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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
- Len Evans - Board Member

HELD AT:

Public Utilities Board
400, 330 Portage Avenue
Winnipeg, Manitoba
January 17, 2011
Pages 1124 to 1326

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	UNDERTAKINGS		
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3	11	To provide the number of gas plants	
4		that have come in the last three (3)	
5		years, as well as the capacity and any	
6		forecasts that Manitoba Hydro's aware	
7		of.	1198
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9		PUB first round 35e using what is known	
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11		test year, together with any revisions	
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17		forecasts were	1319
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1 --- Upon commencing at 9:40 a.m.

2

3 THE CHAIRPERSON: Okay. Good morning,
4 everyone. Ms. Ramage, you have some undertakings?

5 MS. PATTI RAMAGE: Yes. Good morning,
6 Mr. Chairman. Manitoba Hydro has distributed this
7 morning a number of undertakings and they comprise
8 Exhibits 15 through 20, and I'll just briefly walk
9 through them.

10 The exhibit numbers have already been
11 assigned. We've taken the liberty of assigning them on
12 the form, so no one has to worry about bringing pen to
13 paper at this point.

14 But the first document is Manitoba Hydro
15 undertaking number 2, which was comparing IFF-08 and IFF-
16 09 to demonstrate the reduction in revenue relative to
17 reduction in domestic load. And that was assigned
18 Manitoba Hydro Exhibit 15.

19

20 --- EXHIBIT NO. MH-15: Manitoba Hydro
21 Undertaking Number 2

22

23 CONTINUED BY MS. PATTI RAMAGE:

24 MS. PATTI RAMAGE: The second document,
25 which we have assigned Manitoba Hydro Exhibit 16, is

1 Manitoba Hydro undertaking number 6, which was to provide
2 Manitoba Hydro's estimate of the increase in gas-
3 generated electricity as well as coal-generated
4 electricity if there was a fifteen dollar (\$15) a tonne
5 greenhouse gas penalty. And then it also deals with the
6 thirty dollar (\$30) a tonne issue, whether that doubles.
7 That is a three (3) page exhibit.

8

9 --- EXHIBIT NO. MH-16: Manitoba Hydro Undertaking
10 Number 6

11

12 CONTINUED BY MS. PATTI RAMAGE:

13 MS. PATTI RAMAGE: The next document is
14 Manitoba Hydro undertaking number 7, which, for the
15 record, has been assigned exhibit number MH-17, and
16 that's responding to the question of the \$3.7 million
17 recorded for external cult -- consultants on risk mana --
18 matters which contributed to the OM&A overbudget.
19 Manitoba Hydro was to provide a breakdown as to which
20 consultants were involved in that expenditure.

21

22 --- EXHIBIT NO. MH-17: Manitoba Hydro Undertaking
23 Number 7

24

25

1 CONTINUED BY MS. PATTI RAMAGE:

2 MS. PATTI RAMAGE: Next is Manitoba Hydro
3 undertaking number 9, which, for the record, is Exhibit
4 Manitoba Hydro 18. And that is where Manitoba Hydro
5 provides the average weekly wage in Saskatchewan, British
6 Columbia, Alberta, Ontario, and Quebec compared to that
7 of Manitoba, and also information on cost of living in
8 those provinces.

9

10 --- EXHIBIT NO. MH-18: Manitoba Hydro Undertaking
11 Number 9

12

13 CONTINUED BY MS. PATTI RAMAGE:

14 MS. PATTI RAMAGE: The next is exhibit
15 number 19. This was not assigned an undertaking number
16 in the transcript, it was a question that was posed, and
17 that was the -- to verify the inflation rate for fiscal
18 2010.

19

20 --- EXHIBIT NO. MH-19: Document re verification of
21 inflation rate for fiscal
22 2010

23

24 CONTINUED BY MS. PATTI RAMAGE:

25 MS. PATTI RAMAGE: And then the last

1 undertaking in the package is Manitoba Hydro undertaking
2 number 10, which, for the record, is assigned exhibit
3 Manitoba Hydro number 20. And that was dealing with the
4 residual costs of Conawapa, that would be the late 1980s
5 or early 1990s Conawapa that were written off against
6 retained earnings.

7

8 --- EXHIBIT NO. MH-20: Manitoba Hydro Undertaking
9 Number 10

10

11 CONTINUED BY MS. PATTI RAMAGE:

12 MS. PATTI RAMAGE: So with that, Mr.
13 Chairman, that -- that is all of the undertakings and
14 exhibits for this morning.

15 THE CHAIRPERSON: Thank you, Ms. Ramage.
16 Mr. Peters?

17 MR. BOB PETERS: Yes, thank you. Good
18 morning, Mr. Chairman.

19 When we adjourned, I believe approximately
20 ten (10) days ago, Mr. Hacault was making important
21 decisions, like which sun protection factor to use on his
22 family holiday.

23 Also, Mr. Chairman, Mr. Cormie was not
24 with us and it may be that my speculation on the
25 transcript of him trying to consummate a power sale in

1 his absence was incorrect, it appears he too was
2 investigating solar energy, perhaps near Mr. Hacault.
3 But in any event with Mr. Cormie's return today I'll ask
4 Mr. Singh to swear in the witness and I'm prepared to
5 proceed with my questions after the direct of Manitoba
6 Hydro.

7

8 MANITOBA HYDRO PANEL RESUMED:

9

10 VINCE WARDEN, Resumed
11 DARREN RAINKIE, Resumed
12 MANFRED SCHULZ, Resumed
13 HAROLD SURMINSKI, Resumed
14 DAVID CORMIE, Sworn

15

16 THE CHAIRPERSON: Thank you. Ms. Ramage.

17 MS. PATTI RAMAGE: Yeah. Before we begin

18 I'd just like to state for the record to thank Mr.

19 Peters. When I phoned him back in December to say Mr.

20 Cormie wouldn't be available for the first few days he

21 readily agreed to adjust his cross-examination and -- and

22 try -- and leave Mr. Cormie's materials for following the

23 first three (3) days and we appreciate that. We strayed

24 a few times, but I think Mr. Surminski did an admirable

25 job trying to bring us back on track.

1 EXAMINATION-IN-CHIEF BY MS. PATTI RAMAGE:

2 MS. PATTI RAMAGE: But in any event, Mr.
3 Cormie, could you please outline your position with the
4 Corporation and your responsibilities with respect to
5 this filing?

6 MR. DAVID CORMIE: Ms. Ramage, I hold the
7 position of Division Manager of Power Sales and
8 Operations at Manitoba Hydro. I have the responsibility
9 for providing direction for Manitoba Hydro's activities
10 in the export markets and for the management of Hydro's
11 energy and capacity resources including water management.
12 I report to the Senior Vice President of Power Supply and
13 the Manitoba Hydro Export Power Risk Management
14 Committee.

15 In the export market I have front office
16 responsibility for marketing strategy, sales activities,
17 contract negotiations, and customer relationships, this
18 includes all market and bilateral real-time short term
19 opportunity and long term capacity, energy, and
20 transmission purchase and sale transactions, and all
21 agreements including those power purchase agreements from
22 independent power producers in Manitoba.

23 As well, I have responsibility for
24 licensing and reporting with the National Energy Board
25 for maintaining Manitoba Hydro's market participant

1 status with the electricity markets in Alberta, Ontario,
2 and with MISO.

3 In the areas of operation I have
4 responsibility for water management and operations
5 planning, including Hydro's regulatory relationship under
6 the Water Power Act with water stewardship.

7 MS. PATTI RAMAGE: Mr. Cormie, could you
8 provide the Board with an update on recent water supply
9 conditions in the province?

10 MR. DAVID CORMIE: Yes, from -- from the
11 time that we filed the application till today water
12 conditions have been significantly different than those
13 assumption -- those assumed.

14 For last winter from November 1st until
15 March 31st, precipitation for Manitoba Hydro's watersheds
16 across all of Western Canada was only 69 percent of
17 average. This was the lowest snow pack since 1977 and
18 was equivalent to the very dry conditions of the winter
19 of 2002/2003. This was of significant concern for
20 Manitoba Hydro because as actually happened in 2003, it
21 could have been a precursor to drought. Concern for
22 drought further increased after the snow disappeared as
23 dry conditions persisted well into late May.

24 However, on the May long weekend the first
25 significant widespread rainfall did occur and this was

1 followed by system-wide well above average precipitation,
2 which by the end of October 2010 was 122 percent of the
3 normal for the six (6) month period.

4 Although the year started off with very
5 low initial runoff as a result of the low snow pack and
6 very little rain the subsequent rains resulted in very
7 high water supplies with annual inflows likely to be in
8 the top 5 of the historic record; this situation was
9 indicated on page 50 of Mr. Warden's presentation to the
10 Board on January the 5th.

11 Actual inflows to the hydro system
12 fluctuated throughout the year in response to snow melt
13 and rainfall events as was indicated on page 51 of the
14 presentation. Supply conditions turned around
15 dramatically after the May long weekend and have been
16 significantly above average ever since. Concern over the
17 potential for drought this year as a result of the blow
18 normal snow pack, and subsequent runoff and lack of
19 rainfall in April and early May, caused Manitoba Hydro to
20 begin a conservation strategy in early April, which
21 slowly throttled reservoir releases in order to ensure
22 the energy supply should drought -- should dry conditions
23 continue.

24 However, in late May the strategy was
25 abandoned as unnecessary following basin-wide very heavy

1 rainfall. Flows on rivers such as the Winnipeg, Red,
2 Saskatchewan, east side tributaries of Lake Winnipeg
3 suddenly changed in a matter of days to well above
4 average.

5 Lake Winnipeg outflow was increased to the
6 maximum possible by July the 1st with the lake reaching
7 its highest level of 715.6 feet in August, however in
8 spite of maximum outflows for almost six (6) continuous
9 months Lake Winnipeg did not fall below the flood control
10 zone until mid December of 2010.

11 Over the last three (3) years water spar
12 conditions have been such that Lake Winnipeg has been at
13 the maximum possible discharge about twenty-five (25)
14 months or 63 percent of the time. To minimize the
15 flooding impacts on the Nelson River as a result of
16 maximum outflows from Lake Winnipeg, the Churchill River
17 diversion was reduced through the summer requiring very
18 high flows at the Missi Falls control structure on the
19 Lower Churchill River.

20 In spite of reduced flows on the Churchill
21 River diversion, spillage of water was required at the
22 large Nelson River generating stations from the end of
23 July to the end of November. During periods when river
24 flows exceeded the generating capacity of the stations
25 and/or during periods when US exports were curtailed

1 either because of MISO market rules or during periods
2 when the market prices were below Manitoba Hydro's cost
3 to production.

4 Energy and reservoir storage for the
5 eighteen (18) major reservoirs in Manitoba Hydro's
6 watersheds was indicated on page 52 of Mr. Warden's
7 presentation. In spite of maximum outflows from Lake
8 Winnipeg during the winter of 2009/'10, storage levels
9 were 2 and 1/2 terawatt hours above average on April 1st,
10 2010.

11 This storage carryover, which occurred
12 mainly in Lake Winnipeg, provided a significant hedge for
13 2010/'11 had drought conditions persisted, however as was
14 -- as a result of the high inflows after the May long
15 weekend that carryover was subsequently spilled from
16 storage.

17 Lake Winnipeg and other system storage --
18 storages continue at record high post-regulation levels
19 remaining almost 6 terawatt hours above the long-term
20 average. Again, this storage will provide a significant
21 hedge in 2011 should precipitation be below average.

22 The history of Manitoba total hydraulic
23 generation was shown on page 53 of Mr. Warden's
24 presentation, and we're forecasting it will exceed 34
25 terawatt hours for this fiscal year, which will be the

1 sixth highest hydraulic generation year on record.

2 MS. PATTIE RAMAGE: Mr. Cormie, could you
3 update the Board on the status of negotiations with
4 respect to the three (3) long-term export -- major long-
5 term export contracts?

6 MR. DAVID CORMIE: Yes. Of significance
7 -- of great significance to Manitoba Hydro was that on
8 May 27th, 2010, Northern States Power and Manitoba Hydro
9 were able to sign three (3) sales agreements that extend
10 the existing 500 megawatt system participation and 350
11 megawatt seasonal diversity agreements, that begin to
12 expire in 2015, to extend them to 2025.

13 At this time, Northern States Power has a
14 petition for approval of the agreements before the
15 Minnesota Public Utilities Commission, Manitoba Hydro has
16 also applied to the National Energy Board for an export
17 permit for the 375/325 megawatt agreement and for the
18 seasonal diversity agreement.

19 Our negotiations with Wisconsin Public
20 Service and Minnesota Power on the term sheets continue.
21 These companies remain strongly committed to the
22 transactions and good progress is being made on the
23 definitive agreements.

24 When all costs and risks are considered by
25 our customers, the Manitoba purchases remain a very

1 attractive option for these companies to replace aging
2 existing plants, to meet projected load growth, and to
3 meet evolving environmental standards.

4 MS. PATTI RAMAGE: Thank you. Could you
5 explain the mechanism under which Manitoba Hydro receives
6 transmission revenues?

7 MR. DAVID CORMIE: Manitoba Hydro
8 receives revenues from the sale of transmission services
9 from companies outside of Manitoba as well as from the
10 merchants of Manitoba Hydro. These revenues flow to
11 Manitoba Hydro under long-term bilateral contracts or
12 from services provided under its open access transmission
13 tariff. Under these arrangements a company, including
14 Manitoba Hydro, can use, for a fee, Manitoba Hydro's
15 transmission grid to ship electricity throughout --
16 through the province.

17 For example, a company in Saskatchewan may
18 want to sell electricity into MISO and needs to use the
19 Manitoba Hydro transmission network to transport the
20 electricity from the Saskatchewan-Manitoba border across
21 Manitoba to the Manitoba-US border. The fees from these
22 activities are called transmission revenues or credits.

23 Manitoba Hydro also has a coordination
24 agreement with MISO. In the past, under this agreement,
25 Hydro received a portion of the MISO transmission

1 revenues as it was also sharing in a portion of the MISO
2 transmission costs.

3 MS. PATTI RAMAGE: And finally, Mr.
4 Cormie, can you explain the sources of supply which
5 Manitoba Hydro uses to serve dependable contracts?

6 MR. DAVID CORMIE: Ms. Ramage, the
7 Manitoba Hydro existing dependable contracts as well as
8 those that we are contemplating with our new customers
9 provide Manitoba Hydro with the right to use purchased
10 energy to serve the sale as an alternative to running our
11 own generators. This is an advantage to Manitoba Hydro
12 as it may be less expensive to purchase energy than to
13 utilize our own generating resources.

14 For example, if Manitoba Hydro was using
15 all its hydro resources to serve the Manitoba load but
16 still had to serve it's export obligation, it could make
17 an economic choice to either generate the power with its
18 combustion turbines at Brandon or to go to the market and
19 purchase energy.

20 An example of this type of -- of economic
21 choice would be that -- let's say that natural gas was
22 priced at four dollars (\$4) a million BTUs, the cost of
23 operating our -- our combustion turbines at Brandon at
24 full load for sixteen (16) hours for that day would be
25 about two hundred and twenty-five thousand dollars

1 (\$225,000), or about fifty-four dollars (\$54) a megawatt
2 hour.

3 However, by going to the market we could
4 purchase the equivalent amount of energy at about a -- at
5 a cost of about a hundred and forty thousand dollars
6 (\$140,000) and that would work out to a unit price around
7 thirty-four dollars (\$34) a megawatt hour, which is a 40
8 percent saving.

9 And these kind of economic decisions are
10 made on a daily basis in our power of trading office by
11 our -- our schedulers and traders.

12 In anticipation of the MISO day two (2)
13 market in 2005, Manitoba Hydro renegotiated almost all
14 its export contracts to allow it to use all the MISO
15 financial market mechanisms to settle its obligations
16 under these contracts.

17 Previously where we -- we were limited to
18 -- we could settle the contract physically by -- by -- by
19 an arrangement referred to as a "bookout." So we're
20 using the market mechanisms now that are available is a
21 significant advantage because we don't need to trade
22 through the customers who are -- who are buying our
23 power. We don't have to buy it back from the same people
24 we're selling it to.

25 So since 2005, we've been still delivering

1 -- serving the sales with market energy but priced from
2 the market rather than from our export customers.

3 MS. PATTI RAMAGE: Thank you, Mr. Cormie,
4 and with that we would suggest that we turn the mic back
5 over to Mr. Peters so he can continue with his cross-
6 examination of Manitoba Hydro's panel.

7

8 CONTINUED CROSS-EXAMINATION BY MR. BOB PETERS:

9 MR. BOB PETERS: Yes, thank you, Mr.
10 Chairman.

11 Good morning, Mr. Cormie, and welcome
12 back. Before I have questions of you, sir, I just want
13 to remind you, as I did the panel, that my questions are
14 not designed with the intention of eliciting information
15 that Manitoba Hydro considers confidential and ought not
16 to be on the public record.

17 So if you feel my questions go into that
18 territory that's not what I'm seeking. And you can call
19 me up short or through your counsel indicate that the
20 information is not something that Manitoba Hydro wants to
21 put on the record and we'll deal with it at that time.

22 Secondly, Mr. Chairman, I should have
23 mentioned earlier that the second volume of Board counsel
24 book of documents was prepared and distributed late last
25 week. And a copy has been provided to the Board with a

1 request to put it on the Board's website.

2 I'm asking that parties note that would be
3 exhibit number PUB-16, and it will appear on the Board
4 website. I believe it may also be up there today.

5 I haven't distributed a copy in this room
6 yet, I have it here in the -- with -- with me. Some
7 people have come and obtained a copy. I will distribute
8 it later today as we will be getting into some of those
9 documents at that time.

10

11 --- EXHIBIT NO. PUB-16: Second volume of Board
12 counsel book of documents

13

14 CONTINUED BY MR. BOB PETERS:

15 MR. BOB PETERS: Mr. Warden, just before
16 I turn to Mr. Cormie, a question that I had that I didn't
17 ask of you last week was that when we were talking about
18 equivalent full-time staff as well as the salary and
19 benefits class, I want to know if any of Manitoba Hydro's
20 employees have remuneration that includes incentives?

21 MR. VINCE WARDEN: No. There -- there
22 was a small incentive plan in place for MHI employees,
23 that's Manitoba Hydro International employees, that was
24 discontinued last year, though. So we -- we do not have
25 any incentive plan in place in Manitoba Hydro.

1 MR. BOB PETERS: So you're telling the
2 Board that the employees of Manitoba Hydro's salaries and
3 benefits are -- are -- are not based on incentives or
4 bonus payments?

5 MR. VINCE WARDEN: That's correct.

6 MR. BOB PETERS: Thank you.

7 Mr. Cormie, in your absence last week, we
8 were looking in a Board Counsel book of documents Tab 4,
9 looking at IFF-09, and we also looked at Board document -
10 - Board Counsel book of documents Tab 6, which had some
11 underlying assumptions to the IFF-09, and we -- we were
12 exploring a difference that appears to arise.

13 Have you got those documents in front of
14 you, sir?

15 MR. DAVID CORMIE: Yes, I do.

16 MR. BOB PETERS: When the Board looks at
17 IFF-09, found on page 14 of Board Counsel's book of
18 documents which is PUB Exhibit 15, it appears that the --
19 for the 2010 year the extra-provincial revenue is shown
20 as \$414 million, correct?

21 MR. DAVID CORMIE: That's correct.

22 MR. BOB PETERS: And then when we go
23 further into Tab 6 and we look at the under-pinning
24 assumptions, it appears that the export revenue is only
25 \$332 million, also correct?

1 MR. DAVID CORMIE: I see that, yes.

2 MR. BOB PETERS: And in IFF-09, when we
3 look at the fuel and power purchases, we see that they
4 total \$103 million, correct?

5 MR. DAVID CORMIE: I see that, yes.

6 MR. BOB PETERS: And then in book of
7 documents Tab 6, the import energy and the thermal comes
8 out to a combined \$44 million. You'll agree with those
9 numbers?

10 MR. DAVID CORMIE: Yes.

11 MR. BOB PETERS: So, I see the difference
12 between the fuel and power purchased and the import
13 energy as being about \$59 million. You'll take that
14 subject to check, sir?

15 MR. DAVID CORMIE: Yes, I -- I see that
16 calculation.

17 MR. BOB PETERS: All right. I'm going to
18 come back to that, but I also just want to take you and
19 the Board to -- let's go out to the year 2020, and we can
20 see that the exports on Tab 4 of the book of documents
21 are \$1 billion and \$93 million forecast, correct?

22 MR. DAVID CORMIE: Yes.

23 MR. BOB PETERS: And then when we go to
24 the -- Tab 6 of the book of documents and look at the
25 assumptions that underpin that, we see that the export

1 revenues out at 2020 are forecast to be \$1 billion and
2 \$13 million.

3 MR. DAVID CORMIE: Correct.

4 MR. BOB PETERS: So there's \$80 million
5 of a difference between those two (2) numbers there,
6 correct?

7 MR. DAVID CORMIE: Yes.

8 MR. BOB PETERS: And likewise, when we
9 compare the fuel and power purchases in the IFF with the
10 actual thermal and import costs that underpin those
11 assumptions, we come up with about a \$78 million figure.

12 MR. DAVID CORMIE: Yes, I see that.

13 MR. BOB PETERS: All right. The point of
14 those numbers, Mr. Cormie, is to explore with the
15 Corporation the inclusion of, what I was calling last
16 week, merchant sales in the Corporation's revenues. And
17 I suggested to the witnesses, including Mr. Surminski,
18 that --

19 MR. DAVID CORMIE: M-hm.

20 MR. BOB PETERS: -- merchant sales were
21 defined as sales that didn't include generation from
22 Manitoba Hydro's assets. Would that be correct?

23 MR. DAVID CORMIE: Yes.

24

25 (BRIEF PAUSE)

1 MR. BOB PETERS: When we look at a
2 further breakdown of merchant sales for the 2010 year,
3 found in the documents, also in Tab 6 of the Book of
4 Documents, but on pages 27 and 28, it appears on the
5 supplemental to PUB Manitoba Hydro second round 193(b)
6 that the merchant sales in 2010 were \$26 million and if
7 we turn the page the imports to support those merchant
8 sales, or the costs of those, was about \$25 million.
9 Would that also be accurate?

10 MR. DAVID CORMIE: Subject to check, yes.

11 MR. BOB PETERS: Would that tell the
12 Board, Mr. Cormie, that the merchant sales netted \$1
13 million for 2010?

14 MR. DAVID CORMIE: That's what it would
15 say, yes.

16 MR. BOB PETERS: And to your recollection
17 that's accurate?

18 MR. DAVID CORMIE: I'm -- I'd have to
19 check on that, Mr. Peters.

20 MR. BOB PETERS: All right. Would you
21 check anything further than the numbers you've already
22 given the Board, or is there someplace else the Board
23 should be checking for that?

24 MR. DAVID CORMIE: Under -- we're --
25 we're looking at undertaking number 4, Mr. Peters, where

1 we're looking at the profitability of the merchant sales
2 and we were going to report on that later to -- to better
3 define those numbers.

4 MR. BOB PETERS: All right. That's an
5 undertaking that's not yet been responded to?

6 MR. DAVID CORMIE: That's correct.

7 MR. BOB PETERS: Okay. Thank you, sir.
8 When Manitoba Hydro defines its merchant sales does it
9 include the transmission charges to effect the merchant
10 sale?

11 MR. DAVID CORMIE: Yes, we do. I believe
12 all the -- the only costs that aren't included in that
13 calculation, as of now, are the staffing costs and the
14 overhead.

15 MR. BOB PETERS: Why would those costs
16 not be included?

17 MR. VINCE WARDEN: Mr. Peters, maybe I
18 can respond. In response to your question -- questions
19 last week, we did, in putting together undertaking number
20 4, we did include the staffing costs, so perhaps when we
21 file undertaking number 4 that will be clearer.

22 MR. BOB PETERS: Thank you, Mr. Warden.

23 Mr. Cormie, when we talked this morning
24 about the difference between IFF-10 and the assumptions
25 and came up with an \$82 million difference and tried to

1 then figure out what the costs of import energy and
2 thermal energy was relative to the fuel and power
3 purchases and came up with a \$59 million difference, I
4 think I was told last week it would be an incorrect
5 assumption of the Board to assume that the difference was
6 the profitability on merchant sales.

7 MR. DAVID CORMIE: The -- the 59 million
8 are the costs associated -- the majority of the costs
9 associated with the merchant transactions.

10 MR. BOB PETERS: Correct. And if we take
11 that \$59 million and subtract it from the \$82 million
12 difference that we talked about earlier this morning
13 there's \$23 million surplus. And I was asking last week
14 if that \$23 million surplus was the merchant sales
15 forecast profitability, and my understanding from what I
16 was -- what the Board was told last week was that would
17 be an incorrect assumption because there are other
18 factors included in that \$23 million figure.

19 MR. DAVID CORMIE: Yes, I agree.

20 MR. BOB PETERS: You'd agree that there
21 other factors included in that \$23 million?

22 MR. DAVID CORMIE: Yes, I agree.

23 MR. BOB PETERS: And when we -- when we
24 talk about those other factors --

25 MR. HAROLD SURMINSKI: Mr. Peters, we are

1 working on the undertaking that we had designated as
2 number 3. We're going to provide a detailed
3 reconciliation and it will be obvious, we'll -- we'll do
4 all years and we'll expand even further than what was
5 specifically requested. So we'll show every item that
6 makes up the extra-provincial costs or -- extra-
7 provincial revenues and the fuel and power purchase costs
8 and it will become much clearer. We -- we ran into
9 difficulty last week because we did not have all the
10 categories there, so with the breakdown it'll -- it'll be
11 much clearer.

12 MR. BOB PETERS: All right, Mr.
13 Surminski, you've waved me off and I'll -- I'll take you
14 at that, sir, and we'll see what your undertaking looks
15 like when it comes back.

16 Mr. Cormie, when the Board references
17 merchant sales or merchant transactions does that include
18 all of these other matters such as the transmission
19 credits and costs and the ancillary service market
20 revenue and summer capacity? Is that all rolled into
21 what the Corporation refers to as merchant sales?

22 MR. DAVID CORMIE: No, the merchant sales
23 are strictly those off-system purchase costs and those
24 off-system revenues. Those are -- those are classified
25 as merchant sales and costs. Those other items,

1 transmission credits, ancillary service revenues,
2 transmission service charges where Manitoba Hydro is
3 paying to hold the rights to transmission service in the
4 United States for its own generation portfolio, those are
5 not part of merchant transactions, Mr. Peters.

6 MR. BOB PETERS: But they all end up in
7 the IFF under the extra-provincial line?

8 MR. DAVID CORMIE: Yes, they will either
9 show up on the -- well, they'll show up on the revenue
10 side for extra-provincial and they'll show up on the cost
11 side where appropriate.

12 MR. BOB PETERS: Maybe just help me with
13 the cost side, Mr. Cormie. Where on the cost side in the
14 IFF would those -- would those numbers show up?

15 MR. DAVID CORMIE: Under fuel and power
16 purchase.

17 MR. BOB PETERS: So the fuel and power
18 purchase line will include not only imported energy and
19 natural gas fuel, but it'll include transmission costs?

20 MR. DAVID CORMIE: Yes, all the fixed
21 costs associated with maintaining market access.

22 MR. BOB PETERS: All right. And your
23 undertaking's going to break that out to Mr. Surminski's
24 understanding?

25 MR. DAVID CORMIE: Yes.

1 MR. BOB PETERS: Okay. We'll await for
2 that.

3 (BRIEF PAUSE)

4
5 MR. BOB PETERS: Mr. Cormie, I was
6 reviewing a report by the independent consultants engaged
7 by the Board, and there was information provided in there
8 and I'm going to ask you I think -- do you have at hand
9 that report, the Kubursi/Magee Report? Probably not at
10 hand, sir?

11 MR. DAVID CORMIE: I think we have one at
12 the back here. I have the report.

13 MR. BOB PETERS: My question's going to
14 seem a little anti-climactic, but if you could flip to
15 page 73 and 75 in that report. I just have a quick
16 question while we're on the topic of merchant sales, and
17 it's one that may become discussed later on.

18 MR. DAVID CORMIE: I have the page.

19 MR. BOB PETERS: Now, on page 73 of the -
20 - what we have called the report by Drs. Kubursi and
21 Magee, the KM Report, there's a table with forecast and
22 actual total export revenues on page 73?

23 MR. DAVID CORMIE: Yes.

24 MR. BOB PETERS: That information came
25 from Manitoba Hydro to the independent consultants?

1 (BRIEF PAUSE)

2

3 MR. DAVID CORMIE: Yes.

4 MR. BOB PETERS: Did Manitoba Hydro
5 include merchant trading in the forecasts as well as in
6 the actual revenues on that table?

7 MR. DAVID CORMIE: Subject to check, I --
8 I believe it is.

9 MR. BOB PETERS: And now that you've told
10 the Board that merchant trading is -- is a specific
11 transaction.

12 The transaction of merchant sales, Mr.
13 Cormie, Manitoba Hydro buys electricity in the MISO
14 market and ships it into Ontario, is that -- is that
15 correct?

16 MR. DAVID CORMIE: Yes, it -- that's
17 correct.

18 MR. BOB PETERS: And to do that it
19 purchases not only the electricity or the energy but it
20 also purchases the transmission rights to do that?

21 MR. DAVID CORMIE: That's correct.

22 MR. BOB PETERS: You've now told the
23 Board that the numbers that show up in the IFF include
24 more than just merchant sales and there's other
25 subcategories such as transmission credits and costs,

1 ancillary services, I suppose revenues and maybe costs,
2 as well as some were capacity items, are those additional
3 items included in the forecasts of actual and forecast
4 total export revenues that you've provided in the -- to
5 Drs. Kubursi and Magee?

6 MR. DAVID CORMIE: Yes, that --- all
7 those amounts will be included.

8 MR. BOB PETERS: And will the -- will the
9 undertaking provide the Board with the level of those
10 transactions as you break them down going back to
11 2002/'03?

12 MR. DAVID CORMIE: Undertaking number 4
13 will provide a complete history of our merchant activity
14 for those transactions that were -- were undertaken under
15 the merchant category.

16 MR. BOB PETERS: And what about the other
17 activities, such as the transmission costs and credits
18 and ancillary services market revenues and costs, will
19 you be able to also track that historically?

20 MR. DAVID CORMIE: I -- I believe under
21 the -- the undertaking Mr. Surminski referred to, that
22 was a forward-looking breakdown. Starting with actuals
23 in 2009/'10 it was intended to go back to 2002/'03, Mr.
24 Peters.

25 MR. BOB PETERS: All right. Well, thank

1 you for that. So you -- will you be able to provide that
2 breakdown then going forward out to -- as far as 2020?

3 MR. DAVID CORMIE: Yes.

4 MR. BOB PETERS: Mr. Cormie, while you're
5 on the KM Report, can you just turn to page 75, please,
6 and I think you'll find another chart. You're there,
7 sir?

8 MR. DAVID CORMIE: I'm there, yes.

9 MR. BOB PETERS: Did Manitoba Hydro's
10 forecast of costs and actual costs both include power
11 purchases for merchant sales?

12 MR. DAVID CORMIE: Yes.

13

14 (BRIEF PAUSE)

15

16 MR. BOB PETERS: Mr. Surminski, would you
17 agree with the suggestion that the merchant sales that
18 Manitoba Hydro engages in include an aspect of
19 speculation?

20 MS. PATTI RAMAGE: I don't think that's a
21 question for Mr. Surminski. I think you might -- the
22 panel can answer but I think it's a question for Mr.
23 Cormie.

24 MR. DAVID CORMIE: Mr. -- Mr. Peters, the
25 way Manitoba Hydro participates in the MISO market is in

1 the day-ahead market where we set the price that we're
2 willing to buy power out and we set the price. And the
3 day-ahead market, if -- if the market clears we get -- we
4 get that energy. If the market clears higher than that
5 we don't buy it. So we have the choice of fixing the
6 price in the day-ahead market, so we -- we -- we know
7 what price we're willing to -- to pay.

8 So once we hold that, we bought power at a
9 price that -- that -- that we're very comfortable with.
10 And that power is then sold into the Ontario market with
11 -- with the requirement that there is an expectation that
12 there will be a profit made on the transaction. There is
13 no speculation in that. We know what the price of power
14 is going to be and we know what we expect to get for it.
15 These transactions are -- the -- the day-ahead market is
16 just for a day. We buy power one (1) day in advance.
17 There are -- twenty-four (24) hours a day there can be as
18 many as a hundred (100) transactions associated with each
19 day because you have to buy twice and you have to sell
20 twice, and then you may be buying and selling over
21 several interfaces.

22 So there are -- there are hundreds of
23 transactions involved there. But generally they're done
24 at a known price. We're not subject on the purchase to
25 the volatility of the MISO day-ahead market.

1 MR. BOB PETERS: I take from your answer,
2 Mr. Cormie, and I apologize, I think I intended to direct
3 the question to you and I for some reason didn't use your
4 name, but what you're telling the Board is while you have
5 a -- a high degree of confidence as to what is the price
6 at which you're going to buy the power you don't have
7 this same certainty as to what the sale price will be
8 when you get it to Ontario?

9 MR. DAVID CORMIE: Yes, there's less
10 certainty on what it will actually sell for. Yeah.

11 MR. BOB PETERS: And in fact the market
12 may not be as Hydro hopes it will be such that on the
13 sale into Ontario the revenues will be less than the
14 costs?

15 MR. DAVID CORMIE: Yeah, that's true.
16 There are -- are transactions where the outcome is not in
17 -- in favour of Manitoba Hydro, however that same
18 volatility also results in transactions where the outcome
19 is orders of magnitude higher than what we would expect.

20 On average I would estimate over 90
21 percent of the days Manitoba Hydro makes a profit on its
22 trading activities in the merchant area.

23 MR. ROBERT MAYER: Mr. Cormie, that
24 sounds like the definition of speculation.

25 MR. DAVID CORMIE: We -- we set the --

1 the bar quite high, Mr. Mayer, and although it -- it is
2 not -- it's not a sure thing it's -- has been a very
3 profitable activity for -- for Manitoba Hydro because of
4 the skill that we have, the knowledge we have of the
5 market and because we're trading across an international
6 border that where there are not a lot of buyers and
7 sellers.

8

9 CONTINUED BY MR. BOB PETERS:

10 MR. BOB PETERS: Mr. Cormie, even though
11 Manitoba Hydro sets the bar quite high you set the bar
12 quite high by the price at which Manitoba Hydro is
13 bidding into the market. Did I understand that
14 correctly?

15 MR. DAVID CORMIE: No, the -- the bar
16 that I'm referring to is the speculative bar. Rolling --
17 rolling dice is -- is what I call pure speculation, you
18 don't know what the outcome is, so we have very skilled
19 par traders, we have some very sophisticated computer
20 models and we're able to predict where the market in
21 Ontario is going to clear the next day, and based on that
22 prediction we enter the MISO market and pur -- purchase
23 power that almost all the time guarantees that the
24 transaction will make a profit.

25 If there's no profit to be had under those

1 circumstances Manitoba Hydro doesn't enter into a
2 transaction. So it's -- it's -- the outcome -- there's a
3 -- there's a high level of confidence that the outcome
4 will achieve the outcome that Manitoba Hydro's intending.

5 MR. BOB PETERS: Mr. Warden, does power
6 sales and operation account for these Ontario sales and
7 purchases separately?

8 MR. VINCE WARDEN: There's a separate
9 accounting for the merchant transactions, yes.

10 MR. DAVID CORMIE: Mr. Peters, these
11 transactions have been going on for as long as Manitoba
12 Hydro's been interconnected with its neighbouring
13 markets. We've chosen, starting in approximately 2004,
14 when the market and MISO opened up in the Ontario market
15 to start reporting them separately but we've been buying
16 from one (1) jurisdiction like Saskatchewan selling into
17 another jurisdiction for as long as we've been
18 interconnected.

19 These are not new transactions. This is -
20 - this is an activity that's been going on for probably
21 thirty (30) or forty (40) years. What is new is that we
22 now very carefully separate them out, track their
23 profitability, and -- and report on them; this -- this is
24 not a new activity.

25 MR. BOB PETERS: Would it be correct, Mr.

1 Cormie, that the margins in the merchant sales appears to
2 be tightening or disappearing?

3 MR. DAVID CORMIE: In the last -- in the
4 last year and a half the -- with the economic decline in
5 both the United States and in Ontario power prices have
6 been much softer. And when the spreads are smaller the
7 profitability is -- is less, that's true.

8 MR. BOB PETERS: Do you know why the
9 spreads are smaller?

10 MR. DAVID CORMIE: Well, the spreads are
11 smaller because the -- the power prices in MISO are lower
12 and the power prices in Ontario are lower, so the
13 difference bet -- the -- the differences between the
14 markets is -- is less. But this is a -- this activity is
15 cyclical and goes up and down with the economy and -- and
16 I think that explains why there's -- there's less margin
17 available this year and -- and in last year than there
18 has been in -- in several years in the past.

19 MR. BOB PETERS: The merchant sales that
20 we're talking about now, Mr. Cormie, relative to the ones
21 that you said the Corporation's been doing for thirty
22 (30) years, the ones that now corp -- the Corporation's
23 involved in have to do with the purchase of someone
24 else's energy and the sale of it to a third party rather
25 than being interconnected with a counter-party.

1 MR. DAVID CORMIE: Well, we've always had
2 to purchase from a seller. We would buy the electricity
3 and then we would find a market for it in another
4 jurisdiction. We -- as an example, we -- we historically
5 would have bought from a company in Ontario and -- and
6 then delivered it to a company in Minnesota; historically
7 that transaction would have taken place over Manitoba
8 Hydro's interconnections with Ontario and with the United
9 States.

10 But with the opening of the markets, given
11 that we were active in the Ontario market and given that
12 we were already active in the MISO market, that we had
13 the infrastructure in place and we had staff, this was a
14 natural extension of -- of those types of short-term
15 arbitrage activities and -- and they have been very
16 profitable for Manitoba Hydro and beneficial to our
17 customers.

18 MR. BOB PETERS: From that answer it
19 sounds like there's no intention on the Corporation's
20 part to -- to scale back or discontinue the merchant
21 sales transactions, would that be a correct
22 interpretation of your evidence?

23 MR. DAVID CORMIE: Well, never is a long
24 time, Mr. Peters, and the markets are -- continue to
25 evolve. Manitoba Hydro anticipates, at least in the near

1 term, that we will continue this type of activity as long
2 as we can demonstrate that it is providing benefits to --
3 to ratepayers. To -- to say that it will continue ten
4 (10) years into the future, I think that would be a form
5 of speculation.

6 We -- we are comfortable that for the next
7 year, or the next two (2) or three (3) years, that the
8 markets will continue as they are structured today and --
9 and I think we've budgeted accordingly.

10 MR. BOB PETERS: You indicated to the
11 Board that Manitoba Hydro's employee costs on the
12 information filed so far haven't been deducted from
13 merchant sales, have I got that right?

14 MR. DAVID CORMIE: That's correct. We
15 have a power trading office. There are two (2) power
16 traders who are dedicated to this activity. In addition
17 to that though, these power traders, because they are
18 active in the market, provide the backup staff for our
19 other -- our other market activities with MISO. And we
20 need a core -- a complement of staff to cover off should
21 a sickness or vacation -- and -- and we will sacrifice
22 the merchant activity in order to backfill our -- our
23 MISO desks.

24 So to some extent, although we would -- we
25 -- we say that these people work full-time on the

1 merchant desk, they are there as part of our -- Manitoba
2 Hydro's overall trading staff. And so when you see the
3 cost allocation that we've made to the merchant activity
4 I think that would be a conservative number.

5 To some extent we should be charging a
6 portion of that to managing the entire export activity,
7 but for the purposes of simplicity we're -- we're going
8 to show those two staff and the -- and the person in --
9 in the billing area who does the -- does the settlement,
10 we're going to show those as -- as costs that are
11 attributable to the merchant -- to the merchant activity.

12 MR. BOB PETERS: In the forecasts that we
13 have and the numbers that you've provided, is the
14 brokerage fee that's paid to your US broker deducted from
15 the revenues?

16 MR. DAVID CORMIE: The -- the -- the
17 service fees that are paid to US counter-parties are
18 subtracted from the -- they're included as part of the
19 transaction costs. So we will show revenues and we will
20 show expenses associated with the transaction and those -
21 - those expenses will include things like the broker --
22 the fees, the service fees, the transmission service
23 costs, and any service charges that MISO may allocate to
24 the transaction.

25 MR. BOB PETERS: I tried to make a note

1 of the number of transactions per year that Manitoba
2 Hydro would have in the merchant sales and I'm not sure
3 if I understood your previous evidence this morning, Mr.
4 Cormie, that there are sometimes a hundred (100)
5 transactions a day?

6 MR. DAVID CORMIE: Yes, because there are
7 -- there are many points of interconnection between MISO
8 and Ontario. There is a transmission line that connects
9 Northern Minnesota into Northern Ontario. There's an
10 interconnection from Michigan into Ontario, and so across
11 each interface Manitoba Hydro can -- can -- can make a --
12 can make a transaction for every hour. And so there's --
13 there's multiple interfaces, there's many hours in the
14 day, and each transaction involves buying -- or each deal
15 involves buying from the market and selling it into
16 Ontario.

17 And so there -- there -- in a year, Mr.
18 Peters, it would be fair to say there are tens of
19 thousands of transactions of an hour of dura -- in
20 duration.

21 MR. BOB PETERS: I believe we've already
22 covered with Mr. Warden that on a net basis, and on an
23 annual basis, Manitoba Hydro has lost money on some of
24 its annual merchant sales? And that might be an
25 undertaking that's still forthcoming.

1 MR. VINCE WARDEN: Yes. Yes, Mr. Peters,
2 I think it would be best if we await that undertaking. I
3 think at the time I was testifying last week or the week
4 before I did recall a year in which there were losses.
5 However, there is a difference between the accounting for
6 the transactions and the re -- and the reporting that
7 takes place on a -- on a real-time basis. So that will
8 be explained in the undertaking where we -- when we file
9 that later today.

10 MR. BOB PETERS: Not to jump to the last
11 chapter, Mr. Warden, but when the Board reviews the risk
12 report prepared by -- who I believe was a University of
13 Manitoba professor with a Ph.D., there seemed to be a
14 suggestion that in 2006/'07, Manitoba Hydro may have lost
15 as much as \$4 million on merchant trading. Does that
16 sound correct?

17 MR. VINCE WARDEN: Again, Mr. Peters,
18 that will be explained in the undertaking that we file.

19 MR. BOB PETERS: All right. Thank you,
20 I'll -- I'll wait to review that.

21 Mr. Cormie, in the forecast IFF the Board
22 has before it at Tab 4 of the book of documents, do
23 merchant trading transactions go out past the test years?

24 MR. HAROLD SURMINSKI: As -- Mr. Peters,
25 as I had indicated two weeks ago, we have no merchant

1 estimates past 2011/'12 and the 2009 IFF. Normally it's
2 the first two (2) years and when we do the -- the first
3 two (2) years of the IFF, not the test years. So even
4 2011/'12, which is -- would you call that the second test
5 year?

6 MR. BOB PETERS: I would, yeah.

7 MR. HAROLD SURMINSKI: That one -- that
8 one has no -- no revenues for emergent function.

9 MR. BOB PETERS: Any costs for merchant
10 ma -- merchant functions?

11 MR. HAROLD SURMINSKI: No.

12 MR. BOB PETERS: And so, Mr. Cormie, Mr.
13 Surminski, when -- when we started this morning by going
14 out to 2020 and looking at the differences between the
15 exports and then subtracting out the thermal and import
16 energy we came, in 2020, to a discrepancy of \$80 million
17 on the revenue side and \$78 million on the cost side.

18 Do you re -- do you recall that?

19 MR. HAROLD SURMINSKI: Yes. And the
20 undertaking that we will be providing will -- will
21 clarify that. They should actually equal -- I -- I think
22 there is -- there is some dollars that are -- are coming
23 in and out of the other category, if you see under
24 revenues, there is an "Other" and so there is -- there is
25 some dollars that are coming in and out of that that

1 upset the balance.

2 MR. BOB PETERS: But you also have told
3 the Board this morning that when you get out to 2020,
4 there is no merchant sales or no merchant revenues or
5 costs in the IFF.

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

8 MR. BOB PETERS: So then what you're --
9 what you're undertaking will show the Board is why those
10 numbers, that \$80 million or \$78 million number exists
11 going out to 2020, and how that's tied to transmission
12 credits and costs as well as ancillary services and
13 costs?

14 MR. HAROLD SURMINSKI: Yes, and any other
15 factor that's causing the difference. The --

16 MR. BOB PETERS: All right.

17 MR. HAROLD SURMINSKI: The balance
18 seventy-eight (78) and eighty (80) should -- should be --
19 the -- the numbers should be equal. But it's because
20 some of the dollars are moving out of the total picture
21 that -- that there is a \$2 million differential, and
22 we'll attempt to demonstrate that in the undertaking.

23 MR. BOB PETERS: Mr. Cormie, let's move
24 to the dependable energy sales of Manitoba Hydro and
25 those sales are what Manitoba Hydro refers to as coming

1 from firm resources?

2 MR. DAVID CORMIE: Dependable energy
3 sales come from dependable energy resources and from our
4 accredited capacity.

5 MR. BOB PETERS: And another word for
6 those dependable sales then, do you also call those firm
7 sales? Or is that incorrect at this point in time?

8 MR. DAVID CORMIE: I don't like to use
9 the word "firm," Mr. Peters, because the only customers
10 we have that are firm are the Manitoba customers. Our
11 sales to our -- under our long-term export contracts to
12 our other customers, they are system-participation sales,
13 they're not firm sales.

14 MR. BOB PETERS: All right, I'll try to
15 keep the language consistent with -- with how -- how
16 you're indicating it, Mr. Cormie.

17 Mr. Cormie, this morning in your direct
18 evidence to Ms. Ramage, you told the Board that Manitoba
19 Hydro can buy power in the United States to meet US
20 contracts, is that correct?

21 MR. DAVID CORMIE: Yes, that's correct.
22 Historically, up to the opening of the MISO day 2 market,
23 we had to buy that at the border from a seller who could
24 deliver at the border, and that generally was the -- the
25 -- it was our customer who had a contract with us at that

1 point.

2 Today, because of the MISO market, we can
3 buy from the market or we can just settle fina -- settle
4 financially. There -- there are no -- no physical
5 exchange of power occurs whereas historically it was
6 always a physical exchange of power at the border.

7 So in -- in with the opening of the market
8 we were able to amend all our contracts to move from a
9 physical delivery basis to a financial settlement basis,
10 using the market mechanisms that MISO has provided. In
11 effect, the physical transaction disappears and we settle
12 for the difference in -- between the buy price and the
13 sell price.

14 MR. BOB PETERS: Does Manitoba Hydro need
15 a power marketing licence or something equivalent to that
16 to be able to purchase power in the States and then
17 settle out on its contracts?

18 MR. DAVID CORMIE: Manitoba Hydro doesn't
19 -- doesn't need a power marketer's authorization to
20 purchase power in the United States. It needs power
21 marketer authorization to sell power, but regardless all
22 transactions change title at -- at the border, and they
23 are deemed to be transactions in Canada and they're not
24 subject to US jurisdiction.

25 MR. BOB PETERS: And that answer, you

1 said you amended all contracts, that would include -- and
2 I take it from your -- from your direct evidence, Mr.
3 Cormie, you have no trouble putting on the public record
4 the counter-parties with whom you have -- have
5 transactions?

6 MR. DAVID CORMIE: I -- I stand
7 corrected, Mr. Peters. There are several customers who
8 for regulatory reasons couldn't amend their contracts,
9 but these are a -- these are minor in nature. But the
10 vast majority of our contracts were -- were renegotiated
11 to allow us to use the market mechanism. I would prefer
12 not to mention the names of the customers.

13 MR. BOB PETERS: You prefer not to name
14 the customers who wouldn't amend their -- who were unable
15 to amend their contracts?

16 MR. DAVID CORMIE: I would prefer not to
17 mention either class of customers.

18 MR. BOB PETERS: All right. I have your
19 point. But your evidence is in your -- in Manitoba
20 Hydro's view the contracts that were unable to be amended
21 would be considered minor relative to the others?

22 MR. DAVID CORMIE: That's correct. The -
23 - the most important ones with the largest customers, we
24 were very satisfied that -- that the negotiation brought
25 excellent value to Manitoba Hydro and its customers and

1 achieved the vast majority of our objectives to give us
2 the flexibility to purchase in the market without -- I
3 mean with -- anonymously, so that -- that we didn't have
4 to trade through the company whom we were also selling
5 to.

6 MR. BOB PETERS: When the Board last sat,
7 Mr. Cormie, we looked on page 27 of the book of
8 documents, Volume I, and also on 28, and there's a
9 heading of transactions that Manitoba Hydro categorized
10 as real-time. You're familiar with those?

11 MR. DAVID CORMIE: Yes.

12 MR. BOB PETERS: Can you just explain to
13 the Board briefly what -- what does a real-time
14 transaction mean?

15 MR. DAVID CORMIE: A real-time
16 transaction is a purchase or sale of electricity that
17 occurs in the current day either bilaterally with a -- a
18 customer or through -- through a market. When it's done
19 through a market though Manitoba Hydro ends up being a
20 price taker.

21 So whatever the market clears at that hour
22 we take that price in -- as opposed to the day-ahead
23 market where Manitoba Hydro can set the price at which it
24 wants to trade, and will only enter into transactions
25 that -- that meet that price target.

1 So day-ahead transactions are financial
2 transactions that occur prior to the day of delivery,
3 real-time transactions are -- occur in the -- in -- in
4 the current day, and the vast majority of our
5 transactions are -- are day-ahead transactions.

6 MR. BOB PETERS: Well, on page 27 your
7 last statement doesn't seem to stand up when we look at
8 the dollar sales, Mr. Cormie, when your day-ahead is
9 shown at \$59 million in 2010 and your real-time is at 71
10 million. Do you see those numbers?

11

12 (BRIEF PAUSE)

13

14 MR. DAVID CORMIE: Mr. Peters, I -- I
15 wanted just to add to that answer and maybe this will
16 clarify your question. Real-time transactions also
17 include the revenues associated with the sale of
18 ancillary services.

19 Ancillary services are -- are a capacity
20 product, they're not -- not energy, and so those -- those
21 revenues include ancillary services, and they also
22 include the congestion management settlement credits that
23 we achieve by participating in the Ontario market. And -
24 - and let me explain that because that is a significant
25 source of revenue for Manitoba Hydro and it tends to

1 distort the picture to the point where it looks like our
2 real-time energy transactions are greater than the day-
3 ahead.

4 We have an interconnection into Ontario,
5 Ontario has at -- on certain days a better price than we
6 would achieve in the US market. Manitoba Hydro offers
7 its energy into the Ontario market. We're successful,
8 but then according to the market rules in Ontario they
9 choose -- they may have an oversupply of electricity that
10 they can't take all the deliveries that have cleared the
11 market.

12 And what they do then is they got to the
13 borders and the border entities such as Manitoba Hydro,
14 and they -- they say, Thank you Manitoba Hydro, we
15 appreciated you participating in our market, however, we
16 can't take delivery of the energy that you offered to
17 sell us. However, we know that was going to result in a
18 lost margin for you so we'll compensate you and -- and
19 pay you the margins that you would otherwise have
20 achieved by selling into Ontario.

21 And those -- that compensation are called
22 congestion management settlement credits. And so
23 Manitoba Hydro gets paid and it actually doesn't deliver
24 the megawatt hours into Ontario, it keeps those megawatt
25 hours and has the opportunity to -- to sell them

1 somewhere else.

2 So those revenues show up in the -- in the
3 real time revenues. And for 2008/'09 that -- those --
4 those revenues were \$22 million. And so, you know,
5 that's why it shows that the real-time revenues can be
6 higher than the day-ahead revenues, Mr. Peters, for --
7 for -- for reasons such as the ancillary service and the
8 CMSC payments.

9 MR. BOB PETERS: So you sell the same
10 energy twice?

11 MR. DAVID CORMIE: No, the energy only
12 gets sold once, but we -- we -- by our -- with our
13 participation in the Ontario market, because we're
14 offering in low-cost energy, we drive the price of
15 electricity down in Ontario. That benefits everybody in
16 Ontario through our market participation because the
17 market price now clears lower than it would otherwise.

18 So Ontario is getting a benefit from
19 Manitoba Hydro participating in the market. And if they
20 said to us that we don't want your energy and they
21 weren't compensating us, Manitoba Hydro would then no
22 longer want to participate in the market because what
23 would there be in it for us?

24 So they keep Manitoba Hydro whole and we
25 get paid -- we -- we -- we -- we get -- we get

1 compensated our lost -- our -- our lost margins.

2 But the energy then that we would have
3 sold now we have to sell into another market at -- at a
4 lower price. The culmination of that lower price in the
5 other market plus the CMS would, in effect, give us --
6 it's intended to give us -- to keep us whole so that we
7 would be indifferent without driving us out of the
8 Ontario market.

9 MR. BOB PETERS: So the Board would
10 understand that you would have a profitable transaction
11 into Ontario but because Ontario couldn't take delivery
12 of Manitoba Hydro's energy Manitoba Hydro is then at
13 liberty to sell the same energy into a separate market?

14 MR. DAVID CORMIE: That -- that's
15 correct. And in the -- and at the end of the day we're -
16 - we're probably no worse off than had we sold it -- had
17 -- had sold it into the Ontario market.

18 MR. BOB PETERS: Does that suggest, Mr.
19 Cormie, that you're selling it for a loss into the second
20 market?

21 MR. DAVID CORMIE: No, it's just a -- a
22 less -- a less profitable opportunity. If we had ten
23 (10) megawatt hours to sell and we were choosing between
24 Ontario and the United States, and Ontario was paying a
25 premium, we would sell that ten (10) megawatt hours into

1 Ontario hoping to capture that premium. But Ontario says
2 we don't want your energy, we -- no, not that we don't
3 want it, we can't accept delivery of it, we'll give you
4 the -- we'll give you the margin between what we were
5 going to pay you and what you would otherwise get in your
6 other market, and then we take it to the other market.

7 So overall the total revenue is the same,
8 it's just that -- it's just that Ontario is paying a
9 portion of it and -- and the other market is picking up
10 the balance.

11 MR. BOB PETERS: Was that \$22 million
12 number you mentioned in your evidence, Mr. Cormie, was
13 that related to fiscal year 2009/'10?

14 MR. DAVID CORMIE: That was '08/'09.

15 MR. BOB PETERS: Do you know what it was
16 in '09/'10, the year that's depicted on the right-hand
17 side of page 27 of the book of documents?

18

19 (BRIEF PAUSE)

20

21 MR. DAVID CORMIE: It's -- we -- we don't
22 have that readily available, Mr. Peters. But this --
23 this arrangement -- Ontario achieves benefits like that
24 in almost every year, so I -- we can -- we can find that
25 number for you and let you know, but it's significant in

1 -- in almost every year.

2 MR. BOB PETERS: And the balance -- the
3 real time -- the real-time revenues are then
4 approximately half of what's shown because the other half
5 is related to ancillary services as well as these
6 congestion management fees that you've talked of?

7 MR. DAVID CORMIE: Well, if the -- if the
8 60 million is the total, twenty-two (22) is the CMSC
9 payments. I -- I would suggest that a small portion is
10 the ancillary service revenue, you know, maybe a couple
11 million dollars at the most -- 3 million at the most. So
12 twenty-two (22) and three (3) is twenty-five (25),
13 twenty-five (25) out of sixty (60), that means there's
14 thirty-five (35) left for real-time transactions.

15 MR. BOB PETERS: Can you provide the same
16 information then for fiscal 2010 to the Board; that is,
17 undertake to advise what were the real-time transactions,
18 both on an energy basis and a revenue basis, and then
19 also provide the Board with the ancillary services and
20 the congestion management for fiscal 2010?

21 MR. DAVID CORMIE: Mr. Peters, we'll
22 include that in our response to undertaking number 5, it
23 fits nicely in there.

24 MR. BOB PETERS: Thank you, sir.

25 THE CHAIRPERSON: Mr. Peters, with your

1 forbearance, I think we'll take a short break now.

2 MR. BOB PETERS: Oh, certainly. Thank
3 you.

4 THE CHAIRPERSON: Okay. We'll be back
5 shortly after 11:00.

6

7 --- Upon Recessing at 10:50 a.m.

8 --- Upon Resuming at 11:14 a.m.

9

10 THE CHAIRPERSON: Anytime you're ready,
11 Mr. Peters.

12 MR. BOB PETERS: Yes, thank you, sir.

13

14 CONTINUED BY MR. BOB PETERS:

15 MR. BOB PETERS: Mr. Cormie, we -- we
16 left off before the break talking about real-time
17 revenues and one of the things I didn't ask you about was
18 the real-time expenses or costs that are also shown under
19 the real-time line item. You'll find that on page 28
20 under Tab 6 of the book of documents.

21 You talked before the break about there
22 being not only real-time revenues, but there were some
23 ancillary services, some congestion management fees and
24 you guesstimated that those were as much as \$22 million
25 for at least the congestion management and then probably

1 two (2) or 3 million more for ancillary services. Was
2 that correct?

3 MR. DAVID CORMIE: Yes.

4 MR. BOB PETERS: Is there any offsetting
5 cost that should also be factored in relative to the
6 congestion management or the ancillary services?

7

8 (BRIEF PAUSE)

9

10 MR. DAVID CORMIE: I -- I believe, Mr.
11 Peters, that the real-time cost line item there is -- is
12 all energy related; I don't believe there are any fixed
13 or capacity components in there. If -- if I'm incorrect
14 I'll come back and correct later.

15 MR. BOB PETERS: And so your answer is
16 that the costs that are shown on page 28 of the book of
17 documents relate only to importing real-time energy?

18 MR. DAVID CORMIE: Yes.

19 MR. BOB PETERS: Thank you. While you're
20 on that page, Mr. Cormie, the first line item at the far
21 right-hand side dealing with the 2009/'10 fiscal year
22 shows Manitoba Hydro purchased -- actually, imported
23 dependable energy at about four point zero nine (4.09)
24 cents a kilowatt hour.

25 Do you see the line item?

1 MR. DAVID CORMIE: I see that, Mr.
2 Peters.

3 MR. BOB PETERS: Now, Mr. Surminski urged
4 some caution last day, as did I believe Manitoba Hydro's
5 counsel, that this line item might also be distorted as
6 was the real-time item because there's something else
7 included in it.

8 MR. DAVID CORMIE: Yes, just to -- to
9 correct your assumption that that line involves only
10 imported energy. That is all purchased -- all dependable
11 energy that is purchased, and that includes to a great
12 extent the energy that is purchased from the wind farms
13 in Manitoba.

14 MR. BOB PETERS: Wind farm singular at
15 this point in time? Up until last week?

16 MR. DAVID CORMIE: Wind farms, Mr.
17 Peters. But for that particular year there -- there was
18 only one wind farm.

19

20 (BRIEF PAUSE)

21

22 MR. BOB PETERS: Well, when the Board
23 looks at what Manitoba Hydro has done, Mr. Cormie, it
24 appears on page 28 that Manitoba Hydro was buying
25 dependable energy at four (4) cents, and if you turn back

1 a page, they were selling it -- selling opportunity day-
2 ahead energy at less than two (2) cents.

3 Do you see that?

4 MR. DAVID CORMIE: Yes, I see that, and
5 that's -- that's -- it's understandable you would wonder
6 why that is, but it's a -- kind of apples and oranges
7 comparison. Dependable energy, to the extent that this
8 is mostly wind energy, is the all-in cost of purchasing
9 the power.

10 And whereas the -- and -- and that would
11 be comparable to the all-in cost of generating
12 electricity from a hydro station once you include
13 depreciation, interest expenses, all the operating
14 maintenance costs, so. And -- and, you know, so it's an
15 all-in -- it's an all-in price.

16 There are -- for wind energy there are no
17 other costs except the -- the -- the cost of purchasing
18 it. The -- the supplier has invested in plant and he's
19 negotiated a price with Manitoba Hydro that covers his
20 investment and his operating costs and his margins.

21 And so you're comparing a -- a dependable
22 all-in price to a spot market price which is -- just
23 reflects the marginal cost of production somewhere in the
24 marketplace at that moment in time. And so it's an
25 apples-and-oranges comparison.

1 We don't show the all-in costs for energy
2 from our hydro stations, we just show the variable costs
3 and once you added the -- once you add in the fixed costs
4 associated with running our system, our indebted costs,
5 you'll see that they're much higher than spot market
6 prices as well, but we don't judge the sale of -- of the
7 surplus energy that comes from those assets to be a bad
8 transaction. Because we 're comparing market price to
9 our incremental production costs, not market price to our
10 embedded cost.

11 MR. BOB PETERS: Because the market price
12 would be less than your embedded under what you're
13 telling the Board?

14 MR. DAVID CORMIE: Well, it may be more
15 or less, but you shouldn't compare embedded costs to the
16 marginal cost of energy which fluctuates with the market.

17 MR. BOB PETERS: When you talk about the
18 dependable energy being wind, first of all is there a
19 mandatory obligation on Manitoba Hydro to purchase that
20 energy?

21 MR. DAVID CORMIE: As part of its long-
22 term resource plan Manitoba Hydro sees a role for wind
23 power in -- in its portfolio and this reflects the
24 initial purchase toward that goal. And -- and -- and --
25 and -- and this is a take or pay price. this is an all-

1 in, must take. It's the total cost of -- of owning that
2 -- having the right to that asset.

3 MR. BOB PETERS: And are there
4 transmission costs in addition to -- to that dependable
5 energy cost from the wind?

6 MR. DAVID CORMIE: There would be some
7 additional costs associated with transmission upgrades
8 beyond the point of interconnection that were included as
9 part of Manitoba Hydro's decision to acquire that
10 resource.

11 MR. BOB PETERS: But those aren't shown
12 on this chart either?

13 MR. DAVID CORMIE: No, this is just the
14 all-in cost of -- of the energy under the Power Purchase
15 Agreement.

16 MR. BOB PETERS: All right. Since you
17 didn't like the apples to, whatever, oranges comparison
18 that I first gave you, what if we look on page 28 and we
19 see that Manitoba Hydro is purchasing dependable energy
20 and it's also purchasing here's real-time or day-ahead.
21 What additional costs would attract to the real-time or
22 day-ahead price that aren't included -- that are included
23 already in the dependable price for wind?

24

25 (BRIEF PAUSE)

1 MR. DAVID CORMIE: I believe the non-
2 wind- related dependable energy purchases include --
3 there will be a cost asso -- associated with the
4 scheduling fee. I'm just going to check with the back
5 row.

6

7 (BRIEF PAUSE)

8

9 MR. DAVID CORMIE: Yeah, it's a very
10 minor scheduling fee. With the prices that are shown in
11 the table on page 28 for -- for imports, there will also
12 be some minor scheduling fees associated with -- with
13 those transactions.

14 MR. BOB PETERS: So, essentially, on page
15 28 we are looking apples to apples, in your words, Mr.
16 Cormie?

17 MR. DAVID CORMIE: I think -- I think
18 very comparable, yes.

19 MR. BOB PETERS: And that begs the
20 question as to why Manitoba Hydro would -- would im --
21 import dependable energy when it could bring it in at
22 half the price from another resource?

23 MR. DAVID CORMIE: Well, the -- the --
24 the majority of that dependable energy is take or pay,
25 Mr. Peters. We -- we have a contract to buy the output

1 from the wind farm and it's regardless of what the market
2 price is at -- at that time.

3 MR. BOB PETERS: Which means that, in
4 essence, Manitoba Hydro is losing money on its wind
5 purchases?

6 MR. DAVID CORMIE: No, because from an
7 all-in perspective Manitoba Hydro chose to purchase and
8 compared it to its alternative costs of generating, you
9 know, and they're -- are building a new long-term power
10 resource in the province. And so the -- the price that
11 we're paying to purchase wind is comparable to the -- to
12 the -- to what we would invest in our own new generating
13 facilities or in DSM. They're all priced against the
14 same benchmark.

15 MR. BOB PETERS: But if you benchmark it
16 against what it could cost Manitoba Hydro to buy that
17 energy on the market, it's more expensive to buy it from
18 wind than it is on the market, you'd agree with that?

19 MR. DAVID CORMIE: No, I wouldn't agree
20 with that, because it -- what you're comparing is a
21 dependable product, one that Manitoba Hydro has the right
22 to at all times to spot-market prices that we have no
23 right to that fluctuate wildly, and may or may not be
24 there under dependable flow conditions. So you're
25 comparing -- it's not a fair comparison. This is -- this

1 is a -- a dependable resource and it's not a
2 interruptible spot market, highly volatile price we know
3 we -- they're not comparable.

4 MR. BOB PETERS: Well, we know that wind
5 is, while you call it dependable, it's not dispatchable,
6 you'd agree with that?

7 MR. DAVID CORMIE: Yes. And -- and in
8 the determination of the price we recognize that it's not
9 comparable to a new Hydro resource and we pay a discount,
10 we -- we extract a discount for that.

11

12 (BRIEF PAUSE)

13

14 MR. BOB PETERS: Can you explain to the
15 Board the analysis un -- Manitoba Hydro undertook to
16 calculate the discount related to the pricing of the wind
17 dependable energy that are purchased relative to other
18 resources?

19 MR. DAVID CORMIE: Mr. Surminski may have
20 to jump in and help me here, but I understand we've -- we
21 do the -- we do an analysis of what it costs to -- to
22 firm and to shape the wind product into a product that
23 has value in the marketplace. And through some modelling
24 that we do we -- we determine what that -- what the
25 capacity component of -- of the -- of the -- of the wind

1 is and -- and we subtract that off the -- our -- our
2 long-run costs and that determines the value that we can
3 -- that we can put to a wind product.

4 MR. HAROLD SURMINSKI: Yes, Mr. Peters, I
5 can add to that. We also, in order to determine to
6 evaluate or quantify the firming and shaping, we've also
7 got information from other jurisdictions as to what that
8 cost could be, so it's -- it's both within our system and
9 -- and expectations in other jurisdictions.

10 MR. ROBERT MAYER: Mr. -- Mr. Cormie,
11 while we seem to have a lull in the proceedings, I -- I'm
12 assuming that Manitoba Hydro got into the wind business
13 seriously because there seems to be some pressure for
14 everybody to get into the wind business, but secondly,
15 got into it under the same circumstances as they pre-
16 built Limestone, that you may not realize a profit
17 immediately upon -- upon it coming online, but as the
18 market develops that may well turn out to be a product
19 which would be useful, especially when one is dealing
20 with counter-parties who have a requirement for clean
21 energy.

22 MR. DAVID CORMIE: You're -- you're
23 right, Mr. Mayer, Manitoba Hydro is taking a long-term
24 view of -- of the value of wind energy and pricing it
25 accordingly. It's not priced against what the current

1 market is paying, it's pricing it based on a -- the same
2 long-term view we take when we enter into long-term
3 export transactions or we make investment decisions in
4 our own hydro-electric facilities, it's the -- the same
5 standard is applied.

6 We have to make an adjustment because
7 there are some additional costs associated with wind and
8 -- and it also gives us some diversity in our supply
9 portfolio that -- that we're -- that the wind will blow
10 even in the dry years and, you know, it helps -- helps
11 give our system some robustness

12 MR. HAROLD SURMINSKI: Yes, and I can add
13 to that. For example, in a high-flow year the value of
14 wind energy will be much less as opposed to in a low-flow
15 year. In a lowest flow year we could be requiring the
16 use of our natural gas turbines and our -- our wind
17 energy would displace the very high cost of natural gas
18 turbines, so we consider the value over all flow
19 conditions.

20 So just because we've had high flow
21 conditions in the last two (2) or three (3) years we will
22 have less value to the wind, but we expect there will be
23 low-flow conditions when it will have great value and
24 make up for what appears to be a loss that we currently
25 may be experiencing.

1

2 CONTINUED BY MR. BOB PETERS:

3 MR. BOB PETERS: Mr. Cormie and Mr.
4 Surminski, when we look at the chart on page 28 of the
5 book of documents, PUB Exhibit 15, we look at imports.
6 And where does the dependable energy import component
7 come from in that chart? Where -- where is the
8 dependable energy coming from?

9 MR. DAVID CORMIE: The -- the resources
10 that are categorized as dependable energy are the wind
11 that we've just talked about, as -- and as well as the
12 contracts that we have with US companies who guarantee
13 Manitoba Hydro delivery of energy under -- under those
14 contracts. And so a portion of it is coming from -- the
15 energy's coming from the wind and -- and the other one is
16 coming from another company system.

17 Does that answer the question?

18

19 (BRIEF PAUSE)

20

21 MR. BOB PETERS: When you say "wind is
22 dependable," you've quantified what it would be even
23 under the lowest of wind conditions.

24 Would that be the way to characterize it?

25 MR. DAVID CORMIE: Yeah, we -- there is

1 less -- on an annual basis there's less variability in
2 annual wind production than there is in hydro production,
3 but there is still variability. And so, for the purposes
4 of dependable -- of -- of dependable energy determination
5 we apply a discount to the average to get a dependable
6 amount that is lower than the average amount that we
7 expect to purchase, and -- and I think right now it's
8 around 15 percent.

9 So if -- if a wind farm were, on an annual
10 basis, to produce three hundred thousand (300,000)
11 megawatt hours of wind, you -- the dependable portion of
12 that would be 85 percent of three hundred thousand
13 (300,000), and that's what we would -- we would include
14 in the dependable energy supply for the -- for the power
15 system.

16 MR. BOB PETERS: In terms of those
17 contracts that you have with US counterparties for
18 dependable energy, Mr. Cormie, does Manitoba Hydro have
19 the option as to whether to call on them or not in any
20 given year?

21 MR. DAVID CORMIE: Yes, that's correct.
22 And like the wind contracts where we -- we must take in -
23 - in the case of the seasonal diversity contracts or any
24 of the adverse water provisions that exist in some of our
25 export sale contracts, Manitoba Hydro has the option of

1 purchasing. And the optionality has huge value because
2 we know that if the spot market is unable to provide the
3 energy we can call -- exercise our rights and purchase
4 it, and that -- that, from there, it gets its
5 dependability.

6 However, generally it is -- it is less
7 expensive for Manitoba Hydro just to buy spot-market
8 energy, and then to exercise our rights under the
9 contracts, and in -- and in the vast majority of cases
10 that's what we do, recognizing that if the spot market
11 wasn't capable of supri -- supplying, we could call --
12 exercise our rights under the contract and -- and acquire
13 the dependable energy that was -- was needed.

14 MR. BOB PETERS: Has a spot market ever
15 not been available to provide -- provide the energy in
16 the last five years?

17

18 (BRIEF PAUSE)

19

20 MR. DAVID CORMIE: The spot market has
21 always been available to us; however, there are certain
22 contracts that -- that -- in whi -- in which there was
23 some advantage to purchasing energy under those
24 contracts, and -- and to the extent that there was an
25 advantage, Manitoba Hydro exercised those rights.

1 the wind energy and the transmission, did I take from one
2 of your answers that the transmission costs associated
3 with getting the wind farm to Manitoba Hydro's grid and
4 interconnecting it with the grid is paid for by the
5 operator and developer of the wind farm?

6 MR. DAVID CORMIE: The -- the wind farm
7 developer is responsible for all internal transmission
8 costs up to the point of interconnection and to the
9 extent that there are system costs downstream of that,
10 those are Manitoba Hydro's.

11 MR. BOB PETERS: Mr. Cormie, in terms of
12 putting downward pressure on Manitoba Hydro's export
13 prices, would you agree that low natural gas prices are
14 one (1) of those factors?

15 MR. DAVID CORMIE: Yes.

16 MR. BOB PETERS: Is -- is a gas-fired
17 combined cycle combustion turbine setting the marginal
18 price against which Manitoba Hydro competes for its long-
19 term contracts?

20 MR. DAVID CORMIE: Our discussions with
21 our counter-parties for the long-term export sales, I
22 believe, are using combined cycle combustion turbines as
23 the alternative to the Manitoba Hydro purchases, yes.

24 MR. BOB PETERS: So those CCCT's are
25 setting the marginal price against which you're

1 competing?

2 MR. DAVID CORMIE: Well, I don't know if
3 it's -- the -- that -- that's not the proper use of the
4 word marginal, I think those are setting the incremental
5 prices and -- you know, so the question is: As a
6 utility, where's the next increment of generation going
7 to come from?

8 In the -- I believe the -- the -- our
9 curten -- current situation it is the all-in costs of
10 combustion turbines, which includes the fuel cost, but it
11 also includes the capital costs, the interest, the -- the
12 taxes, and there's the -- the risk of -- of what the
13 emission costs are going to be, and on that basis
14 Manitoba Hydro's offers are -- are attractive on that
15 basis.

16 MR. BOB PETERS: Does Manitoba Hydro
17 agree that coal-generated electricity results in cheaper
18 electricity than Manitoba Hydro is able to generate from
19 its water?

20

21 (BRIEF PAUSE)

22

23 MR. DAVID CORMIE: I think -- if I -- if
24 I can restate that, Mr. Peters. You're asking whether
25 the incremental cost of new coal generation is going to

1 be less expensive than the incremental cost of new hydro,
2 or the prices that Manitoba Hydro is -- is offering it's
3 customers for long-term power.

4 I note in the press this last month that
5 the US Environmental Protection Agency is continuing its
6 efforts to regulate emissions from coal plants and
7 there's now an additional 60,000 megawatts of coal
8 capacity that could retire if the existing mandates go
9 through.

10 And they're gonna retire because it's --
11 the -- these mandates are going to make it uneconomical
12 for these companies to cont -- continue to keep the
13 existing fleet in service. And -- and that's not even
14 considering the risk of carbon regulation, that's just
15 dealing with the NOx and SOx and particulates in mercury.
16 So I don't believe that -- that coal-fired generation is
17 really an option for these companies. They -- they don't
18 see that as part of the resource -- the -- the marginal
19 cost of new generation.

20 So I -- this is the biggest fear that our
21 customers have; that they invest today in a new coal
22 plant and in ten (10) years they'll have to shut it down
23 because they can't meet the environmental requirements.
24 So coal is not a -- is not a consideration, it -- the --
25 the consideration is combustion turbines, wind, nuclear,

1 but nuclear and wind have their issues.

2 Manitoba Hydro's product is very
3 attractive when compared to those alternatives. And it's
4 -- it really has nothing to do with today's incremental -
5 - or the market price of electricity today, it has to do
6 with their long-run marginal incremental costs of -- of
7 replacing agent -- aging -- aging fleets, meeting the
8 environmental regulations, and dealing with load growth.

9 MR. BOB PETERS: But the existing coal
10 plants in the MISO markets provide electricity cheaper
11 than Manitoba Hydro's ability to generate it through
12 water?

13 MR. DAVID CORMIE: Oh, no, no, no.
14 Manitoba Hydro's incremental costs of generating are its
15 water rental costs, and we -- we can compete with any
16 coal plant. So I -- in today's market we're still better
17 placed in -- than a coal plant. By the way, that seventy
18 thousand (70,000) megawatt hours that shut down, most of
19 that is going to be largely in our marketplace; it's in
20 the MISO footprint where that generation is going to be
21 shut down.

22 MR. BOB PETERS: Are there new gas plants
23 coming online in the MISO market, Mr. Cormie?

24 MR. DAVID CORMIE: Yes, there are.

25 MR. BOB PETERS: How many?

1 MR. DAVID CORMIE: I don't have that
2 number. I'm -- I'm sure that there are -- there are new
3 plants coming on each year, but if you want, we can get
4 that information.

5 MR. BOB PETERS: Are you suggesting that
6 the -- the new gas plants coming online are replacing and
7 taking out some of the aging coal fleet?

8 MR. DAVID CORMIE: Yes, I -- I am
9 suggesting that.

10 MR. BOB PETERS: If you have the number
11 of gas plants that have come in the last three (3) years,
12 as well -- as well as the capacity and any forecasts that
13 Manitoba Hydro's aware of, if you could undertake to
14 provide that through your counsel I think that
15 information would be of assistance to the Board.

16 MR. DAVID CORMIE: We'll see what can do
17 there, Mr. Peters.

18

19 --- UNDERTAKING NO. 11: To provide the number of gas
20 plants that have come in the
21 last three (3) years, as well
22 as the capacity and any
23 forecasts that Manitoba
24 Hydro's aware of.

25

1 CONTINUED BY MR. BOB PETERS:

2 MR. BOB PETERS: Mr. Cormie, the economic
3 downturn in the United States in recent years has also
4 put downward pressure on Manitoba Hydro's export prices,
5 is that correct?

6 MR. DAVID CORMIE: Yes, the load in the
7 MISO footprint dropped about 15 percent starting in 2009,
8 and, however, the load is essentially recovered back to
9 pre-recession levels. I think in -- I think in the last
10 year it's come up about 4 1/2 percent, so the -- you
11 know, the load is back.

12 What -- what's also happened though is
13 that natural gas prices have -- have declined, and that's
14 -- that's had a softening effect.

15 MR. BOB PETERS: Well, with lower demand
16 in the United States -- I didn't understand your answer.
17 Is it -- is it lower demand still from 2009 or is the
18 demand back up to where it was before 2009?

19 MR. DAVID CORMIE: We're back to the pre-
20 recession load levels.

21 MR. BOB PETERS: And that was reached
22 last year, you said, with a 4 1/2 percent increase in
23 load?

24 MR. DAVID CORMIE: Yeah, in the last --
25 in the last year the load growth was about 4 1/2 percent.

1 MR. BOB PETERS: So --

2 MR. DAVID CORMIE: But we're not -- we're
3 not back to the -- the loads that were projected to be
4 for 2011. You know, we lost several years of load
5 growth.

6 MR. BOB PETERS: And so with lower demand
7 in the United States, the US utilities can meet that with
8 existing resources?

9 MR. DAVID CORMIE: There -- there's no --
10 there's no supply and demand issue today, no.

11 MR. BOB PETERS: Meaning there's ample
12 supply available?

13 MR. DAVID CORMIE: Yes, and -- but, you
14 know, we have periods of high economic activity and low
15 econo -- economic activity, and we're -- we've just gone
16 through a recession. But, you know, companies are making
17 investment decisions on plant that's going to last thirty
18 (30) to fifty (50) years and -- and my customers are,
19 like Manitoba Hydro, have to think what are -- what are
20 they going to do in ten (10) years, what are they going
21 to do in fifteen (15) years? And they have to start
22 planning today.

23 And -- and although their -- their load
24 forecasts have come down, they still feel there is a -- a
25 very good fit between Manitoba Hydro's long-term product

1 and -- and their needs. Coal plants that are fifty (50)
2 to sixty (60) years old are going to have to be shut
3 down. The load, although it -- it took a -- a turn
4 downward in the last few years, is -- is -- is recovering
5 and in the long run there will be new load that needs to
6 be served.

7 And then, as I mentioned, the
8 environmental regulations are putting in a severe squeeze
9 on coal-fired plants and a -- a huge percentage of the
10 existing fleet of coal plants in MISO are going to be
11 affected and replacement power needs to be purchased.

12 So --

13 MR. BOB PETERS: Well, maybe not looking
14 out quite as long as the last part of your answer, Mr.
15 Cormie, but in meeting the present load and the demand,
16 that's being met at prices cheaper than what Manitoba
17 Hydro can compete with?

18

19 (BRIEF PAUSE)

20

21 MR. DAVID CORMIE: Well, you know, we've
22 -- we've just signed the agreement with Northern States
23 Power for extension of the sale agreement from 2015 to
24 2025. Manitoba Hydro's price was competitive with their
25 alternatives, slightly better than their alternatives.

1 And -- and -- and I -- I -- I think that -- that when you
2 -- when you include the all-in costs Manitoba Hydro's
3 long-term price is -- is -- is appropriate and it is
4 competitive, but it is not anywhere near the depressed
5 prices that we're seeing in the market today; it's
6 significantly higher and very advantageous for -- for
7 Manitoba Hydro.

8 So I -- I don't put a lot of weight on
9 what's happening in the current year or next year. Those
10 conditions will pass and companies are really looking
11 about what their long-run in -- incremental costs are.
12 And has -- it has very little to do with today's
13 situation.

14 MR. BOB PETERS: Let me ask it this way:
15 The -- the US utilities can meet their demands with their
16 coal plants and their gas plants right now, and they
17 don't have the need for the opportunity imports from
18 Manitoba Hydro?

19 MR. DAVID CORMIE: Well, they -- they do
20 have the need because every day our -- our power clears
21 the market because it's lower cost than the alternative.
22 And we displace generation every day with our exports
23 into the -- into the market, and we displace it because
24 it's an economical option compared to operating the
25 alternative thermal resource.

1 MR. BOB PETERS: So Manitoba Hydro is --
2 is offering up its energy cheaper than the coal-generated
3 electricity?

4 MR. DAVID CORMIE: Manitoba Hydro's
5 offers are less than the -- the last megawatt that gets
6 dispatched. So we -- we're in merit and so we are
7 purchased and are -- we -- we -- we're -- they -- they
8 say, yes, Manitoba Hydro, we'd like your power at that
9 price, we'll take it, and -- and whether that's coal or
10 gas or -- or whatever the supply is, we have a -- we have
11 a resource that can compete with almost any resource
12 that's available in the marketplace.

13 MR. BOB PETERS: It competes on the basis
14 of the price you're getting is less than the firm price
15 that you would get in your long-term contracts?

16 MR. DAVID CORMIE: No, because we're --
17 we're -- the -- again, this is an apples and oranges
18 comparison. To -- today we compete on -- on -- on spot-
19 market sales or com -- where there's a competition is
20 based on marginal costs to pro -- incremental -- marginal
21 costs to production. What does the next megawatt hour
22 cost to produce? Whereas long-term sales are based on
23 the incremental costs which include -- it -- which is the
24 all-in costs, it's the cost of capital, and -- and -- and
25 those prices are, you know, ten (10) times what we're

1 seeing in the spot market today.

2 MR. BOB PETERS: Your spot-market prices
3 are -- are lower than what Manitoba Hydro had forecast
4 they would be?

5

6 (BRIEF PAUSE)

7

8 MR. DAVID CORMIE: Generally for this
9 year, yes. I think the market has been weaker than we
10 had expected. The widespread rainfall across Western
11 Canada also hit the upper Miss -- Missouri River; there's
12 lots of hydro coming down the Missouri. We're competing
13 with wind and there's -- there's -- there's lots of low-
14 cost resources that we're competing now at the same time
15 where we have high water. So prices are softer than we'd
16 expected.

17

18 (BRIEF PAUSE)

19

20 MR. DAVID CORMIE: But our customers
21 continue to tell us that the prices that they are being
22 offered under our long-term contracts are competitive and
23 -- and the Xcel, the NSP sale agreements attest to the
24 fact that those long-term prices are competitive with --
25 with their alternatives.

1 (BRIEF PAUSE)

2

3 MR. BOB PETERS: Is it generally correct
4 that Manitoba Hydro's energy is not being exported for
5 peak energy at this time, to the extent that Manitoba
6 Hydro forecast it would be?

7 MR. DAVID CORMIE: Generally in the peak
8 period, Mr. Peters, we are selling under the long-term
9 contracts, and especially in the wintertime we -- we have
10 very little surplus on peak energy; we have mostly
11 shoulder and off-peak energy available. So there's not a
12 lot of -- of activity in the on-peak right now.

13 And in the summertime our firm commitments
14 step up and that energy goes at fixed prices and it
15 doesn't go out at market prices. But in -- in general
16 terms, I -- I would agree with you that on-peak market
17 prices are also softer than we had expected when we
18 prepared the IFF last summer.

19 MR. BOB PETERS: All right. Thank you.
20 And is the reason for the little off-peak being sold as
21 opportunity due to tie-line capacity constraints?

22 MR. DAVID CORMIE: I would say that that
23 is a concern in the off-peak at times, but in the last
24 year we've been curtailed because of congestion in the US
25 and MISO cuts our -- our exports to them in the off-peak.

1 And, as well, with the large amount of hydro and wind
2 that we're competing in the off-peak there's -- there are
3 times when market prices go negative and are below
4 Manitoba Hydro's marginal cost to production. And when
5 that happens we are not a seller, we're a buyer; we get
6 paid to buy. So we'd rather spill the water than -- and
7 -- and make money doing that than not do anything. But
8 it's a combination of factors.

9

10 (BRIEF PAUSE)

11

12 MR. BOB PETERS: Maybe before we recess
13 this morning, Mr. Rankie and Mr. Warden, we can talk
14 about foreign exchange rates. Is that not also a factor
15 that puts downward pressure on Manitoba Hydro's export
16 revenues?

17

18 (BRIEF PAUSE)

19

20 MR. VINCE WARDEN: Yes, a strong
21 Canadian dollars results in lower net export revenues
22 than it would otherwise be.

23 MR. BOB PETERS: Put another way, a weak
24 Canadian dollar versus an American dollar provides
25 Manitoba Hydro with a windfall on its -- on its export

1 revenues?

2 MR. VINCE WARDEN: Well, I wouldn't call
3 it a windfall necessarily but it -- it affects the
4 overall price, yes.

5 MR. BOB PETERS: The US customers are
6 paying in US dollars, correct?

7 MR. VINCE WARDEN: Correct.

8 MR. BOB PETERS: Manitoba Hydro will
9 convert that into Canadian funds and it'll capture the
10 foreign exchange spread?

11 MR. VINCE WARDEN: Yes.

12 MR. BOB PETERS: And in some years that
13 can be a fairly significant factor in export revenue?

14 MR. VINCE WARDEN: Yes, but recognizing
15 that our interest payments on US debt are also in US
16 dollars, so therefore there's a -- an offset on finance
17 expense.

18 MR. BOB PETERS: If we look to tab 8 of
19 the book of documents, there is on page 39, PUB Manitoba
20 Hydro first round 31.

21

22 (BRIEF PAUSE)

23

24 MR. BOB PETERS: Would it be correct that
25 the forecast that Manitoba Hydro has used for net income,

1 approximately half of that net income is as a result of
2 foreign exchange revenue?

3

4 (BRIEF PAUSE)

5

6 MR. DARREN RAINKIE: Mr. Peters, are you
7 taking the -- the exchange rate -- the difference between
8 the exchange rate and -- and one point zero zero (1.00)
9 and timesing that by the US sales to come to that figure?
10 Is that the math in your equation?

11 MR. BOB PETERS: I was taking a shortcut,
12 Mr. Rainkie. And maybe, for the -- for the Board's
13 benefit, if we look at tab 8 of the book of documents,
14 and we're on page 39 of PUB Exhibit 15, Mr. Rainkie, and
15 let's take the 2011/'12 forecast year, it appears that
16 Manitoba Hydro's exports in US dollars -- sorry, that
17 Manitoba Hydro's exports to the United States are listed
18 as \$504.577 million.

19 Have you found -- found where I am, sir?

20 MR. DARREN RAINKIE: That's correct.
21 That would be in Canadian dol -- US sales in Canadian
22 dollars.

23 MR. BOB PETERS: Yes, I probably worded
24 that poorly. But we can see that the \$504 million
25 represents the Canadian equivalent of the US export

1 sales, correct?

2 MR. DARREN RAINKIE: That's correct.

3 MR. BOB PETERS: And then if we look to
4 the very last line on the page in the very bottom right-
5 hand corner we see that in US dollar terms that tho --
6 those export sales were only \$462.9 million, correct?

7 MR. DARREN RAINKIE: That's correct.

8 MR. BOB PETERS: And so there was
9 approximately \$42 million of foreign exchange gain in
10 that particular year?

11 MR. DARREN RAINKIE: Yeah, that being the
12 difference between the five-o-five (505) and the four
13 sixty-three (463).

14 MR. BOB PETERS: That's how I got there,
15 Mr. Rainkie.

16 MR. DARREN RAINKIE: And as Mr. Warden
17 mentioned though, there would be an offset -- a similar
18 offset in the finance expense, so -- so to -- I can't
19 agree with your presumption that that all would flow to
20 net income; that's half of our net income. There would
21 be an offset in finance expense as well because it would
22 go the other way, so just so that we make sure we're
23 clear on that factor.

24 MR. BOB PETERS: All right. Well, if I
25 suggested it flowed to net income then -- then maybe that

1 was an incorrect assumption on my part, but what it --
2 what it shows the Board is that the foreign exchange on
3 that particular transaction is 42 million against
4 forecast net income of about 87 million for that year.

5 MR. DARREN RAINKIE: If you want to parse
6 out the calculation that way, that's correct, Mr. Peters,
7 but I still don't agree with the presumption that half of
8 our net income is due to foreign exchange differentials
9 when there's an offset that's sitting in finance expense.

10 MR. BOB PETERS: What was the offset on
11 finance expense, Mr. Rainkie? Would you have the dollar
12 amount for that year just to make your point?

13

14 (BRIEF PAUSE)

15

16 MR. DARREN RAINKIE: Mr. Peters, we don't
17 have that figure right at hand, but I think we're usually
18 about -- right now, about 80 percent of an offset, but we
19 can grab that figure for you at the lunchbreak probably.

20 MR. BOB PETERS: If it's different than
21 that, you could let us know, Mr. Rainkie; otherwise, I'm
22 happy with that number. You will agree that the -- the
23 foreign exchange gain that we've looked at here, it will
24 flow into the export revenue line on your IFF, Mr.
25 Rankie?

1 MR. DARREN RAINKIE: That's right, the US
2 sales converted into Canadian dollars flow into the IFF
3 forecast.

4 MR. BOB PETERS: And in the book of
5 documents it appears Hydro was using foreign exchange
6 rates in 2011 and 2012, those are the test years, of
7 about one point zero seven (1.07) for 2011 and one point
8 zero nine (1.09) for 2012, Mr. Rankie.

9 MR. DARREN RAINKIE: That's correct, Mr.
10 Peters.

11 MR. BOB PETERS: And you updated that, or
12 Manitoba Hydro updated that in appendix 76 in IFF-10 so
13 that the foreign exchange is now one point zero two
14 (1.02) for both of the test years.

15 MR. DARREN RAINKIE: That's correct, Mr.
16 Peters.

17 MR. BOB PETERS: And so even with the
18 significantly higher -- or sorry, I was going to say the
19 -- with the reduced foreign exchange revenue, Manitoba
20 Hydro's forecasts of net income still remain
21 significantly higher than forecast in IFF-09, Mr.
22 Rankie?

23 MR. DARREN RAINKIE: That's correct, Mr.
24 Peters. I think your tab 2 showed that.

25 MR. BOB PETERS: Yes, Thank you. And, Mr

1 Chairman, this might be an appropriate time to take the
2 lunch break.

3 THE CHAIRPERSON: Very good. We'll be
4 back at 1:15.

5

6 --- Upon Recessing at 12:03 p.m.

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

8

9 THE CHAIRPERSON: Okay. Welcome back
10 everyone. Now, Mr. Peters, just to remind us I believe
11 we have a presentation from Manitoba Chambers of
12 Commerce, Mr. Starmer, is that correct?

13 MR. BOB PETERS: Yes, that is correct.
14 He's able to join us today and we've set aside this time
15 mutually to arrange for his presentation so we'll turn
16 the microphone over to him if it's okay by the Board.

17 THE CHAIRPERSON: Okay. Welcome, Mr.
18 Starmer. Pleased that you were able to join us. As you
19 probably are aware we've basically just begun the
20 hearing, this is our -- our fourth day. It's uncertain
21 how many days that we'll end up sitting, but probably
22 we've got a considerable way to go. We've got a lot of
23 expert evidence that is yet to come before us so it's --
24 we had had one -- we had three (3) presenters I think it
25 was a week ago, was it not, Mr. Peters?

1 MR. BOB PETERS: Yes, sir.

2 THE CHAIRPERSON: Yeah. So the general
3 approach is that you can provide your presentation and if
4 you have it in writing we would distribute it to
5 everyone, which I believe you do have it in writing, and
6 then afterwards you're not subject to any cross-
7 examination but the Board might have a few questions.

8 So you can start any time you like.

9

10 PRESENTATION ON BEHALF OF MANITOBA CHAMBERS OF COMMERCE:

11 MR. GRAHAM STARMER: Thank you very much.
12 I appreciate the opportunity to come before the Board and
13 to provide the Manitoba Chambers' perspective -- the view
14 -- in particular, to the issue related to potential for
15 specific rate for low-income electricity users. I
16 believe the term is "Low energy affordability issues."

17 The Manitoba Chamber is an umbrella
18 organization of Manitoba's Chamber movement. With a
19 membership comprised of seventy (70) local Chambers and
20 four hundred and fifty (450) direct corporate members in
21 total, we represent over ten thousand (10,000) business
22 across Manitoba.

23 Our membership is not confined to any
24 specific region within Manitoba, nor do we represent only
25 one size of business. In fact, the Manitoba Chamber

1 represents the entire spectrum of business from sole
2 proprietorship to some of the largest companies in
3 Manitoba. Nor do we represent only one particular sector
4 of the economy.

5 To cite but a few examples, our membership
6 includes representatives within service industries,
7 manufacturing, transportation, mining, information
8 communication technologies, and agriculture.

9 You'll see in my propo -- my paper that I
10 also provide the vision for the Manitoba Chambers of
11 Commerce, and I won't go through that.

12 The Manitoba Chambers of Commerce has long
13 been a leading advocate assisting our citizens that are
14 in need. It has proposed numerous changes to government
15 to improve the lot of our less fortunate citizens. Some
16 of those recommendations have been enacted by government.
17 The Manitoba Chambers of Commerce is still active in the
18 poverty community working in such areas as housing, food
19 supply, and disabilities.

20 The Manitoba Chamber of Commerce opposes
21 the PUB being placed in a position of having to implement
22 social policy through the setting of Manitoba Hydro
23 rates. In fact, the Manitoba Chambers of Commerce has
24 called upon the Premier and the Government of Manitoba to
25 amend the PUB Act so as not to place you in this

1 position. The MCC is not taking a position related to
2 whether a rate increase is justified, but if support for
3 low income users is included, which would impact upon the
4 cost of electricity to other users, then we would
5 certainly oppose this move.

6 Statement of principles: The Manitoba
7 Chambers of Commerce believes that making Manitoba a
8 place to work and live can best be achieved by keeping --
9 keeping a number of principles in mind. One of the
10 principles of modern democracy -- democracies is the
11 election of representatives by voters to manage the
12 government and develop public policy.

13 Two (2), one of the most basic
14 responsibilities of government is to assist those in our
15 society who are in need through social programs.

16 Three (3), a fundamentally accepted
17 principle is that those in need be assisted by those who
18 have the capacity to do so. This is the basic reason for
19 progressive tax rates where government taxes those with
20 the capacity to pay and give to those in need.

21 To have the PUB requiring Manitoba Hydro
22 to assist low income Manitobans is not consistent with
23 any of the above three (3) principles because; One (1),
24 the go -- government of Manitoba is managed by cabinet
25 ministers of each department. These people are elected

1 to make challenging decisions in managing the government
2 and its responsibilities, especially the most basic one,
3 such as assisting Manitobans that are in need.

4 Manitoba Hydro is a utility and should not
5 be involved in social programs, nor does it have the
6 expertise for such public policy programs. Manitoba
7 Hydro should not be deciding who is in need and how much
8 assistance to provide them; that is the basic
9 responsibility of the publicly-elected officials.

10 Requiring current paying customers to
11 support low income users through a unique rate will not
12 sit well with the consumers. If government
13 transparently, in writing, decides their direction, such
14 a measure to Hydro, then that is their power and the
15 electorate -- electorate will finally decide if this
16 decision is correct and fair. It is not the duty of non-
17 elected appointed boards to make those decisions on
18 behalf of the government.

19 Having low income assistance established
20 by the PUB and provided by Manitoba Hydro creates a risk
21 to those with low income. The current government
22 provides direct support for those on social assistance
23 and would no doubt eliminate their benefit if provided
24 through the PUB. Future governments may appoint new
25 people in the PUB.

1 If then those unelected people decide to
2 eliminate the low income assistance provided through
3 Manitoba Hydro rate, the government of the day would then
4 say they have no responsibility for the PUB's actions.
5 This creates a significant risk for the future of those
6 in need. The PUB may have or may not have legal
7 jurisdiction to set Manitoba Hydro rates in a way that
8 provides low income support, but having the legal
9 authority does not mean it is good public policy.

10 The Manitoba Chambers of Commerce does not
11 believe it is. You have no doubt received legal opinions
12 which would say that under the Manitoba Hydro Act:

13 "The rates charged for power supply to
14 classic grid customers within the
15 province shall be the same throughout
16 the province."

17 This was a recent policy decision by
18 government which was directed to the utility. Section 2
19 of the Manitoba Hydro Act seems to put the Act squarely
20 within the cost of service approach, mentioning the
21 economy and efficiencies as a legislation goal. This
22 probably has impact on the interpretation of the actions
23 of the PUB.

24 There is some doubt through previous court
25 cases that the PUB has the power to order a utility to

1 activate a low income rate unless the utility eagerly
2 comes forward with a plan which it can afford. There is
3 no doubt in some circles whether the PUB, other than for
4 research, has the power to do what it has already done.

5 Previous presentations: You have received
6 a number of presentations from Intervenors which you have
7 to consider, which, unfortunately, under your present
8 rules the MCC is unable to be one. One (1) of these
9 expert witnesses with extensive experience in US rules
10 and regulations has made a case for the utilization of
11 so-called low income cutoff, LICO, to determine low
12 income rates.

13 LICO has over a dozen interpretations and
14 is not used by the Federal Government. Different
15 jurisdictions have different appreciations of LICO. Some
16 poverty organizations recognize LICO but some use living
17 wage which, depending where you live, has different
18 applications.

19 The government has also no doubt notified
20 the PUB that it is currently providing support for low
21 income users through existing programs. The Chamber, who
22 has been involved for over four (4) years, has found the
23 area of poverty, its language, the myriad of programs,
24 and the interpretation of who is low income, is com --
25 complex and confusing to those daily involved. For

1 either Hydro or the PUB to think that casual involvement
2 in this area is productive is fraught with pitfalls.

3 MCC is not objecting to assisting
4 Manitobans in need; this is not an issue being raised.
5 Winnipeg Harvest is supportive of our views and is
6 concerned that if passed by the PUB then many low income
7 persons may be placed at risk. The objection is to
8 having a Crown Corporation's management be required by
9 the PUB to make fundamental decisions that are the basic
10 responsibility of government.

11 A number of questions come out of this
12 process which we hope that PUB will consider in its
13 adjudications. The last page -- or the second to last
14 page and the last page of the presentation has those
15 types of questions, which, when you're deciding on a
16 decision, you'll take a look at just to see whether you
17 have the answers to those questions when you do your
18 consideration. I appreciate your time and consideration.

19 THE CHAIRPERSON: I think, Mr. Starmer,
20 that the questions that you raise in the brief are -- are
21 pertinent. So what we'll do is we'll have them put on
22 the -- the record, your full presentation.

23 MR. GRAHAM STARMER: Thank you.

24 THE CHAIRPERSON: If that's all right with
25 you.

1 (INSERT)

2

3 EXCERPT FROM PRESENTATION ON BEHALF OF MANITOBA CHAMBERS
4 OF COMMERCE:

5 The Vision of the Manitoba Chambers is as
6 follows:

7 Policy development that brings together
8 businesses of all sizes, from all sectors, and
9 communities across Manitoba;

10 Non-partisan public debates of integrity,
11 that criticize government where necessary, praise
12 government where warranted, and disdain personal attacks
13 and exaggeration;

14 A business community that demonstrates
15 high ethical standards in all it does;

16 Businesses dedicated to the vitality of
17 their communities, the prosperity of their employees and
18 the sustainability of the environment;

19 A province that understands the nature and
20 value of entrepreneurship and promotes the competitive
21 enterprise system;

22 A provincial government with sound, long-
23 term economic strategies that are focussed without
24 ignoring opportunity, flexibility and diversity;

25 Government policies and spending that are

1 efficient and effective, delivering the programs that
2 Manitobans need and helping the disadvantaged; and

3 A Manitoba that promotes the progress of
4 all its citizens toward individual freedom, dignity and
5 prosperity, and opposes any form of negative
6 discrimination or needless control.

7 Questions:

8 1. Has the PUB calculated the amount the
9 average householder in Manitoba will pay in extra
10 electricity bills to provide the money that will go out
11 as low income support that the PUB wants Manitoba Hydro
12 to provide?

13 2. If yes, how much will it be? It is
14 our understanding that over 25,000 people may be targeted
15 for support and that the cost could be \$20 million.

16 3. Why does the PUB believe that forcing
17 increased electricity rates on Manitoban citizens and
18 businesses is the best way to pay for support for low
19 income citizens, rather than having the government
20 provide this support to those in need?

21 4. Does the PUB believe the government
22 is, or is not, properly fulfilling its role of assisting
23 low income citizens?

24 5. If the PUB believes the government is
25 not properly fulfilling this role, is the PUB attempting

1 to get that assistance delivered via Manitoba Hydro?

2 6. If the PUB believes the government is
3 properly assisting those in need, why is the PUB
4 attempting to provide more assistance via Manitoba Hydro?

5 7. Has there been consultation with
6 Minister McIntosh's Department of Family Services and
7 Consumer Affairs to ensure that the many different
8 government programs, and their plans for such programs,
9 are coordinated with what the PUB is requesting of MB
10 Hydro?

11 8. Having Manitoba Hydro provide low
12 income assistance creates a precedent.

13 a) Isn't it logical for Manitobans to
14 expect the PUB to increase the rates from other utilities
15 to also provide funding for low income Manitobans? If
16 not, why not?

17 b) Also, isn't it logical to expect that
18 with the MB Hydro precedent for electricity, that they
19 will also be requested to provide additional low income
20 support from natural gas users when those rates are next
21 set? If not, why not?

22

23 (EXCERPT CONCLUDED)

24

25 THE CHAIRPERSON: Just a few comments.

1 Your presentation appears to be referencing pre-filed
2 evidence by one (1) of the Intervenors, that being
3 RCM/TREE, when you refer to low income rate initiatives.
4 Presumably, you are aware that presently there are no
5 such express rate initiatives for residential customers
6 in M -- in Manitoba Hydro's tariff of rates, and as well,
7 there were none that were proposed in the general rate
8 application by Manitoba Hydro.

9 That said, there is pre-filed evidence
10 along the lines that you mention from one (1) of the
11 Intervenor's witnesses that we will -- we have yet to --
12 to hear from.

13 Given all of this, I've got a few
14 questions if you don't mind. Is the Chambers aware of
15 the expenses incurred by Manitoba Hydro each year in
16 collecting past due accounts from low income customers,
17 the human resource costs of disconnections and
18 reconnections, and the overall level of bad debts, all of
19 which is reflected in rates?

20 MR. GRAHAM STARMER: Yes, I read the TREE
21 presentation that has been filed and yes, I am aware of
22 the unpaid bills.

23 THE CHAIRPERSON: Well, the Board has not
24 heard all of the evidence on lower income rate
25 initiatives, Mr. Starmer. What if such rate initiatives

1 pass the business case test, such as there was actually a
2 net savings of expenses to the Utility and other
3 ratepayers after a low income rate initiative was
4 implemented?

5 MR. GRAHAM STARMER: I think there's two
6 (2) issues here. One (1), Hydro has let -- yet to fully
7 implement technology of which it will be able to deal
8 with some of the readings of some of the meters, which
9 will decrease some of their costs of collection.

10 I'm aware of the unfortunate circumstances
11 that many low income earners are in and unable to pay the
12 bills, but I understand that -- that Hydro currently has
13 a program to try to address these issues and provide a
14 most productive outcome. So I think that that outcome is
15 doable and I think that if the provincial government in
16 their wisdom decided to provide some instruction to Hydro
17 in writing they would also resolve some of those issues.

18 THE CHAIRPERSON: Thank you. I assume
19 that you are aware that a significant number of residents
20 heated by electricity or residents outside of the City of
21 Winnipeg where natural gas service is not available, are
22 you aware of the approximate number of -- you refer to it
23 in the brief and in general, are you aware of the
24 approximate number of Hydro's low income electricity
25 customers, that based on the LICO thresholds, and what

1 that number represents as a percentage of the total
2 residential customers?

3 MR. GRAHAM STARMER: I do recall that
4 being in the TREE brief, but I don't recall it offhand.
5 One of the -- the issues we have, if you looked at many
6 of the farming communities you'd probably find that there
7 would be more interested low income earners among many of
8 the farmers that have not been included in any of those
9 previous discussions.

10 THE CHAIRPERSON: That's interesting.
11 Thank you. Are you aware of Manitoba Hydro's annual cost
12 in support of the Salvations Army's Neighbours Helping
13 Neighbours, and is that an expenditure that the Manitoba
14 Chambers of Commerce would support or oppose?

15 MR. GRAHAM STARMER: When the Manitoba
16 Hydro deviates from its core mandate, no we're not,
17 although as a good corporate citizen I can understand the
18 need for Manitoba Hydro to provide support to the
19 community itself.

20 So I guess, when you're talking about
21 money, I don't believe the -- the cost that they're
22 providing to -- to the United Way is -- is that
23 extensive, net.

24 THE CHAIRPERSON: Your brief appears to
25 maintain that Manitoba Hydro should not distinguish

1 between customers of different income levels.

2 What is your opinion of the existing hydro
3 program that's entitled Lower Income Energy Efficiency
4 Program? Would you advocate that that program continue
5 or cease?

6 MR. GRAHAM STARMER: I think it's a good
7 program. I think it provides the opportunity for the
8 utility to decrease some of the environmental issues that
9 they're trying to manage that goes with the program's --
10 the entire eco program that's run by Manitoba Hydro and I
11 think it falls within their responsibility to -- to try
12 to do that throughout Manitoba.

13 In fact, the Chamber is in discussions at
14 the moment related to the only way of meeting our Kyoto
15 targets is to clearly look at the gas side of hydro and
16 whether there needs to be some major government action in
17 decreasing our energy gas load because that's where the
18 major portions of emissions come from.

19 THE CHAIRPERSON: Thank you. From your
20 brief I wasn't quite sure, but are you suggesting the
21 possibility that the provincial government would reduce
22 existing social assistance programs of lower income
23 customers who are assisted by lower hydro billings?

24 MR. GRAHAM STARMER: I think there's
25 probably a track record. When one board or organization

1 lowers or takes responsibility for actions that are
2 already being conducted by the government, the government
3 may decide to -- to move into the position of not
4 providing that support that's already being provided by
5 what they consider to be the government too because Hydro
6 is a utility managed by the government.

7 THE CHAIRPERSON: Thank you. We
8 understand that many on provincial social assistance have
9 their utility bills paid directly by the province.

10 MR. GRAHAM STAMMER: Correct.

11 THE CHAIRPERSON: And to that extent
12 government expenditures presumably would be reduced if
13 there was a special lower income electricity rate, but
14 are there not recipients of social assistance that pay
15 their own bills, and other lower income households which
16 do not receive social assistance that are now obliged to
17 meet the full electricity bills?

18 Is your organization advocating that the
19 province institute a new provincial energy subsidy
20 program?

21 MR. GRAHAM STAMMER: I believe that the
22 feder -- or, the provincial government could do more for
23 some of our low income earners and -- that -- but by
24 providing some support towards that direction.
25 Frequently, if support is given it's consumed by many

1 more people that want it. So it has to be expeditiously
2 allowed and that by providing a directive I think that
3 that would accomplish that.

4 THE CHAIRPERSON: In preparing your
5 presentation for which we thank you, have you done
6 research on the practices and policies of other utilities
7 in Canada, the US and the UK, for example?

8 MR. GRAHAM STARMER: We have done some
9 minor, as you know, we only have the capacity at the
10 Chamber to do minor research. We're aware of the rulings
11 out east in Toronto and I think it's New Brunswick.
12 We're also aware of a number of the US decisions and
13 we're not familiar with the UK. But bear in mind that
14 the support that currently is provided to low income
15 earners, welfare and other supports, are unique to
16 Manitoba. Some of those experiences in different
17 provinces in the US have a different delivery system.

18 We've talked to the -- Gord Mackintosh,
19 the Minister, related to the fact that our system is
20 highly complicated and complex and he has committed to
21 setting up a matrix so that low-income earners can more
22 easily determine which benefits are readily available to
23 them, other than necessarily going through a consultant
24 or a -- a social-welfare agent.

25 So, we're waiting to see th -- how that

1 comes out and we hope that -- that he will take knowledge
2 of some of the other areas in other provinces and the US
3 that have provided that type of support, so that we can
4 easily align what support is provided in Manitoba vis a
5 vis the other locations that I mentioned.

6 THE CHAIRPERSON: Mr. Starmer, have you
7 considered the possibility that substantial health costs
8 are being incurred by the province with negative health
9 outcome implications for some residents, particularly the
10 elderly and the young, as a result of lower-income
11 households keeping their thermostats too low during
12 Manitoba's typical very cold winters?

13 MR. GRAHAM STARMER: No, we did not
14 consider that.

15 THE CHAIRPERSON: Do you have any
16 questions?

17 MR. ROBERT MAYER: I do.

18 Mr. Starmer, I -- I live in Thompson,
19 Manitoba. Where I live, and all around me, the only --
20 the only realistic method of heating is electricity and
21 no gas and, quite frankly, Stitco's propane is relatively
22 expensive.

23 My concern -- I understand what you --
24 your argument when you deal with the issue of people on -
25 - on assistance; my concern and where I believe, at this

1 point in time anyway could be convinced, that where I
2 believe the kind of programs being rec -- recommended by
3 TREE -- RCM/TREE, deal with the working poor, people who
4 are in all other ways at least able to survive, they do
5 not ordinarily find themselves on the -- on the welfare
6 rolls. But they are the people who would be tempted to
7 forego the medication, to cut back on the food, to do --
8 because you can't cut back on the heat.

9 And it would appear that -- that an
10 argument could be made, sir, that by going through the
11 utility that provides that heat and has the expertise in
12 the area, we may in fact be able to overall save a
13 significant number of people, firstly, a lot of money
14 but, secondly, improve their health and improve their
15 living conditions.

16 I realize that's not a question, sir, but
17 you could comment it -- comment on it and I -- I guess
18 could make it a question by saying: How would the
19 Chamber feel about that?

20 MR. GRAHAM STARMER: Thank you. Yes, I -
21 - we fully appreciate the benefits of Hydro rates, but we
22 don't believe it's either the utility or the PUB to
23 involve their selves in that. What you outlined is a
24 standard government responsibility. It's known
25 throughout the world as being required to assist the

1 poor, not the Hydro, who really don't have the capacity
2 to manage the program, and not the PUB to provide a
3 policy decision in the void of government policy; it's
4 the government who need to do this.

5 THE CHAIRPERSON: Mr. Evans, do you have
6 any questions?

7 DR. LEN EVANS: Thank you. I wasn't
8 clear on your answer to the question posed by the
9 Chairman about the Lower Income Efficiency Program which
10 Manitoba Hydro -- you say, in principle, you don't think
11 utilities should be involved in assisting people with
12 lower incomes, but don't you see this program is doing
13 that? And if you say you agree with it, aren't you
14 contradicting your position?

15 MR. GRAHAM STARMER: Well, if I -- if I
16 understand correctly, the PUB had some involvement in
17 instructing Hydro to move in that direction. It's a
18 double-edged sword. You're trying to improve the
19 environmental costs. You're trying to save electricity,
20 which is the responsibility of the Utility.

21 But the directions from the PUB, if in --
22 if in case they directed the Hydro to do that, is -- is
23 not the way to go, so it is a double-edged sword; you're
24 quite right. And we don't have any problems in the
25 Utility trying to save electricity because it's a great

1 economic core model.

2 DR. LEN EVANS: So you wouldn't abolish
3 it even though it contradicts the principle you've stated
4 that utilities shouldn't be involved in discriminating
5 among people of different income levels.

6 MR. GRAHAM STARMER: I have yet to see
7 any results of an analysis of whether what they're doing
8 is in fact beneficial or not. I am familiar with the
9 program, but I don't know whether it's been truly costed
10 or whether it's proving to be the beneficial both -- on
11 both sides of the sword that I mentioned.

12 DR. LEN EVANS: Nevertheless, you agree
13 it relates to income levels. It's income discrimination,
14 which is what I thought was the key point of your
15 position.

16 MR. GRAHAM STARMER: The -- the key point
17 of my position is that the PUB should not be involved in
18 public policy. If you recall our -- after that position
19 was made previously, we have been in discussions with the
20 government to -- to forego that type of direction in the
21 future. So should you change something that's
22 established and being monitored? I would let it go for
23 the time being to find out whether -- of what the
24 benefits are, but it still comes back to the involvement
25 of the PUB in public policy, which is not right.

1 DR. LEN EVANS: Just a last question.
2 You did some research with regard to practices by other
3 utilities involving discriminating on an income basis.
4 And can you not tell us what you found out? I mean, I
5 don't know how many utilities you reviewed, but there are
6 utilities in Canada and the United States who do
7 discriminate on the basis of income in setting of rates.
8 Did you find that out?

9 MR. GRAHAM STARMER: As you know, in the
10 TREE presentation there was indications that there was a
11 mixed response in Canada related to whether the PUB had
12 the jurisdiction to suggest these types of rates. The --
13 I did not find any evaluation in any of the utilities
14 that we looked at whether there has been any real
15 analysis of productivity coming out of the decisions in
16 those areas that the PUB involved themselves within the
17 other provinces.

18 The US is a totally different kettle of
19 fish and their income support or their welfare rates are
20 totally different than anything that we've got in Canada.
21 So it's -- it's not possible to clearly define with the
22 other jurisdictions whether that's a case or not. So
23 we've only got a couple of cases where -- where utilities
24 -- and I -- if I understand one (1) of the decisions
25 whether -- I can't remember whether it was New Brunswick,

1 was overturned by the appeal courts and the one (1) in
2 Ontario was passed. But I think you've got some legal
3 opinions on that or my associate here may have some legal
4 opinions for you later down the road.

5 THE CHAIRPERSON: I think probably you're
6 referring to the difference between the Nova Scotia
7 decision and the Ontario one --

8 MR. GRAHAM STARMER: Correct.

9 THE CHAIRPERSON: -- not New Brunswick.

10 MR. GRAHAM STARMER: Thank you.

11 THE CHAIRPERSON: Okay. Well, thank you
12 very much for coming and your --

13 MR. GRAHAM STARMER: Thank you.

14 THE CHAIRPERSON: -- presentation, public
15 discourse -- discourse on important subjects like the one
16 (1) that you have highlighted is very much in the public
17 interest. I think most would agree. So thanks for
18 attending and --

19 MR. GRAHAM STARMER: Thank you very much.

20 THE CHAIRPERSON: -- we'll take your
21 comments under consideration. Thank you.

22 Mr. Peters, any time you're ready.

23 MR. BOB PETERS: That's good, I'm glad we
24 could keep Dr. Miller away from Mr. Starmer so that he
25 could make his presentation. And, of course, I'm

1 kidding. Of course, I'm kidding. They had an
2 opportunity to, I think, meet in person not just through
3 the media.

4

5 CONTINUED CROSS-EXAMINATION BY MR. BOB PETERS:

6 MR. BOB PETERS: As I continue, Mr.
7 Chairman, I want to conclude on page 27 of the book of
8 documents, Tab 6, with Mr. Cormie and Mr. Surminski.

9 Gentlemen, when the Board looks at Tab 6
10 of the book of documents, particularly to the page 27,
11 which was the supplemental prepared response to PUB
12 Manitoba Hydro second round 193b, if we look at the
13 fiscal year 2008/'09, you'd agree with me, gentlemen,
14 that the day-ahead market and the real-time market
15 comprise approximately 50 percent of the total energy
16 sales in that year?

17

18 (BRIEF PAUSE)

19

20 MR. DAVID CORMIE: I accept that, yes.

21 MR. BOB PETERS: And those sales would
22 have been probably at or below three (3) cents per
23 kilowatt hour?

24

25 (BRIEF PAUSE)

1 MR. DAVID CORMIE: If you assume that the
2 fixed co -- the fixed revenues are taken out I'm -- I
3 think that's correct.

4 MR. BOB PETERS: And then if the Board
5 looks at the fiscal year 2009/'10 they see again that the
6 day-ahead market and the real-time sales were again about
7 50 percent, maybe not quite, of the total energy sold
8 that year?

9

10 (BRIEF PAUSE)

11

12 MR. DAVID CORMIE: I agree.

13 MR. BOB PETERS: And there the price
14 would be probably closer to two (2) cents a kilowatt
15 hour, again with your caveat about the fixed costs?

16 MR. DAVID CORMIE: Yes.

17 MR. BOB PETERS: And the current year
18 we're in, we don't have the statistics in front of the
19 Board, but would you -- would you agree with me that what
20 we see in fiscal '10 is probably reoccurring to a large
21 measure in fiscal '11? That is, the day-ahead and real-
22 time sales will be perhaps 50 percent of the total sales
23 and that price will be down around the two (2) cent
24 margin again?

25 MR. DAVID CORMIE: Yes, subject to check.

1 MR. BOB PETERS: Could you indicate, Mr.
2 Cormie, to the Board is that situation likely to continue
3 provided the water resources remain satisfactory, at
4 least up until 2015 when the new contract with one (1) of
5 the American counter-parties kicks in?

6 MR. DAVID CORMIE: Mr. Peters, the -- the
7 complicating factor in that calculation is that water
8 conditions over the last few years have been well above
9 average. And so what happens to the average price when
10 we have above average conditions is the average price is
11 driven down because of -- most of the surplus goes into
12 the off-peak market.

13 And -- and so these -- these prices are --
14 haven't been -- these actual prices haven't been
15 normalized for -- for water conditions. And our -- you
16 know, we've been very fortunate that we've had lots of
17 water, but -- but you need to normalize the -- the
18 historic prices for water conditions to get any
19 indication of the trends.

20 So to assume, as we do, out in the long
21 run that in the first year we're going to have aver --
22 we're going to have medium flows and then every year
23 after that we're going to have the average of all water
24 conditions and in that combination to assume just that
25 we're going to have these continued low prices, I think,

1 is unfair.

2 I think it's -- it -- we -- we don't know
3 what the water flows are going to be and to assume that
4 the water flows are going to continue at the very high
5 levels that we've had for the last year and therefore the
6 best prices will be a given, I don't -- I can't agree
7 with that.

8 MR. BOB PETERS: To the extent that the
9 water isn't as plentiful going forward, Mr. Cormie, you
10 still don't have much -- much capability of exporting
11 off-peak energy; do you?

12 Let me rephrase the question. The highest
13 return Manitoba Hydro shows is for its dependable sales
14 under long-term contracts, you'd agree with that?

15 MR. DAVID CORMIE: Yes, and those --
16 those prices are independent of water conditions.

17 MR. BOB PETERS: But if the water
18 conditions tighten up you won't have as much energy to
19 export, correct?

20 MR. DAVID CORMIE: Yes, and the effect of
21 that will be that the extent that we do have a surplus it
22 will go into the on-peak hours when we're not serving our
23 contracts and the average price will firm up as a result.

24 MR. BOB PETERS: But, even when the water
25 is plentiful, you'd like to export as much as you can on

1 peak, isn't that correct?

2 MR. DAVID CORMIE: And we -- and we do,
3 but compared to the volumes that we have to sell in the
4 off-peak, the off-peak price drives the average price
5 down for real-time and day-ahead sales.

6 MR. BOB PETERS: So to the extent that
7 average price would increase, your total export revenues
8 may decline under the situation that you're presenting
9 where the water flows aren't as plentiful.

10 MR. DAVID CORMIE: Export revenues under
11 average water conditions will be lower than they are, but
12 the average unit prices will go up.

13 MR. BOB PETERS: All right. I think we
14 can agree on that.

15 You said these numbers weren't normalized
16 for water conditions. Do you have a normalized history
17 of the last number of years of what export prices are on
18 a normalized basis under the various categories you've
19 depicted?

20 MR. DAVID CORMIE: I'm sure in the IR
21 process we provided what the historical on-peak prices
22 and off-peak prices were, Mr. Peters. We can look that
23 up and give you the reference.

24 MR. BOB PETERS: We'll check at this end.
25 Only if we need that will we come back to you on that,

1 Mr. Cormie.

2 In terms of the export price forecast that
3 the Board sees in the IFF, which was at Tab 4 of the book
4 of documents, and just to be clear, when we look at
5 extra-provincial revenues we look at the assumptions that
6 went into it at Tab 6 of the Book of Documents. And
7 we've already talked to some extent about what the
8 assumptions are for average prices.

9 Would the Board be correct in
10 understanding that the price forecasts Manitoba Hydro
11 uses in the IFF on its exports are derived by Manitoba
12 Hydro?

13 MR. HAROLD SURMINSKI: Yes, that's
14 correct.

15 MR. BOB PETERS: These are not purchased
16 from a third party?

17 MR. HAROLD SURMINSKI: They are Manitoba
18 Hydro's use of third-party information.

19 MR. BOB PETERS: Manitoba Hydro obtains
20 third-party forecasts and then adjusts it to come up with
21 its own number, is that correct?

22 MR. HAROLD SURMINSKI: That's correct.
23 They -- they don't supply, for example, the -- the detail
24 price volume relationship. They'll just give us a guide
25 as to what the on-peak price and the off-peak price is

1 for the year, and maybe some guide us to monthly, but we
2 still have to do a lot of work to utilize. We do a lot
3 of work to provide the -- the consensus -- to develop a
4 consensus, so it's not just a purchased forecast.

5 MR. BOB PETERS: To be clear, we're
6 looking on page 25 in the book of documents found at Tab
7 6, and we're looking at the "total export sales" line
8 item.

9 And for clarity, the fiscal year 2010,
10 \$36.24 per -- I guess that would be megawatt hours,
11 that's a forecast that Manitoba Hydro came up with when
12 this was a forecast, correct?

13 MR. DAVID CORMIE: The -- the first two
14 (2) years were -- were not from a purchase forecast, Mr.
15 Peters, but thereafter, they are.

16 MR. BOB PETERS: All right. To the
17 extent that you're -- maybe you're changing, Mr.
18 Surminski's position is that the IFF only uses forecast
19 data as adjusted by Manitoba Hydro for the third year and
20 following.

21 MR. HAROLD SURMINSKI: There are two (2)
22 methodologies that are used, and I think years 2 and on
23 is -- is the consensus of several forecasts, and Mr.
24 Cormie can speak to the first two (2) years; there's a
25 little different methodology there.

1 MR. BOB PETERS: Well, years 1 and 2, Mr.
2 Cormie, those prices are weighted -- those -- those
3 forecast prices are weighted by the forecast volumes on
4 all exports?

5 MR. DAVID CORMIE: Yes. And in the --
6 the first year of the forecast, at the time the
7 forecast's prepared, it reflects actuals for half the
8 year, and then thereafter, up until the end of the second
9 year, we purchase a forecast from an independent service
10 provider who on a monthly basis provides Manitoba Hydro
11 with a revised forecast.

12 And then that's used along with the -- the
13 purchased forecasts -- they're Manitoba Hydro's forecast
14 in the third and subsequent years, and there's a blending
15 of the two (2) forecasts in the second year to manage the
16 transition from current conditions to the longer-term
17 price forecast.

18 MR. BOB PETERS: When the be -- Board
19 looks at the -- at the volumes of export sales, Mr.
20 Cormie, generally, can the Board conclude that one third
21 (1/3) of the sales are under long-term contracts?

22

23

(BRIEF PAUSE)

24

25 MR. DAVID CORMIE: I -- I believe in --

1 under average flows it's fifty/fifty (50/50), Mr. Peters.
2 And in a high flow year like this, the energy that flows
3 under the dependable sale contracts is -- is diluted by
4 the -- the high volumes of additional off-peak energy
5 that's available. So in a year like to -- this year,
6 that percentage will be lower. In an -- in an average
7 year, the average of all water conditions, it's about
8 fifty-fifty (50/50). And over time, as the Manitoba load
9 grows, that percentage declines because of Manitoba
10 consumption.

11 I'm sorry, that percentage increases as --
12 because the spar -- the interruptible sales decline.

13 MR. BOB PETERS: Are you including in
14 under an average flow situation, Mr. Cormie, diversity
15 sales as part of long-term contracts?

16 MR. DAVID CORMIE: Yes, I am.

17 MR. BOB PETERS: And then if we take your
18 average flow year, would you agree that 33 percent are
19 long-term contracts on the dependable energy, 17 percent
20 could be diversity and short-term, and the remaining 50
21 percent would be opportunity sales?

22

23 (BRIEF PAUSE)

24

25 MR. DAVID CORMIE: I -- I -- subject to

1 check, I -- I -- I suspect that the -- the diversity
2 sales make up a much lower proportion than -- than the 17
3 percent you offered, it's around about 500 gigawatt hours
4 a year is our obligation under the diversity sales during
5 the summer season.

6

7 (BRIEF PAUSE)

8

9 MR. DAVID CORMIE: And 500 gigawatt hours
10 out of an average of seven (7) to eight thousand (8,000)
11 doesn't sound like 17 percent to me. So I think that's
12 overstated.

13

14 (BRIEF PAUSE)

15

16 MR. BOB PETERS: What amount are you
17 adding for the short-term contracts?

18 MR. DAVID CORMIE: There are no short-
19 term contracts in the forecast.

20 MR. BOB PETERS: In any year?

21 MR. DAVID CORMIE: In any year.

22

23 (BRIEF PAUSE)

24

25 MR. BOB PETERS: If we take 2010 as a --

1 as a specific year the -- the long-term contracts with
2 the fixed and negotiated price would have amounted to
3 about 3,000 gigawatt hours, Mr. Cormie?

4 MR. DAVID CORMIE: That sounds close,
5 yes.

6 MR. BOB PETERS: All right. And that's
7 about a third of the exports in 2010?

8 MR. DAVID CORMIE: Yes.

9 MR. BOB PETERS: And the diversity
10 contracts in 2010, well you said five hundred (500), I
11 thought they might be closer to 800 gigawatt hours. Do
12 you agree?

13 MR. DAVID CORMIE: The seller under those
14 contracts has the right to limit deliveries to a 20
15 percent capacity factor, which would -- our obligation to
16 sell is limited to something over five hundred (500) --
17 around 500 gigawatt hours.

18 What we're finding, though, is that we
19 like to deliver more energy under the diversity contracts
20 if we can make an arrangement with the purchaser.
21 Because diversity energy flows on firm transmission and
22 it's not subject to curtailment.

23 So if water conditions are favourable we
24 will -- we will sell more than the minimum in order to
25 ensure that we can get the energy into the market. But

1 for forecasting purposes we just assume that the
2 contracts are restricted to the 20 percent supply
3 obligation.

4 MR. BOB PETERS: Well, for that 500
5 gigawatt hour diversity quantity, what capacity factor
6 were you using?

7

8 (BRIEF PAUSE)

9

10 MR. DAVID CORMIE: That was a 20 percent.

11 MR. BOB PETERS: Now that we know the
12 actual results, the actual was greater than that?

13 MR. DAVID CORMIE: Well, the -- the
14 actuals hi -- are higher this year because, as I said,
15 under high water conditions, especially at night when
16 we're subject to curtailment, we -- we like to use the
17 firm transmission associated with the diversity
18 agreements to ensure that we can get the energy to
19 market. And so in a high water year we will try and work
20 out an arrangement where the customer takes delivery of
21 more than the 20 percent to avoid the risk of spill
22 associated with that capacity.

23 MR. BOB PETERS: Is that diversity then
24 at a price different than market price?

25 MR. DAVID CORMIE: I can't comment on the

1 pricing, Mr. Peters.

2 MR. BOB PETERS: Would the Board's
3 understanding of diversity contracts generally being at
4 market price be correct?

5 MR. DAVID CORMIE: No. Some of the pri -
6 - some of the energy is fixed and some of it floats with
7 the market, but -- but, again, now when we're -- when
8 we're in this situation where the choice is to move the
9 energy to market on non-firm transmission and when the
10 transmission -- when the transaction gets curtailed
11 because of market rules in MISO and the water then ends
12 up going over the spillway, we're more interested in
13 making delivery than trying to extract the highest
14 possible price. Although that's our -- we're still
15 trying to do it, we're concerned about actually getting
16 it to market at any price.

17 And in the diversity contracts, because of
18 the grandfather -- or because of the transmission that's
19 associated with this because -- is a very valuable
20 mechanism for doing that. Otherwise we'd have to use the
21 non-firm transmission and that's not good right now.

22 MR. BOB PETERS: It's not good because
23 it's not readily available?

24 MR. DAVID CORMIE: No, it's available,
25 but it's subject to cur -- cur -- curtailment. MISO has

1 some market rules that push congestion to the interfaces
2 and whenever they have internal problems in the
3 footprint, companies like Manitoba Hydro have to reduce
4 their sales first before they re-dispatch the generation,
5 and then if we're in a high-water year and -- and we have
6 to reduce our sales, that water -- that energy goes over
7 the spillway and it's -- and it's lost.

8 So we want to have an arrangement in the -
9 - in these years like this year to fully utilize that
10 transmission which tends to show higher deliveries under
11 the diversity contracts than what you would normally
12 expect in an average water year.

13 MR. BOB PETERS: Mr. Cormie, when you
14 showed the Board at pages 27 and 28, let's just look at
15 27, I guess, of the book of documents, the sales of
16 various energy descriptions, where will the diversity
17 sales be found in that table?

18 MR. DAVID CORMIE: That will be shown
19 under the dependable row.

20 MR. BOB PETERS: In terms of opportunity
21 sales in 2010, there would have been approximately 5800
22 gigawatt hours at about an average price of, say, two and
23 a half (2 1/2) cents? Would you agree with that, Mr.
24 Cormie?

25 MR. DAVID CORMIE: Can you give me a

1 reference for that?

2 MR. BOB PETERS: Yeah, I was still
3 looking at page 27 of the book of documents.

4

5 (BRIEF PAUSE)

6

7 MR. DAVID CORMIE: For 2008/'09, what was
8 the number you were suggesting, Mr. Peters?

9 MR. BOB PETERS: I was just focussing on
10 2010, or I meant to, Mr. Cormie, and suggesting about
11 5800 gigawatt hours.

12 MR. DAVID CORMIE: I -- I see something
13 like seventy-five hundred (7500) if you add the twenty-
14 six twenty-eight (2628) to the thirty-one one one (3111)
15 plus the eighteen fifty-eight (1858), is that not the
16 number, Mr. Peters?

17 MR. BOB PETERS: I wasn't sure how much
18 of the real-time you were -- I haven't seen your answer
19 to undertaking as to how much of those real-time energy
20 sales were -- were actually energy and how much was
21 attributed to some other function. So I --

22 MR. DAVID CORMIE: No, all the energy
23 that we show is -- has been sold. It's whether the
24 revenue is associated with energy.

25 MR. BOB PETERS: All right. Thank you

1 for that.

2 At Tab 9 of the book of documents, Mr.
3 Cormie, in Manitoba Hydro's response to PUB Manitoba
4 Hydro second round 191a, does Manitoba Hydro list all of
5 its commitments under all of its contracts?

6

7 (BRIEF PAUSE)

8

9 MR. DAVID CORMIE: Can you provide the
10 reference again?

11 MR. BOB PETERS: Sure. At -- it's at Tab
12 9 of the page of documents starting on, I guess, page 43,
13 going for ten (10) or for seven (7) more pages.

14 MR. DAVID CORMIE: Mr. Peters, these will
15 only be those transactions for which we require -- we are
16 required to report under the National Energy Board
17 permits. National Energy Board only regulates the export
18 of electricity into the United States so there will not
19 be a reporting to the NEB about our -- our Canadian
20 transactions.

21 So, again, this is not an extensive
22 listing of Manitoba Hydro's exports.

23 MR. BOB PETERS: With which provinces
24 does Manitoba Hydro have a firm contract to export
25 energy?

1 MR. DAVID CORMIE: We have no firm sale
2 obligations with any Canadian entity at this time.

3 MR. BOB PETERS: Those are all
4 opportunity sales under Manitoba Hydro's classification?

5 MR. DAVID CORMIE: Yes.

6 MR. BOB PETERS: So when the Board looks
7 at Tab 9 for the Manitoba Hydro's commitments under all
8 of its contracts, these would only be contracts with
9 American counter-parties, correct?

10 MR. DAVID CORMIE: Yes.

11 MR. BOB PETERS: Are they re -- are --
12 are these contracts reported on a gross sales basis, Mr.
13 Cormie?

14 MR. DAVID CORMIE: There are -- these
15 numbers that are reported are the -- are sales that go to
16 physical delivery where the electron actually crosses the
17 Canadian border and is delivered into the United States.

18 MR. BOB PETERS: And it doesn't represent
19 any financial settlements of any of the contracts whether
20 directly with the counter-party or by buying in the MISO
21 market the energy for delivery on the contracts.

22 MR. DAVID CORMIE: That's -- that is
23 correct, Mr. Peters. It's just physical delivery,
24 Canadian electricity that actually gets exported.

25 MR. BOB PETERS: And I wasn't sure if you

1 answered my question in that answer, sir, as to whether
2 or not it's reported on a gross or a net basis. Do you
3 net anything against the US counter-party transactions?

4 MR. DAVID CORMIE: Well, I -- I took your
5 -- your question to mean that gross meant that we were --
6 let's say we had a hundred megawatt sale and ninety (90)
7 megawatts was physically delivered and ten (10) was
8 provided from the market. We would only report the
9 ninety (90), and, therefore, that would be -- this would
10 end up being the net reporting of the sales. You know,
11 the balance that comes from physical delivery, the -- the
12 ten (10) would be financial, the total would be the gross
13 of a hundred, the net delivery is -- is ninety (90) then.

14 MR. BOB PETERS: All right. Thank you
15 for that clarification. Would you ever net off in this
16 reporting or do you net off in this reporting -- does
17 Manitoba Hydro net off in this reporting any -- any
18 deliveries from the American counter-parties?

19 MR. DAVID CORMIE: Delivery -- you mean
20 by deliveries by American -- the extent that we purchase
21 in the US to serve our sale -- our US sale obligations?

22 MR. BOB PETERS: No, I mean purchase from
23 US counter-parties for servicing Canada.

24 MR. DAVID CORMIE: no, we're just
25 required to report to the National Energy Board exports.

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(BRIEF PAUSE)

MR. BOB PETERS: And so this would contain your diversity contracts as well as your assist and participation agreements, where there's physical delivery into the states.

MR. DAVID CORMIE: Yes.

MR. BOB PETERS: Are the diversity transactions included in the response book of documents Tab 9?

MR. DAVID CORMIE: Yes, they will be.

(BRIEF PAUSE)

MR. BOB PETERS: When we looked at the assumed average forecast prices going forward, Mr. Cormie, and that was back in Tab 6 of the book of documents on page 25, the line item called "Total export sales," you've explained that Manitoba Hydro's forecasts are used in the first two (2) years as well as then a purchased forecast for the subsequent years as adjusted by Manitoba Hydro.

Can you tell the Board whether Hydro assumes any carbon adder is included in these prices?

1 MR. DAVID CORMIE: For the first two (2)
2 years we -- we are not adding anything for carbon
3 pricing. I'll let Mr. Surminski speak to the subsequent
4 years.

5 MR. HAROLD SURMINSKI: As I had indicated
6 two (2) weeks ago, there's a gradual consideration of
7 carbon, so it -- it could be negligible in year three and
8 building up from that point on.

9 MR. BOB PETERS: Mr. Surminski, does
10 Hydro assume that natural gas generated electricity is
11 the competitive alternative?

12

13 (BRIEF PAUSE)

14

15 MR. HAROLD SURMINSKI: If your question -
16 - I'm -- I'm jumping ahead. If you're trying to convert
17 the carbon into a unit price, it's done by our expert
18 price forecasters and they have a blend of resources that
19 are -- that make up the market clearing price.

20 MR. BOB PETERS: If we look at the
21 assumed export sales prices going from 2013, to 2014, to
22 2015 on tab -- on page twenty (20) -- 25 of the book of
23 documents, we see the average assumed export price going
24 from 6.7 cents a kilowatt hour up to 7.4 cents a kilowatt
25 hour over those three years, correct?

1 MR. HAROLD SURMINSKI: Yes, I see that,
2 correct.

3 MR. BOB PETERS: And what I was trying to
4 understand, Mr Surminski, for the Board is whether the
5 counter-parties to whom you are selling are displacing
6 gas-generated electricity to purchase from Manitoba
7 Hydro. Would that be a correct assumption?

8 MR. HAROLD SURMINSKI: It would not be a
9 hundred percent. As I said, it's a blend of resources
10 that make up the marginal -- or, export prices or the
11 marginal clearing prices.

12 MR. BOB PETERS: Is that blend percentage
13 a proprietary number?

14

15 (BRIEF PAUSE)

16

17 MR. HAROLD SURMINSKI: It's not that it's
18 necessarily a proprietary, its that we -- we don't have
19 the breakdown, it's -- it's provided by each of the
20 forecasters as part of their complex analysis of the
21 market.

22 MR. BOB PETERS: If Manitoba Hydro was to
23 calculate natural gas as the competitive alternative,
24 would you agree, Mr. Surminski, that for Manitoba Hydro
25 to get the 7.4 cents on average, natural gas prices would

1 have to be in about the \$7 a gigajoule range?

2 MR. HAROLD SURMINSKI: No, I would --
3 there is -- you -- you're making many assumptions in
4 trying to derive that because there are several factors
5 here; one (1) in -- one (1) portion of all these export
6 sales is due to contracts, existing, long-term,
7 dependable contracts, so it -- it's not a simple
8 conversion.

9 You know, if you're trying to separate out
10 the non-contracted energy and trying to put a carbon tax
11 on it and converting it, I -- I assume that's what you're
12 doing and it's not at all obvious how -- how that would
13 work.

14 MR. BOB PETERS: We'll come back to that.
15 If we -- if we go out to 2016 as another year the Board
16 will see that Manitoba Hydro is forecasting in IFF-09
17 export sales at about 9.1 cents a kilowatt hour, correct?

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

20 MR. BOB PETERS: And in fact, if the
21 Board looks to the previous year the export price on
22 average jumps from 7.4 cents up to 9.1 cents, correct?

23 MR. HAROLD SURMINSKI: Yes, correct, but
24 that's the -- the new Xcel sale that's coming into play
25 here.

1 MR. BOB PETERS: What you're
2 demonstrating to the Board is that there will be a larger
3 proportion of export revenues received at a long-term
4 price under a long-term contract with one (1) of your
5 counter-parties?

6 MR. HAROLD SURMINSKI: Yes, and at a
7 higher price than -- than previously.

8 MR. BOB PETERS: And when that export
9 contract comes into existence in about 2015 or 2016, all
10 of the other contracts that were summarized under Tab 9
11 of the book of documents, those will have expired or
12 being subsumed into that one (1) new long-term contract,
13 Mr. Surminski?

14

15 (BRIEF PAUSE)

16

17 MR. HAROLD SURMINSKI: My recollection is
18 most of the -- the contracts we currently have expire by
19 2015.

20 MR. BOB PETERS: Or they're subsumed into
21 that new long-term contract with NSP.

22 MR. HAROLD SURMINSKI: Yes.

23 MR. DAVID CORMIE: Mr. Peters, the --
24 there are three (3) agreements with Xcel; two (2) of them
25 continue at -- in 2015 and the third one doesn't kick in

1 until 2021. So it's not just the one (1) contract; that
2 is the blend of -- of the two (2) contracts plus the
3 opportunity sales that are in tha -- in that price.

4 MR. BOB PETERS: All right. Well, let's
5 just make sure the Board's clear on that, Mr. Cormie.
6 You've indicated, I think, in your direct evidence this
7 morning that -- when I say "NSP," that's the subsidiary
8 held by Xcel Energy, is that right?

9 MR. DAVID CORMIE: That's correct.

10 MR. BOB PETERS: And when we refer to
11 them on the record in these proceedings they're
12 interchangeable?

13 MR. DAVID CORMIE: Yes.

14 MR. BOB PETERS: And again, the
15 Corporation, Manitoba Hydro, has no difficulty discussing
16 specifically this -- the agreements with this one (1)
17 counter-party provided it doesn't delve into what
18 Manitoba Hydro wants to keep off the public record?

19 MR. DAVID CORMIE: Yeah, it -- it's in
20 the public domain that we have signed these agreements,
21 so, you know, as long as it's general, I don't think we
22 have a difficulty in talking about it.

23 MR. BOB PETERS: And, in fact, these
24 contracts are presently before the Minnesota Public
25 Utilities Commission for approval.

1 MR. DAVID CORMIE: Yes.

2 MR. BOB PETERS: And you indicated that
3 there are three (3) separate aspects of the NSP
4 agreement, and the first of which is -- it's a three
5 hundred and seventy-five (375) megawatt summer and a
6 three twenty-five (325) megawatt winter sale, Mr. Cormie.

7 MR. DAVID CORMIE: Yes.

8 MR. BOB PETERS: And the summer sale is,
9 what the Board has heard, is seven (7) by sixteen (16)
10 energy.

11 MR. DAVID CORMIE: No, it's a five (5) by
12 sixteen (16) for -- in the summer period, and it's --

13 MR. BOB PETERS: Seven (7) by twelve (12)
14 in the winter?

15 MR. DAVID CORMIE: No, five (5) by twelve
16 (12).

17 MR. BOB PETERS: Okay.

18 MR. DAVID CORMIE: It's like lumber, Mr.
19 Peters; two (2) by four (4), seven (7) by eight (8).

20 MR. BOB PETERS: The five (5) by sixteen
21 (16) is to designate the five (5) days a week and the
22 sixteen (16) highest consumption hours or peak hours.

23 MR. DAVID CORMIE: Yeah, that's correct.

24 MR. BOB PETERS: And on week -- on the --
25 in the winter the number of hours is reduced by four (4),

1 recognizing, I guess, the -- the capability to deliver.

2 MR. DAVID CORMIE: It's reduced by four
3 (4), and that was at the request of the purchaser.

4 MR. BOB PETERS: And the price in the
5 contract is fixed?

6 MR. DAVID CORMIE: It's not fixed; it --
7 it is subject to escalation, but the price is known today
8 with certainty from 2015 to 2025 with some minor
9 exceptions, but generally, they know today what they're
10 going to pay.

11 MR. BOB PETERS: And Manitoba Hydro knows
12 what it's going to receive.

13 MR. DAVID CORMIE: Absolutely, yeah.

14

15 (BRIEF PAUSE)

16

17 MR. BOB PETERS: Under that arrangement,
18 Mr. Cormie, would it be correct that about fourteen
19 hundred (1,400) gigawatt hours a year would be at the
20 fixed price subject to the escalation?

21

22 (BRIEF PAUSE)

23

24 MR. DAVID CORMIE: What was your number
25 again, Mr. Peters?

1 MR. BOB PETERS: Fourteen hundred (1,400)
2 gigawatt hours.

3 MR. DAVID CORMIE: Yeah. Yeah, give or
4 take, yes.

5 MR. BOB PETERS: And under this
6 arrangement then the balance would be at market price?

7 MR. DAVID CORMIE: I can't discuss the
8 pricing arrangement for the balance, Mr. Peters.

9 MR. BOB PETERS: The additional amount of
10 energy could be as much as two thousand (2,000) gigawatt
11 hours a year, Mr. Cormie?

12

13 (BRIEF PAUSE)

14

15 MR. DAVID CORMIE: It could be as high as
16 6200 or 6300 gigawatt hours if we had favourable water
17 conditions, but that's almost impossible to get up to
18 that. But that's -- it would be around 6,000 gigawatt
19 hours in a -- at an absolute maximum, yes.

20

21 (BRIEF PAUSE)

22

23 MR. BOB PETERS: For purposes of the IFF
24 assumptions, Mr. Cormie, does the new NSP contract
25 involve more energy sales than the existing NSP contract?

1 MR. DAVID CORMIE: Potentially it -- it
2 could, but Manitoba Hydro's minimum obligation is -- is
3 significantly less than the existing sale agreement.

4 MR. BOB PETERS: The existing sales
5 agreement has about a 2100 gigawatt hour requirement?

6

7 (BRIEF PAUSE)

8

9 MR. DAVID CORMIE: When you consider the
10 diversity portion it's higher than that, Mr. Peters, more
11 like 2500 gigawatt hours.

12 MR. BOB PETERS: Thank you. Mr. --

13

14 (BRIEF PAUSE)

15

16 MR. BOB PETERS: When Manitoba Hydro did
17 their IFF assumptions, Mr. Surminski and Mr. Cormie, did
18 Manitoba Hydro assume average flow conditions to
19 calculate the NSP commitments?

20 MR. DAVID CORMIE: Our commitments to NSP
21 come out of the dependable energy resources and
22 accredited capacity that are surplus to Manitoba Hydro
23 under dependable flow conditions. So when they're --
24 when water conditions are better than that there will be
25 more energy available to sell to that company under those

1 -- but that will depend on the year. But -- but
2 essentially the -- the sale is served from our dependable
3 resources.

4 MR. BOB PETERS: So what assumption did
5 you use in the IFF calculations as to energy sales under
6 the -- under the contract.

7 MR. DAVID CORMIE: Well, we would assume
8 that all our -- our -- our minimum obligations would be
9 met and that in each of the flow years of the -- that --
10 that were -- that were -- the calculations were made any
11 additional energy above and beyond that would have gone
12 to the interruptible sale market. But it wouldn't show
13 up in the dependable revenue calculation.

14

15 (BRIEF PAUSE)

16

17 MR. DAVID CORMIE: Mr. Surminski has
18 reminded me that in '09 we were using the terms and
19 conditions that were in the term sheet at that time.
20 Since then we've finalized the agreement and the IFF-10
21 has the quantities that are in the signed agreements.

22 MR. BOB PETERS: Are you able to indicate
23 under average flows what that commitment would be?

24 MR. DAVID CORMIE: Well, it -- it'll be
25 the same in each -- each -- each year. The -- the

1 dependable portion will -- will be the amount that's in
2 the dependable revenue and -- and when we have better
3 than dependable flow conditions there will be additional
4 energy that will go to the market and it will be shown as
5 a -- it'll -- there will be varying deliveries above
6 that.

7 What actually happens in -- in any
8 particular year will depend on whether we choose to
9 allocate energy to the sale. And the big advantage of
10 the sale is it gives us access to firm transmission.

11 And I mentioned earlier how Manitoba Hydro
12 is vulnerable to curtailments using non-firm transmission
13 into the MISO market. And so the -- the big benefit that
14 we've achieved here is that we've assured us market
15 access for almost 900 megawatts of transmission and we
16 can fully utilize that all the way to 2025.

17 MR. BOB PETERS: Mr. Cormie, I take from
18 your last few answers that 2500 gigawatt hours was the
19 amount used in the IFF calculations?

20

21 (BRIEF PAUSE)

22

23 MR. DAVID CORMIE: I -- I believe the
24 minimum re -- the minimum energy volume that we are
25 required to deliver is the 1400 gigawatt hour amount, Mr.

1 Peters, and that would have been in the IFF as the
2 dependable revenue that would be available under that
3 contract.

4 MR. BOB PETERS: You didn't use average
5 flow conditions for that calculations, Mr. Cormie?

6 MR. DAVID CORMIE: No, we -- we --
7 because we are not obligated to deliver more than the --
8 the minimum energy quantity, additional energy would be
9 subject to the water supply variability, and flow related
10 revenues go into the opportunity forecast not the
11 dependable forecast.

12 MR. BOB PETERS: Does Manitoba Hydro
13 acknowledge that in most years its highest priced exports
14 will be the fixed-price contracts that it exports under?

15 MR. DAVID CORMIE: Well, no, we don't
16 acknowledge that. The -- the opportunity market is
17 extremely volatile and then we only have to think back a
18 couple of years when spot-market sales made our long-term
19 firm revenues look pretty poor, and now the other way,
20 we're back in the other situation where we're really glad
21 that we have these fixed revenue streams coming in and
22 not subject to market volatility.

23 So, I -- you know, it -- the -- the prices
24 will fluctuate with the economy and with the type of
25 generation being displaced and with future environmental

1 regulations. I -- I think Manitoba Hydro's perspective
2 is that we want to have a balanced portfolio where we've
3 got some certainty about the -- our fixed revenues under
4 the export contracts and we're also happy to have some
5 revenues that float because there is definitely an upside
6 to -- to the future having to do with carbon regulation
7 and environmental restriction on the existing generation
8 fleet that's going to drive electricity prices up. And I
9 think it would be prudent for the company to have a
10 balance of -- of both types of products.

11 MR. BOB PETERS: Well, you've got both
12 types of products; do you not, Mr. Cormie?

13 MR. DAVID CORMIE: Yes, because our -- we
14 only sell long-term firm power out of our dependable
15 portfolio and -- and that's, you know, about -- it's only
16 a portion of -- of what we'd expect in an average year.

17 MR. BOB PETERS: So when ICF and the
18 independent consultants suggest that Manitoba Hydro's
19 proposed long-term contracts will, on average, be above
20 the average expected spot prices, you're not agreeing
21 with them?

22 MR. DAVID CORMIE: Well, again, I think
23 we're comparing apples and oranges. Spot prices are
24 exactly that, they're the marginal cost of producing the
25 next megawatt hour of generation; long-term prices are

1 priced against a different standard which is the
2 incremental cost of supply of new electricity for the
3 purchaser.

4 And so there's more factors that go into
5 the price of long-term power than there are in short-
6 term. So I think in -- in general we would -- we would
7 agree with ICF that long-run incremental costs are going
8 to be higher than short-run marginal electricity prices,
9 and -- and we agree with the consultants.

10 MR. BOB PETERS: So in general, leaving
11 out the year in which the -- the spot prices peaked,
12 Manitoba Hydro's export prices under firm contracts of
13 dependable -- from dependable resources turned out to be
14 its highest returning product.

15 MR. DAVID CORMIE: I think that will yet
16 to be seen. 2015 to 2025 is a long way off, and I -- I -
17 - as I said, I think it's prudent that we have -- we have
18 both -- both types of energy in our portfolio because we
19 don't have certainty about the future. And if we did, it
20 might make it a lot easier, but we don't, and -- and so
21 we have to hedge both outcomes.

22 MR. BOB PETERS: And you're also hedged
23 in those outcomes because you don't have the physical
24 capability of supplying more dependable firm exports on
25 peak because there's transmission limitations, correct?

1 MR. DAVID CORMIE: Well, not only are
2 there transmission limitations as -- as -- from a poly --
3 policy perspective we don't commit to energy that -- that
4 we can't back up with generation, and -- and that's our
5 planning criteria.

6 So our planning criteria forces us to
7 limit the amount of surplus energy that we can take to
8 the dependable export market to that, which is surplus to
9 the Manitoba Hydro customers' needs, and -- and so that -
10 - by that policy we -- we are restricted on the amounts
11 that we can sell forward.

12 MR. BOB PETERS: And while you say the
13 future is uncertain, Mr. sir -- Mr. Cormie, what we know
14 from 2010 actual results is that the dependable energy
15 under the long-term contracts returned on average about
16 five point seven (5.7) cents, correct?

17 MR. DAVID CORMIE: Yes, and that's
18 significantly higher than we're -- we're achieving in the
19 -- in the opportunity market.

20 MR. BOB PETERS: And I think Mr. Warden
21 told the Board the first day that the opportunity market
22 was bringing in about two point three (2.3) cents per
23 kilowatt hour on average.

24 MR. DAVID CORMIE: I'll agree with Mr.
25 Warden.

1 MR. BOB PETERS: And we cal -- calculate
2 an overall price, we'd expect that overall price to come
3 in probably around the three and a half (3 1/2) cent
4 range, recognizing it's weighted because of the low price
5 on the opportunity market.

6 MR. DAVID CORMIE: Yes, I think -- I
7 think that sounds like a fair number.

8 MR. BOB PETERS: When the Board looks at
9 Manitoba Hydro's forecast out to 2016, where we saw that
10 the average export prices were in the nine (9) cents a
11 kilowatt hour range, does Manitoba Hydro agree that the
12 market price in that year will have to exceed nine (9)
13 cents on average to get the kind of returns that Manitoba
14 Hydro is forecasting?

15 MR. HAROLD SURMINSKI: Yes, that's a fair
16 conclusion. Opportunity prices would have to be -- and
17 opportunity, meaning market clearing prices, short-term
18 prices, as Mr. Cormie has been clarifying. We have to
19 differentiate between the short-term prices and -- and
20 the long-term contract prices here.

21 MR. BOB PETERS: Thank you, Mr.
22 Surminski. I'm just not sure if Mr. Cormie has helped me
23 with this or not, but under this first tranche of energy
24 sold under the NSP contracts, or maybe it's the first
25 contract, as you call it, weekend energy was included, I

1 think you've told the Board, correct?

2 MR. DAVID CORMIE: No, the obligation is
3 Monday to Friday, 16 hours in the summer and 12 hours in
4 the winter. However, should Manitoba Hydro have
5 additional energy that it wants to take to market above
6 those -- outside those hours or above the capacity that
7 it's -- if it has generate -- surplus generating
8 capacity, we can take the energy -- we -- we have the
9 right to -- we have the right and X -- Xcel Energy or NSP
10 has -- has the obligation to purchase it.

11 So there's some optionality there that
12 allows us to use the firm transmission to get Manitoba
13 Hydro surpluses to market.

14 MR. BOB PETERS: Thank you for the
15 clarification. I -- I went back in my notes, Mr. Cormie,
16 and I think I have it just as now you've told the Board.
17 In an average flow year, would Hydro expect to sell two
18 (2) by sixteen (16) weekend energy to NSP?

19 MR. DAVID CORMIE: Yeah, I think that's a
20 good assumption, Mr. Peters. Generally, weekend energy
21 is priced higher than overnight energy and to the extent
22 that we are short our -- our own hydraulic energy, we
23 would purchase overnight during the week and store water
24 and then take it back to the market on the weekends. But
25 that will depend on the day-to-day prices at the time,

1 but clearly we have that expectation and that's likely
2 what will happen.

3

4 (BRIEF PAUSE)

5

6 MR. BOB PETERS: Can you help make sure
7 the Board is clear on this point, Mr. Cormie. When
8 Manitoba Hydro has, let's say, an average flow year and
9 you're wanting to sell two (2) by sixteen (16) or
10 Saturday/Sunday power, is it NSP that has the option
11 whether or not to buy it?

12 Because Manitoba Hydro has -- had decided
13 to sell it, then it's up to NSP to decide whether they
14 want it or else Manitoba Hydro will go to the market with
15 it?

16 MR. DAVID CORMIE: No. No. Manitoba
17 Hydro has the option and Xcel has the obligation to
18 purchase.

19 MR. BOB PETERS: So only if Manitoba
20 Hydro decides to sell on the weekends is it then
21 compulsory on the counter-party to purchase it?

22 MR. DAVID CORMIE: That's correct.

23 MR. BOB PETERS: And I'm not sure if I've
24 asked you this or you've told me you wouldn't answer, but
25 is it at market price at that time?

1 MR. DAVID CORMIE: The -- the pricing of
2 the additional energy is commercially sensitive, Mr.
3 Peters, and I -- I can't indicate that to you.

4

5 (BRIEF PAUSE)

6

7 MR. BOB PETERS: If Manitoba --

8 MR. DAVID CORMIE: Mr. Peters, there is
9 more transmission available beyond what's required for
10 the sale, and Manitoba Hydro can always achieve market
11 price for that energy on this other transmission, so I
12 think you can draw a conclusion from that.

13

14 (BRIEF PAUSE)

15

16 MR. BOB PETERS: All right. We'll --
17 we'll draw that conclusion, Mr. Cormie. The second
18 aspect of the NSP contract is a 350 megawatt diversity
19 sale. Have I got that right?

20 MR. DAVID CORMIE: Yes.

21 MR. BOB PETERS: And --

22 MR. DAVID CORMIE: During the summer
23 season, Manitoba Hydro makes available to -- in Northern
24 States Power, 300 megawatts of -- 350 megawatts of
25 capacity and associated energy. And in exchange for that

1 in the wintertime then we have the right to the same
2 amount of capacity and energy.

3 MR. BOB PETERS: And is that guaranteed
4 five (5) days a week sixteen (16) hours a day in the
5 summer months?

6

7 (BRIEF PAUSE)

8

9 MR. DAVID CORMIE: There are -- there is
10 no minimum energy requirement under that summer
11 obligation.

12

13 (BRIEF PAUSE)

14

15 MR. DAVID CORMIE: We're -- we're not
16 obligated to sell. We are obligated to offer but we're
17 not obligated to sell.

18 MR. BOB PETERS: I was stumbling between
19 those two (2), Mr. Cormie; you've now made it public. If
20 you are obligated to offer but not obligated to sell, it
21 means that it's up to NSP whether they want to call on
22 that offer, is that what you're telling the Board?

23 MR. DAVID CORMIE: Well, if Manitoba
24 Hydro offers it at a thousand dollars a megawatt hour,
25 it's not likely to get called.

1 MR. BOB PETERS: But is that offered to
2 NSP or is it offered into the -- into the MISO market?

3 MR. DAVID CORMIE: We have an obligation
4 to offer to MISO.

5 MR. BOB PETERS: I -- I think what you're
6 then telling the Board is that when you have an
7 obligation to offer it to MISO you set the price at which
8 you're going to bid it into the market, correct?

9 MR. DAVID CORMIE: That's right.

10 MR. BOB PETERS: And if the market clears
11 such that you would have to deliver that energy, the
12 option then falls to NSP whether they're going to call on
13 it and -- and buy it at the price that the market has
14 determined it would pay you on delivery?

15

16 (BRIEF PAUSE)

17

18 MR. DAVID CORMIE: Now I think, Mr.
19 Peters, we -- we can't talk about the -- the price that
20 NSP is going to pay Manitoba Hydro. But I can tell you
21 that that's how we would offer it in and we have an
22 obligation to offer and we have flexibility in setting
23 the offer price. After that I -- I'm reluctant to talk
24 about that much more.

25 MR. BOB PETERS: Are you reluctant to

1 answer whether or not it's likely that the offer price
2 would be lower than the fixed price that's negotiated
3 with the counter-party?

4

5 (BRIEF PAUSE)

6

7 MR. DAVID CORMIE: Well, in the -- under
8 this contract Manitoba Hydro has a lot of optionality as
9 well, and generally we will want to sell energy under
10 this contract when Manitoba Hydro has energy that it
11 wants to take to market.

12 And, again, this is a -- a -- it -- it is
13 a huge advantage for -- for Manitoba Hydro to be in this
14 position because there is firm transmission that
15 guarantees us market access, and our obligation to sell
16 energy only exists -- we have the option on selling
17 energy under the contract and it's been structured that
18 way to give Manitoba Hydro tremendous flexibility.

19 MR. BOB PETERS: There's no capacity
20 charge added to the energy price on these diversity
21 sales, is there, Mr. Cormie?

22 MR. DAVID CORMIE: No, because the winter
23 and summer season are of the same length. The swap is of
24 the same term; the term of the swaps are the same. So we
25 don't -- we don't exchange money for -- for the capacity,

1 we just exchange the capacity.

2 MR. BOB PETERS: It's a six (6) month
3 diversity each way then?

4 MR. DAVID CORMIE: That -- that's right.

5 MR. BOB PETERS: I just want to touch on
6 the -- the third aspect of the NSP sale is the 125
7 megawatt summer sale which would be added on to the first
8 portion of the contract or the first contract, which was
9 the 375 megawatt summer sale, correct?

10 MR. DAVID CORMIE: Yes.

11 MR. BOB PETERS: And that would only take
12 place if and only if Manitoba Hydro had additional
13 generating resources to supply that contract, is that
14 correct?

15 MR. DAVID CORMIE: Yeah. And again, this
16 is -- this -- this is a -- an option that Manitoba Hydro
17 has if it -- if it -- if the -- if there was an
18 opportunity to be had at the time we would exercise our
19 option to require Northern States Power to -- to buy an
20 additional 125 megawatts, starting in 2021.

21 MR. BOB PETERS: And like the first of
22 the three (3) contracts for 375 megawatts, this 125
23 megawatt contract has a fixed, determined rate in it?

24 MR. DAVID CORMIE: Yes.

25 MR. BOB PETERS: Can you tell the Board

1 whether it is also subject to escalation?

2 MR. DAVID CORMIE: Yes, the pricing of
3 those two (2) products are identical.

4 MR. BOB PETERS: Am I correct that under
5 Manitoba Hydro's current preferred generation
6 development, the third aspect of this NSP contract would
7 be serviced out of Keeyask, if Keeyask is built.

8 MR. DAVID CORMIE: If -- if that suited
9 Manitoba Hydro and it was in the best interests of our
10 customers, yes.

11 MR. BOB PETERS: Well, you can't supply
12 this third aspect of the NSP contract under your existing
13 resources, can you -- can Manitoba Hydro?

14 MR. DAVID CORMIE: No, that would be
15 difficult to do, yeah.

16 MR. BOB PETERS: So Manitoba Hydro has to
17 build something new to supply this -- this con -- this
18 third of three (3) contracts with NSP?

19 MR. DAVID CORMIE: We've also talked
20 about it being an option if flow growth were
21 significantly lower than forecast. And because we don't
22 have to exercise that option we're probably eight (8) --
23 eight (8) years -- you know, we'll see what the world
24 looks like then, but the expectation is it would come out
25 of new generation resources, but it -- it gives us a

1 really good hedge should the load be significantly lower
2 than we're forecasting.

3 MR. BOB PETERS: When does Manitoba Hydro
4 have to make a binding offer for this energy?

5 MR. DAVID CORMIE: I believe it's set --
6 we have to exercise the option by 2018.

7 MR. BOB PETERS: And if it's exercised,
8 Manitoba Hydro must supply?

9 MR. DAVID CORMIE: Yeah, it's the same as
10 the -- the three (3) -- the 75/3/25, the same sixteen
11 (16) hours a day, five (5) days a week in the summer,
12 twelve (12) hours a day, five (5) days a week in the
13 winter.

14 MR. BOB PETERS: Mr. Chairman, I want to
15 turn to some carbon legislation and pricing, this might
16 be a time for the afternoon recess if it suits the Board
17 or else I can continue.

18 THE CHAIRPERSON: Very good, Mr. Peters.

19 MR. BOB PETERS: Okay.

20

21 --- Upon Recessing at 2:53 p.m.

22 --- Upon Resuming at 3:18 p.m.

23

24 THE CHAIRPERSON: Okay. Mr. Peters.

25 MR. BOB PETERS: Thank you, Mr. Chairman.

1 A couple of topics to still hopefully cover off this
2 afternoon.

3

4 CONTINUED BY MR. BOB PETERS:

5 MR. BOB PETERS: I keep coming back to
6 Tab 6 of the Book of Documents, Mr. Cormie, Mr.
7 Surminski, and we look to the total export line on page
8 25 which contains total export sales and average prices.

9 We -- the Board has seen, in your absence,
10 Mr. Cormie, that the average price is forecast to go from
11 3.6 cents to 4.1 and then it goes up to 6.6 cents in
12 2011. Do you see that?

13 MR. DAVID CORMIE: Yes.

14 MR. BOB PETERS: As I sit here I'm not
15 clear on the Corporation's explanation as to what event
16 is going to happen in the second test year when this was
17 forecast to -- to support an increase from 4.1 cents to
18 6.6 cents. Are you aware of any?

19 MR. DAVID CORMIE: No, I'm not.

20 MR. BOB PETERS: And you'd agree that the
21 6.6 cents is not compatible with \$4 a gigajoule gas that
22 currently exists on the market today?

23 MR. DAVID CORMIE: Well, Mr. Peters, this
24 IFF was prepared in the summer of 2009 based on a
25 forecast -- a long-term price forecast that was prepared

1 the winter before, so the long-term price forecast that
2 was used is now probably almost two (2) years old and
3 subsequent events has -- you know, the US recession is
4 carrying on. Natural gas prices have been reduced. And
5 I'm sure when we go through the forecasting process the -
6 - this year there will be an adjustment to the -- to the
7 prices in 2011/'12, and it'll depend on how long the --
8 the US recession lasts and the forecaster's view of what
9 will happen to coal plants and co -- coal plant
10 retirement regulation for emissions.

11 And -- and as I said, the load -- the load
12 in the MISO has now fully recovered back to pre-recession
13 levels. There will be -- there will be a revision.
14 Whether it'll -- whether it'll be back to the numbers
15 that we had forecast two (2) years ago, it -- that's
16 still to be seen.

17 MR. BOB PETERS: And thank you for all of
18 that, Mr. Cormie. I guess in terms of the US recession
19 recovering, was it last week that Ben Bernanke indicated
20 that it was going to take another five (5) years; did you
21 hear that? Or maybe you didn't have access to television
22 where you were; deliberately didn't have access to
23 television.

24 MR. DAVID CORMIE: So I -- I -- you
25 know, I think with time the -- the independent

1 forecasters' assumptions about the future may have been -
2 - come dated in the -- in the near term, so.

3 MR. BOB PETERS: All of that -- all of
4 that, you know, I accept, Mr. Cormie, but you'll ack --
5 you'll acknowledge that in the -- in the text -- or in
6 the context we're in now, where we're about to embark on
7 the Corporations -- the beginning of 2011 and 2012 fiscal
8 year; that's less than three (3) months out, and as we
9 sit here, the Corporation has experience that the natural
10 gas prices that are now out there don't look to make that
11 forecast that's been provided in IFF-09 look achievable
12 for export prices.

13

14 (BRIEF PAUSE)

15

16 MR. DAVID CORMIE: Yeah, I -- I think
17 that's a fair comment, Mr. Peters, that the IFF-09 is
18 optimistic for prices in '11/'12 and -- and I expect that
19 -- I think IFF-10 is showing a lower price for that year.

20 MR. BOB PETERS: I want to turn to the --
21 the coal plants and carbon emission comments you made,
22 Mr. Cormie. There presently is not US legislation that
23 puts a penalty on greenhouse gas emitters, is there?

24 MR. DAVID CORMIE: Not yet.

25 MR. BOB PETERS: And you say that like

1 you might be able to tell the Board when that will
2 happen.

3 MR. DAVID CORMIE: No, I don't know when
4 that will happen; however, it's just a matter of time.

5 MR. BOB PETERS: Are you privy to any
6 kind of forecast that will put that into -- you know, is
7 it five (5) years out, a decade away? Does anybody have
8 any better crystal ball than anybody else on this issue?

9 MR. DAVID CORMIE: Well, I -- I think
10 what's important is that our customers believe that
11 carbon regulation is coming and they are pricing carbon
12 into their alternatives, and that's driving up the cost
13 of their alternatives to Manitoba Hydro power, which
14 makes Manitoba Hydro's price look attractive. And based
15 on those beliefs they're -- they're committing to
16 Manitoba Hydro for power deliveries that -- and they're
17 making the same assumptions that we are. So it's not
18 that we're by ourselves, the -- the utility industry is
19 of the view that carbon regulation is coming and -- and
20 they're acting on that.

21 They're signing contracts. This year they
22 signed contracts on that assumption and -- and I'm
23 hopeful that our term sheets will be also signed shortly
24 that will also indicate the strength of their belief in
25 carbon regulation.

1 MR. BOB PETERS: Mr. Cormie, if US
2 legislation ever penalizes greenhouse gas emitters, which
3 would put a premium on clean energy, can -- can Manitoba
4 Hydro increase its sales price to NSP under its contract?

5

6 (BRIEF PAUSE)

7

8 MR. DAVID CORMIE: No, the price that
9 we've agreed to is fixed. When you consider all the
10 entire portfolio of fixed price energy that we're taking
11 to market today for delivery, starting with our new
12 generation, about 25 percent of it is -- will be a fixed
13 price. So to the extent that market prices are higher
14 than that, we will -- we will -- we will benefit from the
15 sale of the surplus energy at that -- at that price.

16 To the extent that prices are lower, then
17 it'll be a great hedge against those lower prices. So,
18 again, as I said earlier there's varying views about what
19 future prices are going to be. Manitoba Hydro doesn't
20 take a particular view; we -- we rely on the industry
21 experts and rely on them annually, updating their view of
22 the future, and -- and how quickly they think that carbon
23 regulation will come. Some are thinking it's coming
24 faster than others, some are thinking that it's not going
25 to come at all. And -- and Manitoba Hydro thinks it's

1 prudent to lie somewhere in the middle based on the
2 advice of -- of many who are monitoring the evolution of
3 carbon regulation and other pollutants in the United
4 States.

5 MR. BOB PETERS: Can I take from that
6 answer, Mr. Cormie, that some of your forecasters are
7 telling you that carbon regulation is not coming at all?

8

9 (BRIEF PAUSE)

10

11 MR. DAVID CORMIE: I think it's safe to
12 say that some forecasters are -- are forecasting higher
13 prices than the average and some are forecasting lower
14 prices.

15 What's clear, though, is that the
16 regulation of non-carbon emissions, NOx, SOx,
17 particulates, is becoming much more restrictive. The
18 EPA, as I said earlier today, has announced new
19 regulations that's going to take out of service up to
20 60,000 megawatts of existing coal-fired generation and --
21 and that's going to drive the price up. And to the
22 extent that they regulate carbon, that will even drive
23 the price up higher.

24 And I expect that once we hear from our
25 consultants and prepare this year's update to the

1 forecast that -- that there will be more consensus around
2 the regulation of the non-carbon items but there -- there
3 will be a consensus. Much more of a consensus than there
4 was a year ago, given the change in EPA's direction and
5 with the government that's in place in the US right now.

6 MR. BOB PETERS: Mr. Cormie, you've told
7 the Board in your second-last answer that Hydro cannot
8 increase its sales price to NSP under the fixed price
9 energy portions of the contract, correct?

10 MR. DAVID CORMIE: That's correct.

11 MR. BOB PETERS: Can Manitoba Hydro
12 increase its sales price to NSP on that portion of the
13 contract that is not at a fixed price for energy but is
14 either at a market or something other than market price?

15 MR. DAVID CORMIE: The contracts provide
16 for an upside if -- if market prices are -- are better
17 than -- than were forecast.

18 MR. BOB PETERS: That's an upside for
19 Manitoba Hydro?

20 MR. DAVID CORMIE: Yes.

21 MR. BOB PETERS: And that's as a result
22 of the market responding to a carbon tax or carbon
23 legislation which would add value to Manitoba Hydro's
24 product?

25 MR. DAVID CORMIE: If -- if the price of

1 electricity goes up, Manitoba Hydro will benefit from
2 that.

3 MR. BOB PETERS: Whether it's from carbon
4 adders or anything else.

5 MR. DAVID CORMIE: Yes, whatever.

6 MR. BOB PETERS: I take from your answer
7 to the Board that the fixed portion of your energy
8 contracts will not increase in price is because Manitoba
9 Hydro has already done the deal on the environmental
10 benefits or costs that may result from -- from the sale
11 to the counter-party.

12 MR. DAVID CORMIE: The -- the product
13 that we're selling includes -- and the price for the
14 product includes the value of the attributes. And so to
15 the extent that the attributes go up in value, we've
16 already captured that in the price. To the extent that
17 the attributes have no value, NSP is going to pay for
18 them at that price that they negotiated, so it's -- the -
19 - the attributes have been -- have been priced and they
20 are included in the overall price.

21 MR. BOB PETERS: And those attributes
22 have been priced even though there's no legislation
23 defining carbon penalties.

24 MR. DAVID CORMIE: Again, Mr. Peters,
25 it's -- it's really what the -- the risks that the

1 customer is trying to hedge against. And if the customer
2 was -- was happy with the price, including all the risks
3 of carbon -- I'm not -- I'm not sure how they came to the
4 conclusion that as a package it was in the interest of
5 their customers, but they did so, and it was at a price
6 that Manitoba Hydro was very satisfied with, and -- and
7 that allowed the two (2) parties to come together and --
8 and agree on a -- on a price that worked for both.

9 MR. BOB PETERS: What you're telling the
10 Board without give the specifics is that the
11 environmental attributes are part and parcel of the fixed
12 price that's been negotiated.

13 MR. DAVID CORMIE: Yes. And there was
14 some strategic reasons for Manitoba Hydro to do this
15 given that although Hydro is seen as a re -- as -- as
16 renewable, it's not recognized as a renewable technology.
17 And by providing our customer with the attributes from an
18 existing generation, to the extent that they could
19 influence the market to create a market for hydro
20 attributes in Minnesota, we felt that that was of -- of
21 great value to Manitoba Hydro because 75 percent of our
22 surplus will then benefit from any market that is made in
23 the attributes of Minnesota.

24 And right now, the attributes associated
25 with our existing hydro have no value. The customer

1 believes that they could extract value. We wish them
2 success in doing that because we will be able to benefit
3 from the sale of energy that doesn't flow under the
4 contract.

5 MR. BOB PETERS: Mr. Cormie, is selling
6 the environmental attributes in the negotiated price
7 tantamount to saying that all the fixed energy that's
8 being sold is considered clean energy?

9

10 (BRIEF PAUSE)

11

12 MR. DAVID CORMIE: NSP is buying system
13 participation power from Manitoba Hydro, and to the
14 extent it has attributes assigned to it, they will be
15 assigned according to Manitoba Hydro's allocation policy.
16 And Xcel was satisfied that the product that they were
17 purchasing was a relatively clean -- our -- our product,
18 it's not -- unlike the sale agreements to Minnesota and
19 Wisconsin, this is -- this is a slice of our -- this is -
20 - this is system power, it has -- has a whole bunch of
21 power in it beyond -- beyond the hydro. But it's -- it's
22 a relatively hydro-electric product, yeah.

23 MR. BOB PETERS: What did you mean when
24 you told the Board that the attributes are allocated
25 according to Manitoba Hydro's determinations?

1 MR. DAVID CORMIE: Oh, we -- we -- we
2 have a -- a -- a methodology for assigning attributes to
3 -- to load, whether that's domestic load or whether
4 that's to export customers. And we've -- we've described
5 that allocation to Xcel Energy and they were happy with
6 the results, the quality of the product that they were
7 purchasing from Manitoba Hydro. And -- and -- and on
8 that basis they agreed to -- they were satisfied with the
9 environmental attributes associated with the product.

10 MR. BOB PETERS: When you say
11 "attributes" you mean environmental attributes, correct?

12 MR. DAVID CORMIE: Yes, it's -- it's --
13 we -- we can say that a certain percent of the energy
14 that is supplied under the contract will come from
15 existing hydro plants, a certain amount will come from
16 other sources and we can -- we can go through a process
17 of allocating the types of generation to the -- to the
18 contracts. And -- and that allocation process was
19 negotiated -- was part of the -- part -- part of the
20 package that we -- we sold to -- to NSP.

21 MR. BOB PETERS: Is that allocation on
22 the public record and available for this Board to review
23 publicly?

24 MR. DAVID CORMIE: That allocation is
25 commercially sensitive, Mr. Peters. We're still

1 negotiating the same kinds of terms and conditions with
2 our other customers, and at this time we are not prepared
3 to make that public.

4 MR. BOB PETERS: So is it your
5 understanding then, Mr. Cormie, that by selling the
6 product inclusive of environmental attributes, Manitoba
7 Hydro is selling to NSP and now NSP will not have to pay
8 any kind of a premium on that product if there is carbon
9 legislation?

10 MR. DAVID CORMIE: What -- what NSP will
11 be able to do is they will be able to say that a portion
12 of their load is served with hydro-electric power and it
13 doesn't have any emissions associated with it.

14 Therefore, the renewable portfolio
15 standard that applies in Minnesota will only apply to the
16 balance of their load not served by the sale. And -- and
17 either they won't have to build other renewable
18 technologies to serve that balance of load or they won't
19 have to go to market to buy -- buy credits to achieve the
20 renewable portfolio standard that's been set.

21 So it's more by displacement. It's just -
22 - it takes a portion of their load out of the -- out of
23 the accounting that would normally apply.

24 MR. BOB PETERS: It takes a portion out
25 of the denominator when they're calculating the

1 percentage that would meet renewable --

2 MR. DAVID CORMIE: That's correct.

3 MR. BOB PETERS: -- resources? Okay.

4 When Manitoba Hydro has to go and buy energy to maybe
5 offset any energy shortfall that results from the NSP
6 sale, Mr. Cormie, it is conceivable that Manitoba Hydro
7 will buy that energy from a United States counter-party,
8 correct?

9 MR. DAVID CORMIE: Yes.

10 MR. BOB PETERS: And it's conceivable
11 that Manitoba Hydro would pay a market price for that
12 energy?

13 MR. DAVID CORMIE: That's correct.

14 MR. BOB PETERS: And if at that time the
15 market includes a carbon premium, then Manitoba Hydro
16 would also have to pay that premium on the imported
17 energy, would that be correct?

18 MR. DAVID CORMIE: To the extent that
19 there is a carbon premium it will be in the price of the
20 electricity, yes.

21 MR. BOB PETERS: In the IFF-09 that's
22 before the Board, has Hydro built in the payment of a
23 carbon premium in the fuel and power purchase costs of
24 the IFF?

25 MR. DAVID CORMIE: Yes, those -- those

1 costs are in the -- in the cost of purchased energy to
2 the same extent that they are in the prices for the
3 export energy.

4 MR. BOB PETERS: I'm sorry. Could --
5 could you repeat that?

6 MR. DAVID CORMIE: I said, to the same ex
7 -- to -- we use exactly the same assumptions. If there's
8 a -- if there's a, let's say, a \$10 a ton greenhouse gas
9 premium and we're assuming that we're getting a value
10 from that in the export market, we also would make that
11 same assumption when we go to market to purchase energy.
12 The -- the assumption is exactly the same.

13 And the amount of purchase power that we
14 will take delivery of will depend on water-flow
15 conditions and -- and -- and it'll built -- be -- it's
16 built into our forecast of fuel and power purchases.

17

18 (BRIEF PAUSE)

19

20 MR. BOB PETERS: Is it correct, Mr.
21 Cormie, that Hydro sales to NSP will come almost entirely
22 from hydraulic and wind resources that Manitoba Hydro
23 has? That's the assumption going forward?

24 MR. DAVID CORMIE: Yes. In the majority
25 of flow years there are -- there is adequate hydraulic

1 resources to serve the sale. Under -- under low-flow
2 years, as the Manitoba Hydro load grows, the domestic
3 load grows, the sale will be served more often with --
4 with purchased energy and, as well, during the winter
5 season as the Manitoba domestic load grows we will have
6 to serve the sale during peak hours with purchased power.

7 But overall, I think your -- your
8 conclusion that in general it will be served from
9 hydraulic resources is -- is -- is correct. When we --
10 when we were looking at the -- the emission accounting,
11 the renewable energy credit accounting for the sale, we
12 were quite satisfied that the sale on average over the
13 term, the vast majority of it was served by -- from
14 Hydro.

15 MR. BOB PETERS: I'm not sure, I have to
16 wait for the transcript to get your answer from before,
17 but -- but I understood you to be telling the Board that
18 in low-flow years your obligation would be to supply
19 something in the order of, was it, 1400 gigawatt hours a
20 year?

21 MR. DAVID CORMIE: Yeah. Yeah, we have
22 an obligation in each and every year of supplying the
23 fourteen hundred (1400). We have the option of supplying
24 more than that if -- if low conditions are -- are
25 favourable.

1 MR. BOB PETERS: And if they were very
2 favourable, I think you gave -- excuse me, you gave the
3 Board a number as much as 6,000 or 6200 gigawatt hours a
4 year?

5 MR. DAVID CORMIE: Yeah. And that was
6 the case if -- if -- if we were just limited by the 900
7 megawatts of transmission that's available under the
8 sale; 900 megawatts year-round works out to around 6600
9 gigawatt hours.

10 MR. BOB PETERS: And if the Board wanted
11 to know the average flow-years sales to NSP, it would
12 just be the average of those two (2) numbers you've
13 given?

14 MR. DAVID CORMIE: No, it wouldn't be the
15 average.

16

17 (BRIEF PAUSE)

18

19 MR. DAVID CORMIE: The actual allocation
20 of energy, whether we sell it to NSP or we sell it to the
21 market on Manitoba Hydro owned transmission, will -- will
22 -- will depend on the circumstances on the day that -- on
23 the -- on the -- on the day that we actually make that
24 decision. We have optionality and if there's lots of
25 congestion and -- and -- and we're being curtailed,

1 Manitoba Hydro has the option of using the transmission
2 associated with the sale and that assures us market
3 access. But there is some costs associated with that and
4 we may be able to avoid those costs if we're confident
5 that non-firm, or our own firm transmission would give us
6 an alternative. So I -- we don't really have a breakdown
7 of -- of what it would be in an average water year.

8 MR. BOB PETERS: Does Manitoba Hydro know
9 how these sales under, let's say a low-flow or even a
10 high-flow year, how those volumes would compare to what
11 NSP's mandated renewable energy share of their total
12 energy supply is?

13 MR. DAVID CORMIE: I -- I don't know the
14 answer to that, Mr. Peters, but it may be in their filing
15 with the MPUC, you -- you may want to look there.

16 MR. BOB PETERS: I -- I think the Board
17 will take from your answers, Mr. Cormie, that Manitoba
18 Hydro's large hydro generating stations don't qualify as
19 renewable energy under the Minnesota definition. Would -
20 - is that correct?

21 MR. DAVID CORMIE: They're not considered
22 renewable energy technology, they are considered to be
23 renewable energy, but they don't qualify when it comes to
24 the -- meeting the renewable portfolio standard that the
25 state has set.

1 MR. BOB PETERS: And why is that
2 important, Mr. Cormie?

3 MR. DAVID CORMIE: Important to who?

4 MR. BOB PETERS: Well, fair question.
5 The -- by not being considered a renewable portfolio
6 included standard, that has impacts on what money would
7 be allocated to put up transmission, for example, to
8 bring that energy into -- into the counter-party's sales
9 territory.

10 MR. DAVID CORMIE: The -- generally the
11 objective of renewable portfolio standards is not to
12 reward people who already made the investment in
13 renewable technologies like the existing hydro plants
14 that we have. They're -- they're there to incent the
15 construction of new generation and -- and they're there
16 to in -- generally to incent the development of local
17 renewables. And so you -- renewable standards are
18 generally set to -- as economic drivers.

19 And -- and in a state like Minnesota that
20 has a huge wind pot -- wind resource capa -- potential
21 there's -- there's tens of thousands of megawatts of wind
22 that can be developed and so Minnesota is trying to
23 develop their own in-state renewable resources and that's
24 generally what drives the development of these standards.
25 It's a -- it's a combination of meeting the -- meeting

1 the renewable goals, but doing it at a -- at a -- to the
2 benefit of the -- of the local jurisdiction.

3 In a state such as Wisconsin that is --
4 has a lack of renewable portfolio -- or renewable tech --
5 renewable energy supplies, they have to consider the
6 option of bringing renewables in from out of state, they
7 just -- it's pretty well impossible for them to meet a
8 pretty typical standard that most other states in the --
9 in the union are -- are facing without purchasing
10 renewables from out of -- out of state. And -- and -- so
11 they -- and as we seen in our -- in the -- in the
12 legislature in -- in Wisconsin, there's been a move to
13 have large hydro recognized as -- as renewable.

14 But again, they're just -- they're --
15 they're keeping to the -- to the line that they want to -
16 - they want to promote the development of new ones and
17 not reward existing generators. But at the same time
18 they are recognizing that -- that existing generators
19 should get some credit, and so they -- you know, they're
20 allowed to deduct from, like you said, the denominator,
21 the amount of load that is being served from large hydro.
22 And so that's -- that's the story there.

23 MR. BOB PETERS: Well, if existing
24 Manitoba Hydro resources don't qualify as, I guess, clean
25 or renewable portfolio standards, what about the proposed

1 new generating stations that Manitoba Hydro has in its
2 preferred development plan, meaning Keeyask and Conawapa?

3 Do they meet the renewable portfolio
4 standard in Minnesota?

5 MR. DAVID CORMIE: To date, they -- they
6 wouldn't, but in Wisconsin there's the chance that the
7 legislation will be changed to allow for that. But
8 regardless, whether it's new or old hydro, the -- the
9 denominator will be reduced by -- by the sale amount.

10 MR. BOB PETERS: Does Manitoba Hydro
11 agree that energy sold to NSP will reduce the overall
12 average CO2 footprint attributable to NSP even if NSP
13 continues to operate all of its thermal plants?

14 MR. DAVID CORMIE: I can't speak for NSP,
15 but I think if you read the PUC filing you would see a
16 statement in there that might satisfy you.

17 MR. BOB PETERS: Well, by reducing the
18 denominator they're --- they're perhaps reducing the
19 overall footprint? Would you go that far?

20 MR. DAVID CORMIE: Well, remember, Mr.
21 Peters, that Manitoba Hydro's not building any new
22 facilities to serve the NSP sale agreement, so we're not
23 generating one (1) -- we're not going to generate one (1)
24 new kilowatt hour as a result of the sale. But NSP will
25 be able to take credit in their accounting for the -- for

1 the attributes associated with the energy they purchase
2 from us, and somebody was -- somebody was going to take
3 delivery of that energy. NSP is -- was successful in
4 convincing Manitoba Hydro through a favourable pricing
5 arrangement that they -- they could have that right, and
6 that's what we've done.

7 MR. BOB PETERS: Would it be correct for
8 this Board to understand that NSP's alternative to
9 Manitoba Hydro's contracts would have involved new
10 natural gas generation?

11

12 (BRIEF PAUSE)

13

14 MR. DAVID CORMIE: Again, I think that
15 answer is probably to be found in the MPUC filing and
16 I'll let that speak for itself.

17

18 (BRIEF PAUSE)

19

20 MR. BOB PETERS: Since you've raised the
21 other term sheets, Mr. Cormie, it's on the record of
22 these proceedings that Manitoba Hydro has -- is in the
23 process of finalizing term sheets with two (2) other US
24 counter-parties, correct?

25

MR. DAVID CORMIE: That's correct.

1 MR. BOB PETERS: And the -- their names
2 can be used on the public record?

3 MR. DAVID CORMIE: Yes.

4 MR. BOB PETERS: And one (1) of those
5 counter-parties is the Wisconsin Public Service.

6 MR. DAVID CORMIE: That's correct.

7 MR. BOB PETERS: And that's to be for a
8 sale from -- is it 2018 to 2032? Do you recall that
9 offhand?

10 MR. DAVID CORMIE: That's what the term
11 sheet says, yes.

12 MR. BOB PETERS: To service that term
13 sheet Manitoba Hydro would need new generating stations
14 in Manitoba, correct?

15 MR. DAVID CORMIE: Yes, as well as a new
16 interconnection to the United States as well as a new
17 HVDC line.

18 MR. BOB PETERS: Let's just deal with the
19 -- when you say "interconnection," that's just a point on
20 the international border?

21 MR. DAVID CORMIE: No, this would be a
22 brand new high voltage transmission line that can -- that
23 better connects Manitoba to the United States.

24 MR. BOB PETERS: From where -- from where
25 to terminating where?

1 MR. DAVID CORMIE: The -- the exact
2 location of the -- the Manitoba starting point has yet to
3 be decided, and it involves a complex upgrade to the --
4 the United States' transmission network. The proposal
5 that is before the MISO transmission planning group is a
6 500 kV voltage line that connects Winnipeg to the Fargo
7 region and joins up with a series of 345 kV lines that
8 then feed into the Minneapolis region and piggybacks on
9 lines that then feed east into Wisconsin.

10 MR. ROBERT MAYER: Mr. Cormie, and are we
11 entitled to assume that since you're going to need high
12 voltage DC delivery to actually export this power to the
13 states, can we assume that the starting point in Manitoba
14 would be either Dorsey or Riel?

15 MR. DAVID CORMIE: I think it's going to
16 be one (1) or the other, right. Yeah, it's -- it's not
17 DC, though, it'll be an AC connection.

18 MR. ROBERT MAYER: I -- I understand
19 that, but you're going to need the DC power from the
20 north?

21 MR. DAVID CORMIE: Yes, you're right.

22

23 CONTINUED BY MR. BOB PETERS:

24 MR. BOB PETERS: Does that answer also
25 assume, Mr. Cormie, that you're assuming that Bipole 3

1 will be needed to affect the sale to Wisconsin Public
2 Service?

3 MR. DAVID CORMIE: Without a new HVDC out
4 of the north, it won't be possible to bring the power
5 from Keeyask or Conawapa south.

6 MR. BOB PETERS: We'll come to that, but
7 the new transmission that's needed in the United States,
8 do -- does the Board take from your third previous answer
9 that the transmission line from Winnipeg to Fargo to
10 Minneapolis to Wisconsin, that transmission line is to
11 serve not only the Wisconsin Public Service term sheet if
12 it's finalized, but also the Minnesota Power term sheet
13 if it is finalized?

14

15 (BRIEF PAUSE)

16

17 MR. DAVID CORMIE: Yes, and it will
18 provide additional regional transmission for other
19 customers as well.

20 MR. BOB PETERS: And who's -- who's
21 planning to build that transmission, Mr. Cormie?

22 MR. DAVID CORMIE: The -- the Minnesota
23 Power and Wisconsin Public Service have the obligation to
24 make the transmission arrangements in the United States.

25

1 (BRIEF PAUSE)

2

3 MR. BOB PETERS: Are you able to clarify
4 whether the 500 kV line through Winnipeg down to Fargo,
5 that's the end of the 500 kV line at Fargo? If I
6 understood your previous answers, and then you pick up a
7 series of 345 kV transmission lines all the way to
8 Minneapolis and then onward?

9 MR. DAVID CORMIE: The -- you know, the
10 final configuration of the transmission upgrade has yet
11 to -- been decided. We're going through a transmission
12 planning process in the United States and there are
13 various alternatives and they will be screened through
14 the MISO transmission expansion planning process. The
15 final configuration of the line is not yet determined and
16 -- but it would be a line essentially down the Red River
17 Valley, even as far south as Split Rock, South Dakota.
18 That would be a backbone upgrade to the regional
19 transmission system.

20 And -- and it's really still quite up in
21 the air over the final configuration.

22

23 (BRIEF PAUSE)

24

25 MR. BOB PETERS: The sale to Wisconsin

1 Public Service starts off, does it, as a 150 megawatt
2 sale and ramps up to three hundred (300) and then to five
3 hundred (500)?

4 MR. DAVID CORMIE: Those are the -- the
5 amounts in the term sheet, Mr. Peters, but we are in
6 negotiations and I would caution you that -- you know, we
7 are -- we're talking about a variance around that. So I
8 can't really discuss it much more than that except to say
9 that -- that those amounts and times are -- are -- are
10 still being negotiated.

11 MR. BOB PETERS: And is the prerequisite
12 transmission required by Wisconsin Public Service, while
13 the route hasn't been determined, that still remains a
14 prerequisite?

15 MR. DAVID CORMIE: Absolutely. Both the
16 sale to Wisconsin and bo -- and to Minnesota Power
17 require those companies to build a major new
18 interconnection to the United States.

19 MR. BOB PETERS: When you talk about the
20 various routing not being finalized and subject to some
21 MISO transmission planning processes, what specifically
22 does Manitoba Hydro require for this sale to proceed;
23 that is, transmission from the international border to
24 what endpoint, Mr. Cormie?

25 MR. DAVID CORMIE: Manitoba Hydro, before

1 it would enter into the transactions, requires a
2 commitment by those two (2) companies to build firm
3 transmission between Manitoba and the United States,
4 sufficient to -- so that Manitoba Hydro can fulfill its
5 capacity obligations to -- to -- to them.

6

7 (BRIEF PAUSE)

8

9 MR. BOB PETERS: Mr. Cormie, could
10 Manitoba Hydro proceed with the Wisconsin Public Service
11 term sheet and the Minnesota Power term sheet by building
12 Keeyask but not Conawapa?

13 MR. DAVID CORMIE: No.

14 MR. BOB PETERS: Are both of those
15 generating stations needed to service both contracts if
16 they become more than term sheets?

17 MR. DAVID CORMIE: Yes. Keeyask by
18 itself is insufficient to -- to have both transactions
19 happen.

20 MR. BOB PETERS: Do you know about --

21 MR. ROBERT MAYER: Well, how about
22 Conawapa?

23 MR. DAVID CORMIE: Pardon me?

24 MR. ROBERT MAYER: Conawapa is
25 significantly bigger than Keeyask. Could you build

1 Conawapa and not have to build Keeyask? And -- and still
2 serve those contracts?

3 MR. DAVID CORMIE: We need both plants,
4 Mr. Mayer. We need -- we need Keeyask because our
5 customers want early in-service. They -- they can't wait
6 for the delay associated with Conawapa.

7

8 (BRIEF PAUSE)

9

10 CONTINUED BY MR. BOB PETERS:

11 MR. BOB PETERS: Wouldn't Conawapa be
12 required only to service maybe the last small percentage
13 of the requirements under the term sheets, if finalized?

14 MR. DAVID CORMIE: We -- we wouldn't be
15 able to have a term that's acceptable to the purchasing
16 companies if we just build Keeyask, we'd run out of
17 resources shortly thereafter, and we need -- we need both
18 plants to -- to meet the obligations for the entire term.

19 MR. BOB PETERS: The Minnesota Power term
20 sheet, it starts, I believe, in 2022, as is presently
21 worded, Mr. Cormie?

22 MR. DAVID CORMIE: That's what the term
23 sheet says, yes.

24 MR. BOB PETERS: And how long a term is
25 that?

1 MR. DAVID CORMIE: It would go through to
2 2035.

3 MR. BOB PETERS: And that's a 250
4 megawatt sale?

5 MR. DAVID CORMIE: That's correct.

6 MR. BOB PETERS: And it also, as you've
7 told the Vice Chair, needs a new generating station as
8 well as a new transmission by Minnesota Power?

9 MR. DAVID CORMIE: Yes.

10

11 (BRIEF PAUSE)

12

13 MR. ROBERT MAYER: Mr. Cormie, those of
14 us up here have noticed that every time you've been asked
15 if the term sheet starts and ends at a given date, you've
16 said "That's what the term sheet says." You haven't said
17 yes or no, and so we're wondering if there's a difference
18 there?

19 MR. DAVID CORMIE: Mr. Mayer, the term
20 sheets become the basis on which we begin negotiations
21 and -- and -- and there -- there are -- there are
22 variations possible around those quantities and dates.
23 And I wish I could tell you where we were with the
24 negotiations, but it's very much like with the Xcel NSP
25 sale agreements, where we started out as a term sheet,

1 and ultimately we came to a conclusion not on -- on a
2 product that was similar but not identical to what was
3 offered in -- in the first instance.

4 So these negotiations are ongoing. The --
5 the term sheets are -- are the basis on which we're
6 having discussions, but I -- unfortunately, I can't tell
7 you where -- how they've evolved since we've -- we've --
8 and make the announcements.

9 But the -- the -- regardless of how the
10 term sheets have evolved, there is still two (2)
11 fundamental requirements: that both plants are required
12 and that a new major interconnection is required. And --
13 and that won't happen unless we have a new HVDC line to
14 bring the power south on.

15 So the details around the term sheets may
16 be slightly different, but the implications for Manitoba
17 Hydro and -- is -- is pretty well the same.

18

19 CONTINUED BY MR. BOB PETERS:

20 MR. BOB PETERS: Mr. Cormie, the term
21 sheets, can you tell the Board whether they're being
22 negotiated and considered independent of each other or is
23 it part of a package arrangement?

24 MR. DAVID CORMIE: Separate negotiations
25 are taking place between Manitoba Hydro and both

1 companies.

2 MR. BOB PETERS: So would it be correct
3 that Manitoba Hydro could proceed with let's say the
4 Wisconsin public service -- well, let me word it this
5 way. Minneso -- Manitoba Hydro could proceed with the
6 Minnesota power term sheet without proceeding with the
7 Wisconsin public service term sheet, correct?

8 MR. DAVID CORMIE: That -- that could be
9 possible, yes.

10 MR. BOB PETERS: And if that was the
11 case, then Manitoba Hydro wouldn't need to bo -- build
12 both new generating stations, would it?

13 MR. DAVID CORMIE: In order to sustain
14 the Minnesota Power term sheet for the period of time
15 that Minnesota Power needs the power, we need both
16 plants.

17 MR. BOB PETERS: Because Manitoba Hydro's
18 assuming that domestic load is going to encroach into the
19 available capacity?

20 MR. DAVID CORMIE: Yes, and Minnesota
21 Power is required to make a transmission investment and a
22 transaction that truncates after five (5) years doesn't
23 work for them.

24 MR. ROBERT MAYER: Could you do Wisconsin
25 without Minnesota be -- in light of the fact that it

1 sounds like the transmission lines have to go through
2 Minnesota? And if you could do Wisconsin without
3 Minnesota, do the same restrictions apply in terms of --
4 I didn't hear them needing the power immediately?

5 MR. DAVID CORMIE: I think -- I think
6 anything is possible, Mr. Mayer, but we -- we are working
7 with them to meet their needs given the constraints that
8 we have. And as I said, I -- I would like to be able to
9 make public where we are at but it's just not possible at
10 this time.

11

12 CONTINUED BY MR. BOB PETERS:

13 MR. BOB PETERS: I'd like to turn and
14 maybe tidy up some questions I had with Mr. Schulz and
15 Mr. Rainkie, Mr. Chairman, in the time remaining today.
16 And on debt-management issues, gentlemen, would the Board
17 be correct in reviewing your post-2024 debt issues as
18 indicating that Manitoba Hydro is -- is not going to be
19 using any US debt after that -- that time?

20 MR. MANFRED SCHULZ: As part of IFF-10 we
21 have introduced a -- forecasted new US-denominated debt
22 so that you would have more US debt coming in that --
23 beyond which you have currently in our US debt pools
24 right now.

25 MR. BOB PETERS: Why wasn't it showing up

1 in the previous forecast, was there a particular reason?

2 MR. MANFRED SCHULZ: I think the long and
3 short of it is is that we were looking at providing some
4 further enhancements to the foreign ex -- foreign
5 exposure management and recognizing that as we moved
6 forward that we would have more US-denominated revenues
7 coming in as part of the -- the forecast that we were
8 looking at. And then just to replenish US-denominated
9 debt that would otherwise be maturing, it was just
10 sensible and reasonable for us to introduce new US debt
11 into the modelling algorithm.

12 MR. BOB PETERS: In the forecast, Mr.
13 Schulz, that have been filed with the Board for the test
14 years of fiscal year 2011 and fiscal year 2012, it
15 appears that all new debt issued is forecast to be long-
16 term debt. Would that be correct?

17 MR. MANFRED SCHULZ: In IFF-09, all new
18 long-term debt is considered to be fixed rate financing.

19 MR. BOB PETERS: And there was 800
20 million forecast in 2010/'11 in IFF-09?

21 MR. MANFRED SCHULZ: I believe so, yes.

22 MR. BOB PETERS: Did that factually
23 happen, sir?

24 MR. MANFRED SCHULZ: Sorry, which year
25 was this?

1 term debt.

2 MR. BOB PETERS: Did the Corporation lock
3 into a fixed rate debt or is it -- is it a variable debt
4 arrangement

5 MR. MANFRED SCHULZ: In this particular
6 fiscal year we did a combination of both; we undertook
7 some floating rate debt as well as some long-term fixed
8 rate financing.

9 MR. BOB PETERS: Do you have the -- I'll
10 -- I'll come back to that.

11 And in the next test year, in the fiscal
12 year ending 2012, Manitoba Hydro shows all long-term
13 debt, again on page 151, Mr. Schulz.

14 MR. MANFRED SCHULZ: Correct.

15 MR. BOB PETERS: And is it likely that
16 some of that will end up being floating as well?

17 MR. MANFRED SCHULZ: It is our intention
18 to ensure that we have floating rate debt financing
19 within our policy prescription and our limits. So as we
20 stand right now it's not clear yet what we will actually
21 undertake as financings, but certainly would be part of
22 our planning to take on some floating rate debt.

23

24 (BRIEF PAUSE)

25

1 MR. BOB PETERS: Mr. Schulz, from your
2 answers would the Board conclude that the financing costs
3 of Manitoba Hydro actually will be lower than what they
4 were forecast?

5

6 (BRIEF PAUSE)

7

8 MR. MANFRED SCHULZ: Are you speaking to
9 the current fiscal year?

10

11 (BRIEF PAUSE)

12

13 MR. BOB PETERS: Let's start with the
14 first test year of fiscal 2011. You've shown some debt
15 rates and from your answers I'm wondering whether the
16 actual incurred debt will be at lower rates than what's -
17 - what's forecast?

18 MR. MANFRED SCHULZ: The forecast rate
19 was four point six-five (4.65). I can confirm that all
20 of the fixed rate financings were at least at that level.
21 We have some floating rate debt and that's a little bit
22 of where my hesitation lies is because that float --
23 floating rate debt does have an interest rate reset which
24 puts an initial interest rate that would be part of the
25 blending of this. But from a fixed-rate financing the --

1 the highest fixed rate piece of financing that we
2 undertook during the year was at a four point six-five
3 (4.65) yield rate.

4

5 (BRIEF PAUSE)

6

7 MR. BOB PETERS: Mr. Schulz, could you
8 undertake to re-file the schedule at PUB first round 35e
9 using what is known as actual information now for the
10 first test year, together with any revisions you want to
11 make to the forecast second test year?

12 MR. MANFRED SCHULZ: I think that would
13 be very helpful and we can certainly do that.

14

15 --- UNDERTAKING NO. 12: Mr. Schulz, to re-file the
16 schedule at PUB first round
17 35e using what is known as
18 actual information now for
19 the first test year, together
20 with any revisions Mr. Schulz
21 wants to make to the forecast
22 second test year

23

24 CONTINUED BY MR. BOB PETERS:

25 MR. BOB PETERS: All right. Thank you.

1 In fact, IFF-10 does show lower finance
2 costs, is that correct, Mr. Schulz?

3 MR. DARREN RAINKIE: That's correct, Mr.
4 Peters.

5 MR. BOB PETERS: Mr. Rainkie, by my
6 simple math in the first test year, the year we're
7 currently in, the IFF-09 versus IFF-10 shows a savings of
8 about \$20 million in finance expense.

9 You'd accept that subject to check?

10 MR. DARREN RAINKIE: It sounds about
11 right, Mr. Peters, yes.

12 MR. BOB PETERS: And we have IFF-09 at
13 Tab 4 of the book of documents and then the Corporation
14 has also filed IFF-10 at Appendix 76, correct?

15 MR. DARREN RAINKIE: Those references
16 sound correct, Mr. Peters.

17 MR. BOB PETERS: All right. And just if
18 you need to check that I was on page 33 checking the
19 math. And likewise for the second test year, finance
20 expense will be \$56 million lower than what's before the
21 Board in IFF-09?

22 MR. DARREN RAINKIE: That number sounds
23 good as well, Mr. Peters.

24 MR. BOB PETERS: And those are a result
25 as -- as the short-term debt rate as well the long-term

1 debt rates have fallen in those -- in those years?

2 MR. DARREN RAINKIE: They've either
3 fallen on an actual basis or they are forecast to fall
4 from what was embedded in IFF-09.

5

6 (BRIEF PAUSE)

7

8 MR. MANFRED SCHULZ: Should also add too
9 that the finance expense in IFF-10 would be slightly
10 lower than that which was previously shown in IFF-09 due
11 to lowering of the foreign exchange rate. So that the
12 equivalent amount that was previously in US denominated
13 finance expense translated into Canada would be -- would
14 be lower. And so that would be another impact on the
15 lowering of finance expense, IFF-10 versus IFF-09.

16 MR. BOB PETERS: Can you quantify how
17 much of that \$20 million is attributable to the lower
18 foreign exchange ratio?

19

20 (BRIEF PAUSE)

21

22 MR. MANFRED SCHULZ: I don't have that
23 immediately in front of me, but it's certainly a
24 component of -- of that. I mean if our US-denominated
25 debt is approximately one third (1/3) of our -- our total

1 debt portfolio. So when you -- you know, simple math,
2 that would be a component of that, and it would be a
3 matter of doing the rough calculation to see how much of
4 the foreign exchange differential there would be from one
5 year to the next, just sort of indicating that it is an
6 additional factor beyond just the reduction in the
7 interest rates.

8 MR. BOB PETERS: Mr. Schulz, you also
9 indicated -- or, Mr. Rankie, I guess it was you that
10 indicated that the -- the forecast interest rate was
11 either declining and -- or the actual interest rate did
12 decline. Could we ask then that at Tab 21 of the book of
13 documents, what's been filed on pages 139 through to 142,
14 be revised showing not only the initial filing that you
15 have here but the updated information now available for
16 the test years?

17 MR. MANFRED SCHULZ: So just so I'm
18 clear, this is on page 139 of the book of documents, and
19 you're looking for the forecast components that went into
20 IFF-10 as compared to IFF-09?

21 MR. BOB PETERS: I would actually look
22 for the -- the 2010 actual compared to what was forecast.
23 And then I'll -- I'll take the forecast for fiscal year
24 '11 and fiscal year '12, the revised forecast compared to
25 what the old forecasts were.

1 Is that information readily available, Mr.
2 Schulz?

3 MR. MANFRED SCHULZ: It would be readily
4 available, yes.

5 MR. BOB PETERS: Thank you. Then, sir,
6 if you could undertake to provide that through your
7 counsel for the Board.

8
9 --- UNDERTAKING NO. 13: To provide the forecast for
10 fiscal year '11 and fiscal
11 year '12, the revised
12 forecast compared to what the
13 old forecasts were

14
15 CONTINUED BY MR. BOB PETERS:

16 MR. BOB PETERS: Mr. Schulz, maybe when
17 we first met in this proceeding, if you'd turn to page
18 144 of Tab 21 of the book of documents, I think the
19 Chairman and you had some discussion about the spreads as
20 between the forecast Manitoba to Canada spreads and you
21 provided a response.

22 Is there any official update to what
23 you've provided here on page 144 in response to PUB
24 Manitoba Hydro first round 46f?

25 MR. MANFRED SCHULZ: Well, we monitor the

1 spreads on a -- every day and -- and from a business day
2 perspective, and the spreads, both on the short and the
3 long-term, have been fairly volatile since the -- the
4 downturn of the -- the economy first hit, so we've still
5 been moving up and down.

6 I believe it was Mr. Rainkie that provided
7 some commentary in response to a question that you had
8 provided, I think it was on day two of the proceedings,
9 so we still hold to sort of the ranges that were
10 described in that circumstance.

11 MR. BOB PETERS: When the Board looks at
12 the maturity dates, Mr. Schulz, for some of the debt
13 issues, and we find that, I think, in Tab 22 of the book
14 of documents in response to PUB Manitoba Hydro first
15 round 35h, while we have the -- the listings, there was
16 also a suggestion by one of the Intervenors to do with
17 Manitoba Hydro using a forward interest rate swap
18 transactions to change some of the maturity dates.

19 Are you familiar with that, sir?

20 MR. MANFRED SCHULZ: I remember generally
21 that conversation, but I don't think it was in context to
22 the maturity dates.

23 MR. BOB PETERS: Can you explain to the
24 Board why Manitoba Hydro would engage in forward interest
25 rate swap transactions?

1 MR. MANFRED SCHULZ: Forward rate --
2 forward started interest rate swaps or normal interest
3 rate swaps are used to provide some interest rate
4 protection moving forward. So, for instance, if I were
5 to -- to contemplate and say I would like to have an
6 interest rate as specified in the markets right now, say
7 for thirty (30) year debt we could be -- peg it at a
8 certain rate.

9 And so what you can do then is you can
10 specify what that rate would be as part of that swap --
11 interest rate swap transaction, and then in effect
12 solidify that rate for an extended period of time. And
13 so there's some interest rate protection that is afforded
14 by undertaking those kind of transactions.

15 In the last number of years we -- we
16 haven't really engaged very heavily in those kind of
17 transactions. Instead -- instead, primarily looking at
18 undertaking physical pieces of debt as opposed to heavily
19 engaging in any kind of interest rate swaps.

20 MR. BOB PETERS: Did Manitoba Hydro swap
21 out, was it Issue FC-3, I have in my notes, a \$200
22 million debt that had a 4.8 percent coupon and a -- a
23 three point nine (3.9) yield until 2014?

24

25

(BRIEF PAUSE)

1 MR. MANFRED SCHULZ: Mr. Peters, just as
2 a point of reference, which debt series number was that
3 again?

4 MR. BOB PETERS: I -- I have F -- FC-3 in
5 my notes, yeah. And I believe I got that from the
6 question that was asked of Mr. McCormick, PUB/CAC-MSOS
7 number 1. But I didn't put it in the book of documents
8 and I'll let you tell me whether that transaction did
9 occur.

10 MR. MANFRED SCHULZ: FC-3 definitely did
11 occur.

12 MR. BOB PETERS: Did you swap out the --
13 the interest rate from a 3.9 percent yield up until 2014
14 to a -- a higher yield and a longer term?

15 MR. MANFRED SCHULZ: Okay. As a point of
16 clarification, the FC-3 was the original physical piece
17 of debt, was issued in May 22nd, 2008, and it came in as
18 a yield rate of 3.9 percent. This piece of debt was then
19 immediately swapped into floating-rate debt in order to
20 accommodate the forward started interest rate swap that
21 was previously on ED-2, as per the term sheet.

22 And so the existing transaction that was
23 in effect prior to that was an interest rate swap
24 understood to be ED-2. And ED-2 had a in -- initial
25 interest rate of 7.2229 percent. And so upon swapping

1 the FC-3 in order to meet the obligation on the fixed and
2 floating component of that original swap transaction, we
3 needed to have a piece of debt that was floating to
4 underlie the requirement on the -- on the maturing
5 interest rate swap in terms of the underlying financing.

6 And so the fixed rate of debt that was
7 originally on FC-3 was swapped to floating and that
8 floating rate debt was used as underlying financing to
9 help support the cash flows that were on an existing --
10 existing interest rate swap, and so that interest rate
11 swap which was previously at 7.229 (sic) percent, after
12 the amendment as per the term sheets, reduced the overall
13 cost of financing from 7.2229 to 7.1689 percent.

14 MR. BOB PETERS: So --

15 MR. ROBERT MAYER: Mr. Peters, I hope you
16 got all that.

17

18 CONTINUED BY MR. BOB PETERS:

19 MR. BOB PETERS: Well, what -- what's I'm
20 -- what's perhaps I'm -- important, Mr. Schulz, is that
21 the swap didn't result in an increase in the -- the cost
22 of the debt.

23 MR. MANFRED SCHULZ: Net of all of this,
24 we were able to reduce the financial costs associated
25 with that piece of debt.

1 that the way it's forecast will likely be the way it
2 actually turns out, in terms of the weighting of the
3 terms?

4 MR. MANFRED SCHULZ: Probab -- no, it
5 would be the way we have forecasted here in terms of the
6 maturity moving forward. The term to maturity as we move
7 forward will likely stay similar to what we have
8 currently. So what we have now currently in the most
9 actual year presently on this schedule I believe is
10 thirteen point six (13.6) years.

11 And so it may vary in accordance with the
12 financing undertaken in any one particular year. We may
13 take out shorter term debt, we may have taken ultra-
14 longs. It may vary slightly but we do not anticipate
15 that we will be significantly changing the overall term
16 of our debt portfolio.

17 MR. BOB PETERS: Mr. Chairman, with that
18 answer I'd like to thank Mr. Schulz. I would like to
19 finish up with some questions on depreciation/
20 amortization tomorrow morning and then payments to
21 government, followed by IFRS, and then turning into some
22 more contract, export contract, matters tomorrow. Thank
23 you.

24 THE CHAIRPERSON: We'll have to be
25 patient then and wait for the morning, Mr. Peters. Thank

1 you. We'll see you all at 9:30.

2

3 --- Upon adjourning at 4:32 p.m.

4

5 Certified Correct,

6

7

8

9

10 Cheryl Lavigne, Ms.

11

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