -- on the left-hand side we  
12 have -- you see the figures zero percent running up to 7  
13 percent, sir?

14 MR. MANFRED SCHULZ: I see that on the  
15 'Y' axis, yes.

16 MR. BYRON WILLIAMS: And thank you for  
17 reminding me what that term is. And what -- what we see  
18 on the 'Y' axis is interest rates ranging from 0 percent  
19 to 7 percent. Would that be correct?

20 MR. MANFRED SCHULZ: The terms are on the  
21 'X' axis, yes.

22 MR. BYRON WILLIAMS: And -- and just to  
23 make sure that we all understand that by saying the terms  
24 are on the 'X' axis, the term of the bond ranging from  
25 three (3) months to thirty (30) years is on the 'X' axis.

1 That's what you're indicating, sir?

2 MR. MANFRED SCHULZ: Correct.

3 MR. BYRON WILLIAMS: And if we turn to  
4 the pretty -- I'm going to say it's purple line, you'll  
5 see that's described as March 15th, 2011, sir. Do you  
6 see that?

7 MR. MANFRED SCHULZ: I do.

8 MR. BYRON WILLIAMS: And what that is  
9 attempting to depict, sir, is the yield curve from three  
10 (3) months to thirty (30) years on that particular day as  
11 reported by Bloomberg being March 15th, 2011. Would that  
12 be fair?

13 MR. MANFRED SCHULZ: Correct.

14 MR. BYRON WILLIAMS: And the other lines  
15 that are on the graph, the blue line at the top is for  
16 the period be -- is showing the -- the observed maximum  
17 for the period from December 15th, 2002, to March 15th,  
18 2011, correct?

19 MR. MANFRED SCHULZ: Correct.

20 MR. BYRON WILLIAMS: And the red line is  
21 the average calculated by my side of the table for that -  
22 - that particular period.

23 Would that be your understanding, sir?

24 MR. MANFRED SCHULZ: It would.

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

1 call it olive, the olive line sets out the minimum over  
2 that particular period as well, sir.

3 Would that be fair?

4 MR. MANFRED SCHULZ: Correct.

5 MR. BYRON WILLIAMS: And, Mr. Schulz, you  
6 -- in terms of the 2009 data, I think you used the term,  
7 and -- and if I -- if I'm putting words in -- in your  
8 mouth, you'll correct me, I thought you said relatively  
9 steep, inclining yield curve.

10 In terms of the March 15th, 2011, the --  
11 the purple colour here, would you describe that as a  
12 normal yield curve? How would you describe that, sir?

13 MR. MANFRED SCHULZ: Upwardly-sloped  
14 yield curve.

15 MR. BYRON WILLIAMS: If we turn to the  
16 next page, sir, you can see that what we're attempting to  
17 plot here against that same maximum, minimum, and  
18 average, is the information from Bloomberg Series F-302  
19 from June 15th, 2007, correct, sir? That's your  
20 understanding?

21 MR. MANFRED SCHULZ: Correct.

22 MR. BYRON WILLIAMS: And that's what I --  
23 I would suggest to you, we might describe as a relatively  
24 flat yield curve. Would that be fair, sir?

25 MR. MANFRED SCHULZ: Correct.

1 MR. BYRON WILLIAMS: And we -- we needn't  
2 belabour this too -- too long, sir, but to the next  
3 table, that simply pres -- presents information as  
4 measured against the maximum, min -- minimum, and average  
5 of September 15th, 2010. Would that be fair?

6 MR. MANFRED SCHULZ: Correct.

7 MR. BYRON WILLIAMS: And we don't need to  
8 dwell on the last two (2). I think there's too many  
9 colours there, but that -- they simply plot different  
10 periods of time against the maximum and the minimum.  
11 Would that be fair, sir? There's no average on those  
12 last two (2).

13 MR. MANFRED SCHULZ: Yeah. As I  
14 understand it, you're just plotting results at different  
15 points in time in different years and charting them  
16 accordingly, and, correct.

17 MR. BYRON WILLIAMS: Now, Mr. Schulz,  
18 Manitoba Hydro has presented some additional information,  
19 I believe it's Hydro's Exhibit 109, is that right, sir?

20 MR. MANFRED SCHULZ: Correct.

21 MR. BYRON WILLIAMS: And I'm sure you --  
22 you have more to say on that, but what you've essentially  
23 done is plotted in some of the information from the  
24 CAC/MSOS exhibits, and then you've started your  
25 information series using Bank of Canada, government of

1 Canada yields starting in June 1982, and taken them out  
2 to March 1992, and then used Bloomberg data for the --  
3 the rest of the time period. Would that be fair, sir?

4 MR. MANFRED SCHULZ: Yes. I mean, we --  
5 when we looked at your yield-curve charts, our concern  
6 beyond the quibbles that we had earlier talked about, was  
7 just the selection of the time period, and the time  
8 period that you had selected went back to December of  
9 2002.

10 And from our perspective, and certainly  
11 within my fiduciary responsibilities as corporate  
12 treasurer, we ti -- like to take a look at the historical  
13 record within the bandwidth -- of our consideration. And  
14 so, therefore, we took the data points from Bloomberg  
15 using the same quarterly information and extended it back  
16 as far as we could, I believe to 1992, and then took it  
17 back further with some Bank of Canada data, utilizing  
18 government of Canada bonds, realizing that the government  
19 of Cona -- Canada bonds would not yet have the additional  
20 credit spreads attached to that.

21 But again, just to give consideration to  
22 the full band -- bandwidth of possible experience. And  
23 the original thinking for us is that if we were going to  
24 be looking at thirty (30) year bonds looking forward,  
25 that it seemed more representative to look at thirty (30)

1 years going back in time.

2 MR. BYRON WILLIAMS: And I -- I  
3 understand that and I -- I certainly appreciate the  
4 context you apply, sir. And I just have a couple  
5 questions as well. Not that necessarily one (1) had to  
6 do this, but you're aware that the Bank of Canada  
7 presents information on yields of over ten (10) year  
8 bonds way back to just after the first -- first -- first  
9 World War, back to 1919. Would that be fair?

10 MR. MANFRED SCHULZ: Yes, and I believe  
11 that you have provided that in an exhibit today.

12 MR. BYRON WILLIAMS: And did you have a  
13 chance to look at that other exhibit at all, Mr. -- Mr.  
14 Schulz, being CAC/MSOS Exhibit 21? And -- and if not, I  
15 understand, because I just emailed it to your client late  
16 -- or to your legal counsel late last night, for which  
17 she chastised me.

18 THE CHAIRPERSON: And rightly so.

19 MR. MANFRED SCHULZ: I won't comment on  
20 the lawyering, but with respect to the data, I received  
21 it in around 9:00 this morning, so I have not had a -- a  
22 -- the time to provide any kind of significant due  
23 diligence to the data, Mr. Williams.

24 If there's anything substantive that might  
25 possibly turn on that information, we would of course

1 appreciate a little bit more time on that.

2

3 CONTINUED BY MR. BYRON WILLIAMS:

4 MR. BYRON WILLIAMS: My -- my only  
5 question, Mr. Schulz -- or my only request of you, Mr.  
6 Schulz, in terms of that -- that information is if  
7 there's anything there that leaves you uncomfortable or  
8 that you feel is not accurate, if you could get -- get  
9 back to my clients on that. Would you be kind enough to  
10 do that, sir?

11 MR. MANFRED SCHULZ: Certainly we could,  
12 and just quickly taking a look at the information again,  
13 the caveat that must be attached to that is that that's  
14 government of Canada yields and not the province of  
15 Manitoba is sort of my high-level, quick commentary. And  
16 as you know, there's always a spread between the  
17 government of Canada and the provincial bond yields that  
18 we might be able to attain the financing in.

19 MR. BYRON WILLIAMS: So your one (1)  
20 obser -- your one (1) -- I don't think we require that as  
21 an undertaking. It's a -- Mr. Schulz will let me know if  
22 he's got some problems with it.

23 MR. MANFRED SCHULZ: I think as long as  
24 the information is utilized in the fashion described,  
25 subject to check and confirmation, unless you hear back

1 from us, I think we're -- we're good to go on that basis,  
2 on an observational directional basis.

3 MR. BYRON WILLIAMS: And -- and the point  
4 you make is the same point you made in terms of your  
5 exhibit in that when we look at the government of Canada  
6 yields there would be a spread over and above that for --  
7 for Manitoba. Is that correct, sir?

8 MR. MANFRED SCHULZ: Correct.

9

10 (BRIEF PAUSE)

11

12 MR. BYRON WILLIAMS: Mr. Schulz, just for  
13 a second, if I could -- actually, you know what, Mr.  
14 Schulz, I think that's satisfactory from -- from my  
15 perspective. I think we're -- we're fine with that.

16 Mr. Chairman, I'm going to be turning to  
17 another series of questions and we might have to do --  
18 there's probably a document or two (2) to hand out and do  
19 -- do a bit of reshuffling. We might have to do that  
20 twice -- twice this morning, so --

21 THE CHAIRPERSON: Such is life.

22 MR. BYRON WILLIAMS: If we could maybe  
23 stand down for -- I -- I'll -- five (5) minutes should  
24 suffice, or alternatively you could take an early break.  
25 It's up to you totally, sir.

1 THE CHAIRPERSON: We'll just take the  
2 five (5) minutes now.

3

4 --- Upon recessing at 10:10 a.m.

5 --- Upon resuming at 10:22 a.m.

6

7 THE CHAIRPERSON: Okay, Mr. Williams.  
8 You've got a couple of new exhibits?

9 MR. BYRON WILLIAMS: Yes. I -- the third  
10 in three (3) days of CAC book of documents, the April 6  
11 version, which I would suggest be marked as CAC/MSOS  
12 Exhibit 22.

13

14 --- EXHIBIT NO. CAC/MSOS-22:

15 CAC/MSOS book of documents, April 6  
16 version

17

18 MR. BYRON WILLIAMS: And then a -- a  
19 simple table that Mr. Surminski has kindly agreed to  
20 assist me with titled Electric Domestic Revenues, which  
21 could be marked as CAC/MSOS Exhibit 23.

22

23 --- EXHIBIT NO. CAC/MSOS-23:

24 Table: Electric Domestic Revenues

25

1 MR. BYRON WILLIAMS: And if I have not  
2 tested the patience of the Board enough, it might also  
3 want to keep at hand yesterday's book of documents, which  
4 is April 5th book of documents, CAC/MSOS-16.

5 THE CHAIRPERSON: We have it.

6

7 HAROLD SURMINSKI, Resumed

8

9 CONTINUED BY MR. BYRON WILLIAMS:

10 MR. BYRON WILLIAMS: Mr. Warden, have I  
11 dropped enough paper on your lap this morning?

12 MR. VINCE WARDEN: Yes. Thank you, Mr.  
13 Williams. I think -- I think I have enough, more than  
14 enough paper.

15

16 (BRIEF PAUSE)

17

18 MR. BYRON WILLIAMS: Mr. Warden, I want  
19 to chat with you for a few moments on asset management,  
20 and you might find it helpful -- I want to have a -- a  
21 quick history reminder, and what I've attempted to do in  
22 CAC/MSOS Exhibit 22, book of documents, April 6th, is put  
23 in some excerpts from some past Board orders. Hopefully  
24 you can take me on trust, but if not, if you want to  
25 verify what I'm saying -- I think I heard a bit of that

1 yesterday -- that might -- might help you through it as -  
2 - as well, sir. Do you have that in front of you, Mr. --

3 MR. VINCE WARDEN: I do.

4 MR. BYRON WILLIAMS: And just directing  
5 your attention to page 1 of CAC/MSOS Exhibit 22, that's  
6 an excerpt from Board Order 116/'08. Do you see that in  
7 the top right-hand corner, sir?

8 MR. VINCE WARDEN: Yes.

9 MR. BYRON WILLIAMS: That's page 1 in the  
10 top right-hand corner. And Directive 7 of the Board at  
11 that point in time asked Manitoba Hydro to file an asset  
12 condition assessment report by June 30th, 2009.

13 You'll agree with that, sir?

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

15 MR. BYRON WILLIAMS: And if you -- oops.  
16 And that directive carries onto page 2, and -- and if  
17 you'd be so kind as to turn to page 3, hopefully I've  
18 marked for you the relevant points at the bottom on the  
19 right-hand side of page 3. You can -- do you have that,  
20 Mr. -- Mr. Warden? That's page 101.

21 MR. VINCE WARDEN: Yes, I do.

22 MR. BYRON WILLIAMS: Okay. And the last  
23 two (2) paragraphs there, you can see that, at that point  
24 in time, the Public Utilities Board is discussing the  
25 level and growth of OM&A expenditures and -- and its

1 difficulty, in -- in its view, in testing some of the  
2 assertions or evaluating some of the assertions of  
3 Manitoba Hydro, which led -- leads to discussion of asset  
4 condition assessments at -- at the bottom of that page.

5 Do you see that, sir?

6 MR. VINCE WARDEN: I do.

7 MR. BYRON WILLIAMS: Now, it would be  
8 fair to say, and we've -- we've, just on the next page,  
9 highlighted some of the -- the Board's language there as  
10 well. Manitoba Hydro sought to review and vary Order 6 -  
11 - 116/'08, Directive 7, in terms of the assets condition  
12 -- condition assessment.

13 And this is not in front of you, Mr.  
14 Warden, but you'll -- you'll recall that Hydro indicated  
15 that it was moving to a major new system, enterprise  
16 asset management, that it was hoping would address  
17 ongoing asset condition assessment.

18 Do you recall that discussion, sir?

19 MR. VINCE WARDEN: Yes, we did reference  
20 the initiation of -- of a new -- major new project per  
21 enterprise asset management, among others though. That  
22 wasn't the only system that was being introduced that  
23 would address this issue.

24 MR. BYRON WILLIAMS: And we're going to  
25 get to those systems in -- in just a second, Mr. Warden.

1 And what the Board did, and you can turn to page 5 of the  
2 outline, which is Order number 150/'08, page 26 of 82, is  
3 -- is it -- is it varied the directive from the prior  
4 order, and I'm referring you to the third paragraph on  
5 that page, the top right-hand corner, page 5.

6 MR. VINCE WARDEN: Yes.

7 MR. BYRON WILLIAMS: It varied that by  
8 requiring Hydro instead to -- to pro -- file proposed  
9 terms of reference by June 30th, 2009 as opposed to the  
10 report. Would that be fair, sir?

11 MR. VINCE WARDEN: Yes.

12 MR. BYRON WILLIAMS: And as I understand  
13 where we are in the current application, it would be fair  
14 to say -- well, let me back up. And this is not meant in  
15 a derogatory way, Mr. Warden, but it would be fair to say  
16 that the terms of reference were not -- were not filed?

17 MR. VINCE WARDEN: That's correct. We  
18 haven't filed the terms of reference at this date.

19 MR. BYRON WILLIAMS: But it would be fair  
20 to say that Manitoba Hydro is working, and this is not  
21 before you in any document, but it's working on a variety  
22 of projects that are related to the issue of valuing  
23 assets and prioritizing (sic) expenditures towards them.  
24 And those projects include IFRS, the depreciation study,  
25 the enterprise asset management project, the GIS enabled

1 transmission line asset maintenance and inspection  
2 system, and the asset investment planning system. Would  
3 that be fair, sir?

4 MR. VINCE WARDEN: It would be fair. And  
5 I think we can even add to that list now with recent  
6 developments on Smart Grid technology. So the Smart Grid  
7 technology does also incorporate elements of optimization  
8 of assets and operating efficiencies that will form part  
9 of this package that we are using to address this issue.

10 MR. BYRON WILLIAMS: And if I could turn  
11 you to the Corporation's response to CAC/MSOS First Round  
12 17, which is at page 17 of the se -- (c), page 7 -- 7  
13 through 10 of this book of documents. Do you have that,  
14 Mr. Warden?

15 MR. VINCE WARDEN: Sorry, would you give  
16 me that reference again, please?

17 MR. BYRON WILLIAMS: Yeah, just turn to  
18 page 7 of the book of documents. You should have an  
19 excerpt from CAC/MSOS Hydro 1-17, the top right-hand  
20 corner, Mr. Warden.

21 MR. VINCE WARDEN: The package I have  
22 actually goes from page -- oh, okay, I have it here.  
23 Thank you.

24 MR. BYRON WILLIAMS: You thought I was  
25 trying to trick you. And before we go into this IR, Mr.

1 -- Mr. Warden, in your previous answer I'll suggest to  
2 you you indicated that in terms of asset condition  
3 assessment, Manitoba Hydro has a lot on the go. One (1)  
4 of the most recent additions being matters related to  
5 Smart Grid. Is that fair?

6 MR. VINCE WARDEN: Yes.

7 MR. BYRON WILLIAMS: And if we look at  
8 this response, CAC/MSOS 1-17(c), you'll see that -- that  
9 our -- the -- what we were seeking in -- in terms of the  
10 question was insight into how Hydro determines the asset  
11 maintenance and replacement require -- requirements for a  
12 given year.

13 Do you see that, sir?

14 MR. VINCE WARDEN: Yes, I do.

15 MR. BYRON WILLIAMS: And at a high level,  
16 I'm going to -- to guide you through this response, and  
17 suggest to you that in providing the response you broke  
18 your response down into three (3) distinct areas, the  
19 first appearing on page 1 of 4, being hydraulic  
20 generating stations, et -- et al., the second, a couple  
21 pages in, being transmission systems, and the third being  
22 a -- a further page in, being distribution systems.  
23 Would that be fair, sir?

24 MR. VINCE WARDEN: Yes.

25 MR. BYRON WILLIAMS: And then if we look

1 at, going back to page 7 in the top right-hand corner,  
2 under hydraulic generating sa -- stations, we -- if we  
3 look at this -- the answer that you present, and I'm  
4 directing you first to the second paragraph, you further  
5 break down the asset condition assessment dialogue to a  
6 variety of different programs, including in that second  
7 paragraph, the Corporate Dam Safety Program. Below that,  
8 the Insulation Testing Department, at the bottom -- in  
9 the next paragraph. Onto the next page, the Apparatus  
10 Inspection Program. Do you see that, sir?

11 MR. VINCE WARDEN: I do.

12 MR. BYRON WILLIAMS: And then going down  
13 two (2) more paragraphs on this page, page 8 in the top  
14 right-hand corner, you tell us as well that power supply  
15 is now using a new tool called, hydroAMP. Would that be  
16 fair, sir?

17 MR. VINCE WARDEN: Yes.

18 MR. BYRON WILLIAMS: And if we go down to  
19 the next pla -- page, you talk of -- at the first --  
20 start of that paragraph, of centralized capital planners  
21 coordinating these diverse requests, and taking input  
22 from a variety of sources to build a long-term capital  
23 plan. Would that be fair?

24 MR. VINCE WARDEN: That's right.

25 MR. BYRON WILLIAMS: And we're going to

1 get to Asset Investment Planning in a second, but  
2 currently that information is entered into a program  
3 called -- tool called CAMELOT, C-A-M-E-L-O-T, for the  
4 purposes of prioritization and scheduling. Would that be  
5 fair, sir?

6 MR. VINCE WARDEN: Yes, that's a tool  
7 that is being phased out, but that -- that's correct.

8 MR. BYRON WILLIAMS: And if we go to the  
9 next page, we -- at the top, we can see it's being phased  
10 out in favour of Asset Investment Planning, which you  
11 expect to connect all data sources, including enterprise  
12 asset management, hydroAMP, SAP, and PowerUp. Would that  
13 be fair, sir?

14 MR. VINCE WARDEN: Yes.

15 MR. BYRON WILLIAMS: This program is in  
16 the early stages, and is not expected to be fully  
17 functioning for about two (2) years.

18 Would that be correct, sir?

19 MR. VINCE WARDEN: Well, actually, we --  
20 we've made excellent prog -- progress with the  
21 implementation of this program and -- this new system,  
22 and we -- we'll probably be ahead of that schedule.

23 So we're -- it'll be -- it'll be, by --  
24 I'm informed that we should be in a position in about  
25 twelve (12) months from this date to be able to provide a

1 comprehensive report to the Public Utilities Board that  
2 will address -- address the issues that they're most  
3 interested in.

4

5

(BRIEF PAUSE)

6

7

MR. VINCE WARDEN: And I believe we've  
8 undertaken to provide -- in one (1) of the IRs we have  
9 indicated that we will be providing a status report in --

10

MR. BYRON WILLIAMS: June.

11

MR. VINCE WARDEN: -- June of this year,  
12 in June of 2011.

13

MR. BYRON WILLIAMS: June of 2011. And  
14 I'll come back to -- just what you've just indicated, Mr.  
15 Warden, is that you will provide a status report in June  
16 of 2011, and that you'll have more complete information  
17 about a year from -- from today, sir?

18

MR. VINCE WARDEN: Yes. Yes, that's the  
19 -- the plan.

20

MR. BYRON WILLIAMS: And in terms of the  
21 structure of that more complete information, can you give  
22 us some insight into what you mean by that, sir?

23

MR. VINCE WARDEN: Well, we will in April  
24 of 2012 be able to provide the Public Utilities Board  
25 with a report that provides an assessment of all of our

1 generation assets so -- so we're talking about the asset  
2 -- the largest category of assets in Manitoba Hydro are  
3 the generation assets comprising close to 50 percent of  
4 our total investment in net plant.

5 So that report will be sufficient for the  
6 Public Utilities Board to -- to be aware of the condition  
7 of those assets and planned maintenance activities over  
8 the -- maintenance and capital activities over the  
9 ensuing twenty (20) year period.

10 MR. BYRON WILLIAMS: So your expectation  
11 is that in terms of 50 percent, being the generating side  
12 of the equation, you'll have a fairly comprehensive  
13 report for the Public Utilities Board in about one (1)  
14 years time, sir?

15 MR. VINCE WARDEN: Yes, and -- and a  
16 status report in June of 2011.

17 MR. ROBERT MAYER: Mr. Warden, on that  
18 topic, and I obviously haven't been following things as  
19 closely as I should have been, are the generators back in  
20 service at Jenpeg yet?

21 MR. VINCE WARDEN: Yes, yes, they've been  
22 back in service for some time, yeah.

23

24 CONTINUED BY MR. BYRON WILLIAMS:

25 MR. BYRON WILLIAMS: And moving to the

1 other half of the equation, being transmission systems  
2 and distribution, I understand from your -- still looking  
3 at this response at the bottom of page 3 of 4, top right-  
4 hand corner page 9, that on the transmission side you are  
5 looking at some new tools, including a transmission GIS.  
6 Is that correct, sir?

7 MR. VINCE WARDEN: Yes, that is correct.  
8 The -- next to generation, however, the next largest  
9 category of assets is distribution. So the -- our  
10 investment distribution systems is -- is considerably  
11 larger than transmissions. So that's -- following the  
12 implementation of our asset investment planning tool for  
13 generation, the plan would be to implement that or to use  
14 that for distribution systems.

15 MR. BYRON WILLIAMS: And -- well, thank  
16 you for that. And that same tool will be applicable to  
17 distribution as well, sir?

18 MR. VINCE WARDEN: That's our  
19 understanding. We -- we're at the very preliminary  
20 stages of -- of looking at that, but it -- it appears to  
21 be applicable there as well, yes.

22 MR. BYRON WILLIAMS: And your expectation  
23 in terms of an update on the distribution side, sir,  
24 would be --

25 MR. VINCE WARDEN: Well, we should --

1                   MR. BYRON WILLIAMS:    -- or are you in a  
2 position to offer that as of --

3                   MR. VINCE WARDEN:    No, I -- I'd prefer  
4 actually to include that update in the report that we  
5 will file with this Board in June.

6                   MR. BYRON WILLIAMS:    Now, just going to  
7 distribution system which is at page 10 in the top right-  
8 hand corner, Hydro is in -- it's -- it's -- has indicated  
9 at the bottom paragraph that there are some new tools  
10 being introduced to improve the management of  
11 infrastructure including mobile workforce management and  
12 pole maintenance and a pole maintenance database.  Is  
13 that correct, sir?

14                  MR. VINCE WARDEN:    Yes, as indicated  
15 here, the mobile workforce management system is currently  
16 being implemented and will -- will definitely assist with  
17 how work is -- is dispatched, more so than how  
18 maintenance is -- is being tracked.  But it will assist  
19 in that -- in that process for sure.

20                  In -- in terms of productivity  
21 improvements the workforce -- the mobile workforce  
22 management system will -- will greatly assist in that --  
23 in that regard.

24                  MR. BYRON WILLIAMS:    Mr. Warden, it would  
25 be fair to describe the asset management process at

1 Manitoba Hydro as -- as ongoing, dynamic, and extremely  
2 important, correct?

3 MR. VINCE WARDEN: I -- I would agree  
4 with all those descriptors, yes.

5 MR. BYRON WILLIAMS: And it's also fair  
6 to say that you have different functional areas routinely  
7 considering numerous factors and making complex  
8 assessments.

9 Would that be fair, sir?

10 MR. VINCE WARDEN: Well --

11 MR. BYRON WILLIAMS: And I'm almost  
12 quoting from your answer, if --

13 MR. VINCE WARDEN: Okay. Complex --

14 MR. BYRON WILLIAMS: -- at the start.

15 MR. VINCE WARDEN: Complex assessments.

16 It's a complex system, for sure, so on that basis, I  
17 would agree with that, yeah.

18 MR. BYRON WILLIAMS: And there are indeed  
19 complex decisions in terms of financial and human  
20 resources and the priorit -- priorit -- making priorities  
21 of -- of those, correct, sir?

22 MR. VINCE WARDEN: Sure.

23 MR. BYRON WILLIAMS: And you can also  
24 understand how if it's complex for Manitoba Hydro, for  
25 the regulator seeking to test the reasonableness and

1 prudence of expenditures it's also quite complex.

2 Would that be fair, sir?

3 MR. VINCE WARDEN: Yeah, and I think  
4 that's our responsibility, to put it into a form that the  
5 regulator can accept and -- and approve, such that  
6 Manitoba Hydro is doing the right things with respect to  
7 the maintenance of its systems.

8 MR. BYRON WILLIAMS: And that's the kind  
9 of information that you're working towards over the next  
10 year or two (2), fair enough?

11 MR. VINCE WARDEN: Absolutely, yes.

12 MR. BYRON WILLIAMS: Now, I -- I'm not  
13 sure if your counsel will chastise me for sending her  
14 emails on the -- late last week or -- or not, but, Mr.  
15 Warden, I'm going to ask you just to turn back to the  
16 book of documents handed out yesterday, the CAC one, very  
17 -- do you have that, sir?

18 MR. VINCE WARDEN: What -- is that  
19 Exhibit number 16?

20 MR. BYRON WILLIAMS: Yes, it is, sir --

21 MR. VINCE WARDEN: Okay.

22 MR. BYRON WILLIAMS: -- and I should have  
23 directed you there.

24 MR. VINCE WARDEN: I do have it.

25 MR. BYRON WILLIAMS: And I'll direct you

1 just to the last two (2) or three (3) pages of that  
2 document, pages 19 to 21.

3 MR. VINCE WARDEN: Yes.

4 MR. BYRON WILLIAMS: And you see  
5 reference and you see -- and -- and, in fairness, this is  
6 a document -- oh, sorry, Mr. Warden. Do you have that  
7 page?

8 MR. VINCE WARDEN: I do, I do.

9 MR. BYRON WILLIAMS: And in fairness,  
10 this is a -- a document that's -- that's not on the  
11 record of the hearing, and I'm -- I'm not seeking to put  
12 it on the record of the hearing, but you're aware that I  
13 -- perhaps you're aware, Mr. Warden, or you'll take,  
14 subject to check, that I emailed this very lengthy  
15 document to your legal counsel last week?

16 MR. VINCE WARDEN: Yes, I'm aware of  
17 that.

18 MR. BYRON WILLIAMS: And what this  
19 document is -- just one (1) second -- is a report, you'll  
20 accept, prepared by KEMA, K-E-M-A, dated November 2009  
21 and discussing leveraging network utility asset  
22 management practices for regulatory purposes. Is that  
23 fair, sir?

24 MR. VINCE WARDEN: Yes.

25 MR. BYRON WILLIAMS: And again, I suspect

1 you haven't read it over the weekend.

2 Would that be fair, sir?

3 MR. VINCE WARDEN: Well, I -- I -- I did  
4 read through the executive summary of this report, so I  
5 have -- I have a reasonable sense of what's included. It  
6 is a -- as you know, a fairly lengthy report, so I didn't  
7 read the whole thing, but I did look at the executive  
8 summary.

9 MR. BYRON WILLIAMS: I commend you for  
10 that, Mr. Warden. I don't want to take you to the  
11 executive summary, but I do want to just get you to  
12 concern -- confirm then, it would be your understanding  
13 that KEMA -- and if you'll excuse me one (1) second. It  
14 will be your understanding that KEMA was commissioned to  
15 provide this report by the Ontario Energy Board to  
16 comment on ways in which regulators assess investment  
17 plans, with a focus on asset management.

18 Would that be your understanding, sir?

19 MR. VINCE WARDEN: Yes.

20 MR. BYRON WILLIAMS: And among the items  
21 discussed were best practices in asset management.

22 Would that be your understanding, sir?

23 MR. VINCE WARDEN: Yes.

24 MR. BYRON WILLIAMS: And also discussed  
25 were tools available to regulators as well as possible

1 regulatory approaches. Would that be fair, sir?

2 MR. VINCE WARDEN: Yes, that's fair.

3 MR. BYRON WILLIAMS: And -- and without -  
4 - and, Mr. Warden, would it be fair to say that this  
5 particular document was not a document that Manitoba  
6 Hydro was familiar with before I forwarded it to your  
7 legal counsel?

8 MR. VINCE WARDEN: Well, it's not a  
9 document that I was personally familiar with. I can't  
10 speak for anybody else in Manitoba Hydro, but I -- I was  
11 not personally familiar with it. I thank you for  
12 forwarding it on. It is an interesting document, and so  
13 we'll certainly take that into consideration in our plans  
14 going forward.

15 MR. BYRON WILLIAMS: And that's really  
16 the -- my request of my clients to you, Mr. Warden. As  
17 you move towards your report your -- let me try this  
18 again, Mr. Warden. You'd agree that a document of this  
19 type might assist the regulator in canvassing options or  
20 -- and might assist Manitoba Hydro in best communicating  
21 efficient regulatory assessment options to the regulator.

22 Would that be fair?

23 MR. VINCE WARDEN: I agree.

24 MR. BYRON WILLIAMS: And it is a document  
25 that you'll be considering as you move forward over the

1 next year or so, sir. Would that be fair?

2 MR. VINCE WARDEN: We -- we'll definitely  
3 review the document and take the recommendations into  
4 consideration, yes.

5 MR. BYRON WILLIAMS: Okay. Thank you for  
6 that.

7 Mr. -- Mr. Surminski, just -- and, Mr.  
8 Chairman, I'm -- I'm in this -- the short-snapper phase  
9 of -- of some -- some questions, so we'll be bouncing  
10 back and forth a little bit. And then I'll -- I'll have  
11 a discussion with Mr. Rainkie a bit later, either this  
12 morning or perhaps moving into the afternoon, as well.

13 Mr. Surminski, there's been a bit of  
14 discussion -- a fair bit of discussion, you'll agree with  
15 me, on the record of this hearing about calculating net  
16 present values. Would that be fair, sir?

17 MR. HAROLD SURMINSKI: Yes.

18 MR. BYRON WILLIAMS: And I think you and  
19 I might have had this conversation before, but I need to  
20 refresh my memory, my clients' memory, and perhaps others  
21 in this room. I -- I want to take a simple example, Mr.  
22 Surminski, and if you'd just have a pen at hand. If  
23 you'll be kind enough to -- to walk through this with me.

24 If I wanted to discount -- to discount the  
25 value back to 2008/'09, what I would do is take the

1 benefit or cost in any particular year and multiply it by  
2 a discount factor that is equal to this. And I'm going  
3 to suggest that this is the calculation, shir -- sir.  
4 One (1) divided by (one (1) plus discount rate), and  
5 above it and to the right, the number of years to be  
6 discounted back. Would that be fair, sir?

7 MR. HAROLD SURMINSKI: I think you mean  
8 to the power of number of years.

9 MR. BYRON WILLIAMS: Yes, but I couldn't  
10 remember the word, Mr. --

11 MR. HAROLD SURMINSKI: Yes.

12 MR. BYRON WILLIAMS: It's always helpful  
13 when the -- that's to the power of. So the -- it's one  
14 (1) divided by one (1) plus discount rate to the power  
15 of.

16 MR. HAROLD SURMINSKI: The power of 'n'  
17 could be the number of years.

18 MR. BYRON WILLIAMS: Yes. Thank you. So  
19 if I had a hundred dollars in 2010/'11, and I wanted to  
20 discount it back to 2008/'09 using 6 percent, I'd suggest  
21 to you that what I would do, Mr. Sur -- Surminski, is  
22 take one (1) divided by (one point zero six (1.06)) to  
23 the power of two (2), and that would yield point zero  
24 eight nine (.089) (sic)? Do you want me to repeat that,  
25 Mr. Surminski?

1 MR. HAROLD SURMINSKI: No, that's fine.  
2 And, yes, I would agree with that.

3 MR. BYRON WILLIAMS: And then I would  
4 multiply that hundred dollar figure from 2010/'11 times  
5 that point -- zero point eight nine (0.89) and yield  
6 eighty-nine dollars (\$89) as the discounted value in  
7 2008/'09 at 6 percent. Would that be fair?

8 MR. HAROLD SURMINSKI: Yes.

9 MR. BYRON WILLIAMS: And I've provided to  
10 you, Mr. Surminski, a very simple exhibit, I hope:  
11 CAC/MSOS Exhibit 23.

12 Do you have that, sir?

13 MR. HAROLD SURMINSKI: Yes, I do, and I  
14 have reviewed it.

15 MR. BYRON WILLIAMS: And how do you feel  
16 about my or Mr. Harper's calculations?

17 MR. HAROLD SURMINSKI: I have gone  
18 through the calculation and verified that the discount --  
19 present valuing discount factor that you have for 8  
20 percent, a column for 8 percent, and a column for 6  
21 percent, I was able to reproduce those in my calculator.

22 MR. BYRON WILLIAMS: And what this --  
23 what you'll see on this table is on the left-hand side  
24 the discount rate being either 6 percent or 8 percent.

25 Would that be fair, sir?

1 MR. HAROLD SURMINSKI: Yes.

2 MR. BYRON WILLIAMS: And on the right-  
3 hand side, you'll see the heading, 2008 NPV, or net  
4 present value, for electric consumer revenue for the  
5 period between 2000 -- the -- the fiscal year 2009/'10  
6 through to 2019/'20. Do you see that, sir?

7 MR. HAROLD SURMINSKI: You're on page 1  
8 of that?

9 MR. BYRON WILLIAMS: Yes, I am.

10 MR. HAROLD SURMINSKI: Yes, I see that.

11 MR. BYRON WILLIAMS: And what -- and  
12 you'll also see that the figure generated for 6 percent  
13 was around 11 billion, whereas for 8 percent it was  
14 around 10 billion. Would that be fair, sir?

15 MR. HAROLD SURMINSKI: Yes.

16 MR. BYRON WILLIAMS: And let's take that  
17 11 billion at 6 percent figure. Would I be correct in  
18 suggesting to you that what that figure represents is,  
19 over that period, the net present value that Hydro is  
20 going to collect through consumer or -- electric con --  
21 consumer or domestic rates -- revenues, exc -- excuse me,  
22 in 2008/'09 dollars.

23 Would that be fair, sir? Do you need me  
24 to repeat that?

25 MR. HAROLD SURMINSKI: No, you don't have

1 to repeat that. Your present valuing to the year  
2 2008/'09, and so when you say it's in those dollars, I  
3 would -- well, I guess that is the same thing.

4 MR. BYRON WILLIAMS: So we're in  
5 agreement on that, sir?

6 MR. HAROLD SURMINSKI: Yes.

7

8 (BRIEF PAUSE)

9

10 MR. BYRON WILLIAMS: Like others, Mr.  
11 Surminski, I have too many papers in front of me, but I'm  
12 -- you've prob -- well, you may wish to turn here. If  
13 you could turn to -- take the CAC/MSOS Exhibit 11 -- 22,  
14 excuse me, and turn to page 11.

15

16 (BRIEF PAUSE)

17

18 MR. BYRON WILLIAMS: Do you have that,  
19 sir? It should be labelled in the...

20 MR. HAROLD SURMINSKI: Yes, I have that  
21 now.

22 MR. BYRON WILLIAMS: In the top right-  
23 hand corner, we should have the twenty (20) year  
24 financial outlook. Is that correct, sir?

25 MR. HAROLD SURMINSKI: Yes.

1                   MR. BYRON WILLIAMS:   And this is an -- an  
2 excerpt from, you'll agree subject to check, from  
3 Manitoba Hydro Exhibit 72, which was filed recently on  
4 the record of this proceeding? Or I'll ask you to accept  
5 that subject to check, Mr. Surminski.

6                   MR. HAROLD SURMINSKI:   I assume this is  
7 the 2010 twenty (20) year outlook for the IFF.

8                   MR. VINCE WARDEN:   Yes, it is.

9                   MR. BYRON WILLIAMS:   And just in terms of  
10 -- I just want -- and again this is just a short snapper,  
11 Mr. Surminski. I just want to direct your attention to  
12 the third paragraph under Overview.

13                               And it's Hydro's estimate in this  
14 particular outlook that the -- one (1) of the major --  
15 that the risk of a five (5) year drought starting in 2012  
16 -- 2012/2013, that would be projected to cost \$2.1  
17 billion.

18                               Is that Hy -- Hydro's current estimate,  
19 sir?

20                   MR. HAROLD SURMINSKI:   Yes, that was a --  
21 a sensitivity test to a five (5) year drought starting in  
22 that year.

23                   MR. BYRON WILLIAMS:   And the -- later in  
24 the paragraph the -- the concern would be, from Hydro's  
25 perspective, a reduction in retained earnings from 2.5

1 bil at March 31st, 2012 to about one point four (1.4) at  
2 the end of the five (5) year period. Would that be fair,  
3 sir?

4 MR. HAROLD SURMINSKI: Yes.

5 MR. BYRON WILLIAMS: And that's assuming  
6 no other action is taken to mitigate the financial  
7 consequences?

8 MR. HAROLD SURMINSKI: Yes, correct.

9 MR. BYRON WILLIAMS: And just by no other  
10 actions, sir, for example, one (1) -- one (1) action that  
11 might be taken would be corrective rate increases. Would  
12 that be fair, sir?

13 MR. HAROLD SURMINSKI: Yes, that would  
14 raise some revenues.

15

16 (BRIEF PAUSE)

17

18 MR. BYRON WILLIAMS: On the next page,  
19 and I'm not sure it's numbered, but it should be the  
20 twelfth page -- the last page of this book, there is some  
21 information in terms of projected was -- was -- capital  
22 expenditures. And I'm not sure who on the panel to  
23 direct this to, or if there is someone on the panel.  
24 Would that be Mr. Warden or Mr. Surminski? I'm -- I'm  
25 speaking of Wuskwatim.



1 CEF-04 at one (1) -- a bit over \$1 billion, I'll suggest  
2 to you as well, was subject to a 2010 in-service date.  
3 Will you accept that subject to check?

4 MR. VINCE WARDEN: Yes, I will.

5 MR. BYRON WILLIAMS: Now, when we get out  
6 -- and we'll come to CEF-10 in a second, sir, but when we  
7 get out to CEF-09 we've got a figure of close to \$1.6  
8 billion. You'll agree, sir?

9 MR. VINCE WARDEN: Yes.

10 MR. BYRON WILLIAMS: And that would be  
11 with a 2011 in-service date. Would that be fair?

12 MR. VINCE WARDEN: Correct.

13 MR. BYRON WILLIAMS: And indeed, when one  
14 (1) looks at the information on this table, you'll agree,  
15 subject to check, that from CEF-05 onward, those were  
16 based on 2011 in-service dates. Would you accept that  
17 subject to check?

18 MR. VINCE WARDEN: Yes, I will.

19 MR. BYRON WILLIAMS: And just to -- to  
20 complete the number that's not on this particular table,  
21 if I drew in CEF-10, I would -- I'll suggest to you that  
22 we would come in with a number which is a bit lower than  
23 CEF-09, being one five six five point eight (1565.8)  
24 would -- will you accept -- millions, sir.

25 Will you accept that subject to check?

1 MR. VINCE WARDEN: Yes.

2 MR. BYRON WILLIAMS: Okay.

3

4 (BRIEF PAUSE)

5

6 MR. BYRON WILLIAMS: Now, Mr. Warden, I'm  
7 going to give you -- and, Mr. Warden, if you're not  
8 comfortable answering this one (1) this is fine, but if -  
9 - if I went right -- way back to the CEC/NFAAT document,  
10 chapter 6, would the number in circulation around then  
11 have been \$901 million with the 2009 in-service date?  
12 Are you prepared to accept that, subject to check, or --  
13 or is that stretching your memory a bit too far?

14 MR. VINCE WARDEN: yeah, I think we can  
15 accept that --

16 MR. BYRON WILLIAMS: Subject to check?

17 MR. VINCE WARDEN: -- Mr. Williams, yes.

18 MR. BYRON WILLIAMS: Thank you.

19 MR. ROBERT MAYER: I specifically  
20 remember that number, that the 900 million was what was  
21 basically on the table way back then.

22

23 CONTINUED BY MR. BYRON WILLIAMS:

24 MR. BYRON WILLIAMS: Now, Mr. Warden, I -  
25 - I'm going to -- the next question I'm going to ask you

1 to consider addressing, both from the budget estimary --  
2 estimation process and also the expenditure on major  
3 capital projects, and it's an open-ended question: As  
4 Hydro considers the Wuskwatim capital project experience,  
5 I wonder if you can share any lessons or experiences it  
6 has drawn on a going-forward basis, either in the terms  
7 of estimating or in terms of the management of these  
8 projects? Are there any -- any lessons to be learned?

9 MR. VINCE WARDEN: Well, there's always  
10 lessons to be learned with any project we undertake.  
11 However, I -- I will say that, since the -- the NFAAT  
12 hearing that was held with respect to Wuskwatim we -- we  
13 did go through a period of unprecedented escalation in  
14 commodity costs, and I believe we spent a good part of --  
15 or at least a lot of discussion on that a couple of  
16 hearings ago and filed considerable documentation  
17 supporting that -- that fact.

18 So with respect to Wuskwatim, the process  
19 that we have in place for estimating capital projects is  
20 sound. I -- I am confident of that. Is the estimate  
21 subject to change? Absolutely. Until we -- until we let  
22 those contracts, the estimates will change, and once we  
23 recognize the fact that the estimate has changed, it's --  
24 the responsible thing to do is to update our estimates  
25 and -- and put them forward in our updated financial

1 forecasts.

2 MR. BYRON WILLIAMS: Mr. Warden, how, if  
3 at all, focussing on the estimation process and  
4 comparing, let's say, Conawapa and/or Keeyask to  
5 Wuskwatim, how, if at all, would the estimating process  
6 for the -- the two (2) projects in the future be -- be  
7 different from Wuskwatim?

8 MR. VINCE WARDEN: Wouldn't -- wouldn't  
9 really be different. I think I did indicate yesterday  
10 that there is more of a -- a trend in the industry  
11 towards what's referred to as EPC contracts or turnkey-  
12 type contracts with suppliers or with -- with people that  
13 are in this business to build generating or transmission  
14 assets. So we would be more aware earlier on what the  
15 total cost of the project is going to be, so not as  
16 subject to variation as the -- as the project proceeds.

17 MR. BYRON WILLIAMS: That's helpful. And  
18 in terms of the estimating process, would there be any  
19 material differences approach-wise, either in terms of  
20 contingencies, sir?

21 MR. VINCE WARDEN: No, but following the  
22 turnkey approach that I referenced, contingencies should  
23 be reduced. So contingency has always been a -- a big  
24 variable in any of the projects that we have, and to the  
25 extent that we can remove some of that contingency and

1 still maintain the lowest possible cost overall, which is  
2 our objective, then -- then that's a good thing.

3 MR. BYRON WILLIAMS: And in terms of a --  
4 and I think you may have an undertaking from me on this,  
5 but in terms of a concept of management reserve, for  
6 example, that we discussed, do you recall our discussion  
7 yesterday on that subject?

8 MR. VINCE WARDEN: Yes.

9 MR. BYRON WILLIAMS: And to your  
10 knowledge, how, if at all, would that concept play into  
11 Conawapa or Keeyask as compared to Wuskwatim?

12 MR. VINCE WARDEN: It -- it -- it really  
13 wouldn't play into the estimate in any material way, in  
14 my view. The management reserve is really just another  
15 form of contingency exce -- except that it moves that  
16 contingency to the senior executive to use on perhaps a  
17 little more judgmental basis than what was done  
18 previously, but, at the end of the day, the total project  
19 costs should be unaffected.

20 MR. BYRON WILLIAMS: Now, Mr. Warden, if  
21 you're unable to answer this question, that's fine, but  
22 are you aware whether or not BC Hydro in its capital  
23 planning employs both a contingency and a management  
24 reserve process?

25 MR. VINCE WARDEN: No. No, I'm not

1 aware.

2 MR. BYRON WILLIAMS: Okay. Thank you for  
3 that.

4 Mr. Chairman, this -- this is the -- I  
5 have a -- we're switching documents again, and I have to  
6 get a cite for you. The -- I -- I want to turn  
7 everyone's attention back to the old -- the very first  
8 CAC/MSOS exhibit book. And you mi -- it might be an  
9 opportune time to take a very brief -- brief break, if --  
10 if the panel wishes.

11 THE CHAIRPERSON: Okay, ten (10) minutes.

12

13 --- Upon recessing at 11:08 a.m.

14 --- Upon resuming at 11:29 a.m.

15

16 THE CHAIRPERSON: Mr. Williams, if you  
17 think you can start, start.

18

19 CONTINUED BY MR. BYRON WILLIAMS:

20 MR. BYRON WILLIAMS: Yes. And just for  
21 the Board's reference, a long, long time ago, the very  
22 first CAC book of documents was marked as Exhibit 14 of  
23 CAC, and I'd ask Mr. Surminski to turn to -- to the very  
24 last tab of that document, which would be lucky 13, sir.

25 Do you have that?

1                   MR. HAROLD SURMINSKI:    Yes, Mr. Williams,  
2    I have that.

3                   MR. BYRON WILLIAMS:    And, Mr. Surminski,  
4    we'll -- we'll get into the -- the details and the line-  
5    by-line in a second, but at a conceptual level, what this  
6    table attempts to do is look at the forecast export  
7    prices underlaying the Wuskwatim need for an alternative  
8    submission, true them up to current dollars, and then  
9    compare them to certain information on the record in  
10   terms of actual and forecast export revenues, which is  
11   more recent.

12                                    At a high level would that be a fair  
13   assessment, sir?

14                   MR. HAROLD SURMINSKI:    Yes, that's fair.

15                   MR. BYRON WILLIAMS:    And you've had the  
16   opportunity over a couple of weeks to, no doubt, memorize  
17   this table, sir.  Ha -- are there any material edits to  
18   it that you have, sir?

19                   MR. HAROLD SURMINSKI:    I have one (1)  
20   comment on the use of the inflation factor.  We're  
21   inflating export prices here, and export prices are  
22   mainly derived from the US market.  So a more appropriate  
23   escalation factor would be a US escalation factor.  Like  
24   the US GDP price deflator would be a better escalator as  
25   opposed to the Manitoba CPI for export prices.

1                   MR. BYRON WILLIAMS: I understand that --  
2 that point, sir. Have you done that analysis?

3                   MR. HAROLD SURMINSKI: Yes. In fact, we  
4 just did it this morning.

5                   MR. BYRON WILLIAMS: Quelle surprise. Do  
6 you have it, sir?

7                   MR. HAROLD SURMINSKI: Yes, I do.

8                   MR. BYRON WILLIAMS: And is it in a  
9 documentary form? Is it in a version that can be  
10 distributed?

11                   MR. HAROLD SURMINSKI: It could -- yes,  
12 it could be, but it's -- it's not -- well, just a second.  
13 I'll take a closer look here. Where's my sheet?

14

15   (BRIEF PAUSE)

16

17                   MR. VINCE WARDEN: Mr. Williams, maybe,  
18 if it doesn't interrupt your flow, while Mr. Surminski's  
19 looking at that I can tell you that I did do a little bit  
20 of research with respect to what BC Hydro does with the  
21 management reserve.

22   Would you like me to put that on the  
23 record right now?

24                   MR. BYRON WILLIAMS: Absolutely.

25                   MR. VINCE WARDEN: Okay. I just made a



1 is that the concept is -- as employed by BC Hydro is  
2 substantially analogous to how Manitoba Hydro would  
3 attempt to employ it here if it chooses to do so.

4 MR. VINCE WARDEN: That's right, and to  
5 this point we've chosen not to set aside a management  
6 reserve in our capital expenditure forecast.

7 MR. BYRON WILLIAMS: And could you walk  
8 me one (1) step further down the line -- the path of  
9 analysis, Mr. Warden, by -- by further distinguishing con  
10 -- the concept of contingency from management reserve,  
11 sir?

12 MR. VINCE WARDEN: Okay. Well, the  
13 contingency would be under the control of the project  
14 manager typically, so Wuskwatim has a certain contingency  
15 built in that is intended to handle day to day type  
16 variances that might occur in the project. So the  
17 project manager wouldn't have to come back for approval  
18 in order to draw down on the -- the contingency, whereas  
19 the management reserve would be something that would be  
20 typically under control of an executive committee or a  
21 similar body, and approval would be sought to draw down  
22 that management reserve.

23 MR. BYRON WILLIAMS: So one would have to  
24 move one (1) -- one (1) chain -- or one (1) step further  
25 up the chain of com -- the -- the path of command to --

1 to utilize that -- that reserve, sir?

2 MR. VINCE WARDEN: Yes, it would be  
3 subject to obtaining certain approvals within the  
4 organization.

5 MR. BYRON WILLIAMS: And recognizing that  
6 -- that BC Hydro is both -- is new to both of us, this  
7 concept as they employ it, in terms of the budget for  
8 capital programs, would it be your understanding that  
9 both a contingency and a management reserve would be  
10 built into that budget estimate by BC Hydro, sir?

11 MR. VINCE WARDEN: Yes, that is my  
12 understanding, not into the project estimate though.  
13 They would have a separate line item that might be  
14 applicable to ten (10) different projects, and all of  
15 those projects would be eligible to utilize the  
16 management reserve, but they wouldn't necessarily use it  
17 unless -- well, they wouldn't use it for sure unless  
18 approved.

19 MR. BYRON WILLIAMS: And just a final  
20 point on -- on this particular item. At a -- at a high  
21 level, or a conceptual level, the util -- perhaps you  
22 could describe from the Corporation's perspective what  
23 the potential utility of such a concept is. What --  
24 what's the value to the Corporation, sir?

25 MR. VINCE WARDEN: Well, it definitely

1 makes the capital budgeting process more conservative.  
2 That is, presumably if we utilize that at Manitoba Hydro,  
3 our capital forecast would be higher than it would  
4 otherwise be.

5                   So we go through the same process as we do  
6 today, come up with a project estimate including  
7 contingencies, then on top of that we would identify  
8 certain other items that may or may not occur in the  
9 future, and the fish ladder we've been using as an  
10 example. In developing a management reserve, that would  
11 include all those -- all those possible future events,  
12 and -- and include it as a separate line item in the  
13 capital expenditure forecast.

14                   MR. BYRON WILLIAMS: Mr. Warden, while --  
15 while -- I'm glad you're back. I just had a couple of --  
16 before I go back to Mr. Surminski, I just had a couple  
17 questions flowing from our conversation just before the  
18 break. And you used the word yesterday, and then again  
19 today, I'll -- I'll ask you to confirm, but you recall  
20 using the word "turnkey" in terms of the management of --  
21 of large capital projects, sir?

22                   MR. VINCE WARDEN: Yes. "Turnkey" is  
23 perhaps a shorthanded term for the EP -- what's referred  
24 to as EPC contracts, and that stands for "Engineer,  
25 Procure, Construct," which are being more commonly used

1 in the industry today.

2 MR. BYRON WILLIAMS: And in terms of  
3 Bipole, and potentially Keeyask and Conawapa, is it your  
4 evidence that the Corporation anticipates using a  
5 turnkey/EPC approach?

6 MR. VINCE WARDEN: Well, it's probably  
7 premature, and certainly premature for me to comment on  
8 that. It was recommended by the consultants that we  
9 engaged for it -- to review the Bipole estimate. Whether  
10 that's accepted by the line responsible for constructing  
11 the Bipole, we haven't had that internal discussion yet.

12 MR. BYRON WILLIAMS: Would the quantum of  
13 the Bipole 3 estimate be in part a function of the  
14 assumption that such a turnkey, or EPC approach would be  
15 utilized, sir?

16 MR. VINCE WARDEN: Well, the only reason  
17 for -- for using it would be with the objective of  
18 lowering the overall cost -- cost of the project. So we  
19 wouldn't do it unless we thought there was value to the  
20 project in terms of cost.

21 It does though provide more certainty  
22 early on in a project, as to what that cost -- ultimate  
23 cost will be. The trade-off may be for that certainty  
24 higher costs overall, so we -- we'd have to weigh that  
25 and come to a conclusion.

1                   MR. BYRON WILLIAMS:   And -- and just so -  
2   - and -- and my question wasn't particularly well  
3   phrased.  What I'm trying to zero in on, sir, is the  
4   estimate that was approved on March 30th, or March 31st,  
5   in terms of Bipole 3, if the Corporation ultimately  
6   doesn't go down the turnkey path, do we end up with a  
7   different estimate?

8                   MR. VINCE WARDEN:   Yeah, and Mr.  
9   Williams, I -- I don't know the answer to that.  I think  
10  the advice received from the consultants was based on --  
11  on the EPC model.  We would have to assess whether that's  
12  of value to Manitoba Hydro and lower costs overall --  
13  lower projected costs overall.  It seems to have merit,  
14  though.

15                  MR. ROBERT MAYER:   Mr. -- Mr. Warden,  
16  turnkey contract is not a new concept, and I thought we  
17  had -- I think you had a form of turnkey contract with  
18  the contractors at -- at Limestone, but I mean, it's --  
19  this is not a new -- this is not a new concept in any  
20  construction business.

21                  Is this the first time that you're aware  
22  of that Manitoba Hydro has considered going to a turnkey  
23  contract for a major project?

24                  MR. VINCE WARDEN:   No.  No, it's  
25  definitely not the first time.  We, though, I think, are

1 more involved in -- in previous projects, and -- and I  
2 believe Limestone included, we would be more involved in  
3 the -- in the project management. So we would contract -  
4 - let contracts for certain phases of the work; whereas  
5 with the model I think we're discussing here, take a step  
6 back from that, and -- and there's an overall contract  
7 with fewer numbers of contracts involved in the project  
8 than what we're typically accustomed to.

9                   So the -- certainly the -- you know, for  
10 the civil works at Wuskwatim, there was a -- you know,  
11 one (1) contractor and -- but -- and then we would have a  
12 separate contract for the turbines and another contract  
13 for -- for site excavation or -- so we would have  
14 separate contracts, whereas in the model that's being put  
15 forward here is -- according to my understanding, is that  
16 a lot of the work that we have been doing internally at  
17 Manitoba Hydro would be outsourced.

18                   MR. ROBERT MAYER: It was my  
19 understanding, however, that part of the reason that  
20 Manitoba Hydro ended up with so much stuff at Wuskwatim  
21 was that it couldn't find a major contractor to take the  
22 whole project, and some of that stuff had to be broken  
23 down.

24                   I -- if I recall Limestone, Bechtel-  
25 Kumagai, you didn't get much bigger, and it -- they

1 basically did it all. Now, I -- I'm sure they didn't  
2 manufacture the turbines, but I thought they were sort of  
3 the general contractor and they looked after things. I  
4 could be wrong. It's a long time ago, but that was  
5 always my -- because they certainly bragged a lot about  
6 it because they even managed to incorporate that training  
7 program that the province required. But that was just my  
8 recollection. I may be wrong.

9 MR. VINCE WARDEN: And -- and I  
10 absolutely agree with you. I think there was the major  
11 contract. We also had, though, a lot of Hydro people on  
12 site managing the project. A lot of the services were  
13 managed by Hydro at Limestone. So, yeah, the turbines,  
14 as you mentioned, were a separate contract.

15 I think what this EPC concept is, all that  
16 is packaged together and -- and awarded to one (1) single  
17 contractor.

18 MR. ROBERT MAYER: The contractor's going  
19 to have to be really big to be able to handle that kind  
20 of -- that kind of a contract.

21 MR. VINCE WARDEN: Well, I think it would  
22 be more applicable perhaps to the con -- converter  
23 stations, for the converter stations that were being  
24 discussed as part of Bipole. So transmission would be  
25 totally separate, but the converter stations would --

1 would be more subject to a -- a -- a general contract,  
2 and there's very few people in the world that do that  
3 type of work anyway.

4 MR. BYRON WILLIAMS: Thank you, Mr.  
5 Warden. I guess perhaps a question to Ms. -- Ms. Boyd.  
6 Are we -- are we wanting -- we certainly would have no  
7 objections to having this marked as a Hydro exhibit, the  
8 -- the adjusted Wuskwatim NFAAT average export rates nomi  
9 -- nominals.

10 MS. MARLA BOYD: Certainly. That's fine,  
11 if that suits the Board. It could be Manitoba Hydro  
12 Exhibit 110, I believe.

13 THE CHAIRPERSON: 110 it is.

14

15 --- EXHIBIT NO. MH-110: Adjusted Wuskwatim NFAAT  
16 average export rates

17

18 CONTINUED BY MR. BYRON WILLIAMS:

19 MR. BYRON WILLIAMS: Mr. Surminski, I --  
20 I've not had a -- a chance to memorize your calculations,  
21 but essentially, as I understand your point, and then  
22 I'll -- I'll get to a couple of numbers, but what you're  
23 essentially suggesting is that the inflator used in the -  
24 - the CAC/MSOS exhibit didn't best reflect the changes in  
25 the American marketplace where the -- where the bulk of

1 the sales are taking place. Is that fair, sir?

2 MR. HAROLD SURMINSKI: Yes, Mr. Williams,  
3 that's fair.

4 MR. BYRON WILLIAMS: And what you've done  
5 is offer recalculations using a US GDP price deflator  
6 instead, sir?

7 MR. HAROLD SURMINSKI: Yes.

8 MR. BYRON WILLIAMS: And is there a -- a  
9 -- just as I look at this exhibit, and I -- I shouldn't  
10 be too critical getting it, given that you've done it  
11 this morning, is -- is there an actual source that you --  
12 that you rely on, or is -- is that source the UD -- is  
13 there a -- a different source than I see in the top left-  
14 hand corner, sir? Is there an official source, a title  
15 to it?

16 MR. HAROLD SURMINSKI: I'm not sure what  
17 you mean, the top --

18 MR. BYRON WILLIAMS: For the --

19 MR. HAROLD SURMINSKI: -- left-hand  
20 corner.

21 MR. BYRON WILLIAMS: For the inflation.  
22 The source of the inflation figures is --

23 MR. HAROLD SURMINSKI: Is the -- is  
24 Manitoba Hydro's economic outlook for 2010.

25 MR. BYRON WILLIAMS: Thank you for that.

1 And if I go and I -- for -- for -- if -- if we look at  
2 the two (2) tables, and I'm only going to focus you in on  
3 the actual years and -- and the low forecasts, if -- if I  
4 might, sir. If one takes the 2005/'06 year, you'll --  
5 you'll see under our table, Wuskwatim Nominal Low, that  
6 figure of fifty-four point eight two (54.82).

7 What you're suggesting is that should be  
8 replaced by fifty-five point nine eight (55.98), correct?

9 MR. HAROLD SURMINSKI: Yes, correct.

10 MR. BYRON WILLIAMS: And I'll just work  
11 down that column just for those couple of years. And for  
12 the '06/'07 year, the nominal figure which -- which we  
13 present for the low of fifty-six point one four (56.14)  
14 you're suggesting should -- should be fifty-eight (58),  
15 correct?

16 MR. HAROLD SURMINSKI: Cor -- yes,  
17 correct.

18 MR. BYRON WILLIAMS: And for the '07/'08  
19 year on the low again, which -- where we're suggesting  
20 fifty-six point four one (56.41), you're suggesting  
21 fifty-eight point six nine (58.69), correct?

22 MR. HAROLD SURMINSKI: Yes.

23 MR. BYRON WILLIAMS: And for the '08/'09  
24 year, where we're suggest -- for the low again, we're  
25 suggesting fifty-seven point seven seven (57.77).

1                   You're suggesting that should be replaced  
2 by sixty point one zero (60.10), correct?

3                   MR. HAROLD SURMINSKI:    Correct.

4                   MR. BYRON WILLIAMS:    Okay.  And I -- I  
5 have your point, and we're certainly prepared to work  
6 with you on that, that these are the -- the more  
7 appropriate inflators, and I've just replaced those four  
8 (4) numbers for -- for my purposes on my table.

9                   Is that all right with you, Mr. Surminski?

10                  MR. HAROLD SURMINSKI:    Yes, that's fine.

11                  MR. BYRON WILLIAMS:    Okay.  And just at a  
12 -- when we look at the table, essentially, the first left  
13 -- the left -- extreme left-hand column is just the  
14 particular fiscal year, correct?

15                  MR. HAROLD SURMINSKI:    Correct.

16                  MR. BYRON WILLIAMS:    And the next two (2)  
17 columns are Manitoba inflation annual and cumulative,  
18 which you are suggesting should be replaced by the U --  
19 US GDP Price Dep -- Deflator mar -- found on Hydro 110,  
20 correct?

21                  MR. HAROLD SURMINSKI:    Correct.

22                  MR. BYRON WILLIAMS:    And what we see in  
23 the fourth and fifth columns under the heading Wuskwatim  
24 NFAAT Average Export Revenue in 2002 Dollars, I'll ask  
25 you to agree are numbers derived from Manitoba Hydro's

1 Wuskwatim need for and alternative submission.

2 Would that be fair, sir?

3 MR. HAROLD SURMINSKI: Yes. I've checked  
4 the document and can confirm they were extracted from --  
5 from the NFAAT document.

6 MR. BYRON WILLIAMS: And just while we --  
7 we stay on that number for a second -- or the -- that co  
8 -- those two (2) columns, you'll see that they are  
9 presented as a low number and a high -- high number.

10 Do you see that, sir?

11 MR. HAROLD SURMINSKI: Yes.

12 MR. BYRON WILLIAMS: And I'll suggest to  
13 you that in 2002 dollars, that was the -- the range of --  
14 of forecasts available to Manitoba Hydro at -- at that  
15 point in time, a -- one (1) being a low figure and one  
16 (1) being a high figure?

17 MR. HAROLD SURMINSKI: The range was  
18 provided because the expected was confidential, so Hydro  
19 provided the -- the extremes of the range.

20 MR. ROBERT MAYER: And Mr. Williams  
21 negotiated that deal at the -- at those hearings.

22

23 CONTINUED BY MR. BYRON WILLIAMS:

24 MR. BYRON WILLIAMS: I can't confirm  
25 that, Mr. Surminski, but I -- I don't re -- actually --

1 okay, I did. I'm glad to see I've had some utility.

2                   And when we look at the low and the high,  
3 would I be correct in suggesting that the export prices  
4 quoted there in -- in those -- those columns represent  
5 the average export revenues for the year concerned such  
6 that they should reflect both the price in existing  
7 contracts for export as well as forecast prices that were  
8 expected to be achieved through short-term sales and new  
9 long-term contracts?

10                   Is that correct, sir?

11                   MR. HAROLD SURMINSKI: Yes, it is a blend  
12 of existing and future long-term and opportunity sales.

13                   MR. BYRON WILLIAMS: And again, given  
14 that, for business reasons, Hydro was not in a position  
15 to share the actual forecasts, what it chose to do  
16 apparently with some assistance from me was to set out  
17 the low and the high of their forecast. Fair enough?

18                   MR. HAROLD SURMINSKI: Yes.

19                   MR. BYRON WILLIAMS: And what the next  
20 two (2) columns over do -- do, being under the heading  
21 Average Export Revenue Nominal, is they attempt to turn  
22 those 2002 dollars into current dollars for the  
23 particular year in question, correct?

24                   MR. HAROLD SURMINSKI: Yes, current, or  
25 nominal, as you have labelled it.

1                   MR. BYRON WILLIAMS:   And -- and again,  
2 they're expressed in -- in those two (2) columns as a low  
3 and a -- a high, so that would be the range reflective of  
4 the nominal conversion of the 2002 dollars, correct?

5                   MR. HAROLD SURMINSKI:   Correct.

6                   MR. BYRON WILLIAMS:   And the important  
7 caveat that you offer to my client, and to others, is  
8 that the more -- more comparable numbers, in your view,  
9 are the nominals presented in Manitoba Hydro Exhibit 110,  
10 correct?

11                  MR. HAROLD SURMINSKI:   Correct.

12                  MR. BYRON WILLIAMS:   And if we move over  
13 under the heading 2010/2012 (sic) GRA, and we'll get into  
14 the specifics of Column A in a second, Mr. Surminski, but  
15 you'll agree that what is attempted to be portrayed here  
16 are numbers on the record of the 2010/'12 (sic) GRA in  
17 terms of either actual average export prices or forecast  
18 average export prices.  Would that be fair, sir?

19                  MR. HAROLD SURMINSKI:   Yes.

20                  MR. BYRON WILLIAMS:   And let's stick with  
21 the easy ones first.  On the extreme right is the  
22 forecast average revenue under Column C, and those  
23 numbers are drawn directly with no calculations by my  
24 clients from PUB Manitoba Hydro 40 -- First Round 45B,  
25 correct?

1 MR. HAROLD SURMINSKI: Yes, I can confirm  
2 that I have looked it up.

3 MR. BYRON WILLIAMS: And moving over to  
4 'B', those numbers again are, I'll suggest to you and ask  
5 you to confirm, are drawn directly from the Corporation's  
6 response to First Round -- PUB First Round 31, correct?

7 MR. HAROLD SURMINSKI: Correct.

8 MR. BYRON WILLIAMS: And 'A' is a bit of  
9 a different kettle of fish, I'll suggest to you, because  
10 it's -- flows from a -- not derun -- derived directly  
11 from CAC/M -- did not derive directly from CAC/MSOS-1-  
12 13D, but they are a sum of the prices, or attempted sum  
13 anyways, of the prices for dependable opportunity and  
14 system merchant found in that -- in that response.

15 Would that be fair?

16 MR. HAROLD SURMINSKI: Yes, they are  
17 that, but merchant, we -- we may talk about, you know,  
18 the appropriateness of including merchant in -- in a  
19 total like this.

20 MR. BYRON WILLIAMS: And certainly, Mr.  
21 Surminski, from my -- my clients' perspective, we would  
22 like to hear that now, so we're -- if you're suggesting  
23 that it's not appropriate, we're -- we're quite content  
24 with that, but I -- I'd like your views on that.

25 MR. HAROLD SURMINSKI: Well, merchant

1 transactions have revenues, but they do not have volumes,  
2 so they'll tend to -- tend to inflate the -- the price,  
3 the unit price, and we had discussions earlier in the  
4 hearing about including the merchant revenues because  
5 there are offsetting costs associated with those.

6 MR. BYRON WILLIAMS: And just as I hear  
7 your evidence, sir, and if I'm putting words in your  
8 mouth you'll correct me, but if you were looking at the  
9 far three (3) tables in terms of the actuals and/or  
10 forecasts, you might stroke out, frankly, Column A, and  
11 place -- pay greater attention to Columns B and C.

12 Would that be fair, sir, given that they  
13 don't include merchants?

14 MR. HAROLD SURMINSKI: It's difficult to  
15 judge whether 'B' does not include merchant either, or  
16 whether it does or not.

17 There are difficulties in -- in  
18 calculating average unit prices, and I think it showed up  
19 earlier in -- in our responses to information requests.  
20 I think we had several different estimates for -- for the  
21 same year, and, you know, depending on whether you  
22 include financial settlements, and there's -- there's  
23 various difficulties with -- with calculating unit  
24 prices, and -- and using the appropriate volumes.

25 So you may have a total revenue, but what

1 is the volume is always a question. Are losses  
2 considered in the Manitoba Hydro system? Is this at the  
3 border or is at generation in the system? I think  
4 there's -- there's difficulties always in that unit price  
5 depending on -- on how it's determined.

6 MR. BYRON WILLIAMS: Do you, sir, have  
7 better suggestions than the one I presented here in terms  
8 of comparing to the -- for the purposes of comparing to  
9 the original forecasts updated in nominal terms?

10 MR. HAROLD SURMINSKI: No, I don't think  
11 the -- the end result would be very different, so for --  
12 for relative comparisons, I think this is sufficient.

13 MR. BYRON WILLIAMS: And I thank you for  
14 that. And if I can ask -- just if we look at -- and --  
15 and I appreciate your point on relative comparisons. If  
16 we look at Columns B and C on the extreme right-hand side  
17 for the 2009/'10 to the 2011/'12 years, we'll see that  
18 those figures don't perfectly reconcile. Do you see  
19 that, sir? The numbers are different in the extreme  
20 Column B and the extreme Column C at the right-hand side?

21 MR. HAROLD SURMINSKI: Yes, they're  
22 different.

23 MR. BYRON WILLIAMS: Can I be so bold as  
24 to ask you to speculate -- or maybe that's too -- too --  
25 but to -- do you have any sense of why there might be

1 that difference, sir? Perhaps you've addressed it  
2 already.

3 MR. HAROLD SURMINSKI: No, I have not  
4 investigated it in detail. They were -- the estimate for  
5 'B' was prepared fairly early in the -- in the hearing  
6 process, and I think it is a question of prices,  
7 including -- some of it is including losses that are not  
8 in the system. I would think the forecasts for '10 and  
9 '11 did come from -- from the longer term from my area of  
10 responsibility, but I -- I did not check to see why.

11 And, also, the other difficult is the  
12 Column C, there -- it's -- it's a question of whether  
13 losses on -- on exports have been included or not.

14 MR. BYRON WILLIAMS: Okay. So for -- but  
15 we've agreed that, for relative purposes, this is about  
16 as good as it gets, sir?

17 MR. HAROLD SURMINSKI: Yes.

18 MR. BYRON WILLIAMS: And what I'd like to  
19 do is just look at the lows -- the nominal lows using  
20 your US GDP price deflators for '05/'06.

21 Would I be correct -- and looking at  
22 Column B on the extreme right-hand side. Would I be  
23 correct in saying that the actual average export revenue  
24 reported by Hydro in this information response fell below  
25 the projected low for that year, being 2005/'06, sir?

1 MR. HAROLD SURMINSKI: Yes.

2 MR. BYRON WILLIAMS: And if... And I  
3 could -- I'll suggest to you that if I still stay with  
4 the actuals, if I looked out '06/'07, '07/'08, and  
5 '08/'09, again, comparing the actuals for those  
6 particular years versus the low, it would be accurate to  
7 suggest that in all three (3) years the actuals fell  
8 below the updated nominal numbers presented on the low  
9 side in Wuskwatim. Would that be fair?

10 MR. HAROLD SURMINSKI: Yes. I do note in  
11 '09 the thirty (30) -- if you're comparing the thirty-two  
12 dollar (\$32) in Column A --

13 MR. BYRON WILLIAMS: Yeah, I -- I'm not  
14 sure I had got there yet, but.

15 MR. HAROLD SURMINSKI: Okay.

16 MR. BYRON WILLIAMS: And I'm -- I'm fine  
17 to -- to do so. I -- I think --

18 MR. HAROLD SURMINSKI: What year have you  
19 got to? Sorry, I'm not sure.

20 MR. BYRON WILLIAMS: I was up to '08/'09,  
21 sir.

22 MR. HAROLD SURMINSKI: Okay, that's fine.

23 MR. BYRON WILLIAMS: And, again -- again,  
24 I was more focussed on Column B being the higher number.  
25 Even in terms of the forecast for '09/'10 presented

1 there, there would be a difference.

2 I guess we actually have the actual  
3 numbers for '09/'10 now, don't we, sir? That was a  
4 compound question. Let me try that again.

5 Mr. Surminski, and I apologize for that,  
6 looking at the table first of all, Column B on the right-  
7 hand side for the '09/'10 year, the forecast of forty-  
8 three point five eight (43.58) is less than the lower  
9 range of the Wuskwatim NFAAT nominal estimate, correct?

10 MR. HAROLD SURMINSKI: Yes.

11 MR. BYRON WILLIAMS: And do we have the  
12 actuals for that year now, sir?

13 MR. HAROLD SURMINSKI: We probably do,  
14 but I don't have it offhand here.

15 MR. BYRON WILLIAMS: Not -- not to worry  
16 then. We -- we won't pursue this any further.

17 Mr. Chairman, that's -- subject to any  
18 further comment by Mr. Surminski, that -- in terms of  
19 this area, that -- that would end my inquiry.

20 THE CHAIRPERSON: Okay, we --

21 MR. HAROLD SURMINSKI: I do have a  
22 comment.

23 MR. BYRON WILLIAMS: And I'll -- I'll  
24 make it...

25

1 CONTINUED BY MR. BYRON WILLIAMS:

2 MR. BYRON WILLIAMS: Go ahead please, Mr.  
3 Surminski.

4 MR. HAROLD SURMINSKI: Well, the comment  
5 being that the export prices were significantly low  
6 because of the signif -- of the large recession that we  
7 had, the largest in -- in seventy (70) years, or whatever  
8 Mr. Rose would comment on, so in times of -- of an  
9 adverse economic cycle, you would expect that -- that  
10 prices would be extremely low.

11 MR. BYRON WILLIAMS: And Mr. Surminski,  
12 just remind me, when did the recession start?

13 MR. HAROLD SURMINSKI: 2008.

14 MR. BYRON WILLIAMS: And so your comment,  
15 and -- and it's well taken, is that the lower numbers in  
16 the '08/'09 year, and the '09/'10 year, would be a  
17 function in -- to a significant degree, of the US  
18 recession. Would that be fair, sir?

19 MR. HAROLD SURMINSKI: Yes. An -- an  
20 additional factor of why our range for -- no, I guess  
21 that would not follow for the low. I was going to argue  
22 about the -- the greenhouse gas coming online. It was --  
23 it was expected to be a lot earlier, but that's affecting  
24 the high more so than the low.

25 MR. BYRON WILLIAMS: And just while I

1 have you, so the -- the recession wouldn't have affected  
2 the earlier years, '05/'06, '06/'07, would that be  
3 correct, sir?

4 MR. HAROLD SURMINSKI: That would be  
5 correct, yes.

6 MR. BYRON WILLIAMS: And actually, Mr.  
7 Surminski, I -- I meant to ask this, and -- and your  
8 response reminded me.

9 How if at all has the Corporation's  
10 approach to forecasting export prices changed since the  
11 time of the Wuskwatim need for and alternative  
12 discussion?

13 THE CHAIRPERSON: I think we'll wait for  
14 his response at 1:15 because it's a very interesting  
15 question and I think they should think on it. Thank you.

16  
17 --- Upon recessing at 12:05 p.m.

18 --- Upon resuming at 1:26 p.m.

19

20 THE CHAIRPERSON: I must apologize, you  
21 probably heard the -- discount this, but it's actually  
22 true. The -- the clock in our lunch room is actually --  
23 reads eleven (11) minutes after 1:00, but anyway, we'll  
24 have to get that fixed. Mr. Williams...?

25 MR. BYRON WILLIAMS: I think we were

1 waiting with bated breath -- breath for Mr. Surminski's  
2 answer, but Mr. Chairman, just while you're -- if you're  
3 -- in the next hour or so, there's two (2) additional  
4 documents that will pop up.

5 One (1) will be Manitoba Hydro Exhibit 59,  
6 which is the third-quarter report, so that's 59, the  
7 third-quarter financial. And the other one (1) would be  
8 a reference from the transcript, page 4,186. I don't  
9 expect we'll get there for forty (40) minutes, or so, but  
10 just if you're...

11

12 CONTINUED BY MR. BYRON WILLIAMS:

13 MR. BYRON WILLIAMS: And -- and with  
14 that, Mr. Surminski, can you recall the question?

15 MR. HAROLD SURMINSKI: I think my  
16 response was -- was trying to qualify or explain why some  
17 of the export prices were extremely average export  
18 revenues, or the prices associated with our exports are  
19 low, and -- and -- are they low relative to the forecast  
20 of the Wuskwatim NFAAT time period. The low forecast at  
21 the time.

22 And I didn't want to let it go just  
23 without explaining at least, maybe this is not apples and  
24 apples in some way. The comparisons of actuals are  
25 influenced to a great degree by volumes. So if, for

1 example, 2005/'06 was an extremely high-flow year, had  
2 record high flows, we had a lot of opportunity, low-  
3 priced, off-peak energy, so that would bring down the --  
4 the average prices.

5                   And I recall an earlier hearing where I  
6 had mentioned this, and -- and I suggested that  
7 normalizing is appropriate for -- for normal type of flow  
8 conditions. So any time you have export prices that are  
9 based on particular flow years, they really should be  
10 normalized if you're going to compare them on a -- you  
11 know, side-by-side, comparable, fair basis.

12                   MR. BYRON WILLIAMS: And have you done  
13 that, Mr. Surminski, for '05/'06?

14                   MR. HAROLD SURMINSKI: No, I have not  
15 done that in -- in this case. I had -- I recall having  
16 done that earlier to some degree, and -- but it's -- it's  
17 a warning that you shouldn't just take export prices as  
18 they occurred and compare them because the averages that  
19 we have here are based on the expectation of all flow  
20 conditions.

21                   I can confirm the Wuskwatim NFAAT were  
22 derived from the entire range of possible flow  
23 conditions, so it would have, you know, just the -- the  
24 expect -- the expected value of flows. Any time you have  
25 higher or lower flows, you'll bias the average prices one

1 (1) way or the other.

2 MR. BYRON WILLIAMS: And by having all  
3 flows, is that the average of all flows, sir?

4 MR. HAROLD SURMINSKI: It's the  
5 expectation. The -- the expected price in each of the  
6 flow conditions, averaged. That's -- that's

7 MR. BYRON WILLIAMS: Yes.

8 MR. HAROLD SURMINSKI: -- what we  
9 normally do.

10 MR. BYRON WILLIAMS: Yeah. And -- and  
11 you spoke of the '05/'06 year. You're not suggesting, at  
12 least yet, that the '06/'07 year was a high-flow year,  
13 are you, sir?

14 MR. HAROLD SURMINSKI: That -- no. That  
15 was more of a -- close to a normal-flow year, but the  
16 years after that were all above average flows. '06 is  
17 the one (1) that's close to normal, or average.

18 MR. BYRON WILLIAMS: Okay. And just so I  
19 understand this, in terms of '05/'06, a partial  
20 explanation of why the actuals are below the average, one  
21 (1) factor would be the higher than expected -- or the  
22 higher flow than average. Would that be right, sir?

23 MR. HAROLD SURMINSKI: That's right.

24 MR. BYRON WILLIAMS: '06/'07, where the  
25 prices are maybe seven (7) -- seven dollars (\$7) below

1 average, that is a normal-flow year, sir?

2 MR. HAROLD SURMINSKI: It's -- yes, I  
3 think it was close to normal.

4 MR. BYRON WILLIAMS: And as we look at  
5 '07/'08 and '08/'09 -- well, let's stay '07/'08, you're  
6 suggesting that that is a high-flow year?

7 MR. HAROLD SURMINSKI: It's -- it's  
8 significantly above average, yes. Not as -- not as high  
9 -- '05/'06 was a record year for us. That was the  
10 highest energy potential we could ever derive from our  
11 ninety-six (96) year record, so the -- that is the very  
12 extreme. I -- I would expect the -- the bias to be  
13 greatest in -- in that year, but definitely '06 -- '06  
14 closer to normal, '07 somewhat to significantly above  
15 normal.

16 MR. BYRON WILLIAMS: And '08/'09?

17 MR. HAROLD SURMINSKI: Similarly, well  
18 above normal.

19 MR. BYRON WILLIAMS: Now, when we were  
20 talking about '09/'10 before, we couldn't lay our fingers  
21 on the -- the most -- or the actuals for that -- that  
22 year and, Mr. Surminski, would Manitoba Hydro Exhibit 51  
23 assist you in -- in coming up with some actuals for the  
24 2009/'10 year, sir?

25 MR. HAROLD SURMINSKI: Yes. I have

1 looked at those, and I recall numbers being provided for  
2 better estimates at the actual, which basically cleaned  
3 up the -- the products that are in that mix because  
4 there's -- there was congestion management, there was,  
5 you know, several factors that -- that we can sort of ex  
6 -- remove from -- from the package of exports and try to  
7 get just the physical export products, and that's what --  
8 there is a calculation of the actual physical and -- and  
9 energy-related exports in -- in that undertaking.

10 MR. BYRON WILLIAMS: And would that  
11 figure that you arrive at be three point three (3.3)  
12 cents a kilowatt hour, sir?

13 MR. HAROLD SURMINSKI: Yes, I can confirm  
14 in '09/'10 three point three (3.3), or thirty-three  
15 dollars (\$33) a megawatt hour, to compare to the numbers  
16 we have was -- this is the actual physical, and that's in  
17 the depths of the recession, the downturn.

18 MR. BYRON WILLIAMS: So if -- and just if  
19 we were -- so let's look at Column B for a second or --  
20 for that year, the -- the best actual -- or the actual we  
21 have is thirty-three dollars (\$33), is that right, sir?

22 MR. HAROLD SURMINSKI: Yes.

23 MR. BYRON WILLIAMS: Now, Mr. Surminski,  
24 I think where we actually left on -- on the break, in  
25 terms of my question, was: How, if at all, has Manitoba

1 Hydro's approach to forecasting changed since -- since  
2 the Wuskwatim need for and alternative discussion?  
3 You've got more forecasters I think you're using, maybe  
4 different ones.

5 MR. HAROLD SURMINSKI: We've got  
6 different forecasters. We -- we did have up to four (4)  
7 at the time of the -- the Wuskwatim. We had a primary  
8 forecaster, which -- which was given the task of  
9 reviewing the whole -- the whole methodology that we  
10 have, and then we had three (3) others that -- that  
11 provided forecasts.

12 Generally, I don't think we are -- in --  
13 in methodology and in concept, we are very different in  
14 that way, except that maybe we have a better set of  
15 forecasters now because, as I had indicated earlier, we  
16 have dropped or eliminated some of the forecasters that -  
17 - that didn't seem to provide good explanations of their  
18 forecasts because we -- we -- we just don't want a  
19 forecast, we want a credible set of assumptions and --  
20 and relationships between the inputs and the outputs.

21 So perhaps in that way, over the years,  
22 we, you know, eliminated some of the ones that we thought  
23 maybe were not as credible from our judgment and added  
24 others that seemed to be more credible.

25 MR. BYRON WILLIAMS: And I thank you for

1 that helpful answer. I'm going to break it down into two  
2 (2) parts. First -- first of all, in terms of the  
3 Wuskwatim era, at that point in time, you've -- you --  
4 I'll ask you to confirm that you had a primary forecaster  
5 who looked at your methodology. And then there were, in  
6 addition, three -- three (3) further forecasters that you  
7 were employing?

8 MR. HAROLD SURMINSKI: Yes, that's what I  
9 recall at the time, yes. And part of the -- the  
10 assignment of the -- this primary forecaster was to -- to  
11 assess the premium that Manitoba Hydro can expect to  
12 extract above, say, the market price, and -- and the  
13 premium is -- is, due to the counterparty, guaranteeing  
14 themselves a price, eliminating volatility for them and  
15 uncertainty.

16 So there is a premium that the  
17 counterparties are willing to pay just for a guarantee of  
18 power at a fixed price for a long time period such as  
19 fifteen (15) years. So when we develop our forecasts we  
20 -- we get the market clearing price, but the market  
21 clearing price is a short-term price for every year.

22 Now, on top of that, we expect that the  
23 counterparty is willing to pay more because they want to  
24 eliminate their uncertainty and their volatility over the  
25 years. So that was -- that was part of the -- the

1 assignment of this -- the primary forecaster, to -- to  
2 provide us with an estimate of that premium.

3 MR. BYRON WILLIAMS: And in your current  
4 approach does that primary forecast role still exist,  
5 sir?

6 MR. HAROLD SURMINSKI: No, we -- we  
7 continue use -- to use that -- that same premium over --  
8 since it was developed in that period, of '03 or so, '02,  
9 '03. We have -- we have it confir -- confirmed by -- by  
10 others and, like ICF, that it is appropriate to -- to  
11 extract a premium for certainty.

12 MR. BYRON WILLIAMS: And so they've  
13 revisited that methodology developed by the primary  
14 forecaster in the Wuskwatim era?

15 MR. HAROLD SURMINSKI: They revisited the  
16 concept and -- and the -- and the magnitude of that  
17 premium.

18 MR. BYRON WILLIAMS: But not the actual--

19 MR. HAROLD SURMINSKI: But not the actual  
20 --

21 MR. BYRON WILLIAMS: -- methodology?

22 MR. HAROLD SURMINSKI: Right, not the  
23 actual -- they didn't -- didn't go -- they did not --  
24 they did not go back to that forecaster and see that  
25 report or -- or any of that.

1                   MR. BYRON WILLIAMS:   And I also  
2 understood your answer a couple questions ago in terms of  
3 the forecasters who you were actually employing at the  
4 time of Wuskwatim, you've pruned, P-R-U-N-E-D, some of  
5 them on a judgmental basis because of the -- your  
6 assessment of their -- the credibility of the  
7 explanations they provided in support of their forecast  
8 as compared to others?

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

11                   MR. BYRON WILLIAMS:   And so in the stable  
12 you -- today you have five (5) forecasters that you're --  
13 that you're employing to develop your forecast, sir?

14                   MR. HAROLD SURMINSKI:   Yes, that's  
15 correct.  And I think even this year we are -- are adding  
16 a new forecaster that -- that we have not had before.

17                   MR. BYRON WILLIAMS:   And how, if at all,  
18 is -- is there an ongoing assessment of the  
19 methodological approach of those forecasters similar to  
20 what you did with the Wuskwatim era forecasters, sir?

21                   MR. HAROLD SURMINSKI:   Can you clarify  
22 that statement, please?

23                   MR. BYRON WILLIAMS:   Okay.  Well, let me  
24 -- how do you assess the performance of the current team  
25 of forecasters on a going-forward basis, sir?

1                   MR. HAROLD SURMINSKI:    Again, its  
2 performance -- I think we were asked in -- in other  
3 forums and occasions, you know, is there a track record  
4 for these.  There's no track record that you can really  
5 go on for a forecaster, so, again, it's -- it's looking  
6 at their methodologies, it's -- it's assessing the  
7 credibility of their conclusions, what factors do they  
8 consider, what is the linkage between the -- the  
9 fundamental drivers and -- and the electricity prices in  
10 the end.

11                   MR. BYRON WILLIAMS:    And you mentioned  
12 adding a new one this year, sir.  Is that correct?

13                   MR. HAROLD SURMINSKI:    Yes, correct.

14                   MR. BYRON WILLIAMS:    And does that put  
15 you up -- does that put you up to six (6)?

16

17                                   (BRIEF PAUSE)

18

19                   MR. HAROLD SURMINSKI:    No, I don't -- we  
20 haven't finalized that, but I believe we'll be -- we will  
21 be dropping one (1) of the other forecasters.  This other  
22 forecaster just provides -- does not provide -- provi --  
23 they only provide an off the shelf type of forecast not  
24 specific to -- to our area, and it -- it's not long on  
25 duration.  So it doesn't fit with the others as well.  So

1 I -- I think we -- we are eliminating that one (1).

2 THE CHAIRPERSON: Before --

3 MR. HAROLD SURMINSKI: We still use their  
4 results, but we don't include it in -- into consensus.

5 THE CHAIRPERSON: Before we run too far  
6 from Mr. -- Mr. Williams questions, just a couple -- it -  
7 - presumably there's a number of factors that could  
8 account for a difference between an average forecast  
9 price and -- and what the actual is.

10 You mentioned one (1), which is volumes,  
11 or -- or water flow, if you like, and more opportunity  
12 sales. Another one (1) presumably would be currency  
13 changes. The third one (1) presumably would be low  
14 prices because of different generations in the states  
15 because of, for example, shale gas.

16 I imagine there's a -- in some other  
17 fields, actuaries do calculations that account for all of  
18 the differences between a forecast and an actual,  
19 presumably it could be done in this -- in your case as  
20 well, I -- I suppose.

21 MR. HAROLD SURMINSKI: Yes, if -- if one  
22 attempted to, and I recall the -- that earlier  
23 normalizing argument, I think it was you, in fact, who --  
24 who built on that and asked us to -- to provide it, where  
25 we had natural gas and volumes. I recall those two (2)

1 variables were -- were used because natural gas had --  
2 was very volatile in those years and it had a big  
3 influence on annual prices.

4

5 CONTINUED BY MR. BYRON WILLIAMS:

6 MR. BYRON WILLIAMS: Thank you. And, Mr.  
7 Surminski, I -- from my end, that's all. I kind of cut  
8 you off last time before lunch. Anything more you want  
9 to share? I shouldn't ask that, but I'm going to. Mr.  
10 Rainkie, you won't get the same opportunity.

11

12 (BRIEF PAUSE)

13

14 MR. HAROLD SURMINSKI: Just a  
15 clarification, I guess, Mr. Williams. On your table, you  
16 had included the word revenue and -- and average export  
17 revenues, whereas they are actually unit prices. So they  
18 are -- they're not the -- the total dollars, but they are  
19 dollars per -- per unit of energy.

20 But if we're talking about revenues, the  
21 revenues are -- and costs and -- and the total net  
22 revenues are a factor in our system, and if there is  
23 other variables that may be coincidental, or correlated,  
24 to -- to stream flows, they may be a natural hedge or may  
25 -- may follow export prices, and I think Mr. Schulz would

1 like to expand on that.

2 MR. BYRON WILLIAMS: We'll see how far  
3 afield this leads us, but go ahead, Mr. Schulz.

4 MR. MANFRED SCHULZ: You asked prior to  
5 the break about the economic downturn, when did it start,  
6 and what the impact perhaps could have been on export  
7 pricing. And so if you look at the schedule you  
8 provided, for instance on Column B, you will see that the  
9 export pricing remained fairly constant somewhat before  
10 the economic downturn, goes down fairly significantly,  
11 and then is forecast to rebound upward.

12 The point that I would make is further to  
13 the correlations that we spoke about before. There is a  
14 correlation between, and as identified by the National  
15 Bank statistically, there is a correlation between  
16 Canadian and US short-term interest rates and export  
17 pricing, and this schedule provides some pragmatic  
18 demonstration of that.

19 The National Bank indicated that the  
20 correlations are not one (1) to one (1), and in fact I  
21 think I even put onto the record the numerics to that,  
22 and they're listed on page 7 of your report. So the  
23 correlation is point four six (.46) between Canadian  
24 short-term interest rates and export power, and point  
25 three seven (.37) on US interest rates and export-power

1 pricing.

2                   So not a perfect one (1) to one (1) hedge  
3 in relationship, but there is one (1) indeed, so while  
4 our finance expense during this period of time is going  
5 down in accordance with the macroeconomic conditions, so  
6 too, as indicated by the scheduling and the information  
7 provided by Mr. Surminski, and in your discussion you've  
8 seen that in the export pricing as well.

9                   THE CHAIRPERSON:   Just going back for a  
10 second to -- it raises to mind the -- the other question  
11 I -- I had there.

12                   You were talking about the -- the  
13 prediction, if you like, of a -- of a premium to -- to  
14 secure a price that's certain. Is the -- the opposite  
15 not also possible? In other words, the vendor would take  
16 a discount to secure a certain volume in the future. I'm  
17 just wondering whether your assumption of the premium is  
18 -- is based in some form of academic literature or actual  
19 fact.

20                   MR. HAROLD SURMINSKI:   I'm not -- I don't  
21 quite understand what the opposite means in your case.

22                   THE CHAIRPERSON:   Well, if I was selling  
23 oranges, I might think that ten (10) years from now I'm  
24 going to get a dollar fifty (\$1.50) for each, but to have  
25 someone come today and say, I'm willing to take 50

1 percent of the quantity you're going to produce in ten  
2 (10) years, I might take a dollar thirty-five (\$1.35),  
3 which would be, in a -- in a sense, a discount offer --  
4 off of my expected price, but, given the volumes...

5 I'm just wondering whether or not the  
6 premium that you're expecting is -- is supported by past  
7 transactions or industry practices or -- or consultations  
8 with experts.

9 MR. HAROLD SURMINSKI: Well, I think our  
10 -- our consultant, ICF, and the KPMG people concurred  
11 with what our assumptions that -- that people, the  
12 counterparties, are willing to pay a premium for -- for  
13 price certainty over an extended time period for a  
14 volatile product like electricity, as it has been. There  
15 are counterparties that -- most counterparties would be  
16 willing to -- to pay a premium. I think that was  
17 confirmed by our consultants.

18 THE CHAIRPERSON: And the premium isn't -  
19 - isn't associated with the other premium, which has to  
20 do with carbon?

21 MR. HAROLD SURMINSKI: No, not at all.  
22 It's -- it's the premium for long-term certainty. It's -  
23 - it's like locking in your mortgage. You know, you're  
24 willing to pay an extra bit, but you'll lock in your  
25 mortgage so that you're not exposed to volatility and --

1 and probably increasing rates in the future.

2 THE CHAIRPERSON: I'm not debating you,  
3 but I just find it an interesting discussion, because I -  
4 - I can recall providing some advice to my daughter and  
5 my son-in-law when they were looking at renewing their  
6 mortgage, for example. And the stated rate at the bank  
7 was 'X,' and I suggested they could probably do a lot  
8 better than that because they were good customers and  
9 they had a good credit record and everything else, and it  
10 ended up being true. In other words, the -- the price  
11 the bank set was quite a bit lower than their stated  
12 rate, so I think you understand what I'm --

13 MR. HAROLD SURMINSKI: I see now from  
14 your analogy, yes.

15 MR. MANFRED SCHULZ: My only additional  
16 point to that is, from a financing perspective, one  
17 should caution between fixed and floating on mortgages  
18 and on fixed and floating with respect to our financing,  
19 so that in the example -- you know, just as a point of  
20 clarification that on fixed-rate mortgages there often is  
21 a principle -- or a premium that's attached to the  
22 cashflow structure for banking, but not necessarily so  
23 for our financing for Manitoba Hydro.

24 THE CHAIRPERSON: Thank you for the  
25 discussion.

1 CONTINUED BY MR. BYRON WILLIAMS:

2 MR. BYRON WILLIAMS: Yeah, and I do want  
3 to thank you, Mr. Surminski and Mr. Schulz. That was --  
4 that was helpful as well, so I appreciate that.

5 Mr. Rainkie, how have you been?

6 MR. DARREN RAINKIE: It's beginning to  
7 feel like always a groomsman, never a groom, but...

8 MR. BYRON WILLIAMS: I'll -- I'll refer  
9 you to -- and, Mr. Warden, there'll be some questions for  
10 you as well, but CAC Exhibit 14, which is the first kind  
11 of book of documents, or book of exhibits really, from --  
12 from this proceeding. Do you have that, Mr. Rainkie?

13 MR. DARREN RAINKIE: I do.

14 MR. BYRON WILLIAMS: And I actually  
15 believe we had just turned to Tab 6 of the book, but I'm  
16 going to ask you to turn back a -- a page because we -- I  
17 -- I think we -- it's been a while, so I just wanted to  
18 remind everyone where we were. So it's the book of  
19 documents, and we're actually going to start at Tab 5  
20 just for one (1) -- one (1) moment, sir.

21 And just -- just where we had left off,  
22 Mr. Rainkie, you, in looking at -- at this document or  
23 this -- this page, being at Tab 5, you had expressed  
24 confidence in the figures on the left-hand side, being  
25 from IFF-09, and we -- and we had agreed to stroke out

1 the ones on the right-hand side.

2 Do you recall that discretion (sic), sir?

3 MR. DARREN RAINKIE: Vividly.

4 MR. BYRON WILLIAMS: And before we -- we  
5 turn to Tab 6, I understand that you -- you'll agree with  
6 me that there's a number of tabs in this document, being  
7 Tab 7 through 12, which deal with certain OM&A questions.

8

9 Is that fair, sir?

10 MR. DARREN RAINKIE: That's correct, yes.

11 MR. BYRON WILLIAMS: And I'm pretty proud  
12 of this par -- part. I -- I think you only have one (1)  
13 edit for me, sir, which is at Tab 9.

14 Is that right, sir?

15 MR. DARREN RAINKIE: That's right. And  
16 there's one (1) small number --

17 MR. BYRON WILLIAMS: Yeah, and let's --  
18 let's --

19 MR. DARREN RAINKIE: -- to change.

20 MR. BYRON WILLIAMS: -- let's turn there  
21 and just correct that number while we've got it. So this  
22 would be at Tab 9, which is on the inside labelled Table  
23 3, OM&A per 2010 GRA. Do you have that, Mr. Rainkie?

24 MR. DARREN RAINKIE: I do.

25 MR. BYRON WILLIAMS: And my understanding

1 is the -- under the line Accounting Adjustment for  
2 2009/'10, we'd like to stroke out that eight (8) and  
3 replace it with a nine (9). Would that be correct, sir?

4 MR. DARREN RAINKIE: That is correct, Mr.  
5 Williams.

6 MR. BYRON WILLIAMS: Thank you. Thank  
7 you for that. And perhaps we can turn back now at long  
8 last to Tab 6, the table titled MH Financial Forecast  
9 Incremental Revenues Sought. Do you have that, sir?

10 MR. DARREN RAINKIE: I have that.

11 MR. BYRON WILLIAMS: Any mathematical  
12 corrections to this table, sir?

13 MR. DARREN RAINKIE: No, I don't think  
14 there's any mathematical changes to it, if I understand  
15 what you're trying to demonstrate.

16 MR. BYRON WILLIAMS: And let me put that  
17 to you then. At a -- at a -- obviously, at the extreme  
18 left-hand side we just have the years. The next line  
19 over I'll ask you to confirm, we have the Manitoba  
20 inflation number source from Manitoba Hydro, correct?

21 MR. DARREN RAINKIE: Yes, that comes from  
22 our economic outlook.

23 MR. BYRON WILLIAMS: And then we have the  
24 -- from IFF-09, the table from the previous page, the  
25 revenue at 2009/'10 rates, and also the incremental

1 revenue being the next line over. Is that right, sir?

2 MR. DARREN RAINKIE: Yes, those two (2)  
3 columns come straight out of IFF-09.

4 MR. BYRON WILLIAMS: And looking to the  
5 2010/'11 year and the incremental revenue of 33 million,  
6 do you see that figure, sir?

7 MR. DARREN RAINKIE: I see it, yes.

8 MR. BYRON WILLIAMS: And what the -- what  
9 the next line over does, the 19 million figure, is, say,  
10 of that incremental revenue of 33 million, how much of it  
11 would be if rates were rising at forecasted Manitoba  
12 inflation. Would that be fair?

13 MR. DARREN RAINKIE: That's my  
14 understanding of what this calculation is depicting.

15 MR. BYRON WILLIAMS: And the -- the last  
16 column essentially is the end product of taking the  
17 incremental revenue of 33 million, subtracting the  
18 incremental revenue at Manitoba inflation of 19 million,  
19 to yield 14 million. We've labelled it, In Excess of  
20 Inflation.

21 Would that be fair, sir, that's the  
22 mathematical calculation?

23 MR. DARREN RAINKIE: That's the  
24 mathematical ca -- calculation. And I guess the last  
25 time we talked I had indicated to you that the most

1 current Stats Can information -- Canada information on  
2 Manitoba inflation for 2010/'11 was running about 2.1  
3 percent, but just -- just to be fair, that was our  
4 forecast. The 1.6 percent was a forecast, but the most  
5 current information is 2.1 percent.

6 MR. BYRON WILLIAMS: And -- and thank you  
7 for that. And if we go out in time to 2012/'13 or  
8 2013/'14, do you have any edits to the inflation numbers  
9 there, sir?

10 MR. DARREN RAINKIE: No, we haven't  
11 revised any of our forecast information on this table.

12 MR. BYRON WILLIAMS: So that would be  
13 reflective of the best information currently available to  
14 Manitoba Hydro -- or currently employed by Manitoba  
15 Hydro?

16 MR. DARREN RAINKIE: I think currently  
17 employed by Manitoba Hydro is the right way to say that,  
18 Mr. Williams.

19 MR. BYRON WILLIAMS: Thank you. Mr.  
20 Rainkie, I'm going to move on, if you're prepared to move  
21 on with me, sir.

22 MR. DARREN RAINKIE: Like I say, Mr. --  
23 Mr. Williams, there's just one (1) thing that kind of  
24 bothers me about this table. I know you said you  
25 wouldn't give me an open-ended question.

1 MR. BYRON WILLIAMS: No -- but Mr.  
2 Rainkie, go -- go ahead.

3 MR. DARREN RAINKIE: You know, and -- and  
4 I've said this a couple times already, once to yourself  
5 and once to Mr. Peters, but we start off by looking at  
6 2010/'11, and we roll forward ten (10) years, but it  
7 hasn't really been the subject of discussion yet at the  
8 hearing, but if we look back to our rebuttal evidence, we  
9 did some of these calculations over a twenty (20) year  
10 period from -- from 1990 to 2011.

11 And what we found is that Manitoba's CPI  
12 over that twenty (20) year period was about 58 percent,  
13 and that Manitoba Hydro rate increases over that period  
14 was about 38 percent, so our rate increases over the last  
15 twenty (20) year period had been about 20 percent less  
16 than cumulative Manitoba CPI.

17 So if -- if I look at that column that  
18 says, Revenue at 2009/'10 Rates, you know, we've got 1.16  
19 billion, or 1.159 billion for 2010/'11, so 1 percent is,  
20 let's say, \$12 million, 11, \$12 million, so if you took  
21 that 20 percent differential that existed at that point  
22 in time and multiplied it by \$12 million per percent, I -  
23 - I would be able to calculate that our rates are  
24 actually \$240 million less than cumulative inflation, if  
25 I started back in 1990.

1                   If I rolled that calculation forward ten  
2 (10) years, I get -- and accepting the inflation  
3 forecasts that are depicted here, I get cumulative  
4 Manitoba CPI over that thirty (30) year period of 91  
5 percent, and cumulative rate increases of 87 percent, so  
6 there's a 4 percent differential there from that  
7 calculation.

8                   So rates are forecast over the thirty (30)  
9 year period to be 4 percent less than accumulated CPI,  
10 and if you look at the column under Revenue at 2009/'10  
11 Rates, for the year 2019/'20, you know, it's one billion  
12 two hundred and ninety seven million (1,297,000,000),  
13 let's say \$13 million per percent.

14                   So if I multiply that by that 4 percent  
15 differential, I get the -- the fact that the rates  
16 forecast ten (10) years out over that thirty (30) year  
17 period would actually be \$52 million less than cumulative  
18 inflation.

19                   So I was just trying to demonstrate what I  
20 said a couple times, is where you end up in these types  
21 of calculations is where -- is where you start. If I  
22 start back in 1990, and roll the calculation forward over  
23 thirty (30) years, I get a much different perspective on,  
24 you know, the ability to control rate increases for this  
25 company than is depicted on this schedule.



1 once or twice in the hearing, but Manitoba Hydro was  
2 honoured as one (1) of Canada's top one hundred (100)  
3 employees -- employers by the Toronto Globe and Mail in  
4 it's eleventh annual top one hundred (100) employers  
5 competition, correct?

6 MR. VINCE WARDEN: Yes. Yes, you -- I'm  
7 just thinking, the Toronto Globe and Mail. I -- I guess  
8 it's the Toronto Globe and Mail.

9 MR. BYRON WILLIAMS: Oh, I'm sorry, the  
10 national newspaper, sir. The Globe and Mail?

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

12 MR. BYRON WILLIAMS: You're expecting a  
13 lot of precision from me this late in the afternoon, Mr.  
14 -- Mr. Warden.

15 At a high level, and we don't need to get  
16 into this to too great of a degree, but you'll agree with  
17 me that some of the criteria that the Globe and Mail uses  
18 in evaluating employers are physical workplace, work  
19 atmosphere, financial benefits and compensation, health  
20 and family benefits, those would -- vacation time, those  
21 would be some of the criteria, sir?

22 MR. VINCE WARDEN: Yes.

23 MR. BYRON WILLIAMS: And you can either  
24 look at the handy handout that I gave to -- gave to you,  
25 or trust me on this one. For exceptional performance

1 they award grades of 'A' plus; for above average, awards  
2 of 'A'; and for very good, 'B' pluses. Would that be  
3 fair, sir? That's your understanding?

4 MR. VINCE WARDEN: Yes, yes, and I'm -- I  
5 have the paper that you provided. I'm not sure whether  
6 this is an exhibit or not, but I have the paper that you  
7 -- you referenced.

8 MR. BYRON WILLIAMS: And, Mr. Chairman, I  
9 don't really think it needs to be a -- an exhibit. It's  
10 -- it's information that's familiar to Manitoba Hydro. I  
11 just -- to assist Mr. Warden along, I -- I thought I  
12 would hand it out to him.

13 And, Mr. Warden, again, would it be your  
14 understanding that, in terms of this competition, that  
15 there were over twenty-seven hundred (2,700) companies  
16 who applied for this prestigious honour?

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

18 MR. BYRON WILLIAMS: And would it be fair  
19 to say that, among the award recipients, in addition to  
20 Manitoba Hydro, were a number of other energy companies,  
21 including BC Hydro, Toronto Hydro, and Enbridge?

22 Would that be fair?

23 MR. VINCE WARDEN: Yes, I believe they  
24 were listed among the top one hundred (100), yes.

25 MR. BYRON WILLIAMS: And, Mr. -- Mr.

1 Warden, would it be accurate to say that, in terms of  
2 financial benefits and compensation, Manitoba Hydro was -  
3 - received an 'A' grade?

4 MR. VINCE WARDEN: Yes, that's what this  
5 paper indicates.

6 MR. BYRON WILLIAMS: And for health and  
7 family-friendly benefits, a 'B' plus, which is not bad?

8 MR. VINCE WARDEN: Yes.

9 MR. BYRON WILLIAMS: My mom was always  
10 happy with those, sir. For training and skills  
11 development, as well, it received an 'A'?

12 MR. VINCE WARDEN: I'm sorry, that last  
13 one --

14 MR. BYRON WILLIAMS: I'm getting giddy.  
15 Sorry, Mr. Warden. For training and skills development,  
16 as well, it received an 'A'. Would that be fair?

17 MR. VINCE WARDEN: Yes.

18 THE CHAIRPERSON: I'm just thinking, Mr.  
19 Williams, you should probably join their collective  
20 bargaining team.

21 MR. VINCE WARDEN: We could use some help  
22 there.

23

24 CONTINUED BY MR. BYRON WILLIAMS:

25 MR. BYRON WILLIAMS: And, Mr. Warden, I'm

1 -- I'm going to turn back to Mr. Rainkie. Mr. Rainkie,  
2 just a bit of grinding on these OM&A tables, and I'm  
3 going to ask you to turn to Tab 7, which is OM&A per the  
4 2008 GRA, sir.

5 MR. DARREN RAINKIE: I have that, Mr.  
6 Williams.

7 MR. BYRON WILLIAMS: And, Mr. Chairman  
8 and Mr. Vice-Chair, this -- Mr. Rainkie, this is a -- a  
9 preface to my question. One (1) of our client's purposes  
10 in terms of this is just to -- there's been a lot of  
11 information on OM&A put on the record, so we're hopeful  
12 that this discussion puts it in -- in one (1) place with  
13 numbers that we can largely agree on, although, as you've  
14 heard today, Mr. Rainkie and I don't always agree about  
15 the conclusions that we draw from that.

16 Would that be fair, Mr. Rainkie?

17 MR. DARREN RAINKIE: That's fair, Mr.  
18 Williams?

19 MR. BYRON WILLIAMS: If we look at these  
20 -- these numbers, this table at Tab 7, these are the  
21 materials be -- would be based on the materials before  
22 the Board in the 2008 GRA and based on IFF-07-1.

23 Would that be fair, sir?

24 MR. DARREN RAINKIE: That's correct.

25 MR. BYRON WILLIAMS: And they exclude

1 OM&A for subsidiaries, correct?

2 MR. DARREN RAINKIE: That's correct.

3 MR. BYRON WILLIAMS: And if we look at  
4 this table, you'll agree, and perhaps subject to check,  
5 but perhaps you'll agree, that the -- the only actual  
6 figure is the '06/'07, with the '07/'08 on through  
7 '11/'12 being forecast. Would that be fair, sir?

8 MR. DARREN RAINKIE: That's right. At  
9 that point in time '06/'07 was the only actual figure.

10 MR. BYRON WILLIAMS: And just for those -  
11 - and we'll spend a bit more time on this table, just to  
12 help us walk through the other ones with greater speed,  
13 sir. Across the top obviously we have the years, the  
14 Manitoba Hydro financial years.

15 MR. DARREN RAINKIE: Yes, the fiscal  
16 years.

17 MR. BYRON WILLIAMS: And the second --  
18 the second line is the OM&A -- OM&A expense, either  
19 actual in the '06/'07 year, or fore -- forecast for the  
20 fiscal years out through to '11/'12, is that right, sir?

21 MR. DARREN RAINKIE: That's right.

22 MR. BYRON WILLIAMS: And the figure  
23 underneath labelled "Increase", captures mathematically  
24 the year-over-year increase, correct, sir?

25 MR. DARREN RAINKIE: That's right, of

1 your -- of your second row that you had earlier  
2 indicated, yes.

3 MR. BYRON WILLIAMS: And the cumulative  
4 increase captures just what it says, the cumulative  
5 increase over time, taking all the years from the base  
6 into account, correct?

7 MR. DARREN RAINKIE: That's correct.

8 MR. BYRON WILLIAMS: Obviously, the  
9 number of customers are set out next. And I -- I'll have  
10 you confirm that for '11/'12, at that point in time, you  
11 were looking at five hundred and thirty-five thousand  
12 (535,000) -- seven hundred and forty thousand (740,000).

13 Is that correct, sir?

14 MR. DARREN RAINKIE: Yes, that was the  
15 forecast back at the time of IFF-07.

16 MR. BYRON WILLIAMS: An -- and we'll come  
17 back to that number in a couple -- couple minute --  
18 minutes. And then the -- the next line is the actual  
19 forecast OM&A -- OM&A per customer.

20 Do you see that line, sir?

21 MR. DARREN RAINKIE: Yes, I do.

22 MR. BYRON WILLIAMS: And that's simply  
23 calculated by taking the OM&A expense from the top line  
24 and divide it by the number of customers.

25 Would that be fair, sir?

1 MR. DARREN RAINKIE: Yes, that's the  
2 calculation.

3 MR. BYRON WILLIAMS: And, again, the  
4 bottom two (2) lines represent the increase in OM&A per  
5 customer, and the cumulative increase as well, correct?

6 MR. DARREN RAINKIE: That's correct.

7 MR. BYRON WILLIAMS: And let's stay on  
8 that OM&A customer concept for just a second, Mr.  
9 Rainkie. This is pretty simple mathematics that even I  
10 can handle. But if that number is going to change, it  
11 could be a product of a higher than expected customer  
12 growth, that would be one (1) factor that might change  
13 it, that would increase the new -- the denominator, sir?

14 MR. DARREN RAINKIE: That's right.

15 MR. BYRON WILLIAMS: Or it also could be  
16 a factor of a change in the nu -- numerator, being the  
17 total OM&A expense or both. Would that be correct, sir?

18 MR. DARREN RAINKIE: That's right, it  
19 could be either one or both.

20 MR. BYRON WILLIAMS: And just a last look  
21 at this number. Basically, going to the top line, we're  
22 looking at an OM&X -- OM&A expense moving from '06/'07 of  
23 323 million to 372 million in 2011/'12, correct, sir?  
24 That's be -- that's what's forecast in this one?

25 MR. DARREN RAINKIE: That's right.

1                   MR. BYRON WILLIAMS:   And the cumulative  
2 increase at -- at this point in time is 15.17 percent  
3 forecast, correct?

4                   MR. DARREN RAINKIE:   Yes, on the expense  
5 itself.

6

7                                   (BRIEF PAUSE)

8

9                   MR. BYRON WILLIAMS:   Mr. Rainkie, if you  
10 -- if you would -- just one (1) second, please.

11                   THE CHAIRPERSON:   Mr. Rainkie, while Mr.  
12 Williams is flipping the pages there, when you're talking  
13 about OM&A expenses on his Tab 7 running across the top,  
14 you are talking about OM&A after deducting for  
15 capitalization, deferral, and allocation?

16                   MR. DARREN RAINKIE:   Yes, that's the net  
17 O&A (sic) figure.

18                   THE CHAIRPERSON:   Have you ever tried it  
19 with the full number?

20                   MR. DARREN RAINKIE:   You know, there was  
21 quite a few IRs that probably had the gross number in it,  
22 but I don't recall right now if it did this type of  
23 calculation or not.

24                   THE CHAIRPERSON:   Well, we won't hold you  
25 up now. I'm sure we'll check and look.

1 CONTINUED BY MR. BYRON WILLIAMS:

2 MR. BYRON WILLIAMS: Mr. Rainkie, just  
3 turning to Tab 8 of the -- of the book, and it's actually  
4 labelled Table 2, sir. Do you see that?

5 MR. DARREN RAINKIE: I do.

6 MR. BYRON WILLIAMS: And this is the OM&A  
7 per the -- presented in this GRA as a product of IFF-09.  
8 Is that fair, sir?

9 MR. DARREN RAINKIE: That's fair.

10 MR. BYRON WILLIAMS: And in anticipation  
11 of where we're going to go in the next table, but we're  
12 not going to go there yet, but this is pre-accounting  
13 adjustments. Would that be fair, sir?

14 MR. DARREN RAINKIE: That is fair.

15 MR. BYRON WILLIAMS: And so when we look  
16 at this number we have to be careful because there's --  
17 there's some accounting adjustments that make an easy  
18 comparison with the previous table challenging, correct?

19 MR. DARREN RAINKIE: We're agreeing a  
20 lot, Mr. Williams, now.

21 MR. BYRON WILLIAMS: Mr. Rainkie, you  
22 know I'm a fair guy, right?

23 MS. MARLA BOYD: Don't answer that.

24

25 (BRIEF PAUSE)

1 CONTINUED BY MR. BYRON WILLIAMS:

2 MR. BYRON WILLIAMS: Just in terms of  
3 this table, Mr. Rainkie, in terms of the -- the numbers,  
4 we are agreeing a lot, you'll agree with me that '06/'07  
5 through '08/'09 would be actuals with the following three  
6 (3) years, being '09/'10 through '11/'12, being forecasts  
7 on this table. Would that be fair, sir?

8 MR. DARREN RAINKIE: That's fair.

9 MR. BYRON WILLIAMS: And again we're  
10 excluding subsidiaries.

11 MR. DARREN RAINKIE: Yes, I believe all  
12 these tables are on a common basis excluding  
13 subsidiaries.

14 MR. BYRON WILLIAMS: And Mr. Rainkie,  
15 let's go to the number of customers next. The -- for  
16 '11/'12, the figure of five hundred and forty (540) --  
17 seven hundred and fifty-six thousand (756,000) (sic)  
18 would be about five thousand (5,000) higher as compared  
19 to the previous forecast. Would that be fair, sir?  
20 For...

21 MR. DARREN RAINKIE: Yes, compared to the  
22 five hundred and thirty five thousand (535,000) and  
23 change that was in the previous tab, yes.

24 MR. BYRON WILLIAMS: In terms of the  
25 cumulative increase, this table shows a 24.7 percent

1 increase in terms of overall OM&A expense. Is that  
2 right, sir? Net.

3 MR. DARREN RAINKIE: Yes, over that time  
4 period, including accounting changes, yes.

5 MR. BYRON WILLIAMS: And let's move right  
6 to those accounting changes, sir. Those would be at Tab  
7 9, which is also labelled inside the tab, Table 3. Do  
8 you have that, sir?

9 MR. DARREN RAINKIE: Yes, I do.

10 MR. BYRON WILLIAMS: And when we look at  
11 this table, you'll agree with me, Mr. Rainkie, that in  
12 format, while it generally resembles the previous two  
13 (2), it is different in two (2) material way -- well, one  
14 (1) material way in that the second line in, in this  
15 table, has put -- put into place certain accounting  
16 adjustments, either actual or -- or forecast.

17 Would that be correct, sir?

18 MR. DARREN RAINKIE: Yes, that's the  
19 biggest difference in presentation.

20 MR. BYRON WILLIAMS: And -- and  
21 essentially what we've done on the third line of this  
22 table is put in the revised OM&A after accounting  
23 adjustments. Would that be fair, sir?

24 MR. DARREN RAINKIE: Yes, including that  
25 one (1) small nit that we talked about at the -- at the

1 start of this for 2009/'10, yes.

2 MR. BYRON WILLIAMS: Yes. So the -- is -  
3 - one (1) further change we should be making in the  
4 revised OM&A should be the three hundred and seventy two  
5 (372) minus the -- the 9 million for the '09/'10 year  
6 should read 363 million. Would that be right, sir?

7 MR. DARREN RAINKIE: That's right, Mr.  
8 Williams.

9 MR. BYRON WILLIAMS: And that would  
10 slightly alter the cumulative increase going out -- or  
11 would it? No, it wouldn't, but it would slightly alter  
12 the increase and cumulative increase for that particular  
13 year. Would that be fair, sir?

14 MR. DARREN RAINKIE: That's right. I  
15 think the -- the cumulative number would be fifteen point  
16 four six (15.46) versus fifteen point seven four (15.74),  
17 just for clarity of the record.

18 MR. BYRON WILLIAMS: And -- and Mr. --  
19 Mr. Rainkie, just while we're on that, in the OM&A per  
20 customer, would the -- have you calculated a different  
21 number for the cumulative increase as well, sir?

22 MR. DARREN RAINKIE: Yes, I calculated  
23 10.44 percent.

24 MR. BYRON WILLIAMS: Thank you, and I  
25 appreciate you anticipating that for me, sir. And the --

1                   MR. ROBERT MAYER:   Excuse -- excuse me.  
2   When we -- we had this discussion quite some time ago  
3   about changing the -- the eight (8) to the nine (9) on  
4   Table 3, Tab 9.  That was the only change, but it seems  
5   to occur now that every number thereafter, through this  
6   table and the rest, is going to change too?

7

8   CONTINUED BY MR. BYRON WILLIAMS:

9                   MR. BYRON WILLIAMS:   And, Mr. -- well,  
10   Mr. Rainkie, I'll -- I'll ask you -- you to -- to  
11   confirm, but -- well, the only table that will be  
12   affected will be this particular table, sir.  Would that  
13   be fair?

14                   MR. DARREN RAINKIE:   That's correct  
15   because the next two (2) tables then take IFF-10  
16   information, and the figures are restated appropriately  
17   for IFF-10.

18                   MR. BYRON WILLIAMS:   And, Mr. -- and in  
19   fairness to Mr. Rainkie, it was probably the way I posed  
20   the -- the question, not in terms of the -- the answer.  
21   So -- and -- and, Mr. Rainkie, in terms of the accounting  
22   adjustments -- let me back up.  In -- in terms of this  
23   table, we have amended it by amending the ultimate  
24   cumulative increase to be 15.4 per -- 46 percent in terms  
25   of OM&A expense, correct, sir?

1 MR. DARREN RAINKIE: That's correct.

2 MR. BYRON WILLIAMS: And in terms of OM&A  
3 per customer, we've amended it by striking out the 10.59  
4 percent and replacing that with 10.44, correct?

5 MR. DARREN RAINKIE: That's correct.

6 MR. BYRON WILLIAMS: There may be some  
7 other modest changes in the table, Mr. Rainkie, but, with  
8 those adjustments, we've got a relatively accurate  
9 picture of the -- the changes from '06/'07 out to  
10 2011/'12. Would that be fair?

11 MR. DARREN RAINKIE: That's right, for  
12 IFF-09. I guess, Mr. Williams, you've also been kind  
13 enough to put cumulative of inflation at the bottom of  
14 this table as well, which wasn't there on the previous  
15 two (2) tables, just to be totally correct.

16 MR. BYRON WILLIAMS: And I was going to  
17 get to that, and you don't take any issue with the number  
18 presented there, Mr. Rainkie, in that it's derived from M  
19 -- Manitoba Hydro's sources?

20 MR. DARREN RAINKIE: Yes. Once again, it  
21 would be partly derived from the inflation factors that  
22 were built into IFF-09, which have slightly changed for  
23 IFF-10, but I assume we're -- we're getting onto that,  
24 Mr. Williams, so...

25 MR. BYRON WILLIAMS: Yes. We'll -- we'll

1 -- we'll move on to Tab 10.

2                   Excuse me. I apologize for this. Going  
3 back to Table 9, or Tab 9, for just one (1) second. In  
4 terms of accounting adjustments in this IFF, the big-  
5 ticket item is in the -- I will suggest to you is in the  
6 2011/'12 year, where there's a \$29 million adjustment  
7 built in into this IFF. Would that be fair, sir?

8                   MR. DARREN RAINKIE: That's fair.

9                   MR. BYRON WILLIAMS: Now, Mr. Rainkie, I  
10 -- I'd like to turn you now to Tab 10, Table 4. It's  
11 labelled on the inside. And you'll agree with me that  
12 this is derived from the IFF-10-1.

13                   Would you agree with that, sir?

14                   MR. DARREN RAINKIE: Yes, I would agree  
15 with that.

16                   MR. BYRON WILLIAMS: And this is -- it  
17 does not include an accounting adjustment line.

18                   Would that be fair, sir?

19                   MR. DARREN RAINKIE: That's correct.

20                   MR. BYRON WILLIAMS: What it does do,  
21 though, as you'll see from the notes, is restate the  
22 2008/'09 OM&A to -- to account for a -- an -- an  
23 accounting adjustment made for that particular year  
24 relating to new account intangibles.

25                   Would that be fair, sir?

1 MR. DARREN RAINKIE: Yes, Mr. Williams.  
2 We -- that -- that change in the intangibles section of  
3 the CICA Handbook was implemented in 2009/'10 retro back  
4 to 2008/'09.

5 MR. BYRON WILLIAMS: And so that -- so  
6 that change is reflected in this information, correct?

7 MR. DARREN RAINKIE: That's right, for  
8 both those years.

9 MR. BYRON WILLIAMS: And just a small  
10 point, Mr. Rainkie, but if we were to compare the number  
11 of customers projected out to year end in oh -- 2011/'12  
12 in IFF-10 versus 2011/'12 in IFF-09, we'd see a -- a  
13 growth of about twenty-eight hundred (2,800) more  
14 forecast for that particular year.

15 Would that be fair, sir?

16 MR. DARREN RAINKIE: That looks like a  
17 good calculation, Mr. Williams.

18 MR. BYRON WILLIAMS: We are agreeable  
19 today, sir. Moving right along to Tab 11, Table 5. Mr.  
20 Rainkie, you have that, sir?

21 MR. DARREN RAINKIE: Yes, I do.

22 MR. BYRON WILLIAMS: And this table is --  
23 again, this is similar to the previous table, although  
24 we've inserted three (3) additional lines, being  
25 accounting adjustment, revised OM&A, and cumulative

1 inflation.

2 Is that right, sir?

3 MR. DARREN RAINKIE: That's how I read  
4 it, Mr. Williams.

5 MR. BYRON WILLIAMS: And on the  
6 accounting adjustments, if we were to compare this to the  
7 similar table from -- related to IFF-09, we would see  
8 that \$29 million adjustment built into the 2010/'11 year  
9 as well as the 2011/'12 year. Would that be right, sir?

10 MR. DARREN RAINKIE: Yes, the -- the  
11 figure in 2011/'12 is 30 million, but -- but those  
12 numbers are similar for similar reasons, yes.

13

14 (BRIEF PAUSE)

15

16 MR. BYRON WILLIAMS: Mr. Rainkie, I --  
17 I'm going to move on to the next table. I don't know if  
18 you have any comments. We're being really agreeable, but  
19 I -- I'm moving through this material fairly quickly. Is  
20 there anything else you wish to add?

21 MR. DARREN RAINKIE: Well, Mr. Williams,  
22 I think that what the demonstrates, I think it's -- I  
23 think it was good to go through these exercises, that  
24 maybe you strip out accounting adjustments from our  
25 operating costs, that the forecast of 2011/'12 is pretty

1 close to the cumulative rate of inflation, so I think  
2 that's something interesting to note from -- from the  
3 schedule.

4 MR. BYRON WILLIAMS: I thought you might  
5 want to note that, Mr. Rainkie. Now, I want to -- to --  
6 Mr. Warden, this probably goes to you, and then we're  
7 going to come back to table -- Tab 12 in just a second.  
8 Actually, Mr. Warden, before I get to you, Mr. Rankie,  
9 for Tab 12 we'll -- we'll discuss it in more detail in a  
10 couple minutes, that's Table 6. I'll draw your attention  
11 to the 2010/'11 year OM&A per customer.

12 And do you have a -- for the -- do you  
13 have actual results for that year, sir?

14 MR. DARREN RAINKIE: Of course, 2010/'11  
15 isn't -- is just over. We don't have the final figure --  
16 figure for that. But if I looked at our management  
17 reporting for February, so -- which is eleven (11) months  
18 into the year, I got six hundred and eighty-seven dollars  
19 (\$687) per customer, so lower than the target for the  
20 year.

21 MR. BYRON WILLIAMS: Okay. And we'll  
22 come back to that in a second. Mr. -- Mr. Warden, I'll  
23 ask you to pull out two (2) documents: one (1) being the  
24 third-quarter report and the -- the other being the  
25 excerpt from the transcript, page 4,186. Do you have

1 those, sir?

2 MR. VINCE WARDEN: Yes. Yes, I do.

3 MR. BYRON WILLIAMS: And, Mr. Warden, I'm  
4 just seeking a bit of clarification, and it may well be  
5 from something I'm misreading, sir. But if I go to page  
6 4,186 of the transcript, line 12 through 15, you'll agree  
7 with me you're discussing a reduction of \$16 million for  
8 OM&A for the first -- for the ten (10) month period  
9 compared to -- period to January 1st, 2011 compared to  
10 the previous fiscal year. Do you see that, sir?

11 MR. VINCE WARDEN: Yes, I do.

12 MR. BYRON WILLIAMS: Now, my math might  
13 be wrong. Is that a nine (9) month period, sir, or a ten  
14 (10) month period that you're referring to -- to? Did  
15 you mean -- or -- or, alternatively, did you mean January  
16 the 1st or January the 30th?

17 MR. VINCE WARDEN: Oh, I -- I don't think  
18 I was referring to January the 1st there. It was for the  
19 first ten (10) month period of -- of the fiscal year, so  
20 -- so it is ten (10) months.

21 MR. BYRON WILLIAMS: So that would be to  
22 the end of January --

23 MR. VINCE WARDEN: To the --

24 MR. BYRON WILLIAMS: -- 2011?

25 MR. VINCE WARDEN: That's correct.

1 MR. BYRON WILLIAMS: Okay. So -- and  
2 what you're saying in -- in this page of the transcript  
3 is -- is that when you compare the '09/'10 results to the  
4 2010/'11 results there's a -- you're tracking \$16 million  
5 to the good in 2010/'11 versus '09/'10. Is that right,  
6 sir?

7 MR. VINCE WARDEN: Yes.

8 MR. BYRON WILLIAMS: And the reason I  
9 wanted to follow that up with you, sir, if you go to your  
10 quarterly report for the nine (9) months ended December  
11 31st, 2010 -- do you have that, sir?

12 MR. VINCE WARDEN: I do.

13 MR. BYRON WILLIAMS: And I'm just --  
14 under -- you'll see on the left-hand side of the first  
15 page, Electricity Operations.

16 Do you see that heading, sir?

17 MR. VINCE WARDEN: Yes.

18 MR. BYRON WILLIAMS: And what I see there  
19 is a -- a reference to a \$4 million increase in operating  
20 and administrative expenses partially offset by a \$14  
21 million decrease in finance ex -- expenses.

22 Do you see that, sir?

23 MR. VINCE WARDEN: Yes.

24 MR. BYRON WILLIAMS: And if I move -- and  
25 -- and I'll -- you'll -- you'll clar -- and if I move

1 onto the consolidated statement of income, as well, sir,  
2 just a couple pages in.

3 MR. VINCE WARDEN: Okay.

4 MR. BYRON WILLIAMS: And this again is on  
5 a consolidated basis, I see expenses, operating  
6 administrative tracking ahead on a consolidated basis of  
7 -- of the '09/'10 year. In other words, the -- the  
8 consolidated OM -- OM&A expenses for '10/'11 seem to be  
9 higher than for the '09/'10 year. Is that right, sir?

10 MR. VINCE WARDEN: Yes, that is on a --  
11 as you pointed out, on a consolidated basis and -- and  
12 before any adjustments for accounting changes.

13 MR. BYRON WILLIAMS: And I'm not sure  
14 what you mean by that, sir.

15 MR. VINCE WARDEN: Well, as you've been  
16 discussing with Mr. Rainkie, there are accounting changes  
17 that affect both years.

18 So all I was pointing out is the numbers  
19 that you referenced on the consolidated operating  
20 statement being higher in 2010 than they are in 2000 --  
21 comparable year for 2009, that's unadjusted, before --  
22 before accounting adjustments -- account -- adjustments  
23 for accounting changes.

24 MR. BYRON WILLIAMS: Okay. And just to -  
25 - to go back to the reference on electricity operations

1 on the first page, the \$4 million increase in operating  
2 and administrative expense as compared to the previous  
3 year, would be prior to accounting adjustments, sir?

4 MR. VINCE WARDEN: Yes, and I think if  
5 you read on -- if you go to the second page --

6 MR. BYRON WILLIAMS: I see that, so  
7 that's --

8 MR. VINCE WARDEN: -- there's --

9 MR. BYRON WILLIAMS: -- I understand it.

10 MR. VINCE WARDEN: -- there's a reference  
11 to the accounting changes, and the impact that has on the  
12 total.

13 MR. BYRON WILLIAMS: So the number that  
14 you presented in -- and back on transcript page 4,186,  
15 and this is helpful, sir, would be post accounting  
16 adjustments. Would that be fair?

17 MR. VINCE WARDEN: Yes.

18

19 (BRIEF PAUSE)

20

21 MR. BYRON WILLIAMS: That's helpful.

22

23 (BRIEF PAUSE)

24

25 MR. BYRON WILLIAMS: Mr. Rainkie, turning

1 to Tab 12, and again if -- if -- I'm assuming this is  
2 you, if it's Mr. Warden that's fine as well, we see the -  
3 - the table labelled Corporate -- or CSP per OM&A per  
4 Customer. Do you see that, sir?

5 MR. DARREN RAINKIE: Yes, I have it.

6 MR. BYRON WILLIAMS: And -- and the  
7 second column sets out the CSP target.

8 Is that right, sir?

9 MR. DARREN RAINKIE: That's right.

10 MR. BYRON WILLIAMS: And -- and the next  
11 column sets out the actual results, and then the third  
12 column sets out the actual result excluding accounting  
13 changes. Would that be fair, sir?

14 MR. DARREN RAINKIE: Yes, and I think  
15 those figures come from your previous Tables 4 and 5, if  
16 I'm not mistaken.

17 MR. BYRON WILLIAMS: And just so that for  
18 the 2010/'11 year, the six hundred and eighty-seven (687)  
19 figure that you gave me would go in the last column,  
20 after "accounting changes".

21 Is -- is that right, sir?

22 MR. DARREN RAINKIE: No, that -- that's -  
23 - that would go under the "actual result" column. And if  
24 I made a similar deduction as on, I think it is table 5,  
25 then that number would become six hundred and sixty-five

1 (665). If I did the math right.

2 MR. BYRON WILLIAMS: So what we have  
3 then, just so I have the table complete, would be -- the  
4 actual results would be six eighty-seven (687), and  
5 excluding accounting changes, they would be six sixty-  
6 five (665).

7 Would that be fair, sir?

8 MR. DARREN RAINKIE: That's fair, just  
9 making sure that we're recognizing that's based on  
10 February results, not March audited results as yet,  
11 but...

12

13 (BRIEF PAUSE)

14

15 MR. BYRON WILLIAMS: And, Mr. Rainkie,  
16 just -- and again, this may go more properly to Mr.  
17 Warden, when the corporate strategic plan target is set,  
18 let's say for the 2010/'11 year, that's the target you  
19 would hope to achieve on March 31st, 2011? You -- you  
20 know, at year-end, that's --

21 MR. DARREN RAINKIE: That's right.  
22 That's the 2010/'11 CSP target, so it corresponds to the  
23 fiscal year results that we're looking at.

24 MR. BYRON WILLIAMS: And you would  
25 actually set the target about a year to -- to fourteen

1 (14) months previously, kind of in the January 2010  
2 period. Is that the general practice in terms of when  
3 you set the target, sir?

4

5 (BRIEF PAUSE)

6

7 MR. VINCE WARDEN: Actually, maybe I'll  
8 just answer that one, Mr. Williams. The CSP, the  
9 corporate strategic plan, is approved by the board of  
10 Manitoba Hydro, in March, typically, of every year, and  
11 by that time we have -- the IFF for the -- for the year  
12 would be approved by that time, which would be  
13 incorporated in the CSP numbers that are -- that you see  
14 before you.

15 MR. BYRON WILLIAMS: And so, for the --  
16 just so I understand this, sir, for the 2010/'11 year,  
17 would the Corporation, in -- in setting that target, have  
18 taken into account the planned accounting adjustments?

19

20 (BRIEF PAUSE)

21

22 MR. DARREN RAINKIE: I think that would  
23 have been based on IFF-09, which included -- I'm not sure  
24 if it included the accounting change now. You know, Mr.  
25 Williams, I think we should -- I should check that before

1 I commit to that.

2 MR. BYRON WILLIAMS: And just where --  
3 just what I -- I do want to clarify, sir, is, and I don't  
4 think you need a reference for this, in the -- for  
5 example, in the -- my understanding is that the -- in --  
6 effective April 1st, 2008, Hydro adro -- adopted the CICA  
7 section 3031 inventory approach.

8 Is that fair, sir? I'm not using the  
9 right words, but you know what I'm talking about,  
10 correct?

11 MR. DARREN RAINKIE: The inventory  
12 section of the handbook, yes, yes.

13 MR. BYRON WILLIAMS: So for that  
14 particular corporate strategic plan, my question is:  
15 Would those -- would the corporate strategic plan take  
16 into account the anticipated adoption of the -- the CICA  
17 3031 inventory? If you want to check on that, Mr.  
18 Rainkie, that's fine with me.

19 MR. DARREN RAINKIE: Just to avoid  
20 confusion, Mr. Williams, I think we should check on -- on  
21 this, so that we don't put something wrong on the record  
22 and have to come back and -- and -- and correct it.

23 MR. BYRON WILLIAMS: Yeah. And that  
24 would be helpful. And what I'm really seeking -- and,  
25 Mr. Rainkie, you can take some time with it -- in terms

1 of the -- the corporate strategic plans, are the  
2 accounting adjustments -- what, if any, accounting  
3 adjustments are built -- built into it? That would be  
4 very helpful, sir.

5 MR. DARREN RAINKIE: Yes, I -- I think I  
6 understand the undertaking now, Mr. Williams. Thanks.

7 MR. BYRON WILLIAMS: So that's an  
8 undertaking, then. I thank you for that.

9

10 --- UNDERTAKING NO. 120: Manitoba Hydro to indicate,  
11 in terms of the corporate  
12 strategic plans, what, if  
13 any, accounting adjustments  
14 are built into it

15

16 MR. BYRON WILLIAMS: Mr. Chairman, I have  
17 some questions which are more properly put to the -- the  
18 Cormie/Surminski tag team and part of that team is not  
19 available until tomorrow. I don't anticipate the  
20 inquiries will be that long, but I'm guessing maybe an  
21 hour, hour and a half, perhaps as little as forty-five  
22 (45) minutes. So subject to that and any undertakings  
23 that exist, I'm prepared to relinquish the reins and hand  
24 them over to Mr. -- to Mr. Hacault.

25

1 I -- I do want to thank the Board and --  
2 and their advisors for their patience, and also the  
3 Manitoba Hydro panel. Thank you very much.

4 THE CHAIRPERSON: Thank you, Mr.  
5 Williams. Mr. Rainkie, if you wouldn't mind -- if you  
6 wouldn't mind checking, because your memory's probably  
7 better than mine, which could come as no great surprise,  
8 but if you could do one (1) of those tables with the  
9 OM&A, with everything in before the allocations, just to  
10 the percentage increase. That's all you have to do.

11 MR. DARREN RAINKIE: Sure. I -- I -- it  
12 might already be on the record. We'll either find it or  
13 -- or do it for you, Mr. Chairman.

14 THE CHAIRPERSON: Thank you.

15  
16 --- UNDERTAKING NO. 121: Manitoba Hydro to provide a  
17 table with the OM&A, with  
18 everything in before the  
19 allocations, just to the  
20 percentage increase

21  
22 THE CHAIRPERSON: Mr. Hacault, do you  
23 want a few minutes then? Are you able to begin your  
24 cross now?

25 MR. ANTOINE HACAULT: Whatever is the --

1 is the pleasure of the Board. We have a binder that  
2 we've put together which needs to be distributed.

3 THE CHAIRPERSON: Okay. Well, we'll take  
4 our break now, and that'll give you an opportunity to get  
5 it over to the Board secretary for distribution and give  
6 you a second to collect your thoughts. Thank you.

7 MR. ANTOINE HACAULT: Thank you.

8

9 --- Upon recessing at 2:36 p.m.

10 --- Upon resuming at 2:54 p.m.

11

12 THE CHAIRPERSON: Okay. Welcome back,  
13 everyone.

14 Mr. Hacault, for MIPUG.

15 MS. MARLA BOYD: Excuse me. I'm sorry.  
16 Just before you begin, Mr. Chair -- I apologize for the  
17 interruption -- Mr. Warden had an exchange with the Vice-  
18 Chair regarding Jenpeg earlier today that requires some  
19 clarification on the record, so if we could just take a  
20 minute to -- to do that, we'd appreciate it.

21 THE CHAIRPERSON: Of course. Mr.  
22 Warden...?

23 MR. VINCE WARDEN: Thank you. Yes, Mr.  
24 Mayer, I could have sworn that somebody told me all units  
25 at Jenpeg were back on, but such is not the case,

1 unfortunately. There's actually three (3) units out at  
2 this time. Unit number 5 is -- is still out of service  
3 for the turbine shaft repair issue that we had, and it's  
4 been out since June the 26th of 2010, expected to be back  
5 into service on May 31st of this year.

6                   Unit number 4 is back out of service  
7 because of problems with the seals on the -- on the  
8 shaft, and that was taken out of service on March the  
9 18th, expected to be back in service on April the 8th.  
10 So, very soon.

11                   Unit number 1 is out of service due to oil  
12 in the cooling water. And that was taken out of service  
13 on December the 10th, 2010, expected back in service on  
14 June the 3rd, 2011.

15                   MR. ROBERT MAYER:   How many -- how many  
16 turbines do you have at Jenpeg?

17                   MR. VINCE WARDEN:   We have six (6).

18                   MR. ROBERT MAYER:   Those are the Russian  
19 ones, right?

20                   MR. VINCE WARDEN:   They are. They've  
21 actually provided good service up until now.

22                   MR. ROBERT MAYER:   It was my  
23 understanding that, in fact, the problem wasn't really  
24 discovered -- it was discovered somewhere in Europe where  
25 they found that this was a problem with the turbines, and

1 when they were checked that Jenpeg found that in fact --

2 MR. VINCE WARDEN: That's right. That  
3 information was passed on to us, so we did some checking,  
4 and sure enough we had the same -- same cracking problem,  
5 yeah. Thank you.

6 MR. ROBERT MAYER: Thank you.

7 THE CHAIRPERSON: Mr. Hacault...?

8 MR. ANTOINE HACAULT: Thank you, Mr.  
9 Chair, Mr. Vice-Chair, fellow colleagues and members of  
10 the Manitoba Hydro panel. What I've distributed is a  
11 binder with seventy (70) odd tabs. It's intended to be  
12 both a document book for final submission and for cross-  
13 examination, so there may be some items there that I  
14 won't spend much time on. There's also some tabs that  
15 have not been filled, and those are just in case as and  
16 when we're proceeding we may have an additional document  
17 to put in. So just a preliminary explanation of what  
18 this document is.

19 I intend to cover the topics that are  
20 outlined in the index to the book. There may be some  
21 other collateral topics, but I've tried to organize the  
22 documents according to topic so that when we're having a  
23 discussion we've got some focus on what is being  
24 discussed, and hopefully how it fits into what this Board  
25 is looking for as far as information.

1 THE CHAIRPERSON: Thank you, sir. We'll  
2 start by giving it an exhibit number. Do we know, Mr.  
3 Peters?

4 MR. BOB PETERS: Yes, I checked at the  
5 break, and according to my records, which certainly  
6 aren't official, but it would be MIPUG Exhibit 12. The  
7 last exhibit I had from MIPUG was Exhibit 11, being a --  
8 an interim rate submission that we marked as an exhibit,  
9 so I believe twelve (12) is the correct number.

10 THE CHAIRPERSON: Very good. Thank you.

11

12 --- EXHIBIT NO. MIPUG-12: Binder of documents

13

14 THE CHAIRPERSON: Please, sir.

15 MR. ANTOINE HACAULT: Thank you.

16

17 CROSS-EXAMINATION BY MR. ANTOINE HACAULT:

18 MR. ANTOINE HACAULT: I'd direct  
19 everybody's attention to the first tab. And I'm not too  
20 sure on the panel who's going to be answering these  
21 questions, but I'll leave that to you, either Mr.  
22 Rainkie, Mr. Warden, or Mr. Schulz. I'm not too sure.

23 The first thing that I'm dealing with is  
24 the debt-equity ratio. It's been raised a number of  
25 times in -- in this hearing, that -- what's going to

1 happen over the decade of in -- investments, and then  
2 what's going to happen in the decade of returns. And I'd  
3 like to explore the significance of this number, and --  
4 and how it's perhaps changed since my foray into public  
5 utility hearings some time ago with Mr. Nugent.

6                   So on -- at this first tab there's a  
7 table, which shows a summary of -- of targets. And, just  
8 generally, with respect to those targets, can someone  
9 explain to me who at Manitoba Hydro would review the  
10 reserve target and make a determination as to why it  
11 should change.

12                   MR. VINCE WARDEN:    Mr. Hacault, financial  
13 targets are reviewed as -- on a regular basis as part of  
14 the presentation of the integrated financial forecast to  
15 the Board of Manitoba Hydro.

16                   Recommendations are made to the Board  
17 whenever deemed appropriate, typically by finance and  
18 administration, in consultation, of course, with the  
19 president and CEO. Recommendations are made firstly to  
20 the audit committee of the Board, and then to the Board  
21 of Manitoba Hydro for any changes that -- that may be  
22 warranted to the financial targets.

23                   MR. ANTOINE HACAULT:    Thank you. Now,  
24 would that answer also be applicable going back to the  
25 very beginning of this table, which is shown back to 1986

1 and 1988?

2 MR. VINCE WARDEN: Yes. Yes, essentially  
3 the same process would be followed. There -- there's a  
4 role for finance, of course, in setting financial  
5 targets. So there's a hierarchy within Manitoba Hydro  
6 whereby finance -- financial targets are -- any  
7 recommendations with respect to financial targets are  
8 advanced to the Board.

9 MR. ANTOINE HACAULT: Would anybody on  
10 this panel have a recollection of the thought process and  
11 the reasoning with respect to the first reserve target?  
12 And you may need to explain in a bit more detail than  
13 what's found on this table. But as I -- as I understand  
14 it, it was a number as opposed to a ratio.

15 And do you have any recollection as to how  
16 somebody came to the conclusion that an appropriate  
17 reserve target would be two (2) consecutive years of the  
18 worst drought on record?

19 MR. VINCE WARDEN: Well, any -- any  
20 target-setting process takes into account the financial  
21 objectives of the Corporation and the risks -- the risks  
22 that the Corporation faces going forward. So at the time  
23 the reserve target was set in terms of dollars rather  
24 than the current debt-equity ratio target that we  
25 currently have, drought was the major concern.

1                   We wanted to make sure that we had  
2 sufficient reserves to cover off a -- a drought at that  
3 time, because, going back to the time frame that you've  
4 indicated, late '70s, early '80s, our -- our export sales  
5 were not -- not as significant a -- a portion of our  
6 revenues, and therefore drought would not have quite the  
7 same impacts as it does today. It's a very significant  
8 impact. As we talked about in these proceedings, a five  
9 (5) year drought could have very substantial impacts.

10                   When it was originally, though -- when we  
11 originally started exporting power to the US and to  
12 neighbouring provinces, the -- the impacts were not as  
13 great as they are today. We -- we're also starting from  
14 a base of a very low debt-equity ratio, so our -- at one  
15 (1) time, our -- our debt ratio was as high as 97  
16 percent, and 75:25 seemed a very long ways off. So we  
17 established, initially, a -- a dollar target to -- to  
18 achieve a -- a level of equity and a level of reserves  
19 sufficient to withstand the two (2) year drought that you  
20 referenced.

21                   So a very brief history as to how we -- as  
22 -- as we evolved, of course and the exports became more  
23 significant, part of our operation, I think our level of  
24 sophistication with respect to debt-equity, interest  
25 coverage, capital coverage, cost per customer, perhaps a

1 little bit more closely scrutinized today than it ever  
2 was in the past. And -- and those are typical ratios  
3 that are -- are referenced by credit rating agencies and  
4 widely accepted in the industry today.

5 MR. ANTOINE HACAULT: Thank you. I'm not  
6 too sure that we got exactly what I was looking for. I  
7 was -- I'll get into a little bit more detail, with  
8 respect to the two (2) year drought. And somebody at  
9 Manitoba Hydro -- and you're saying that that discussion  
10 or decision was affected by minimal exports at that time  
11 -- came to the conclusion that two (2) years of the worst  
12 drought on record was a sufficient return.

13 Now, we're talking five (5) years and --  
14 and a greater number, but nobody in the financial markets  
15 was giving you a lower credit rating because you had that  
16 target in mind.

17 Is that correct?

18 MR. VINCE WARDEN: Well, Mr. Hacault, as  
19 I tried to explain, I think the markets have become more  
20 sophisticated today than they were back in those days,  
21 and credit rate -- rating agencies are in fact looking  
22 for debt-equity ratios at -- at the minimum where we are  
23 today. So even with 75:25, our ratios, according to --  
24 to the rating agencies, are not considered to be strong.

25 MR. ANTOINE HACAULT: And I will have a

1 discussion, and -- and you'll be able to speak to that  
2 further, I assure you. What I was trying to determine  
3 was the progression of -- or the thought process of  
4 Manitoba Hydro.

5                   So at all times, from the beginning of  
6 this time period until now, it's the province that has  
7 guaranteed the debt of Manitoba Hydro.

8                   Is that correct?

9                   MR. VINCE WARDEN: Yes.

10                  MR. ANTOINE HACAULT: And as best as I  
11 can determine from the records, was about in 1989 or 1990  
12 that there was a target of 85:15 which was set. Is that  
13 correct?

14                  MR. VINCE WARDEN: Yes, I recall eighty-  
15 nine '89 does appear to be the right time frame that we  
16 set the -- or that Manitoba Hydro Board set the 85:15  
17 debt-equity target.

18                  MR. ANTOINE HACAULT: Now, you have  
19 raised -- so I'll switch to that a little bit before we  
20 get into the actual tabs. As I understood it, you pay to  
21 have the rating agencies review the credit rating.

22                  Is that correct? Is there some kind of a  
23 fee involved in that?

24                  MR. VINCE WARDEN: Well, there is a fee  
25 in -- from the credit rating agencies for which we

1 receive a number of different services; it's -- it's not  
2 for the rating per se. In fact, we receive a flow  
3 through rating of the province. The province is rated,  
4 and that rating flows through to Manitoba Hydro.

5 MR. ANTOINE HACAULT: Okay. And I'll get  
6 back to that later, the flow through of the province's  
7 rating. Now, what kind of information does Manitoba  
8 Hydro provide to the different rating agencies to allow  
9 it -- or them to do their job?

10 MR. VINCE WARDEN: We pretty much provide  
11 them with whatever they want in terms of financial,  
12 operational. Any kind of sta -- statistical information  
13 that -- that the credit ra -- rating agencies request,  
14 they -- they receive, so it's a wide range of data. We  
15 talk to them frequently and meet with them frequently,  
16 and they have a in-depth -- quite an in-depth knowledge  
17 of the operations of -- of the Utility from those -- from  
18 those ex -- exchanges of information.

19 MR. ANTOINE HACAULT: Do they actually  
20 get more than we do and the Board, the Public Utilities  
21 Board does then?

22 MR. VINCE WARDEN: No. No, no, no,  
23 definitely not to that level, but they do -- having said  
24 that, they do review proceedings of this Board. They're  
25 aware of what transpires here and often question us on --

1 on certain aspects of what's transpired, so they're  
2 certainly privy to that information.

3 MR. ANTOINE HACAULT: So do I -- do I  
4 take that answer to mean then if they want details about  
5 term sheets and prices in order to be -- be able to  
6 analyze future revenue flows and -- and make assessments  
7 on the credibility of financial ratings, that that is  
8 something they're not allowed to see?

9 MR. VINCE WARDEN: Well, they -- they're  
10 not really interested in term sheets per se. They are  
11 interested in our contracts, but they -- it's -- it's  
12 typically a verbal exchange of information, and they  
13 don't probe into confidential-type disclosures. So we've  
14 never had a problem with the rating agencies in that  
15 regard, having to say, No, you can't have that  
16 information, so...

17 MR. ANTOINE HACAULT: Now, you said that  
18 there's a lot of verbal communication happening in  
19 meetings. Is there some kind of a standard report that  
20 each of the agencies request or require be filled out,  
21 and, if so, what kind of report is it?

22 MR. VINCE WARDEN: No. No, there's no  
23 standard.

24 MR. ANTOINE HACAULT: So help me  
25 understand the flow of information because there's

1 renewed evaluations by Moody's, DBRS, Standard & Poor's.  
2 Is there some kind of a timeline where Hydro provides  
3 information? Let's start with Moody's.

4 MR. VINCE WARDEN: Well, there -- there's  
5 always tight timelines. We -- we always have to respond  
6 quickly when we get requests from -- from information --  
7 for information from any of the -- any of the rating  
8 agencies.

9 They have a -- there -- there's not really  
10 forms, per se, but there's sort of a template that they  
11 follow from ra -- from report to report, so it's taking  
12 the previous report and updating the information, any new  
13 information that might be -- they might want to comment  
14 on. So that happens at various times throughout the  
15 year.

16 MR. ANTOINE HACAULT: And that's for each  
17 rating agency, from Moody's, DBRS, and Standard & Poor's?

18 MR. VINCE WARDEN: That's right.

19 MR. ANTOINE HACAULT: And who in the  
20 Corporation is responsible to provide that information to  
21 each of those rating agencies?

22 MR. VINCE WARDEN: Well, the primary  
23 contact with the rating agencies is our treasury  
24 division, so the treasurer, the financial markets  
25 manager, myself. I participate in -- in conference calls

1 and meetings when appropriate, but the primary contact is  
2 our treasury people.

3

4 (BRIEF PAUSE)

5

6 MR. ANTOINE HACAULT: Now going back to  
7 Table 1 at Tab 1, there's been I'm going to say a  
8 variation of the target later on about 2005/2006, to  
9 qualify that those targets may not have to be met when  
10 major new capital projects are being done.

11 Can you explain the rationale behind that  
12 amendment, presumably approved by Manitoba Hydro Board?

13 MR. VINCE WARDEN: Yes, definitely  
14 approved by Manitoba Hydro Board. Any change to targets  
15 are approved by the -- by the Manitoba Hydro Board.

16 And it is simply a recognition of the fact  
17 that during periods of very large investment the targets  
18 will -- we can, to a certain extent, just in -- in --  
19 because of the large borrowings that go along with those  
20 large capital investments.

21 So the Board of Manitoba Hydro, as much as  
22 they don't like to see a weakening of -- of the targets,  
23 they're accepting of that, given that there's a -- a  
24 return to stronger targets following the return of  
25 investment, as we're seeing with our twenty (20) year

1 financial outlook.

2 MR. ANTOINE HACAULT: So this decision  
3 and information would have been provided to each of the  
4 rating agencies, the decision by Manitoba Hydro Electric  
5 Board that these targets need not be met during major  
6 capital expansion?

7 MR. VINCE WARDEN: Oh, yes, the rating  
8 agencies are fully aware of what our financial targets  
9 are, and they're also accepting of those targets.

10 MR. ANTOINE HACAULT: Of the targets and  
11 of the variation that it not -- need not be met during  
12 the decade of investment, as you call it?

13 MR. VINCE WARDEN: Yes, yes, they're --  
14 they're fully aware of that.

15 MR. ANTOINE HACAULT: And you've  
16 mentioned that the rating is basically a flowthrough of  
17 the Province's rating. Is there a similar reporting to  
18 the Province with respect to issues which might affect  
19 Manitoba Hydro's financial tests as set out by these  
20 agencies?

21 MR. VINCE WARDEN: Well, the -- the  
22 Minister responsible for Manitoba Hydro is, of course,  
23 fully aware of financial and other matters that affect  
24 the Corporation.

25 MR. ANTOINE HACAULT: So we'll dig a

1 little bit deeper into that. When we say the financial  
2 information is provided to them, do you actually provide,  
3 for example, a twenty (20) year IFF, like '09, for  
4 example? Would that have been provided to these rating  
5 agencies?

6 MR. VINCE WARDEN: The rating -- sorry,  
7 are we talking about the Province now? We're -- you're  
8 talking about the rating agent? Okay.

9 The rating agency -- agencies are  
10 certainly provided, as I mentioned earlier, with any  
11 information that they request. We -- we would quite  
12 often put together a -- a presentation whenever we're  
13 meeting with the rating agencies that includes references  
14 to documents such as the IFF or the twenty (20) year  
15 outlook, and if they choose to receive those documents,  
16 they're certainly entitled to do so.

17 MR. ANTOINE HACAULT: Have they requested  
18 for an IFF that goes past the twenty (20) year time  
19 period or any information with respect to the integrated  
20 financial forecast --

21 MR. VINCE WARDEN: Well --

22 MR. ANTOINE HACAULT: -- past twenty (20)  
23 years?

24 MR. VINCE WARDEN: Well, they -- they  
25 certainly request information with respect to the

1 integrated financial forecast, but going past twenty (20)  
2 years, no.

3 MR. ANTOINE HACAULT: So what's the  
4 latest IFF that would have been provided to the rating  
5 agencies? Let's start first with Moody's.

6 MR. VINCE WARDEN: I -- I believe all of  
7 the rating agencies, so we can cover them all off, would  
8 have received our IFF-10, so our most re -- recent  
9 financial forecast.

10 MR. ANTOINE HACAULT: And none of the  
11 ratings have changed either for the province or Manitoba  
12 Hydro as a result of that information being provided to  
13 the rating agencies, is that correct?

14 MR. VINCE WARDEN: That is correct.

15 MR. ANTOINE HACAULT: Now, with respect  
16 to the debt-equity ratio, that's one (1) measurement  
17 that's used by some rating agencies as a tool to look at  
18 the financial health of a particular company, is that  
19 correct?

20 MR. VINCE WARDEN: Yes.

21 MR. ANTOINE HACAULT: And with respect to  
22 the debt-equity ratio, and in particular the retained  
23 earnings portion of the equity, how does Manitoba Hydro  
24 calculate that number? Is it based on book value, on  
25 construction cost today, or on market value?

1                   MR. VINCE WARDEN:    Mr. Hacault, I -- I  
2 believe we filed information requests detailing how we  
3 calculate the -- the debt-equity ratio, but basically  
4 it's -- it's the debt as -- as defined by our long-term  
5 debt plus any debt due with un -- due within one (1)  
6 year, notes payable, reduction for sinking funds. So  
7 there's a calculation, a formula we go through in  
8 calculating the debt-equity ratio. Retained earnings are  
9 just what they're -- they are in the annual report or in  
10 the financial statements. Retained earnings are retained  
11 earnings.

12                   MR. ANTOINE HACAULT:    Okay. So the  
13 formula that you're talking about is actually -- for  
14 information of the Board is page 3 at Tab 1.

15

16   (BRIEF PAUSE)

17

18                   MR. ANTOINE HACAULT:    I have at page 3,  
19 Tab 1, it's MIPUG MH-1-3, and there's an answer about the  
20 financial targets there. So when you were referring to a  
21 formula, that's what you were referring to, sir?

22                   MR. VINCE WARDEN:    Yeah, that's it.

23                   MR. ANTOINE HACAULT:    And my question was  
24 more focussed on one (1) component of that particular  
25 calculation, and it was on the aspect of assets and

1 whether assets in Manitoba Hydro's books, leading to this  
2 equity calculation, are valued at replacement value,  
3 market value, or book value, which would be the original  
4 construction cost?

5 MR. VINCE WARDEN: Well, all assets are -  
6 - are -- are at book value. If you're referring, though,  
7 to page 3 of your book of documents you'll see that  
8 assets really don't come into that calculation though,  
9 that's not a -- not a component of the debt-equity ratio  
10 calculation.

11 But in answer to your question as to how  
12 assets are valued on the financial statements of Manitoba  
13 Hydro, they're at book value, historical value with  
14 related depreciation since the in-service date.

15 MR. ANTOINE HACAULT: Okay. And as I  
16 understand it, and I've just taken this out of the  
17 Manitoba Hydro Debt-Management Strategy Report. It was  
18 Appendix 85, page 3. It was a December, 2010 report, and  
19 I'm quoting:

20 "The current market for replacement  
21 value of Manitoba Hydro's assets is  
22 many multiples of the net book value."

23 MR. VINCE WARDEN: Yes.

24 MR. ANTOINE HACAULT: Would -- would that  
25 be a correct statement?

1 MR. VINCE WARDEN: Yes.

2 MR. ANTOINE HACAULT: Now, to help me  
3 better understand, for a private corporation, if it went  
4 to get a loan and the company wanted to say, Well, I have  
5 so many dollars of equity, and there's an equity ratio  
6 that would be put in place for assets, would it be of  
7 interest to the bank to know the net book value, the  
8 reconstruction cost, or the market value?

9 MR. VINCE WARDEN: Well, I -- I can only  
10 speak to the interest expressed by the people we do  
11 business with, the -- and they're interested in the net  
12 book value, as expressed. They're not really interested  
13 -- they -- they know that Manitoba Hydro is a going  
14 concern and we're not going to be up for sale anytime  
15 soon, so the market value, while interesting for purposes  
16 of the debt-management paper that we put together, it's  
17 not really of interest to -- to the people we borrow  
18 money from.

19 MR. ANTOINE HACAULT: So say, for  
20 example, the building on Taylor, that would be recorded  
21 at a net book value depreciated and not at all what it  
22 could get on the market?

23 MR. VINCE WARDEN: Yeah, absolutely.

24 MR. ANTOINE HACAULT: Now, from a pure  
25 asset approach, I've heard your answer, that you haven't

1 had inquiries from your rating agencies as to what the  
2 multiple is with respect to the higher market value as  
3 opposed to the book value. But from a pure asset  
4 approach, wouldn't the relevant number be what the market  
5 value is for that asset, taking, for example, the Taylor  
6 building?

7 MR. VINCE WARDEN: Well, the -- the  
8 Taylor building was prob -- pro -- you know, I -- I think  
9 the market value of the Taylor building would be a lot  
10 more than what we constructed it for back in the early  
11 '60s, but, again, it's not for sale. We're not selling  
12 the Taylor building.

13 I think a good example of -- though of the  
14 -- when we talk about many multiples of -- of the book  
15 value, Mr. Mayer asked what we built Limestone for. So  
16 Limestone was -- was built -- put into service for 1.4  
17 billion back in 1992. We were building Conawapa, which  
18 is of similar size, a little bit bigger than Limestone,  
19 but we're looking at a cost of 7.8 billion, so obviously  
20 many multiples of the cost of building Limestone a couple  
21 of decades -- three (3) decades ago.

22 MR. ANTOINE HACAULT: Would it be  
23 appropriate to suggest to you, sir, that one (1) of the  
24 reasons then that rating agencies aren't interested in  
25 the real value of your assets is because of your going

1 concern and because you've got a provincial guarantee of  
2 your debt, so they really don't care whether you have  
3 \$800 billion dollars of assets, if that was the number,  
4 or whether it's a book value of say 20 billion?

5 MR. VINCE WARDEN: Oh, I think they care.  
6 They -- they certainly care what the book value of our  
7 assets -- the value of our assets are.

8 The -- the statement that's in the debt-  
9 management paper about the assets being worth many  
10 multiples of the current book value was just a -- a point  
11 of interest, and nothing really -- wasn't -- there was no  
12 significance attached to that other than for that  
13 statement, the stand-alone statement.

14 So the rating agencies certainly do care  
15 what our net book value of assets are.

16 MR. ANTOINE HACAULT: But that would be a  
17 very low number compared to the real value of your assets  
18 --

19 MR. VINCE WARDEN: Yeah.

20 MR. ANTOINE HACAULT: -- agreed?

21 MR. VINCE WARDEN: Yes.

22 MR. ANTOINE HACAULT: Now at Tab 2, we've  
23 taken an extract of the integrated financial outlook, the  
24 twenty (20) year outlook prepared in March 2011.

25 I'd just like to confirm, would it be

1 information such as this which was provided to each of  
2 Moody's, DBRS, and Standard & Poor's?

3 MR. VINCE WARDEN: Yes. Information such  
4 as this, that when we're talking about a deterioration in  
5 the debt-equity ratio, as an example, going up to eighty-  
6 one nineteen (8119), but recovering to sixty-two thirty-  
7 eight (6238) by the end of the twenty (20) year forecast  
8 period, yes. Yes, they're definitely interested in that,  
9 in -- in knowing that -- interested in knowing that there  
10 is a recovery going forward.

11 MR. ANTOINE HACAULT: Now, this is just a  
12 point of -- of interest with respect to -- I was kind of  
13 wondering, well, how much of my money might be in  
14 Manitoba Hydro's retained earnings.

15 So in 2010, I assume it's kind of a rough  
16 thing because you've got all the big general service  
17 clients, but you've got a little bit over five hundred  
18 thousand (500,000) clients as Hydro, is that correct?

19 MR. VINCE WARDEN: Yes, about five  
20 hundred and fifty thousand (550,000) customers in total.

21 MR. ANTOINE HACAULT: So a rough  
22 calculation would mean that, on average, people would  
23 have how much sitting in Manitoba Hydro's coffers?

24 MR. VINCE WARDEN: Well, I'm not sure I -  
25 - of the appropriateness of that calculation.

1 (BRIEF PAUSE)

2

3

4 MR. ROBERT MAYER: Mr. Hacault, Manitoba  
5 Hydro is owned by the people of Manitoba through its  
6 government. All the -- the shares are held by one (1)  
7 individual who happens to be the minister of the Crown.

8 You have tried to divide the customers,  
9 and you're going to be double counting in some places  
10 because some people own some of those companies that pay  
11 a significant amount of money, some of us think not  
12 enough, but pay a significant amount of money into -- by  
13 way of Hydro bills.

14 I agree with Mr. Warden. I'm not sure how  
15 you make that question, or even an -- an -- how anybody  
16 would firstly answer the question, and secondly what  
17 value it would be to the proceeding.

18 MR. ANTOINE HACAULT: Thank you.

19

20 CONTINUED BY MR. ANTOINE HACAULT:

21 MR. ANTOINE HACAULT: In any event, that  
22 amount from 2010 to 2030 is increasing five (5) times, is  
23 that correct?

24 MR. VINCE WARDEN: Approximately, yes.

25 MR. ANTOINE HACAULT: So whatever that

1 number is, there's five (5) times more of it that's going  
2 to be socked away in Manitoba Hydro?

3 MR. VINCE WARDEN: I just might mention  
4 though, Manitoba Hydro customers get value for that each  
5 and every day.

6

7 (BRIEF PAUSE)

8

9 MR. ANTOINE HACAULT: Now, next turning  
10 onto Tab 3, there was a request of the required rate  
11 change to maintain a 75:25 debt-equity ratio in each year  
12 of the twenty (20) year forecast, and there was a  
13 response provided to that.

14 Do you see that?

15 MR. VINCE WARDEN: Yes, I do.

16 MR. ANTOINE HACAULT: And there's a  
17 fairly significant fluctuation between the years if  
18 Manitoba Hydro wishes to stick to the 75:25 number  
19 religiously, is that correct?

20 MR. VINCE WARDEN: That's what this table  
21 indicates, yes.

22 MR. ANTOINE HACAULT: And it's for that  
23 reason, I understand, that -- that Manitoba Hydro's board  
24 is suggesting, Well, let's not force the 75:25 issue in  
25 the era of -- the decade of investment. It may go lower,

1 but we'd rather have stable rates in the long term. Is  
2 that correct?

3 MR. VINCE WARDEN: Stability and  
4 predictability of rates is a fundamental principle, yes.

5 MR. ANTOINE HACAULT: And I ask you that  
6 question in the context of hopefully clarifying one (1)  
7 of the statements that was made and recorded in the  
8 transcript which is reproduced at Tab 4. At page 332,  
9 lines 11 to 13, there's a statement:

10 "We will, though. I can certainly  
11 commit that we will do everything,  
12 everything possible to maintain that  
13 ratio of 75:25."

14 But that statement needs to be qualified  
15 in the sense that you understand, pursuant to the IFF,  
16 that it's actually going to go lower than the 75:25. Is  
17 that correct?

18 MR. VINCE WARDEN: Yes, and, Mr. Ha --  
19 Hacault, I don't know whether it was part of this  
20 discussion or -- or not, but the forecast -- the forecast  
21 is based on average water-flow conditions, and when we  
22 have better than average water flows, assuming normal  
23 price environment in the export market, then our -- our  
24 net income will be higher in those years.

25 So when I say we'll do everything

1 possible, we -- we do have limited control over -- over  
2 water flows. They are what they are in terms of --  
3 although we can manage the reservoirs, there's only so  
4 much we can do on that front. We can, though, certainly  
5 control costs, and we do that as part of our everyday  
6 operations.

7                   So if -- if we do encounter years of  
8 above-average water flows, if prices do return to normal  
9 on the export markets, it's possible. It's possible that  
10 we'll maintain the 75:25 debt-equity ratio, and that was,  
11 I think, what I was trying to convey here, although it  
12 may not have come across that clearly.

13                   MR. ANTOINE HACAULT: Thank you. I'd ask  
14 you to turn to Tab 5, please. Midway through the first  
15 paragraph of the answer, at that tab which is CAC/MOS --  
16 MSOS Manitoba Hydro Interrogatory-8, there's a statement:

17                   "The fact that Manitoba Hydro's  
18 domestic rates are so much lower than  
19 other jurisdictions allows for a higher  
20 tolerance for lower equity because the  
21 capacity to increase rates is  
22 substantially greater than elsewhere."

23                   Do you see that statement?

24                   MR. VINCE WARDEN: I do.

25                   MR. ANTOINE HACAULT: When there was a

1 statement of comparing Manitoba Hydro to other  
2 jurisdictions, which other jurisdictions would Hydro be  
3 comparing itself to?

4 MR. VINCE WARDEN: We compare ourselves  
5 to all jurisdictions across North America, based on  
6 surveys that are conducted by Edison Electric, for one,  
7 in North America, one (1) of the large ones. Manitoba  
8 Hydro does some of its own surveys, and Hydro Quebec does  
9 other surveys that we rely on.

10 MR. ANTOINE HACAULT: Now, there was a  
11 reference to a lower equity and a lower -- higher  
12 tolerance for that. So we know that the equity, based on  
13 your answer earlier this afternoon, Mr. Warden, at the  
14 start of the regulation of Manitoba Hydro was in the 90s.

15 MR. VINCE WARDEN: The debt ratio, yes.

16 MR. ANTOINE HACAULT: And that didn't  
17 have an adverse impact on the rating at that time?

18 MR. VINCE WARDEN: No, but it was a  
19 different environment back in those days, as we've  
20 discussed.

21 MR. ANTOINE HACAULT: And at that time  
22 were the hydro rates also relatively low compared  
23 to other jurisdictions?

24 MR. VINCE WARDEN: Yes. Yes, we've  
25 maintained the lowest rate structure in North America for

1 many years.

2 MR. ANTOINE HACAULT: So at least that  
3 aspect hasn't changed. Would there be any less tolerance  
4 for lower equity, sir?

5 MR. VINCE WARDEN: Well, the -- the  
6 reference in the response to this information request is  
7 that credit rating agencies, again, are -- are well aware  
8 that we have an advantage in Manitoba of very low  
9 electricity rates, and that, if necessary, those rates  
10 could be raised substantially and we would still be  
11 competitive with neighbouring jurisdictions. So that's  
12 just one (1) of the factors that is taken into account  
13 and what was expressed in -- in this response.

14 MR. ANTOINE HACAULT: Now, I'm not too  
15 sure whether you still -- you answered my question. Is  
16 the tolerance less today than it was in the '80s?

17 MR. VINCE WARDEN: Well, it's -- it's a  
18 very different environment. We wouldn't be able to get  
19 away with, in my view, we would not be able to have today  
20 a 95 percent debt ratio without having a major impact on  
21 the -- on the credit rating of the province, so -- so,  
22 yes, very different today than it was. The tolerance is  
23 very different today than it was back in the '80s.

24 MR. ANTOINE HACAULT: And what are the --  
25 if you had to pick five (5) main differences, what are

1 the differences between the 1980s and now which would  
2 make the answer different?

3 MR. VINCE WARDEN: Well, I think you only  
4 have to look at what's happened to the economy, the  
5 number of --

6 MR. ANTOINE HACAULT: So the economy is--

7 MR. VINCE WARDEN: -- fail -- failures  
8 and finance -- well, you asked me the question. The --  
9 the number of failures we've had in the financial  
10 institutions around the world, the economy's been  
11 affected, the in -- increased pressure on credit rating  
12 agencies to provide more comprehensive reviews of those  
13 entities that -- that suffered such dire consequences and  
14 that we're still struggling through.

15 Canada is fortunate it wasn't affected as  
16 much as other parts of the world, but it's obviously a  
17 very serious situation. So, yes, very -- very, very  
18 different environment today than it was back in the '80s.  
19 We'll never return to those days.

20 MR. ANTOINE HACAULT: I guess I poorly  
21 asked my question. My question related specifically to  
22 Manitoba Hydro and what attributes to Manitoba Hydro, if  
23 you had to pick five (5), are different today than they  
24 were in the '80s.

25 MR. VINCE WARDEN: Well, Manitoba Hydro

1 doesn't operate in isolation. We operate in a  
2 environment. We borrow dollar -- money in the US, in  
3 Canadian markets. We do business with countries around  
4 the world, so what affects the world economies affects  
5 Manitoba Hydro.

6 MR. ANTOINE HACAULT: I listen with  
7 interest to your answer, but where, for example, then --  
8 and this is why I'm trying to refocus my question, where  
9 in the financial rating would any of the raters talk  
10 about the failure of financial institutions as being  
11 relevant to the rating of Manitoba Hydro?

12 I'm trying to specifically understand what  
13 Manitoba Hydro does differently today than it did, or how  
14 it's looked at differently today than it did in the  
15 1980s.

16 MR. VINCE WARDEN: Well, we're not looked  
17 -- and I -- I guess that's what I'm trying to convey to  
18 you, is that we're no different than any other entity  
19 that is being reviewed by the rating agencies, aside from  
20 the fact that we do have the government guarantee. But  
21 rating agencies are looking at all organizations with  
22 much greater scrutiny today than they ever have in the  
23 past.

24 MR. ANTOINE HACAULT: Well, maybe it'll  
25 help me focus my questions if I go to the next tab and

1 actually go to a Moody's report.

2 MR. VINCE WARDEN: Okay.

3 MR. ANTOINE HACAULT: On the first page  
4 of the February 08, 2010 credit opinion by Moody's of  
5 Manitoba Hydro Electric-Board, there's a heading, "Rating  
6 Drivers." What's the significance of that heading?

7 MR. VINCE WARDEN: Well, it's -- it's, of  
8 course, the -- Moody's terminology, but they're listing  
9 the drivers that -- that form the basis of their opinion.

10 MR. ANTOINE HACAULT: Okay. Now, I'll  
11 get back to my original question, and there's some old  
12 reports later on in this binder, what, if you had to pick  
13 five (5) factors, are the important rating factors which  
14 the raters use to rate Manitoba Hydro, and have the  
15 circumstances of Manitoba Hydro changed at all, and if  
16 so, how, since the 1980s.

17 MR. VINCE WARDEN: Well --

18 MS. MARLA BOYD: Mr. Chairman -- sorry.  
19 Mr. Chairman, Mr. Warden has answered this question now  
20 at least twice and -- and has tried to be helpful in  
21 terms of providing information as to, you know, factors  
22 from 1980 when some of us weren't out of high school yet.

23 But I don't -- I fail to see the relevance  
24 of this in terms of where we're going, and perhaps if we  
25 can move into, you know, the -- the 2000s, that would be

1 helpful, and -- and if we can focus this in terms of  
2 what's on the record for the Moody's material that's  
3 current, that would be preferable from our perspective.

4 THE CHAIRPERSON: Just in the interest of  
5 trying to be helpful, and certainly not providing any  
6 evidence, but I'm wondering whether the Intervenor's  
7 questions and the answers are sort of flying at different  
8 altitudes because you could -- maybe Mr. Hacaault could  
9 correct me, but you could infer from his question that he  
10 would be saying that, you know, I'll -- I'll start at a  
11 low level. I mean, you have a greater reliance now on  
12 exports. You have a decade of investment that you're  
13 looking ahead of rather -- having just finished  
14 Limestone. You -- you have wind assets. You have a new  
15 dam that has a partnership.

16 Is -- is this what you're getting at, Mr.  
17 Hacaault?

18 MR. ANTOINE HACAULT: I'm trying to  
19 determine whether or not there -- yes, there are any  
20 factors which Manitoba Hydro believes are different in --  
21 in its rating.

22 And I'll maybe try and get in more  
23 details, but what I'm trying to understand through this  
24 witness, and get more information on, you'll see that  
25 there's the old ratings, and about -- at that time, as I

1 understand the old ratings, about half of -- there was  
2 about as much pro -- provincial debt as Hydro debt.

3           And it was a flow through of the rating of  
4 the province at that time, and it continues to be a  
5 rating flow through now. Now, if there's material  
6 differences, like exports which now all of a sudden make  
7 it riskier because contracts aren't negotiated properly,  
8 or because of requirements under those requirements, and  
9 -- and that makes the rating different in -- in Hydro's  
10 view, I'm trying to understand that.

11           THE CHAIRPERSON: Well, I think if you  
12 keep working with these credit rating things, I think  
13 you'll -- presumably at some point you'll both be at the  
14 same altitude.

15

16 CONTINUED BY MR. ANTOINE HACAULT:

17           MR. ANTOINE HACAULT: I'll try and help  
18 you focus on what I'm trying to get at, Mr. Warden, and  
19 hopefully this exchange between the Chair and myself has  
20 provided you with -- with some direction.

21           Now, firstly, with respect to the rating  
22 drivers in this report that we look at at Tab 6, the only  
23 non-provincial influence driver is that you're a  
24 regulated utility with predominantly low-cost hy --  
25 hydro-electric generation, is that correct?

1 MR. VINCE WARDEN: Yes.

2 MR. ANTOINE HACAULT: And that was the  
3 same in -- in the early '80s when the first reports were  
4 coming out. At that time, you were a regulated utility  
5 with a predominantly low-cost hydro-electric generation,  
6 is that correct?

7 MR. VINCE WARDEN: Well, the proportions  
8 would have been different. We had a different mix of --  
9 of hydro versus thermal at that time compared to today,  
10 but -- but essentially we were still a -- a regulated  
11 utility, primarily -- or primarily hydro, yes.

12 MR. ROBERT MAYER: Mr. Warden, would you  
13 refresh my memory, in terms of this Board, because prior  
14 to a certain date, and I can't remember when it was,  
15 Manitoba Hydro basically set its own rates. When did  
16 this Board become involved in regulating hydro rates?

17 MR. VINCE WARDEN: 1989 would have been  
18 the first year.

19

20 CONTINUED BY MR. ANTOINE HACAULT:

21 MR. ANTOINE HACAULT: So at least since  
22 1989, the two (2) factors which are shown in this report  
23 as it relates to Manitoba Hydro were the same we've had  
24 since 1989. You're a regulated utility, and since 1989,  
25 according to your evidence, you've had low-cost hydro

1 compared to all other jurisdictions?

2 MR. VINCE WARDEN: Yes.

3 MR. ANTOINE HACAULT: Now, in each of  
4 these reports, and I'm turning to page 16, the numbers  
5 are in the bottom right-hand corner. Do you see there's  
6 --

7 MR. VINCE WARDEN: Sorry, Mr. Hacault.  
8 When you say -- when you say to -- for each of these  
9 reports, I -- I can certainly see the number 16 on the  
10 page 16 at Tab 6, but when you say each of these reports,  
11 what other reports are you referring to?

12 MR. ANTOINE HACAULT: I'll be bringing it  
13 to them, but this -- each report has a summary rating  
14 rationale, is that correct?

15 MR. VINCE WARDEN: Mr. -- Mr. Hacault,  
16 you didn't give us this binder before, so I -- I'm -- I'm  
17 relying on you to guide us through the information. So  
18 I'm just trying to clarify, when you say for each of  
19 these reports, are you referring to Tabs 6, 7? Is it  
20 more than seven (7)?

21 MR. ANTOINE HACAULT: Okay. Sorry.  
22 Let's -- we're firstly dealing with Moody's reports, so  
23 I'll clarify that. It's not --

24 MR. VINCE WARDEN: Are they -- are -- are  
25 -- sorry. Are the Moody's reports all at Tab 6?

1 MR. ANTOINE HACAULT: Yes, they are.

2 MR. VINCE WARDEN: Okay.

3 MR. ANTOINE HACAULT: Thank you for  
4 asking for that clarification. I apologize for not  
5 making my que -- question as clear as it should have  
6 been.

7 Now, with respect to this particular  
8 report, there's a heading, "Recent Developments." Do I  
9 take it that Manitoba Hydro has explained to Moody's the  
10 recent developments, and this is the interaction that  
11 you're talking about: the conversations, the meetings,  
12 and the written reports?

13 MR. VINCE WARDEN: Yes. As I mentioned,  
14 we have ongoing dialogue with the rating agencies, and  
15 they're fully aware of our current situation.

16 MR. ANTOINE HACAULT: And under the  
17 heading "Detailed Rating Considerations," the very first  
18 heading is "Provincial Guarantee."

19 Do you see that?

20 MR. VINCE WARDEN: Yes, I do.

21 MR. ANTOINE HACAULT: And for the very  
22 first sentence under that heading it indicates MEHB's  
23 (sic) prime-1P1 rating reflects the province's guarantee  
24 of Manitoba Hydro's promissory note program together with  
25 Moody's belief that the province manages its own

1 liquidity in a professional manner and will have ready  
2 access to capital markets over the next year at a  
3 minimum.

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

5 MR. ANTOINE HACAULT: The -- that  
6 situation hasn't changed since 1989 either. The province  
7 was guaranteeing at that time Hydro's debts.

8 Is that correct?

9 MR. VINCE WARDEN: Yes.

10 MR. ANTOINE HACAULT: Now, Moody's, from  
11 reading this report, has also been made aware of the  
12 risks that Manitoba Hydro faces in its revenue related to  
13 drought conditions.

14 MR. VINCE WARDEN: Yes.

15 MR. ANTOINE HACAULT: Is that correct?

16 MR. VINCE WARDEN: Yes.

17 MR. ANTOINE HACAULT: And if I flip --  
18 flip to page 17, the last paragraph for the -- before the  
19 heading, "Borrowing Requirements."

20 Do you see that?

21 MR. VINCE WARDEN: Yes.

22 MR. ANTOINE HACAULT: There's the  
23 statement:

24 "Moody's expects that Manitoba Hydro-  
25 Electric Board will finance the

1 construction of its major development  
2 projects with a combination of  
3 additional long-term borrowings from  
4 the province and internally-generated  
5 funds."

6 Is there any reason to not accept that as  
7 being true?

8 MR. VINCE WARDEN: No, that's -- that's  
9 true.

10 MR. ANTOINE HACAULT: Okay. And then  
11 there's reference to management's 2009 financial  
12 forecast. Do you have any recollection as to what was  
13 provided to Moody's as far as a forecast? Would that  
14 have been the IFF-09?

15 MR. VINCE WARDEN: Well, as I mentioned  
16 previously, the rating agencies have access to all of our  
17 -- all of our financial forecasts, and -- and, in this  
18 instance, would have either -- either looked at the  
19 financial forecast itself or ex -- excerpts therefrom.

20 MR. ANTOINE HACAULT: And that forecast  
21 was the one that incorporated weaker, near to medium  
22 export revenues and indicated Manitoba Hydro-Electric  
23 Board would be more reliant on debt financing than  
24 expected in earlier forecasts. Is that correct?

25 MR. VINCE WARDEN: That -- that's what it

1 says here, yes.

2 MR. ANTOINE HACAULT: And that didn't  
3 cause the rating to be changed?

4 MR. VINCE WARDEN: No, they understand  
5 the situation.

6

7 (BRIEF PAUSE)

8

9 THE CHAIRPERSON: Well, as long as it's  
10 not bedbugs. I guess we -- maybe someone is feeding it.

11

12 (BRIEF PAUSE)

13

14 THE CHAIRPERSON: It should be an  
15 interesting note in the transcripts.

16 MR. ANTOINE HACAULT: Flipping on to page  
17 21, Mr. Warden, and promise I won't sic the mouse on you.

18 THE CHAIRPERSON: Actually, if it makes  
19 anyone feel better, when I worked with the University of  
20 Winnipeg mice sightings were a regular feature of day-to-  
21 day life. Oh, and academic offices, and even in the  
22 administrative offices.

23

24 CONTINUED BY MR. ANTOINE HACAULT:

25 MR. ANTOINE HACAULT: No, I'll keep them

1 for after the proceedings.

2 On page 21 there should be a Moody's  
3 Investor Service Report, dated February 7, 2011. Have  
4 you located that?

5 MR. VINCE WARDEN: Yes. Yes, I have it  
6 here.

7 MR. ANTOINE HACAULT: Again, the rating  
8 drivers, and by this time as we will see later on we've  
9 got the increases in capital projects, the only comment  
10 with respect to Manitoba Hydro as a rating driver is, and  
11 I'm quoting:

12 "Regulated utility with predominately  
13 low hydro-electric generation."

14 Is that correct? Low cost, if I --

15 MR. VINCE WARDEN: Did you say the only  
16 comment that you were going to make --

17 MR. ANTOINE HACAULT: Under the rating  
18 driver with respect to Manitoba Hydro. The other  
19 comments relate to the province.

20 MR. VINCE WARDEN: Well, I think they're  
21 intended to relate to Manitoba Hydro. They -- they  
22 reference the Province, but it re -- the -- the rating  
23 that's been --been provided to Manitoba Hydro reflects  
24 the guarantee of the Province as indicated in -- in  
25 driver number 1.

1                   The province is -- is referenced as -- the  
2 strength of the Province is referenced as -- as a -- as  
3 it relates to the rating provided to -- to Manitoba  
4 Hydro. The ownership of Manitoba Hydro is referenced as  
5 driver number 3.

6                   So I -- I don't think I would totally  
7 agree that the only rating driver is -- is the -- the  
8 fact that we're a regulated utility with predominantly  
9 low cost hydro electric generation. Certainly an  
10 important one (1), but not the only consideration, I'm  
11 sure.

12                   I -- you know, I have -- we have to take  
13 the Moody's rating drivers what -- for what they are, and  
14 this is what they took into consideration in rating the  
15 pro -- Manitoba Hydro Electric Board.

16                   MR. ANTOINE HACAULT: And you've hit my  
17 point, Mr. Warden. The first driver is that the rating  
18 reflects the guarantee of the province of Manitoba. The  
19 second rating driver again reflects -- is related to the  
20 Province except the Province has an A1 rating with a  
21 stable outlook.

22                   The third one (1) says, well if it's Hy --  
23 Province owns Hydro, so something goes wrong we've got  
24 the Province. Again, extensive ownership, financial, and  
25 public policy linkages to the Province.

1                   So the first four (4) identified rating  
2 drivers all relate back to the Province, is that correct?

3                   MR. VINCE WARDEN:    They do, but the --  
4 the overriding -- the overriding consideration, and I  
5 just know this from talking to the rating agencies, and  
6 it's probably referenced here in the -- in the report, is  
7 the fact that the debt of Manitoba Hydro is self-  
8 supporting.

9                   We support our own debt.  We don't rely on  
10 the Province to -- to make our interest payments for us,  
11 or to repay the debt as it becomes due.  So our -- our  
12 debt is self-supporting, and that's why the financial  
13 ratios are so important.  Debt equity interest coverage  
14 ratio, critically important to the rating of -- of  
15 Manitoba Hydro.

16                  MR. ANTOINE HACAULT:   And -- and that  
17 discussion does find itself later in the discussion in  
18 this document, you're quite correct, but the -- what I'm  
19 trying to discover is whether or not, at least in the  
20 rating drivers and the summary rating rationale, what the  
21 primary consideration is.

22                  So the summary rating rationale again  
23 refers to the Province's guarantee of Manitoba Hydro's  
24 promissory note program, together with the belief that  
25 the Province manages its own liquidity in a professional

1 manner. Isn't that correct?

2 MR. VINCE WARDEN: Yes, that's -- that's  
3 what it says here.

4 MR. ANTOINE HACAULT: And your reference  
5 to the -- Manitoba Hydro and the Board independently  
6 supporting all of its outstanding debt, that's found at  
7 the top of page 22. It's the third line down.

8 MR. VINCE WARDEN: Yes.

9 MR. ANTOINE HACAULT: Do you see that?

10 MR. VINCE WARDEN: Yes.

11 MR. ANTOINE HACAULT: And that statement,  
12 and I quote it:

13 "We observe that Manitoba Hydro  
14 Electric Board continues to  
15 independently support all of its  
16 outstanding debt, make water rental  
17 payments in excess of 100 million  
18 annually to the Province, and earn  
19 positive net income thereby maintaining  
20 or achieving modest improvements in its  
21 financial profile."

22 Now in your discussions with the raters,  
23 why is it, to your sense of understanding, that they  
24 refer to the wat -- water rental payments, which I think  
25 constitute, like, about 7 percent of -- when compared to

1 gross revenues? Is that right?

2 MR. VINCE WARDEN: Well, those are  
3 payments that flow directly to the Province, so the  
4 Province relies on those payments in its financial  
5 forecast and -- and financial affairs.

6 MR. ANTOINE HACAULT: And this is on page  
7 22 of that report, that's where by this time Moody's has  
8 been informed that the estimated budget for Keeyask is up  
9 to \$5.6 billion, with an in-service date at the earliest  
10 of 2019, is that correct?

11 MR. VINCE WARDEN: Yes.

12 MR. ANTOINE HACAULT: And they've also  
13 been advised by this time that Conawapa's costs have gone  
14 up, on an estimated basis, to \$7.8 billion, with a  
15 potential in-service date of 2023, is that correct?

16 MR. VINCE WARDEN: That's correct.

17 MR. ANTOINE HACAULT: But by this time,  
18 they haven't had any information with respect to Bipole 3  
19 numbers changing?

20 MR. VINCE WARDEN: Well, they would have  
21 been aware that the estimate for Bipole -- it would be  
22 subject to change, so those kinds of discussions would  
23 have -- would definitely have taken place. We don't --  
24 we don't keep anything from the credit rating agencies,  
25 just as we don't keep anything from the Public Utilities

1 Board. So -- so, yes, they would have been aware. They  
2 wouldn't have -- have been aware of the number, of  
3 course, but they would be aware it would be subject to  
4 change.

5 MR. ANTOINE HACAULT: Now do you recall  
6 when it would have first been brought to Moody's  
7 attention that Bipole 3 estimated costs were no longer  
8 \$2.2 billion?

9 MR. VINCE WARDEN: No. The -- the  
10 estimated costs for the Bipole were \$2.2 billion. That  
11 was the approved estimate, and until very recently, and  
12 that's what would have been provided to Moody's and other  
13 rating agencies. There would have been, as I mentioned,  
14 discussion that the numbers are subject to change.  
15 Whether we discussed that specifically with respect to  
16 IFF-2009 or whether it was the IFF-2010 discussion, but  
17 nevertheless, as soon as we became aware that -- that the  
18 number was subject to change, it would have been brought  
19 to their attention.

20 MR. ANTOINE HACAULT: I'm just trying to  
21 understand better your answer that you're -- as I  
22 understood it, that you were very open with the credit  
23 rating agencies about the estimated costs. We have in  
24 this proceeding -- I know it wasn't approved -- but  
25 internal discussions, at least as -- at a VP level, with

1 respect to potential increases.

2 Is that kind of information, information  
3 which is not shared with the rating agencies?

4 MR. VINCE WARDEN: Well, I can't give you  
5 any better answer than what I just gave you, Mr. Hacaault.  
6 I -- we don't conceal information from the rating  
7 agencies. There would be no reason to give them a number  
8 that wasn't approved by the process within Manitoba  
9 Hydro, so, yeah, the -- the -- the best we would have  
10 been able to do with -- with the rating agencies is  
11 indicate that the number is subject to change.

12 MR. ANTOINE HACAULT: I'm trying to  
13 understand that better. Is that because the rating  
14 agencies wouldn't go to the next step and ask the  
15 question, Well, do you have some kind of an idea of what  
16 the change might be, because it affects your IFF and it  
17 affects the interest cost?

18 I'm trying to understand why they would  
19 kind of just stop at -- it's two point two (2.2), but  
20 we're letting you know it might change. We don't know if  
21 it's going to be a hundred million dollars or what the  
22 number's going to be. We're not going to discuss that  
23 until we have an approved number.

24 Is that the type of discussion that  
25 occurs?

1                   MR. VINCE WARDEN:   Not really.  It's not  
2   in that tone.  It would have been -- the rating agencies  
3   would be aware that there was a review underway, and as  
4   soon as the -- the new number was available, they would  
5   be informed, or at least in due course.  We wouldn't make  
6   a special call to the rating agencies to let them know  
7   the number has been changed, but in our next update they  
8   would be -- become aware of that.

9                   So, no, they didn't -- they did not press  
10  on, okay, what's the number that -- not at all.  That's  
11  just not the -- the way they operate.

12                  MR. ANTOINE HACAULT:   So is it your  
13  evidence that no new number was given to the rating  
14  agencies until the most recently approved revised budget?

15                  MR. VINCE WARDEN:   We haven't given any  
16  number to the ra -- rating agencies at this date.  
17  They're not pressing us for that number.  The next time  
18  we talk to them we'll let them know, but -- but that's  
19  not a big issue for them.

20                  MR. ANTOINE HACAULT:   Thank you.  Could  
21  you turn to Tab 7, please.  Tab 7 should contain some  
22  DBRS rating reports.

23                  MR. VINCE WARDEN:   Okay, we have them  
24  here.

25                  MR. ANTOINE HACAULT:   Again, am I correct

1 in indicating that DBRS also gives Manitoba Hydro  
2 Electric Board a flowthrough of the Province's rating?

3 MR. VINCE WARDEN: Yes.

4 MR. ANTOINE HACAULT: And I guess that's  
5 where you make the statement that Manitoba Hydro gets  
6 value for its 1 percent fee that it pays to the Province  
7 because it benefits from that rating?

8 MR. VINCE WARDEN: Yes.

9 MR. ANTOINE HACAULT: Now DBRS has a  
10 number of different financial metrics on page 25. Do you  
11 see that?

12 MR. VINCE WARDEN: I do.

13 MR. ANTOINE HACAULT: And there's, as  
14 best as I understand it, only one (1) of the metrics that  
15 are used by Manitoba Hydro, being the total percentage of  
16 debt and capital structure.

17 It doesn't use the interest coverage ratio  
18 or the capital coverage ratio?

19 MR. VINCE WARDEN: No, we use the  
20 interest coverage ratio. We -- we don't use the  
21 identical formulas that they do, but we -- we use the --  
22 certainly one (1) of our financial targets is the  
23 interest coverage ratio.

24 MR. ANTOINE HACAULT: My point was that  
25 DBRS did not have it in these financial metrics, and it's

1 -- I guess my point is also, would you agree that the  
2 percentage of debt and capital structure is just one (1)  
3 metric amongst many that would be used to value a public  
4 company?

5 MR. VINCE WARDEN: Oh, sure. Yes, I -- I  
6 agree.

7 MR. ANTOINE HACAULT: And, in -- in fact,  
8 as I understand this document, unless I'm understanding  
9 it incorrectly, DBRS does not use the other two (2)  
10 financial metrics established by Manitoba Hydro, being  
11 the interest coverage and the capital coverage?

12 MR. VINCE WARDEN: Well, no, I'm looking  
13 at the table you referred to, and interest coverage is --  
14 is the first line item there that I see.

15 MR. ANTOINE HACAULT: But that, you're  
16 talking about EBITDA?

17 MR. VINCE WARDEN: Yes.

18 MR. ANTOINE HACAULT: For the reporter,  
19 E-B-I-T-D-A interest coverage. So that's the earnings  
20 before income tax depreciation and amortization?

21 MR. VINCE WARDEN: Yes.

22 MR. ANTOINE HACAULT: Is that correct?

23 MR. VINCE WARDEN: That's right.

24 MR. ANTOINE HACAULT: And that's a  
25 slightly different formula than the one (1) you use,

1 isn't that correct?

2 MR. VINCE WARDEN: Yeah, I mentioned that  
3 the formulas that are applied by the rating agencies  
4 aren't always consistent, but -- but that's in -- in  
5 effect the same -- to convey the same message as does the  
6 interest coverage target of Manitoba Hydro employees.

7 MR. ANTOINE HACAULT: Has the Manitoba  
8 Hydro Electric Board set an EBITDA interest coverage  
9 ratio that it expects to meet?

10 MR. VINCE WARDEN: No, we have -- we have  
11 an interest coverage ratio that is defined according to  
12 our definition of that coverage -- of that ratio.

13 MR. ANTOINE HACAULT: Now again, and this  
14 is at page 26, this rating agency appears to have been  
15 advised by Manitoba Hydro of its capital projects and  
16 that this would put pressure on the balance sheet. I'm  
17 referring to you to the last paragraph before the  
18 heading, Rating Considerations and Detail. Do you see  
19 that paragraph looking forward? It starts:

20 "DBRS believes that Manitoba Hydro will  
21 continue to generate reasonable levels  
22 of EBITDA -- EBIT, sorry, and operating  
23 cash flows with the potential for  
24 significant volatility resulting from  
25 hydrological and export market

1 conditions."

2 So this rating agency is made aware of the  
3 significant risks, in your view?

4 MR. VINCE WARDEN: Yes. All -- all  
5 rating agencies are made aware of the risks of Manitoba  
6 Hydro.

7 MR. ANTOINE HACAULT: And there is a  
8 concluding statement in that paragraph:

9 "In addition, completing the large  
10 hydro generation and transmission  
11 projects on time and within budget is  
12 key to maintaining a stable financial  
13 profile."

14 Do you agree with that statement?

15 MR. VINCE WARDEN: Well, in -- in  
16 principle it's -- can't disagree with that. We -- all  
17 projects, the objective is -- is to complete them on time  
18 within budget. So that's a -- that's a consideration for  
19 sure. And if there's an increase in a budget or a delay  
20 in a projected in service date, the rating agencies take  
21 note of that and want an explanation.

22 And that's why we have this ongoing  
23 dialogue with the rating agencies, so they are fully  
24 aware of what our current situation is.

25 MR. ANTOINE HACAULT: Next, I'll take you

1 to page 30 of that book of documents under the heading,  
2 Outlook. It's still part of that same DBRS report, dated  
3 February 12, 2009. Have you found that paragraph?

4 MR. VINCE WARDEN: Yes.

5 MR. ANTOINE HACAULT: Now this reporting  
6 agency in the second line of that paragraph indicates:

7 "The ongoing heightened capital program  
8 is expected to result in continued cash  
9 flow deficits."

10 Could you explain what that means?

11 MR. VINCE WARDEN: Well, that means that  
12 with the capital program that we're embarking on, we will  
13 not be able to fund all of our cash requirements from  
14 internal sources, and we'll have to go to the market to  
15 borrow those monies. That's -- that's what that is  
16 saying there essentially.

17 MR. ANTOINE HACAULT: It's noted but it's  
18 not something which caused this rating agency to  
19 downgrade Hydro's rating, is that correct?

20 MR. VINCE WARDEN: No, it's -- none of --  
21 none of the rating agencies have downgraded the Manitoba  
22 Hydro's rating because they understand the situation  
23 we're in.

24 MR. ANTOINE HACAULT: Next at page 37,  
25 there's a further DBRS report, dated November 10, 2010.

1 Have you located that?

2 MR. VINCE WARDEN: Yes. Yes, I have it.

3 MR. ANTOINE HACAULT: And again, this  
4 report, if we flip to the outlook -- page 41, if you  
5 could do that, please.

6 Now prior to that heading, there's a  
7 discussion of the earnings and the outlook. Do you see  
8 under the heading Summary? So that, under the heading  
9 Summary, the second sentence:

10 "The decrease is directly attributable  
11 to lower export prices and lower  
12 electricity demand caused by poor  
13 economic conditions and lower natural  
14 gas prices."

15 Do you see that?

16 MR. VINCE WARDEN: I -- I do.

17 MR. ANTOINE HACAULT: Now have you had  
18 any discussions with DBRS as to why ultimately that's not  
19 a concern to them and -- and they don't think it's  
20 necessary to change the rating?

21 MR. VINCE WARDEN: Oh, yes, we've --  
22 we've had many discussions with DBRS and all the  
23 agencies. I do -- I would maybe bring your attention  
24 back, though, in this same report, to page 37. They do  
25 talk about the challenges. So while -- while they

1 recognize the strengths of Manitoba Hydro, they do  
2 recognize the challenges, and these are the five (5)  
3 challenges they've identified in -- in this report, and -  
4 - and five (5) in -- in the previous report, as well,  
5 with respect to -- to the risks that Manitoba Hydro  
6 faces, and these are the issues that they will be  
7 certainly keeping an eye on in -- as we proceed and in  
8 future reports.

9           So while they haven't changed the rating,  
10 which we certainly don't want them to do, that would be  
11 disastrous for us, but if they -- we have to be aware  
12 that -- that they recognize the challenges that Manitoba  
13 Hydro face -- faces. And one (1) of -- one (1) of the  
14 challenges, you'll note, is high leverage. So that  
15 refers to the -- directly to our debt equity ratio, and  
16 why that is so important for us to maintain our -- a debt  
17 equity ratio that the rating agencies accept as being  
18 reasonable.

19           MR. ANTOINE HACAULT: Now, if they've  
20 seen the IFF-10 with the twenty (20) year outlook, is it  
21 your view then they have accepted that IFF and the lower  
22 debt equity ratios projected in that IFF?

23           MR. VINCE WARDEN: They -- they would  
24 never go so far as to say, We accept that. They -- they  
25 are aware of it, they'll keep an eye on it, they'll

1 monitor it closely, they'll continue to -- to have  
2 dialogue with us, and it's -- it's not something they'll  
3 sign off and say -- sign off on and say, Okay, your  
4 twenty (20) years looks fine, see you later. They don't  
5 operate that way. So it's -- it's something that's --  
6 that they're doing on an ongoing basis.

7 MR. ANTOINE HACAULT: So although they  
8 look at it in the sense of monitoring it, it certainly  
9 isn't something of significant enough concern to cause  
10 them to change any kind of rating for the Province or  
11 Manitoba Hydro?

12 MR. VINCE WARDEN: Not -- not at this  
13 time, but there are flags out there that they're watching  
14 and, again, they'll be definitely in touch with us on a  
15 regular basis to make sure that -- that we're staying on  
16 course.

17 MR. ANTOINE HACAULT: Could you please  
18 flip to Tab 8? And I think, Mr. Chairman, I'll be  
19 completing with respect to that particular item -- at  
20 least for today.

21 As I had previously indicated, I thought  
22 that probably, on behalf of MIPUG, I'll have about two  
23 (2) days. I know Byron's going to take -- or Mr.  
24 Williams will take part of tomorrow morning, and we also  
25 have Denise Pambrun who wants to fit in there somewhere

1 for -- at -- at one (1) point in time, I don't know if  
2 it's tomorrow, but with respect to costs of service.

3 Now, at Tab 8, I've taken the opportunity  
4 of digging out an old report that had been filed in one  
5 (1) of the first rate hearings, and it's a Standard &  
6 Poor's report, as I understand it. Have you located  
7 that?

8 MR. VINCE WARDEN: Yes.

9 MR. ANTOINE HACAULT: And it is a report  
10 with respect to Manitoba Hydro Electric Board and the  
11 Province of Manitoba together, as I understand it?

12 MR. VINCE WARDEN: Yes.

13 MR. ANTOINE HACAULT: And the discussion  
14 with respect to Manitoba Hydro Electric Board is further  
15 into the document. At page 53 of the document book there  
16 should be a heading, "Manitoba Hydro Electric Board."

17 Have you found that?

18 MR. VINCE WARDEN: I see that.

19 THE CHAIRPERSON: What page number was  
20 that, Mr. Hacault?

21 MR. ANTOINE HACAULT: At the very bottom.  
22 It should be page 53, 5-3. It's in the bottom right.  
23 And they're very small numbers, I apologize for that.

24 THE CHAIRPERSON: I have it.

25

1 CONTINUED BY MR. ANTOINE HACAULT:

2 MR. ANTOINE HACAULT: And can you put us  
3 into context with respect to this report? What was  
4 happening as far as the capital projects of Manitoba  
5 Hydro as of the time of this report, in 1991, so it would  
6 have been preceding that report? They would get  
7 information?

8 MR. VINCE WARDEN: So you would like me  
9 to describe --

10 MR. ANTOINE HACAULT: Yeah. Are -- are  
11 we in the middle of Limestone; are we past Limestone?

12 MR. VINCE WARDEN: No, the Nelson River  
13 development would be well underway by this time. Kettle  
14 generating station, Long Spruce would have been  
15 constructed. Limestone was just -- the final units were  
16 coming into service. So, yeah, we were into the export  
17 market in a significant way by this time, so.

18 MR. ANTOINE HACAULT: Could I direct your  
19 attention to -- it would be on the right-hand side, the  
20 second last paragraph. It starts with the words, "Tariff  
21 adjustments historically." Have you found that  
22 paragraph? It's the bottom right-hand corner of page 53.  
23 There's a little indent, and it starts, "Tariff  
24 adjustments historically."

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

1 MR. ANTOINE HACAULT: I think everybody's  
2 found it now? So this reporting agency is indicating:

3 "Tariff adjustments historically have  
4 lagged behind cost increases, resulting  
5 in lower profitability and high debt  
6 levels."

7 Do you see that?

8 MR. VINCE WARDEN: Yes.

9 MR. ANTOINE HACAULT: And even with that  
10 kind of background and scenario we still have an A plus  
11 rating, which is indicated at the very beginning of this  
12 document. Is that correct?

13 MR. VINCE WARDEN: It is but, again, the  
14 rating environment has changed since that time because of  
15 the circumstances we've been through, so -- so, yeah, we  
16 would -- as I mentioned earlier, we wouldn't be able to  
17 ret -- return to a ninety-five (95) debt ratio. I think  
18 we'd have difficulty if we were to get back to eighty  
19 (80) -- if we were to return to eighty-five (85) ratio.  
20 So, yeah, at that time, the rating -- the ratings weren't  
21 affected, but it would be different if we were -- and --  
22 and, also, at that time, we were -- we were making  
23 progress towards achieving targets, and not -- and  
24 targets certainly weren't deteriorating at that time.

25 MR. ANTOINE HACAULT: So you're correct.

1 Further into that paragraph it indicates:

2 "The company's goal is to achieve a  
3 debt to equity ratio of 85:15 by the  
4 year 2005."

5 MR. VINCE WARDEN: Right.

6 MR. ANTOINE HACAULT: And that the  
7 interest coverage ratio improved last year to one point  
8 one one (1.11), up from one point zero six (1.06) in  
9 fiscal 1990?

10 MR. VINCE WARDEN: Yes.

11 MR. ANTOINE HACAULT: Now, they continue,  
12 and it's interesting because this next paragraph  
13 indicates:

14 "The Utility is in the middle of a  
15 \$2.87 billion capital expansion program  
16 with final expect -- expenditures to be  
17 budgeted in fiscal 1995. More than  
18 half of those expenditures relate to  
19 the construction of the Conawapa  
20 Generating Station."

21 MR. VINCE WARDEN: History didn't -- or  
22 at least events didn't evolve as was contemplated at this  
23 time.

24 MR. ANTOINE HACAULT: And then they  
25 mention the power supply agreement with Northern Sales

1 Power Company, correct?

2 MR. VINCE WARDEN: Yes.

3 MR. ANTOINE HACAULT: So at least as of  
4 1991, the rating agencies had in their picture also the  
5 export activities of Manitoba Hydro, and the benefits or  
6 risk that those export activities would imply on Manitoba  
7 Hydro.

8 Is that correct?

9 MR. VINCE WARDEN: Well, I'm sure the  
10 rating agencies of -- of the day would have taken into  
11 account the -- the risks that Manitoba Hydro faced at  
12 that time, yes.

13 MR. ROBERT MAYER: Mr. Warden, I note  
14 with interest in that particular document, they talk  
15 about you're going to build Conawapa, and sure as hell  
16 were, but they don't mention any -- anything about the  
17 agreement with Ontario.

18 And I find that -- wouldn't that sort of  
19 be an important item in the construction of Conawapa and  
20 the next dam down?

21 MR. VINCE WARDEN: I would have thought  
22 so, yes, I --

23 MR. ANTOINE HACAULT: Vice-Chair Mayer,  
24 they do mention inter -- interconnections with Ontario,  
25 in the -- in the second paragraph under the heading

1 "Manitoba Hydro." It indicates the interconnections  
2 there. You're right, it doesn't specifically mention the  
3 -- the agreement that was there.

4 THE CHAIRPERSON: Okay. Thank you, Mr.  
5 Hacault. Thank you, panel. And we'll see you all  
6 tomorrow morning at 9:30. Enjoy watching the curling.

7

8 (PANEL RETIRES)

9

10 --- Upon adjourning at 4:29 p.m.

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14 Certified Correct

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Cheryl Lavigne, Ms.

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