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MANITOBA PUBLIC UTILITIES BOARD

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

Before Board Panel:

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

HELD AT:

Public Utilities Board  
400, 330 Portage Avenue  
Winnipeg, Manitoba  
June 9, 2011  
Pages 8134 to 8327

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1 --- Upon commencing at 9:35 a.m.

2

3 THE CHAIRPERSON: Okay. Good morning,  
4 everyone. This is the day that many have probably looked  
5 forward to.

6 Mr. Peters, if you could lead off by  
7 laying out the schedule for the day?

8 MR. BOB PETERS: Thank you, Mr. Chairman,  
9 ladies and gentleman.

10 I believe the order of the day would start  
11 with Ms. Ramage indicating whether she has or does not  
12 have any re-examination of Mr. Kuczek who was, because of  
13 business reasons, absent yesterday.

14 And following the completion of Mr. Kuczek  
15 there's an opportunity for parties to ask questions on  
16 the exhibits and undertakings that have been filed in  
17 this proceedings. And Mr. Kuczek also has business  
18 commitments that keep him away this afternoon. So if  
19 anyone has questions for him, this morning is seen as the  
20 only time he is available.

21 Recognizing that, Mr. Chairman, I have  
22 spoken this morning with -- with counsel -- some counsel  
23 that are here, and I believe Mr. Gange would start the  
24 cross-examination because he does have some questions of  
25 which Mr. Kuczek will be the person he expects to provide

1 answers.

2                   Following Mr. Gange, Mr. Hacault would be  
3 prepared to cross-examine the panel on undertakings and  
4 exhibits this -- this morning. And I would suggest --  
5 and my -- My Friend from the city is actually awaiting  
6 instructions and is not in a position this morning, but  
7 will let me know closer to noon or afternoon what the  
8 schedule is from the city, if there's any further  
9 questions.

10                   And as for Mr. Williams, well, what can I  
11 say. If he has questions of Mr. Kuczek, he too should be  
12 invited to ask them this morning following Mr. Hacault.  
13 And at that point in time I'm prepared ask my questions  
14 of the witness panel.

15                   And that should bring our day to an end,  
16 unless Mr. Williams prefers to follow my questions.

17                   THE CHAIRPERSON:     Very good, sir. Let's  
18 start Mis --

19                   MR. BYRON WILLIAMS:    I -- just two (2)  
20 things, Mr. Chairman, I can indicate that our clients are  
21 -- with the exception of the one (1) particular  
22 undertaking have been satisfied with the record on DSM  
23 since the conclusion of Mr. Peters' cross. So we won't  
24 have any questions for the Hydro panel on DSM.

25                   I'm planning to stick around for the whole

1 day, so if there's anything -- I don't expect any  
2 questions, but if there's anything left over after Mr.  
3 Peters is done, I may have a question or two (2), but I  
4 don't anticipate it.

5 THE CHAIRPERSON: Okay. Ms. Ramage, do  
6 you have any re-examination of Mr. Kuczek?

7 MS. PATTI RAMAGE: No, there's no re-  
8 examination.

9 THE CHAIRPERSON: Okay. Then we'll go  
10 to Mr. Gan -- Mr. Gange.

11 Mr. Gange, for RCM/TREE...?

12 MR. WILLIAM GANGE: Thank you, Mr. Chair.

13

14 MANITOBA HYDRO PANEL:

15 DAVID CORMIE, Resumed

16 VINCE WARDEN, Resumed

17 HAROLD SURMINSKI, Resumed

18 ROBIN WIENS, Resumed

19 LLOYD KUCZEK, Resumed

20

21 RE-CROSS-EXAMINATION BY MR. WILLIAM GANGE:

22 MR. WILLIAM GANGE: Mr. Surminski, I -- I  
23 think that everybody has passed the buck to you with  
24 respect to these first questions. I've provided to you  
25 Manitoba Hydro Undertaking number 125, which is Manitoba

1 Hydro Exhibit number 132. And the undertaking that was  
2 provided during the hearing made reference to RCM/TREE  
3 Manitoba Hydro Interrog -- First Round Interrogatory 1-3  
4 from the 2008 hearing, and that's attached to what I've  
5 provided to you, sir.

6 You have that material?

7 MR. HAROLD SURMINSKI: Yes, Mr. Gange, I  
8 have it in front of me.

9 MR. WILLIAM GANGE: Thank you, sir. In -  
10 - in looking at the updated information that has been  
11 supplied, can you confirm, sir, that -- that Manitoba  
12 Hydro's estimates of the current greenhouse gas  
13 implications from fuel switching are unchanged between  
14 2011 -- 2008 and 2011?

15 MR. HAROLD SURMINSKI: You'll have to  
16 forgive me. I'll have to consult my back row on this.

17 MR. WILLIAM GANGE: I under -- yes, I  
18 understand that -- that -- that there's some expertise in  
19 the back row, so that would be fine.

20

21 (BRIEF PAUSE)

22

23 MR. HAROLD SURMINSKI: Yes, I can confirm  
24 that it's unchanged from the 2008 estimates at point  
25 seven five (.75).

1                   MR. WILLIAM GANGE:    Thank you, sir.  
2    Could you describe in general terms how Manitoba Hydro  
3    arrived at the figure of 0.75 tonnes per megawatt hour  
4    marginal emission factor?

5

6                                   (BRIEF PAUSE)

7

8                   MR. HAROLD SURMINSKI:    I'm informed that  
9    Mani-- Manitoba Hydro investigated a variety of sources  
10   and -- and many sources indicate estimates of -- of even  
11   higher than the .75 kilograms per kilowatt hour.  
12   Manitoba Hydro chose to use a conservative estimate of  
13   the point seven five (.75).

14

15                                   (BRIEF PAUSE)

16

17                   MR. WILLIAM GANGE:    Can you advise me,  
18   Mr. -- Mr. Surminski, whether the point seven five (.75)  
19   tonne factor differs by time of day or time of year for  
20   exports?

21

22                                   (BRIEF PAUSE)

23

24                   MR. HAROLD SURMINSKI:    It certainly would  
25   be expected the displacement would vary over the hours as

1 the -- as the marginal resources is different over all  
2 the hours, but this is meant to be an average overall,  
3 over -- over the period of a year.

4 MR. WILLIAM GANGE: In -- in looking at -  
5 - at Exhibit 132, after the heading of "Carbon Dioxide  
6 Emissions," the description is "sensitivity to very low  
7 export displacement assumptions." Mr. Surminski, does  
8 this sensitivity provide a plausible forecast of a future  
9 state of exports to the MISO market, for instance, when  
10 more coal is retired, as was described in -- in the  
11 evidence of Mr. Cormie and Mr. Rose, and also when  
12 increased inter-tie capacity permits higher on-peak  
13 sales?

14

15 (BRIEF PAUSE)

16

17 MR. HAROLD SURMINSKI: Okay. I'm back.  
18 It's -- it's -- many factors are -- are involved. You're  
19 -- you're going out in time, assuming there could be  
20 interconnection, interconnection would change the --  
21 somewhat change the balance between on-peak and off-peak,  
22 but there would also be more off-peak energy out in time.  
23 So that's not clear, you know, whether that's a factor  
24 that would drive the balance between displacing on-peak  
25 generation any more than -- than off-peak. It may be a

1 case.

2                   Anyway, that would not happen, and that's  
3 not expected to occur for many years, and we're -- we're  
4 saying, you know, ten (10) to twenty (20) years out into  
5 the future. And same with driving coal out of the mix.  
6 That's not going to be a -- a short-term thing. It'll --  
7 it'll take a little while to -- to develop, to become  
8 prevalent in -- in that market. So driving -- driving  
9 coal out of the margin would tend to shift to alternative  
10 resources like combined-cycle combustion turbines, more  
11 so than -- than today.

12                   MR. WILLIAM GANGE: Just to follow up on  
13 that point, sir, then is -- is that answer of long-term,  
14 ten (10) to twenty (20) years, the -- the best estimated  
15 time frame when the conditions could be in place to  
16 reduce the displacement factor from the point seven five  
17 (.75) tonne down to the point three nine (.39) tonnes as  
18 -- as stated in the -- with respect to the combined-cycle  
19 gas turbines.

20                   Is -- is -- does that number hold, ten  
21 (10) to twenty (20) years?

22

23

(BRIEF PAUSE)

24

25

MR. HAROLD SURMINSKI: I'm informed that

1 it would take our -- Manitoba Hydro's expectation is that  
2 it would take longer than ten (10) to twenty (20) years  
3 to -- to reach that zero point three nine (0.39) of  
4 combustion tur -- more like thirty (30) years is our best  
5 estimate and would not be -- and would be slow in the  
6 early years and picking up over time, it's -- and it's  
7 not even a linear approach to that level. It would be  
8 relatively slow in -- in the near-term years.

9 MR. WILLIAM GANGE: Thank you, Mr.  
10 Surminski. Mr. Cormie, although I expect that others  
11 will have many more questions for you than I do on this,  
12 I'll -- I'll start this off. The Wisconsin public  
13 service sale is for 100 megawatts.

14 Is that correct?

15 MR. DAVID CORMIE: Yeah, the one that was  
16 announced several weeks ago is the first hundred of the  
17 five hundred (500), Mr. Gange.

18 MR. WILLIAM GANGE: And that's the --  
19 where I would like to get to, that -- that the evidence  
20 that we had with respect to the term sheets, my  
21 understanding was that it was -- that there were a series  
22 to get to five hundred (500). Are -- are you still on  
23 that path to get to five hundred (500), or is it capped  
24 now at one hundred (100)?

25 MR. DAVID CORMIE: No, we're on that

1 path. Because of our need to commit to Keeyask early --  
2 earlier than we need to commit to Conawapa, we can supply  
3 Wisconsin with the hundred megawatts from 2021 to 2027  
4 out of Keeyask. The bump up from a hundred to five  
5 hundred (500) will be dependent upon the size of the new  
6 interconnection, and the size is still to be determined,  
7 and it'll be determined over the next -- the next two (2)  
8 years subject to the agreement on a full 500 kV line.  
9 That will allow Manitoba Hydro to proceed with the full  
10 500 megawatt sale to Wisconsin and that will require the  
11 construction of Conawapa.

12

(BRIEF PAUSE)

13

14

15 MR. WILLIAM GANGE: Do the -- do the  
16 further sales go to guaranteeing Conawapa, or is that  
17 independent of the Wisconsin series of -- of contracts?

18

(BRIEF PAUSE)

19

20

21 MR. DAVID CORMIE: I'm -- I'm unclear on  
22 what you mean by the further sales, Mr. Gange.

23 MR. WILLIAM GANGE: Wha -- what I mean by  
24 that, Mr. Cormie, is that if this is -- if this hundred  
25 megawatt sale is -- is the first of potentially still

1 reaching five hundred (500).

2                   The -- the question is: Do -- do -- are  
3 the other sales required for -- for the construction of  
4 Conawapa or is that independent -- is Conawapa  
5 independent of the Wisconsin further sales? That's what  
6 I meant by that Mr. Cormie.

7                   MR. DAVID CORMIE:    The Wisconsin sale  
8 bump up from 100 to 500 megawatts is a precondition to  
9 our commitment to Conawapa. There are other customers in  
10 the queue behind Wisconsin that would also allow -- would  
11 also be taking power off Conawapa, but from the  
12 perspective of Conawapa with -- the Wisconsin and the  
13 Minnesota Power sale are the anchor sales. They are the -  
14 - they are -- they are necessary for that -- that plant  
15 to be built.

16                   The Minnesota Power sale is a done sale  
17 now. And the Wisconsin sale is up to five hundred (500)  
18 is still to be finalized. And there is additional  
19 dependable energy available from Conawapa and Manitoba  
20 Hydro has an understanding with several other companies  
21 to take the bulk of the -- all of the dependable energy  
22 that's available by -- beyond what's required for  
23 Wisconsin Public Service.

24                   The -- but because the five (5) -- the --  
25 the transmission line is the -- is the means by which

1 energy will be delivered to these additional customers,  
2 we're not proceeding with those sales agreements until  
3 we've got the Wisconsin sale and the transmission  
4 necessary in place. Once that's in place we will then  
5 proceed with the finalization of the negotiations with  
6 the other customers.

7

8 (BRIEF PAUSE)

9

10 MR. DAVID CORMIE: You have to think of  
11 it as anchor tenants in a mall. There's lots of space in  
12 the mall, but you need the big -- the big -- the big  
13 stores in order to justify the mall. And Wisconsin and  
14 Minnesota Power are the anchor tenants. And once we'd  
15 get the arrangements finalized with WPS on the full 500  
16 megawatts, then we'll proceed with the final arrangements  
17 with the other customers.

18 MR. WILLIAM GANGE: Does -- does the --  
19 now that the -- the 100 megawatt sale to Wisconsin Public  
20 Service is in effect, does that guarantee the new  
21 interconnection to MISO or -- or are there further pieces  
22 of the puzzle that need to be put into place?

23 MR. DAVID CORMIE: The first 100  
24 megawatts from Wisconsin is conditional upon Manitoba  
25 Hydro committing to Keeyask. It's not conditional upon

1 the -- it doesn't require a new interconnected capability  
2 because Manitoba Hydro already has a transmission path of  
3 100 megawatts to Wisconsin. so the -- the commitment to  
4 build a transmission line has been made by Minnesota  
5 Power and that -- that commitment is there. There will  
6 be a transmission line.

7 The question is is it -- will be a smaller  
8 line or will it be a larger line. All parties want the  
9 larger line and we'll proceed with a larger line once we  
10 have arrangements in place with Wisconsin for the full  
11 five hundred (500). If those arrangements aren't  
12 possible there will be a smaller line, but there will be  
13 a transmission line.

14 MR. WILLIAM GANGE: Thank you. And --  
15 and finally -- or I think finally on this point, Mr.  
16 Cormie, are the prices as good or better than those  
17 contained in the term sheets that were entered into prior  
18 to the economic downturn in 2008?

19 THE CHAIRPERSON: We're going to have to  
20 hold that thought for a minute. Something has come up  
21 that we have to deal with.

22 MR. WILLIAM GANGE: Okay.

23

24 (BRIEF PAUSE)

25

1 THE CHAIRPERSON: Perhaps Mr. Cormie can  
2 formulate his thoughts while we're waiting.

3

4 (BRIEF PAUSE)

5

6 THE CHAIRPERSON: Perhaps, Mr. Gange,  
7 you'd repeat the question.

8 MR. ROBERT MAYER: Before you do, Mr.  
9 Gange, following the -- or during the course of one (1)  
10 of the longest civil trials in Manitoba's history the  
11 Honourable Judge Ferg announced the birth of his  
12 granddaughter, saying somewhere on the record this will  
13 appear.

14 I have the same opportunity this morning,  
15 my daughter delivered a child, a six-pound fourteen-ounce  
16 girl about an hour ago. Sorry for the interruption.

17 THE CHAIRPERSON: News like that we can  
18 always take.

19

20 CONTINUED BY MR. WILLIAM GANGE:

21 MR. WILLIAM GANGE: Hopefully it wasn't  
22 more than thirty-one (31) minutes, but...

23 My question, Mr. Cormie, was: I -- I  
24 asked whether the prices for the Wisconsin Public Service  
25 sale for the hundred megawatts were as good as or better

1 than those contained in the term sheets that was -- that  
2 were signed prior to the recession in the United States  
3 in 2008.

4 MR. DAVID CORMIE: There were no change  
5 to the pricing of the -- of the power under the Wisconsin  
6 sale agreement. There has been a slight adjustment to  
7 the price in the Minnesota Power, but overall the value  
8 of the Minnesota Power Package is actually better than it  
9 was before because of the other terms and conditions that  
10 were negotiated into the -- into the Minnesota Power sale  
11 agreement.

12 So I -- I would describe the financial  
13 outcome to be exactly as anticipated and as built into  
14 the IFF forecast of revenue from the sales.

15 MR. WILLIAM GANGE: Thank you, sir.  
16 Those -- those are my questions on that.

17 Mr. Kuczek, I -- I'm going to go back to  
18 something that Professor Miller and I have been badgering  
19 for some considerable ter -- considerable period of time,  
20 and that's Directive 17.

21 Although there wasn't an undertaking  
22 given, at page 5,699 of the transcript, I had a  
23 discussion with you about Directives 17, the fuel  
24 switching report. And the comment that you made was, We  
25 do have a report and we are planning to take it to the

1 board during the May board meeting. There's no longer a  
2 draft at this point unless further changes are required.

3 And you advised that it would -- it  
4 appeared that because the board meeting that was referred  
5 to was approximately May 19th, it appeared that you would  
6 have the report to us before the end of the hearing.

7 Did the -- did the report go to the board  
8 on or about May 19th?

9 MR. LLOYD KUCZEK: No, it did not.

10 MR. WILLIAM GANGE: And -- and can -- can  
11 you give us an update on -- on where things are at? It -  
12 - it wasn't a draft on April 15th.

13 Where -- where is that report?

14 MR. LLOYD KUCZEK: We're seeking feedback  
15 from government right now, as well as we've sent it to  
16 our chairman of the board and once we get feedback we  
17 will proceed with the report at that point.

18 MR. WILLIAM GANGE: Given that today is  
19 the last day of oral evidence and -- and given that we've  
20 not been able to review the report or to ask questions on  
21 it, can you -- can you answer these questions, sir?

22 Are the greenhouse gas implications  
23 component the same as were set out in -- in the first  
24 series of questions that I asked Mr. Surminski from the  
25 2008 hearing?

1                   MR. LLOYD KUCZEK:    The -- the emission  
2 factor was the same from that hearing, yes, the point  
3 seven five (.75).

4                   MR. WILLIAM GANGE:    Okay.  In the report,  
5 is there a discussion of any new technologies or  
6 efficiencies that are -- are being developed that might  
7 affect the greenhouse gas emission factors?

8                   MR. LLOYD KUCZEK:    No.

9                   MR. WILLIAM GANGE:    Does the report  
10 discuss -- does -- does it discuss Hydro's views on -- on  
11 how Hydro can affect the greenhouse gas factor in the  
12 export market?

13                   MR. LLOYD KUCZEK:    The report is really  
14 just trying to address the questions that were asked, and  
15 that's what the -- what the environmental impacts, the  
16 load impacts and the economic impacts of using natural  
17 gas, electricity, or geothermal options for space and  
18 water heating.

19                                So we -- we don't get into trying to  
20 assess what the options are of impacting emissions in the  
21 States beyond just simply answering that question.  So I  
22 -- I believe the simple answer is no.

23                                Having said that, it does discuss that the  
24 -- the impacts in the US will be -- in the future will be  
25 dependent on policies in the future.  So the impacts in

1 the future are very uncertain in that regard in terms of  
2 the emission impacts.

3 MR. WILLIAM GANGE: So the -- the  
4 analysis does include a forward-looking component?

5 MR. LLOYD KUCZEK: What it does is it  
6 just provides a range into the future in terms of the --  
7 the global emission impacts because we're uncertain on  
8 what the future policies may be in the US.

9 MR. WILLIAM GANGE: Can you advise us  
10 what the actual numbers that you have are, as -- as set  
11 out in the report?

12 MR. LLOYD KUCZEK: I -- I think it's  
13 probably best to wait until the report's presented to  
14 provide numbers.

15 MR. WILLIAM GANGE: But we've been  
16 waiting so long for this, this hearing is -- is virtually  
17 over. That -- that's the -- that's the reason why -- I --  
18 - I -- why -- why we're asking the questions because we  
19 don't have any numbers.

20 MR. LLOYD KUCZEK: I'm sympathetic to  
21 that. However, I -- I'm hesitant to provide numbers  
22 without actually releasing the report at this point.

23 MR. WILLIAM GANGE: Can you advise us,  
24 sir, the conclusions that are reached with respect to the  
25 relative environmental and economic merits of exports

1 versus fuel switching from gas to electricity?

2 MR. LLOYD KUCZEK: I believe they're  
3 consistent with what we presented in terms of a response  
4 to similar questions in a prior hearing in terms of the  
5 environmental impacts of using electricity, natural gas,  
6 and geothermal options.

7 And so if you use geothermal -- or use  
8 natural gas in Manitoba as opposed to electricity, the  
9 emissions in Manitoba, of course, will be higher. The  
10 emissions in the United States -- or the global emissions  
11 will be lower because of the impacts of our exports under  
12 current policies. And so I think it's consistent with the  
13 information we've provided before.

14 I don't think the report's going to  
15 provide anything new in -- in that regard. All it's  
16 going to do is provide an update and more of an aggregate  
17 number. I think, before, we provided information that  
18 was just on a per-unit basis, and this gets into our load  
19 impacts and goes out into the future in terms of what the  
20 -- the impacts will be over, for example, the life of a  
21 furnace or the life of a hot water tank, as opposed to  
22 before we just talked about what the impacts were today,  
23 in one (1) year.

24 MR. WILLIAM GANGE: And does the report  
25 conduct an economic analysis?

1 MR. LLOYD KUCZEK: It does.

2 MR. WILLIAM GANGE: Did -- ca -- can you  
3 advise the Board, what -- what happened that -- that on  
4 April 15th there was an expectation that it would go to  
5 the board meeting on May 19th, but -- but now we learned  
6 that it still didn't go?

7 MR. LLOYD KUCZEK: We -- we had some  
8 further discussions internally and we thought it would be  
9 prudent for ourselves to undertake some further  
10 discussions with government and get their feedback on our  
11 analysis prior to finalizing the report and submitting it  
12 to the board.

13 MR. ROBERT MAYER: What kind of feedback  
14 can you expect from the -- from a government if you've  
15 got a factual study on production or non-production of  
16 greenhouse gases? I'm trying to determine why this --  
17 what appears to be a relatively factual straightforward  
18 question and a report has suddenly been -- well, yeah,  
19 has suddenly been derailed to the point where this Board  
20 will probably not know the results before we -- before we  
21 have to issue an order.

22 MR. LLOYD KUCZEK: Whe -- when you  
23 actually look at the analysis, and we had a lot of  
24 discussions internally about this, the -- for example,  
25 the economic impact of using the different options are --

1 are greatly impacted by the assumptions used in terms of  
2 capital cost, your forecast -- natural gas prices into  
3 the future.

4                   So at the end of the day, when you see the  
5 report, I think you have to use it with caution because  
6 capital costs to install a natural gas furnace vary  
7 considerably in the marketplace. And what we provide is  
8 a range. And then we just pro -- use an estimate, an  
9 average cost, and so the analysis is based on an average,  
10 but the -- the actuals can vary quite a bit in the  
11 marketplace.

12                   So there's a lot of discussion about what  
13 those real costs are and, of course, where the price of  
14 natural gas is going in the future.

15                   MR. ROBERT MAYER: Well, we -- we don't  
16 produce a lot of natural gas in Manitoba, last I heard,  
17 and we have to buy it, and you buy it on the market.  
18 There can't be a whole lot secret about, at least in  
19 terms of Manitoba Hydro, about the projected future costs  
20 of natural gas, can there?

21                   I mean, I -- is there any -- anything  
22 that's commercially sensitive here that's derailing this  
23 issue?

24                   MR. LLOYD KUCZEK: Not commercially  
25 sensitive, no.

1                   MR. ROBERT MAYER:    Okay.  Then what is  
2  it?

3                   MR. LLOYD KUCZEK:    It simply comes down  
4  to we thought it'd be prudent to seek further feedback  
5  from -- from the government on the report.

6  
7

8                                   (BRIEF PAUSE)

9

10                  MR. VINCE WARDEN:    Mr. Mayer, perhaps I  
11  can add just a little bit.  I think there are some broad  
12  policy considerations that do involve government, and the  
13  extent to which we, for example, want to promote or even  
14  provide incentives for gas water heating versus electric  
15  water heating.

16                  There's -- in all new home construction or  
17  virtually all new home construction today electric water  
18  heaters are being -- are being installed simply because  
19  of the -- no further need for furn -- for -- for chimneys  
20  with -- with the new furnaces, the higher efficiency fur  
21  -- furnaces.

22                  So it is -- from -- from an economic point  
23  of view, it is, based on the price of ga -- natural gas  
24  that we have today, certainly more beneficial to install  
25  a gas hot water heater.  But Manitoba Hydro's position as

1 pro -- has been to provide customers with information  
2 when we're approached.

3 Do we want to go beyond that and provi --  
4 provide incentives to customers is really a policy  
5 question which ha -- does require some -- some government  
6 input, and that's where we are today.

7

8 CONTINUED BY MR. WILLIAM GANGE:

9 MR. WILLIAM GANGE: But, Mr. Warden, I --  
10 I understand that answer, but there -- isn't there a  
11 Directive 17, the fuel switching report? I've never  
12 understood it to be an incentive plan but an information  
13 plan, but an information plan that was requested by the  
14 board. So if -- if that's the case, it's not a -- it's -  
15 - it still isn't an explanation why the report itself  
16 hasn't been provided.

17 MR. VINCE WARDEN: Well, the report may  
18 or may not come to certain conclusions with respect to  
19 how aggressive Manitoba Hydro should be in the  
20 marketplace. And that's the degree of aggressiveness  
21 that we're discussing at this time.

22 MR. WILLIAM GANGE: Mr. Kuczek, does the  
23 economic analysis include the electric export revenues?

24 MR. LLOYD KUCZEK: Yes.

25 MR. WILLIAM GANGE: Does -- does it

1 include the gas purchase costs for the utilities?

2 MR. LLOYD KUCZEK: Yes.

3 MR. WILLIAM GANGE: And also for  
4 customers?

5 MR. LLOYD KUCZEK: Yes.

6 MR. WILLIAM GANGE: Does it consider  
7 relative volumes of exported electricity and imported  
8 gas?

9 MR. LLOYD KUCZEK: Yes.

10 MR. WILLIAM GANGE: Are -- are there any  
11 other factors that would go into that economic analy --  
12 analysis that we've not guessed? And if -- and if there  
13 are, what would they be?

14 MR. LLOYD KUCZEK: Just the capital costs  
15 associated with the different options.

16 MR. WILLIAM GANGE: Okay. At -- at --

17 MR. LLOYD KUCZEK: And operating costs  
18 which would mean maintenance.

19 THE CHAIRPERSON: Whose capital costs?

20 MR. LLOYD KUCZEK: The capital cost of  
21 installing the -- it's from the customer's perspective.

22

23 CONTINUED BY MR. WILLIAM GANGE:

24 MR. WILLIAM GANGE: And -- and maybe, Mr.  
25 Warden, maybe this is for you rather than Mr. Kuczek, but

1 maybe it's just my naivete, but it strikes me odd that --  
2 that -- that a report would be sent to the government for  
3 commentary before -- before it's provided to the board.

4 How often would that happen?

5 MR. VINCE WARDEN: It really depends on  
6 the -- the policy considerations that may have government  
7 implications or influence. So rarely I would say it  
8 happens, but it does happen.

9 MR. WILLIAM GANGE: And -- and, Mr.  
10 Warden, is there -- is there an expectation now as to  
11 when the report will be -- will be going to the board?

12

13 (BRIEF PAUSE)

14

15 MR. VINCE WARDEN: The board next meet --  
16 next meets on June 23rd, and at this time it's not on the  
17 agenda for the June meeting.

18 MR. ROBERT MAYER: When's the one (1)  
19 after that, Mr. Warden, I suspect September.

20 MR. VINCE WARDEN: August.

21

22 (BRIEF PAUSE)

23

24 CONTINUED BY MR. WILLIAM GANGE:

25 MR. WILLIAM GANGE: And -- and can you

1 advise, Mr. -- when you expect to file Directive 17, the  
2 fuel switching report with the board?

3

4

(BRIEF PAUSE)

5

6 MR. VINCE WARDEN: Well, our previous  
7 estimates haven't been all that reliable, but I think  
8 there's a reasonable expectation that it would be  
9 presented to the August board of Manitoba Hydro and --  
10 and following that there's reasonable expectation that it  
11 would be filed with this Board at that time.

12 MR. WILLIAM GANGE: In this rep -- in  
13 this hearing, sir, we've -- we've done a lot with respect  
14 to redacted information. Is it possible for you to  
15 provide to the Board now a -- a copy that would be  
16 redacted with respect to the -- the recommendations and  
17 just provide to the Board the factual portion of the --  
18 of -- of the report?

19 MR. LLOYD KUCZEK: We're having some  
20 discussions right now to see what we can do to provide  
21 you with some information earlier than later, and  
22 hopefully within the next week or two (2) we can resolve  
23 that.

24 MR. WILLIAM GANGE: Our -- our final  
25 argument is due on June 23rd, Mr. Kuczek, which is two

1 (2) weeks today. Is -- it certainly would be helpful if  
2 -- if this report could be provided within the next week.

3

4 Is that possible?

5 MR. LLOYD KUCZEK: I couldn't say at this  
6 point. I couldn't make that commitment.

7 THE CHAIRPERSON: Mr. Gange, perhaps you  
8 might want to take up this matter in closing argument.

9 MR. WILLIAM GANGE: Thank you. Those are  
10 my questions. Thank you very much, panel.

11 THE CHAIRPERSON: Thank you, Mr. Gange.  
12 Mr. Hacault...?

13

14 RE-CROSS-EXAMINATION BY MR. ANTOINE HACAULT:

15 MR. ANTOINE HACAULT: Thank you, Mr.  
16 Chair. I'll continue, I have a couple questions with  
17 respect to Exhibit 132, the one that had been brought to  
18 your attention by Mr. Gange, so it may be Mr. Kuczek who  
19 can respond to those.

20 Firstly, on that table, I believe -- I'm  
21 looking at page 1 of 1, the bottom, it appears that  
22 there's just a typo or an error in the -- in some of the  
23 words.

24 Right across from "Water Heating System,"  
25 to the extreme right that says, "Increased Co2 Compared

1 to Tankless Gas." My understanding from this table is  
2 that the baseline would be condensing natural gas water  
3 heater, and, accordingly, that should be changed in that  
4 table to the baseline which is condensing natural water -  
5 - or gas water heater, is that correct?

6 I -- I think the confusion arises, the  
7 first answer that had been given didn't have that line,  
8 that was in the I-3 -- the IR-3, and now that there's  
9 that additional line condensing natural gas water heater.  
10

11 (BRIEF PAUSE)

12

13 MR. LLOYD KUCZEK: Looking at the table  
14 and the numbers that are provided there I think you are  
15 suggesting that we -- we need to change the language on  
16 the last column there because that's the reference and I  
17 would agree with you.

18 MR. ANTOINE HACAULT: Thank you. Now,  
19 next, could you just explain this table and the  
20 significance of it in the context of the power -- fuel  
21 switching issue

22 MR. LLOYD KUCZEK: Well, this table was  
23 an update from the -- the previous table that we had  
24 surpl -- supplied and it provides the emission impacts  
25 associated with using energy, natural gas or electricity,

1 in Manitoba for -- for different end uses, and so it  
2 provides the -- the impacts on emissions by doing that.

3 And so, for example, if you used  
4 electricity for space heating a home in Manitoba as  
5 opposed to natural gas, you would reduce the natural gas  
6 consump -- or emissions associated with the natural gas  
7 consumption in Manitoba. However, there is impacts  
8 associated with the reduced electricity exports in -- in  
9 the United States, so this just provides the net impact  
10 of that.

11 MR. ANTOINE HACAULT: Could you just  
12 bring me to one (1) of the -- the numbers on the table to  
13 put real numbers on what you've just indicated?

14

15 (BRIEF PAUSE)

16

17 MR. LLOYD KUCZEK: I shouldn't have said  
18 net impact. If you take, for example, the top table  
19 there, Home Heating Systems, it's got high efficient gas,  
20 and so if you go across there it's 92 percent efficient.  
21 The amount of energy that you would use if you used  
22 natural gas for space heating with that furnace would be  
23 17 -- 1,745 cubic metres. So instead -- if you were to  
24 do that and -- and reduce -- the CO2 produced would be  
25 thirty-three sixteen (3,316).

1 (BRIEF PAUSE)

2

3 MR. LLOYD KUCZEK: Okay. So the impact  
4 of using natural gas, on the first table there, is 3,316  
5 kilo -- kilograms per year if you use natural gas. If  
6 you use electricity, which is on the bottom of that first  
7 table, the impact is 6,476 kilograms per year, and that's  
8 because we wouldn't be elec -- exporting the electricity.  
9 So those would be the emission impacts of using those two  
10 (2) options.

11 MR. ANTOINE HACAULT: Okay. Thank you.  
12 And, just to confirm, this table is based on emissions of  
13 .39 kilograms per kilowatt hour, which, I think, through  
14 your answers of Mr. Gange's questions, is not a number  
15 with -- which Hydro uses in its own assumptions and  
16 calculations.

17 Is that correct?

18 MR. LLOYD KUCZEK: That's correct. Our  
19 current assumption is point seven five (.75).

20 MR. ANTOINE HACAULT: I have two (2)  
21 other exhibit numbers that I have some questions with  
22 respect to. There's -- there's Hydro Exhibit 79, that  
23 related to Manitoba Hydro Exhibit 85, that, maybe Mr.  
24 Cormie, it was with respect to the adverse water clauses  
25 in the contract that existed with NSP. And it may be

1 useful in responding to that question if you could go to  
2 Tab 71, Tab 71 of our book of documents, at page 300.

3 So, for the parties again, Manitoba Hydro  
4 Exhibit 79, and in our book of documents, Tab 71, page  
5 300. And I'll be directing the witness to the very  
6 bottom of that table, where it indicates "System  
7 Surplus," and there's a heading "Adverse Water Energy."

8 Has everybody found those documents?

9 MR. DAVID CORMIE: Yes, we have them.

10 MR. ANTOINE HACAULT: Okay.

11 MR. BOB PETERS: Mr. Hacault, across the  
12 room here, I -- I'd missed the reference that you gave in  
13 terms of MIPUG Exhibit 12. Where in your book of  
14 documents is that document?

15 MR. ANTOINE HACAULT: Tab 71 --

16 MR. BOB PETERS: Thank you, sir.

17 MR. ANTOINE HACAULT: -- page 300.

18

19 CONTINUED BY MR. ANTOINE HACAULT:

20 MR. ANTOINE HACAULT: Now, am I correct  
21 to understand that, when we talk about an adverse water  
22 clause in a contract, that that is not identical to the  
23 right to curtail energy deliveries in all cases? Is  
24 there a difference?

25 MR. DAVID CORMIE: It's a special type of

1 curtailment right under very specific energy supply  
2 conditions, but you're right, it -- it is a -- a  
3 curtailment right.

4 MR. ANTOINE HACAULT: Okay. Now, if I  
5 look at the bottom of the table that I've directed you at  
6 Tab 71 of our book of documents, page 300, there is a  
7 line, and, as I understand it, this comes from the  
8 recommended plan 2010/'11, the power resource plan at  
9 page 26.

10 How does this line, which is identified  
11 "Adverse Water Energy," and then the first line is  
12 ninety-one (91), and it continues and there's different  
13 numbers, and they start to ramp up in 2015.

14 How does that number relate to an adverse  
15 water clause?

16 MR. DAVID CORMIE: Under the -- under the  
17 agreement, Manitoba Hydro has the right to exercise by  
18 September the 15th a -- in blocks of 50 megawatts for the  
19 winter season, the right to financially settle on energy  
20 deliveries to the extent that are necessary to serve the  
21 sale from its firm resources.

22 And if -- were Manitoba Hydro to exercise  
23 that right for the entire winter amount, it works out to  
24 about just over 600 gigawatt hours. We only include in  
25 the supply and demand tables the amount of -- of adverse

1 energy necessary to -- to the extent it's necessary. We  
2 don't -- we don't -- even though we have the right to go  
3 to 629 gigawatt hours, we don't exercise the full right.  
4 We only exercise it to the point necessary, where we have  
5 sufficient resources to serve our remaining loads.

6                   So we don't use the adverse right, all the  
7 six hundred twent -- in effect, to create dependable  
8 surplus that we can sell to somebody else. The purpose  
9 of the insurance is to ensure the NSP sale, not to  
10 provide a backstop to other resources. So you'll see  
11 that over time the -- the amount of adverse water energy  
12 that's put in the table varies, and that depends on how  
13 much of the adverse water energy you need to call on out  
14 of the full amount of six twenty-nine (629).

15                   MR. ANTOINE HACAULT: So could you take  
16 us down three (3) lines, one (1) at the beginning.  
17 There's a series of numbers, ninety-one (91). Take us  
18 down one (1) line and explain how in numbers the concept  
19 that you've explained works out.

20                   MR. DAVID CORMIE: Well, the -- the thre  
21 -- in the -- in the first year of that table there's  
22 exports of 3,602 gigawatt hours.

23                   MR. ANTOINE HACAULT: Yes, I see that.  
24 That's further down the page under the line "Current  
25 Exports."

1 Is that correct?

2 MR. DAVID CORMIE: Yes. Yes, that's  
3 correct.

4 MR. ANTOINE HACAULT: And then the number  
5 91 is immediately under that, and it finds its way --

6 MR. DAVID CORMIE: So when we look at the  
7 -- the conditions in the contracts that define Manitoba  
8 Hydro's rights to call the adverse water conditions,  
9 which has to do with do we have enough su -- sources of  
10 energy in Manitoba to serve our sale obligations and are  
11 we short. In that situation we're short 91 gigawatt  
12 hours.

13 So we exercise a 91 gigawatt hour call  
14 option out of the six hundred and seventy (670) -- or six  
15 hundred and twenty-nine (629) that's potentially there.  
16 So, in effect, we -- we only exercise to the -- to the  
17 extent that we need to. We're not exercising the full  
18 right.

19 MR. ANTOINE HACAULT: Okay. And if we  
20 move down to the year 2014/'15, in the exports line I see  
21 three thousand one hundred and eighty-nine (3,189).

22 Am I reading that table correct? I'm just  
23 trying to compare it now to the 2010/'11. Now I'm going  
24 to 2014/'15. I've got across the table at the bottom of  
25 the page "Current Exports," and I see the number three

1 thousand one hundred and eighty-nine (3,189).

2 Is that the comparable number to what you  
3 had quoted at thirty-six hundred (3,600)?

4 MR. DAVID CORMIE: Which year are you  
5 referring to again, Mr. Hacaault?

6 MR. ANTOINE HACAULT: 2014/'15.

7 MR. DAVID CORMIE: And maybe just to  
8 correct what I said, the -- the call option with NSP  
9 under adverse water conditions only starts in 2015 with  
10 the new contract. The 91 gigawatt -- the 91 gigawatt  
11 hours are existing adverse water rights we have under --  
12 I believe it's one (1) of the smaller contracts. So  
13 you'll see that that contract expires at the end of 2013.

14

15 Then the -- the adverse water right that  
16 we have under the new NSP sale agreement kicks in in  
17 2015. And it goes up over time because it's -- it --  
18 it's that contract that -- that's kicking in at that  
19 time.

20 MR. ANTOINE HACAULT: So this is an  
21 illustration in numerical form of the flexibility that's  
22 given under the adverse water clause in the contracts  
23 now?

24 MR. DAVID CORMIE: Yes. And we have --  
25 in our planning we have limited -- the exer -- the use of

1 that adverse water right only to the extent necessary to  
2 support that sale, not to the extent that it's necessary  
3 to support other sale agreements.

4 Because you could add that as a -- as a  
5 supply and then you could use that -- and you could --  
6 that could create dependable surplus and you could sell  
7 that to somebody else and, in effect, NSP would then be  
8 supporting dependability of another energy sale. And --  
9 and that's not the intent of that and we don't plan on  
10 that, and we won't exercise it for that purpose. It's  
11 only there to protect Manitoba firm load.

12 MR. ANTOINE HACAULT: Thank you. Next  
13 I'd take you to Manitoba Hydro Exhibit 115. Manitoba  
14 Hydro Exhibit 115. That related to Manitoba Hydro  
15 Undertaking 93. So the Exhibit number 115. And this may  
16 be a question for Mr. Warden.

17

18 (BRIEF PAUSE)

19

20 MR. ANTOINE HACAULT: Do you have that  
21 exhibit number, Mr. Warden?

22 MR. VINCE WARDEN: Yes, I do.

23 MR. ANTOINE HACAULT: Okay. Now, I have  
24 a couple questions leading up to understanding this  
25 document. Firstly, we've talked about different ratios

1 in this hearing, debt-equity ratio, an interest coverage  
2 ratio, and a capital coverage ratio.

3 When we do the capital coverage ratio,  
4 what numbers do we take to be able to understand whether  
5 that ratio is being met? Is it cashflow compared to non  
6 major capital expenses?

7 MR. VINCE WARDEN: That's correct. It is  
8 cashflow -- cashflow from internal sources compared to  
9 our capital minus major capital.

10 MR. ANTOINE HACAULT: Okay. So that the  
11 Corporation then notionally -- at least for that ratio,  
12 uses the cashflow that's generated as a result of, say,  
13 book entries such as depreciation isn't an actual number  
14 that you take out of your bank account and pay somebody,  
15 it's a book entry. And that gives you part of their  
16 cashflow.

17 Am I understanding that correctly, at  
18 least in part?

19 MR. VINCE WARDEN: Yes, that's fair to  
20 say. Depreciation is a non-cash item, so depending on  
21 how that number is derived, depreciation can be regarded  
22 as a source of cash.

23 MR. ANTOINE HACAULT: So at least for  
24 that formula, internally-generated funds would not be  
25 allocated to major capital projects such as Wuskwatim,

1 correct?

2 MR. VINCE WARDEN: Well, to the extent  
3 that there is a surplus, those funds would be allocated,  
4 internally-generated funds, would be allocated to major  
5 capital projects such as Wuskwatim, yes.

6 MR. ANTOINE HACAULT: So to understand  
7 whether there's surplus I'd have to go to the capital  
8 expenditure forecast and look at the non-major capital.  
9 And if we're looking at a number in the range of 400  
10 million, as I understand your answer, we would look at  
11 that non-major capital expense and look at how much funds  
12 we've generated internally and see whether there's  
13 anything left to allocate to Wuskwatim?

14 MR. VINCE WARDEN: Yes, correct.

15 MR. ANTOINE HACAULT: Okay.

16 MR. VINCE WARDEN: Wuskwatim and other  
17 major capital projects, yes.

18 MR. ANTOINE HACAULT: Okay. But you're  
19 not saying that that was done to arrive at this  
20 particular chart which I'm looking at, which in the  
21 second line of the calculation indicates internally-  
22 generated funds of nearly half a billion dollars?

23 MR. VINCE WARDEN: In effect, yes, our  
24 preceding discussion -- using that preceding discussion  
25 as the backdrop, that's a -- what we -- we did. We

1 looked at what internally-generated funds would be  
2 available for funding a project such as Wuskwatim during  
3 construction -- the construction period for Wuskwatim.

4 So we would look at the internally-  
5 generated funds during that period of construction, look  
6 at how much we needed for our base capital. Any surplus  
7 over and above the base capital could be used for  
8 purposes of major generation transmission. In this  
9 instance it worked out to 35 percent and that's what's  
10 been used in this calculation.

11 MR. ANTOINE HACAULT: Therefore, your  
12 view, based on what you've indicated, is that this would  
13 have left long-term borrowing requirements of roughly a  
14 billion dollars, One billion eighteen million  
15 (1,018,000,000)?

16 MR. VINCE WARDEN: Correct.

17 MR. ANTOINE HACAULT: Okay. Thank you.  
18 Those are all my questions.

19 THE CHAIRPERSON: Thank you, Mr.  
20 Hacault.

21 Mr. Peters, do you have any questions  
22 involving Mr. Kuczek?

23 MR. BOB PETERS: I do not. I also should  
24 indicate that while I have no express questions for Mr.  
25 Wiens, I do value any comments that he feels he may have

1 to any of my other questions of Messrs. Warden, Cormie,  
2 and Surminski. But I don't have anything direct for him,  
3 so if he choses not to stay around I -- I won't fault  
4 him.

5 THE CHAIRPERSON: Okay. Before we're  
6 gonna take a break, I see Mr. Williams indicating the  
7 need to speak.

8 MR. BYRON WILLIAMS: I'm not sure if it's  
9 a need. I had expected from my comments of My Learned  
10 Friend Ms. Ramage that we'd be getting an update on  
11 Undertaking 119, which is the 2009/'10 Power Smart Annual  
12 Review. I might have missed it. I'm wonder if, Mr.  
13 Kuczek, if you could advise us of that status.

14 MR. LLOYD KUCZEK: It will be submitted  
15 very shortly.

16 MR. BYRON WILLIAMS: And what do you mean  
17 by that, Mr. Kuczek?

18

19 (BRIEF PAUSE)

20

21 MR. LLOYD KUCZEK: By the end of next  
22 week.

23 MR. BYRON WILLIAMS: Okay. Thank you for  
24 that, Mr. Chairman.

25 THE CHAIRPERSON: Okay. We'll take a

1 break, we'll come back and it will be Mr. Peters turn.

2

3 --- Upon recessing at 10:44 a.m.

4 --- Upon resuming at 11:00 a.m.

5

6 THE CHAIRPERSON: Okay. Well, are we --  
7 are you missing anyone in your front row? I know Mr.  
8 Kuczek has probably left, so. Okay. All the seats in  
9 the front are full. So return to the -- return to the  
10 matters at hand.

11 Ms. Pambrum, you have a question?

12

13 RE-CROSS-EXAMINATION BY MS. DENISE PAMBRUN:

14 MS. DENISE PAMBRUN: Thank you , Mr.  
15 Chairman. I think Mr. Warden should be able to answer my  
16 question.

17 Mr. Warden, were you present when Mr.  
18 Peters was examining Mr. Bowman on behalf of MIPUG?

19 MR. VINCE WARDEN: I was here for only  
20 part of that examination --

21 MS. DENISE PAMBRUN: Do you --

22 MR. VINCE WARDEN: -- not the entire  
23 part.

24 MS. DENISE PAMBRUN: -- do you remember  
25 when he was asking him his views on rate design and his

1 recommendations?

2 MR. VINCE WARDEN: Actually, I wasn't  
3 there for that particular cross-examination, but if you  
4 ask us a specific question, maybe we can address it  
5 between Mr. Wiens and myself.

6 MS. DENISE PAMBRUN: As I recall, Mr.  
7 Peters was suggesting or asking him whether he would  
8 recommend a different structure than was being proposed,  
9 in particular, say, a 1 percent increase for the classes  
10 that were at RCC of less than 100 percent, and 3 percent  
11 for -- sorry, I'm getting it backwards because my notes  
12 were wrong, of those over 100 percent, and 3 percent  
13 increase for those under 100 percent. Were you there for  
14 that part?

15 MR. VINCE WARDEN: No, I wasn't.

16 MS. DENISE PAMBRUN: All right. Well,  
17 assuming that I've got that correct, and Mr. Peters is  
18 nodding in my direction, can you advise whether, for the  
19 purposes of this hearing, Manitoba Hydro has contemplated  
20 such a pro -- such a proposal or such an application?

21 MR. VINCE WARDEN: No. Our application  
22 is across the board, with the exception of area and  
23 roadway lighting. We have a major review of our cost of  
24 service study underway, and until that review is  
25 completed, we're advising or we're recommending to this

1 Board that the rate increase be applied equally to all  
2 rate classes.

3 MS. DENISE PAMBRUN: So I take it from  
4 that last answer that, even in the light of such a  
5 commentary coming from MIPUG, Hydro's position has not  
6 changed?

7 MR. VINCE WARDEN: Our position has not  
8 changed, no.

9 MS. DENISE PAMBRUN: Thank you. That's  
10 my only question. Thank you, Mr. Chairman.

11 THE CHAIRPERSON: Thank you. Mr.  
12 Peters...?

13 MR. BOB PETERS: Yes. Good morning, Mr.  
14 Chairman, Mr. Vice-Chair. In preparation for today, I  
15 have, with the assistance of others, although we  
16 certainly could have used the assistance of Ms. Brenda  
17 Wallace, who we didn't have access to last evening,  
18 prepared a compilation of exhibits and documents from  
19 this proceeding that I was going to walk through with the  
20 witness panel.

21 I included in the documents what I believe  
22 are all public documents, some from a website that was  
23 referenced in the proceeding, and there's one (1)  
24 document that is not on the public record. It was  
25 created yesterday just for the purpose of speeding things

1 along, and I would try to get to that.

2 But before I do, I wanted to get the  
3 concurrence of My Friend Ms. Ramage as to whether there  
4 was any objection from Manitoba Hydro's point of view to  
5 my circulating the -- the documents that I had pulled  
6 out. And Ms. Ramage has some concerns with it, so rather  
7 than hand out the documents, I think it's best that the  
8 Board first hear from Ms. Ramage.

9 THE CHAIRPERSON: Ms. Ramage...?

10 MS. PATTI RAMAGE: Yes. Manitoba Hydro's  
11 concerns relate to the -- the -- are -- are procedural in  
12 nature. The purpose of -- of today is to respond to  
13 questions on undertakings and to respond to questions  
14 related to the rebuttal evidence given yesterday.

15 And during the course of the hearing, it  
16 certainly was our understanding that there was agreement  
17 among cou -- amongst counsel that, when it came to  
18 undertakings, we would limit those undertakings to those  
19 that they were not able to address during their own  
20 cross-examinations.

21 For example, I -- I recall, and I cannot  
22 locate the transcript reference, but my saying something  
23 to the effect of, We're not going to go back to January  
24 when we do this. We'll -- if you've had a chance to --  
25 to ask, we -- we want to keep this procedure moving. And

1 I don't think there were any objections to that.

2                   And when we look at the documents that Mr.  
3 Peters has distributed, when I look at page 1, it's an  
4 undertaking dated January 17th, page 2 is an undertaking  
5 dated January 26th, page 4 is an undertaking dated  
6 January 31st. And -- and our concern is that we're going  
7 back in time. Procedurally, in the course of this  
8 process, there were numerous breaks. Mr. Peters began  
9 cross-examination on January 5th and stood down on March  
10 22nd, and there were several week-long breaks in there to  
11 review undertakings and to pose questions, and -- and  
12 questions were posed on undertakings as we proceeded.

13                   So I think the panel's at a disadvantage  
14 today to be going back to January. They don't have  
15 encyclopaedic memories. They -- and -- and it's not  
16 procedurally fair at this point in time to go back to --  
17 to those issues.

18                   And I'd also remind the Board that when  
19 Mr. Peters stood down on March 22nd he himself indicated  
20 that when he -- when he stood down from this panel he  
21 said:

22                   "Thank you, Mr. Chairman. At long  
23 last, I'm wanting to thank the panel  
24 for responding to the questions that  
25 I've posed over the last number of days

1 and, subject to any questions that  
2 might arise from the undertaking  
3 responses that have been most recently  
4 filed, and I know there's still a  
5 number that are still to be filed, I  
6 would like to thank Mr. Warden."

7 And he goes on. So I think it was an  
8 understanding that it would be undertakings most recently  
9 filed. And -- and I am very concerned about the time  
10 it's going to take to go back to the other undertakings.

11 So it's not that Manitoba Hydro objects to  
12 the entire book of documents, it's -- it's the idea that  
13 we're -- we're going back and -- and we're not doing what  
14 we said we would do today. And so undertakings, for  
15 example, I see one (1) April 5th, and that was dealing  
16 with Manitoba Hydro's response to KPMG's recommendations.  
17 That was filed April 5th. There's no objection to  
18 questions on those.

19 It -- it's going back to January and  
20 revisiting things that either have been covered or  
21 certainly there's been an opportunity to cover.

22 THE CHAIRPERSON: Well, we're going to  
23 have to know which -- which ones -- which questions  
24 you're objecting to. But, first of all, Mr. Peters, do  
25 you have comments to make on this?

1                   MR. BOB PETERS:   Well, in terms of  
2 questions on undertakings and rebuttal of yesterday,  
3 that's what my questions will be on. The question  
4 appears to be how far back can I go with my questions  
5 without aggrieving My Friend opposite.

6                   I will -- I will acknowledge that I have --  
7 - I -- I have examined as I was with the witness panel on  
8 undertakings, some as they were filed. Most notably, I  
9 remember Bipole 3 issues arising on a weekly basis and --  
10 and dealing with those with the panel, but I did not do a  
11 comprehensive review of all of the undertakings until I  
12 had finished with the -- the witness panel. And so I  
13 haven't -- I haven't gone back by -- by various dates, as  
14 My Friend has suggested or requested.

15                   So, subject to the wish of the Board, I --  
16 I've given a copy of all the public documents and I'm not  
17 sure how -- how far back they go. But if that's of in --  
18 interest to the Board, they can -- they can look at the  
19 dates and provide me with direction as to how far back my  
20 questioning should go.

21                   MR. BYRON WILLIAMS:   Mis -- Mr. Chair --

22                   THE CHAIRPERSON:   All right.

23                   MR. BYRON WILLIAMS:   Mr. Chairman, I have  
24 some comments if you -- if the Board would wish to hear  
25 them.

1 THE CHAIRPERSON: I was about to ask you,  
2 Mr. Williams.

3 MR. BYRON WILLIAMS: And I'm sorry to --  
4 to interrupt. Just I -- I don't recall Mr. Peters'  
5 statement when he finished his -- his cross-examination.  
6 I -- I do recall Ms. Ramage's statement. And -- and  
7 certainly my understanding on behalf of our clients was  
8 that we were prepared to move ahead from -- from where --  
9 where we had closed our cross-examination.

10 But my understanding at the time, and I  
11 may not have put it on the record, I had always expected  
12 the Board, given the broad scope of its -- of its  
13 inquiry, would -- would expect to go back and cross --  
14 cross any Ts, dot any Is that Board counsel may have felt  
15 that they needed to do.

16 So I certainly, in -- in terms of my own  
17 work, have been going only from where my cross-  
18 examination closed. But certainly I -- I would -- would  
19 suggest that the rules as they apply to Board counsel I  
20 think are -- in this particular case, could be applied  
21 more -- more liberally.

22 The Board has to be satisfied at the end  
23 of the day that -- that it has all the information that  
24 it requires, and it does have a broad discretion to -- to  
25 do so. And certainly I don't feel that by Mr. Peters

1 going back on behalf of our clients that any disservice  
2 to the process or fairness has been done.

3 I do have a suggestion. In the event that  
4 there are particular questions which Manitoba Hydro --  
5 because time -- you know, it's a long time ago. If there  
6 are ones to which they feel uncomfortable in answering --  
7 answering or because they weren't expecting it that --  
8 that it's unfair, they may raise a particular concern  
9 with a particular question and -- and ask to either  
10 respond in writing or do otherwise, but that would be the  
11 advice of my clients to the Board.

12 Generally, that Mr. Peters, if -- if he  
13 feels that there are questions that need to be asked,  
14 should have some liber -- opportunity to pursue them.

15 THE CHAIRPERSON: Thank you, Mr.  
16 Williams. Very interesting. Thank you for your  
17 comments. Mr. Gange, do you have any thoughts on this?

18 MR. WILLIAM GANGE: Mr. Chair, I can't,  
19 no. I wasn't privy to -- to this and -- and I don't have  
20 any -- any thoughts.

21 THE CHAIRPERSON: Thank you, sir. Mr.  
22 Hacault, do you have any thoughts?

23 MR. ANTOINE HACAULT: In other more  
24 formal proceedings a procedure which has sometimes been  
25 adopted, Vice-Chair -- Chair is that the question will be

1 posed, the -- it will be answered but subject to the  
2 objection.

3                   And the Board can then consider whether or  
4 not in the context of everything that's being asked,  
5 because it's not always easy to decide, well, you know,  
6 does this relate collaterally to an answer to an under --  
7 an undertaking that was given after, I'm going to say,  
8 the close. Does it relate only to something before?

9                   So, procedurally, the Board may wish to  
10 hear the objection and not necessarily rule and make a  
11 decision at the instance, but it protects Hydro's rights  
12 to have done the objection. That the Board has the  
13 answer and the question and is in a better position to  
14 understand whether or not it will accept the objection.  
15 That's my general comment.

16                   The only other comment that I have and I  
17 had raised this before, and I know, again, we have a lot  
18 of latitude in -- in how the procedures have developed.  
19 I note that, for example, Doctors Kubursi and Magee, who  
20 have been very helpful, are still going to be providing  
21 some answers. We don't know what those answers will be.  
22 We don't know what questions parties may have had with  
23 respect to those. It's been a long hearing with a lot of  
24 information. So I think we'll do our best to protect  
25 everybody and proceed from there.

1 THE CHAIRPERSON: Ms. Pambrun, do you  
2 have any comments?

3 MS. DENISE PAMBRUM: I don't think I can  
4 add anything to what Mr. Williams and Mr. Hacault have  
5 already said.

6  
7 (BRIEF PAUSE)

8  
9 THE CHAIRPERSON: Okay. We're going to  
10 accept Mr. Williams' suggestion. Our -- our primary  
11 mandate here is what is in the public interest. We've  
12 not -- we've -- the process has unfolded as it -- as it  
13 has unfolded. We don't know what the specific questions  
14 that Mr. Peters has, but generally speaking, the Board  
15 has always allowed a fair bit of latitude in the  
16 questioning of Manitoba Hydro.

17 This hearing has now gone on, and I guess  
18 if you take it back to day 1, for over a year.  
19 Significant investment by all parties into it, and we  
20 want to be sure at the end of the day that anything  
21 that's material and significant to the public interest is  
22 not being held back.

23 Mr. Peters...?

24 MR. ROBERT MAYER: I think we should --  
25 we should let Hydro know that we -- we have a commitment

1 to be out of here by 4:30 today. I think -- if any  
2 counsel start rambling a bit, some of us are going to not  
3 be happy.

4 MS. PATTI RAMAGE: I thought I might get  
5 your support on that one, Mr. Mayer.

6 THE CHAIRPERSON: On my account, I don't  
7 have anything really to do until 8:00 tomorrow morning.  
8 Although, I must admit, I wouldn't mind seeing the back  
9 of this place for a while.

10 Mr. Peters, if -- if you could distribute  
11 the document?

12

13 (BRIEF PAUSE)

14

15 THE CHAIRPERSON: I think -- strike that.

16 MR. BOB PETERS: The parties may be  
17 disappointed Mr. Chairman when we come to -- one (1) of  
18 the -- one (1) of the realities is that when you have  
19 more time you can be more organized and when you don't  
20 have more time you seem to throw everything including the  
21 kitchen sink together.

22 And to some extent that's what this is and  
23 I will be mindful of the admonition of my colleague and I  
24 will try to only deal with what I think are new issues  
25 related to these documents that are coming before the

1 Board.

2 Mr. Chairman, as I'd already indicated,  
3 Ms. Wallace was nowhere to be found last evening and I  
4 followed the Byron Williams school of page numbering. So  
5 in my own handwriting, as cryptic as it is, the top  
6 right-hand corner there are page numbers, and those page  
7 numbers will be referenced should anybody have any  
8 questions or difficulty finding where we're going in the  
9 document.

10

11 RE-CROSS-EXAMINATION BY MR. BOB PETERS:

12 MR. BOB PETERS: Lastly, Mr. Chairman,  
13 and witnesses, I want the best information and answers of  
14 the -- of the panel to the Board. If you're not able to  
15 provide an answer because of the affliction of time or  
16 needing to refresh your memory, please so indicate. And  
17 otherwise I will ask for the person most knowledgeable on  
18 top of the issue to provide the Board with the  
19 assistance.

20 Is that understood, Mr. Warden?

21 MR. VINCE WARDEN: Yes, it is.

22 MR. BOB PETERS: Mr. Warden, let's start  
23 at page 1. We talked about the last time Conawapa was  
24 stopped and started, and you've mentioned it throughout  
25 the proceedings, there was a residual that the

1 Corporation wrote-off over ten (10) years, correct?

2 MR. VINCE WARDEN: Correct.

3 MR. BOB PETERS: Was there an accounting  
4 standard that dictated the ten (10) years at the time it  
5 was done, or was that than an arbitrary decision of  
6 management of Manitoba Hydro?

7 MR. VINCE WARDEN: Well, it was a  
8 decision. I wouldn't call it arbitrary. It was in  
9 accordance -- everything we do is within accordance with  
10 generally accepted accounting principles, so it was  
11 accepted by our auditor at the time.

12 MR. BOB PETERS: It could have been five  
13 (5) years, it could have been fifteen (15) years, for all  
14 -- for all we know?

15 MR. VINCE WARDEN: It was a matter of  
16 some judgement.

17 MR. BOB PETERS: And so the rate  
18 implication was -- was feathered in at \$2.2 million a  
19 year?

20 MR. VINCE WARDEN: Yes.

21 MR. BOB PETERS: And was interest also  
22 charged to domestic consumers on that money?

23 MR. VINCE WARDEN: No.

24 MR. BOB PETERS: What happened to the  
25 interest on -- on that?



1 answers my question.

2 MR. ROBERT MAYER: Well, now -- now it's  
3 created another one for me.

4 You were always contemplating building  
5 Conawapa. The fact that you were going to go earlier  
6 than expected was as a result of a contract that you had  
7 with -- with Ontario Hydro, as I understand it.

8 But by cancelling the contract you  
9 cancelled the -- the early update of Conawapa, but you  
10 always, I'm assuming, continued to expect to build it at  
11 some time and that some time now appears to be between  
12 now and 2025.

13 But with the argument that you could  
14 amortize it because you were going to, at some point,  
15 build, why didn't you amortize it all?

16 MR. VINCE WARDEN: Well, the principle  
17 isn't too different -- too much different from what we do  
18 with planning studies. We -- we make a -- we amortize  
19 planning studies over a period of -- a future period  
20 until such time as a decision is made to proceed with the  
21 project.

22 In this instance Conawapa was shelved, so  
23 to speak, and there was no decision made to proceed at  
24 that point in time. There could -- could have very well  
25 have been in that ten (10) year period.

1 THE CHAIRPERSON: And GAAP is constantly  
2 evolving too, correct? With IFRS, et cetera.

3 MR. VINCE WARDEN: Absolutely. And under  
4 today's -- or where we're -- the direction we're going,  
5 the accounting treatment may have been different.

6 THE CHAIRPERSON: Thank you, sir.

7

8 CONTINUED BY MR. BOB PETERS:

9 MR. BOB PETERS: Effectively my questions  
10 on that have been answered -- or, asked, Mr. Warden. But  
11 the -- the one (1) point that you ended off with the  
12 Chairman on is that as IFRS is understood by Manitoba  
13 Hydro today, that \$22 million would likely be written off  
14 in -- in one (1) year, as opposed to over ten (10) years?

15 MR. VINCE WARDEN: Likely. Yes, we'd  
16 have to assess again whether there was any value there  
17 and the likelihood of the project being resurrected in  
18 the near term.

19 MR. BOB PETERS: And so the resurrection  
20 of the project in the near term may put Keeyask in a  
21 different consideration then.

22 Would you -- would you agree?

23 MR. VINCE WARDEN: Yes, Keeyask wouldn't  
24 be very much in -- in that situation if we, for whatever  
25 reason, decided not to proceed with Keeyask, we would

1 have to look at the time frame over which that project  
2 would be resurrected.

3

4

(BRIEF PAUSE)

5

6 MR. BOB PETERS: In dealing with the --  
7 on page 2, the questions relative to Limestone, Manitoba  
8 Hydro suggests to this Board, Mr. Warden, that it's a  
9 normal consequence of adding new, large general --  
10 generating stations that, starting in the first year of  
11 in-service, losses in net income could be expected?

12 MR. VINCE WARDEN: Well, I think what was  
13 quoted here in this response to the undertaking was an  
14 excerpt from the annual report at the time and, yes, as  
15 you stated, particularly with the -- with reference to  
16 Limestone, a loss was -- was forecast and -- and  
17 expected. That wouldn't necessarily occur in every  
18 instance, but certainly it did with Limestone, and is  
19 expected to occur, likewise, with Wuskwatim.

20 MR. BOB PETERS: And with Limestone, sir,  
21 the output costs of Limestone on a unit energy basis were  
22 around two and a half (2 1/2) cents, and the export  
23 market was probably closer to a cent or a cent and a half  
24 at the time.

25

Would that be your understanding?

1                   MR. VINCE WARDEN:    That sounds  
2 reasonable, Mr. Peters.

3                   MR. BOB PETERS:    And, Mr. -- Mr. Warden,  
4 when your output is -- is more expensive than the export  
5 market was providing, a number of circumstances evolved  
6 that made Limestone -- as I think some of the MIPUG  
7 witnesses have said, the decade of returns are still upon  
8 us.

9                   MR. VINCE WARDEN:    Exactly, yes.

10                  MR. BOB PETERS:    And some of those things  
11 included inflation, in terms of the cost of the energy,  
12 the export energy?

13                  MR. VINCE WARDEN:    Yes.  Once a plant is  
14 constructed, a hydraulic plant is constructed, it's in  
15 place for a very long time and building a -- a similar  
16 plant will cost -- be more costly as time goes on.

17                  MR. BOB PETERS:    And, likewise, in the  
18 export market, sir, the market has developed considerably  
19 from back in the early '90s to where it is today.

20                  MR. VINCE WARDEN:    Yes, it has.

21                  MR. BOB PETERS:    You were tying it to  
22 Wuskwatim, but if you look at page 3 of the documents I  
23 handed out -- and, Mr. Chairman, Vice-Chairman, ladies  
24 and gentlemen, this document was not -- is not in the  
25 record, so I want to make Mr. Warden, firstly, aware of

1 that. What he will see on page number 3 is a document  
2 that is very similar to PUB Manitoba Hydro Response to  
3 Information Request First Round 197, found in Tab, I  
4 think, 70 or 71 of Board counsel's book of documents.

5 Mr. Warden, the CEF-09 columns for Bipole,  
6 Keeyask, and Conawapa, those would be numbers that  
7 Manitoba Hydro is familiar with and would have included  
8 in the response to the information request I -- I quoted?

9 MR. VINCE WARDEN: Yes.

10 MR. BOB PETERS: And while I thought I  
11 asked you to update this, I couldn't find that reference,  
12 Mr. Warden, so it was updated by ourselves, and I want  
13 you to tell the Board whether our -- whether our process  
14 was appropriate.

15 What we started with was the updated  
16 capital expenditure forecast, correct? Mr. Warden...?

17 MR. VINCE WARDEN: Sorry. You're --  
18 you're just referring to the update under col -- the  
19 Bipole 3 column and the total column, I believe.

20 MR. BOB PETERS: Yeah. Well, let's --  
21 let's focus on the Bipole 3 columns, then. That's a good  
22 idea. The CEF-09 numbers, the \$2.2 billion, that was the  
23 number that Manitoba Hydro came into this application  
24 with in their capital expenditure forecast, correct?

25 MR. VINCE WARDEN: Correct.

1 MR. BOB PETERS: And then we've heard,  
2 throughout the course of the hearings, that that number  
3 is now \$3.3 billion, correct?

4 MR. VINCE WARDEN: Yes.

5 MR. BOB PETERS: And if we assume the  
6 revenue from Bipole 3 stays the same, and you expect it  
7 would, would you not, or -- Mr. Surminski? There'd be no  
8 -- there -- there's no change in the revenue line item  
9 for Bipole just because it costs more?

10 MR. HAROLD SURMINSKI: No. We would not  
11 expect a change.

12 MR. BOB PETERS: And so, in terms of  
13 expenses, Mr. Warden, as simple as this was, using the  
14 same proportionate expenses that you calculated, that was  
15 applied against the new capital cost. And so the total  
16 expenses, instead of \$225 million a year for Bipole 3,  
17 are going to come in about \$330 million a year for Bipole  
18 3.

19 You'd accept that, sir, subject to a  
20 specific mathematical check?

21 MR. VINCE WARDEN: Yes, this -- this  
22 information would have been available in the document  
23 that we did file, the -- the twenty (20) year financial  
24 outlook document that was filed that provided the update  
25 to Bipole 3 -- or to the forecast because of the

1 increased estimate for Bipole 3.

2 So whether these are precisely the same as  
3 that document I can't confirm, but if you did it on a  
4 proportional basis, they would like not be that far off.

5 MR. BOB PETERS: Thank you for that. And  
6 so what you're showing the Board here on Bipole 3 is that  
7 the estimated incremental revenue requirement on an  
8 annual basis is -- is not \$200 million but it's closer to  
9 \$300 million?

10 MR. VINCE WARDEN: Yes.

11 MR. BOB PETERS: And we can look at -- I  
12 -- I didn't put ca -- Wuskwatim in here, but we'll talk  
13 about that if you'd like. But let's look at Keeyask and  
14 Conawapa, and those have, likewise, been updated for the  
15 capital costs that have been filed during these  
16 proceedings?

17 MR. VINCE WARDEN: Yes.

18 MR. BOB PETERS: And so for Keeyask we  
19 again assumed the -- the revenue items are the same.  
20 There -- Mr. Surminski, there's no change in the revenue  
21 line items for Keeyask and Conawapa just because they  
22 cost more money, is there?

23 MR. HAROLD SURMINSKI: Yes. No, there's  
24 no change.

25 MR. BOB PETERS: And so if I understood

1 Mr. Cormie's evidence earlier this morning, as a result  
2 of the contractual arrangements, while only 20 percent of  
3 the Wisconsin Public Service deal is -- is moving along,  
4 the remaining 80 percent is expected to move along.

5 Have I got that right?

6 MR. DAVID CORMIE: Yes.

7 MR. BOB PETERS: And as a result of it  
8 moving along, there's been no change in the -- in the  
9 export revenue forecasts.

10 That's also correct, Mr. Surminski?

11 MR. HAROLD SURMINSKI: Could you ask that  
12 again, please.

13 MR. BOB PETERS: Certainly. I was just  
14 trying to get your confirmation or advice to the Board  
15 that the revenue forecasts for Keeyask and Conawapa --

16 THE CHAIRPERSON: I think he already -- I  
17 think he already answered that, Mr. Peters.

18

19 CONTINUED BY MR. BOB PETERS:

20 MR. BOB PETERS: All right. Thank you,  
21 sir. And in terms of expenses, the expenses would  
22 increase proportionately subject to the comment of Mr.  
23 Warden earlier, Mr. Warden?

24 MR. VINCE WARDEN: Just to be clear, Mr.  
25 Peters, the expenses for Keeyask and Conawapa would have

1 been take -- derived from CEF-10, so those would have  
2 already been updated. Those weren't a number that you  
3 have calculated, I -- I don't expect.

4

5

(BRIEF PAUSE)

6

7

MR. BOB PETERS: Mr. Warden, when we  
8 looked at Tab 7 --

9

MS. PATTI RAMAGE: Mr. Peters...?

10

MR. BOB PETERS: Yes, ma'am.

11

MS. PATTI RAMAGE: If I could just jump  
12 in and just ask a question. You made a reference at the  
13 beginning to -- I thought it was PUB First Round 97 that  
14 this derived from. I was just wondering if I've got that  
15 reference correct because I can't find it.

16

MR. BOB PETERS: You -- you actually  
17 don't have it correct, Ms. Ramage. It's PUB Manitoba  
18 Hydro First Round 197. And for ease of reference, it's  
19 at Tab 71 of Board counsel's book of documents.

20

21 CONTINUED BY MR. BOB PETERS:

22

MR. BOB PETERS: And, Mr. Warden, in Tab  
23 71 of Board counsel's book of documents the information  
24 response was answered using CEF-09, isn't that correct?  
25 I'm sorry, you don't have it in front of you, sir. I --

1 I apologize.

2 MR. VINCE WARDEN: I don't have it in  
3 front of me, Mi -- Mr. Peters. But I guess my only  
4 question back to you was, since this information was  
5 already provided for Keeyask/Conawapa in IFF-10, there  
6 would be no reason for you to update those numbers. That  
7 -- those updated numbers would have been provided.

8 MR. BOB PETERS: I'm giving you that  
9 blank stare because -- are you telling the Board that --  
10 that these numbers would have been included in the IFF-10  
11 but not in a -- in a discrete way?

12 MR. VINCE WARDEN: Well, my -- my only  
13 point was that the IFF-10 did include updated capital  
14 costs for Keeyask -- both Keeyask and Conawapa.

15 MR. BOB PETERS: Oh, on that we can  
16 agree, Mr. Warden, if -- if that's your point. What I  
17 was doing for the purposes of this information request,  
18 indicating that the estimated incremental revenue  
19 requirement for Keeyask has increased from 89 million to  
20 approximately \$175 million.

21 MR. VINCE WARDEN: Before I agree with  
22 that, Mr. Peters, I would like to cross-check some  
23 numbers, but maybe, for purposes of continuing, we'll  
24 accept -- we'll accept those numbers for now.

25 MR. BOB PETERS: Thank you, sir. And --

1 and the same comment, then, applies from you for  
2 Conawapa, that instead of an annual estimated additional  
3 incremental revenue requirement of 27 million, it'd be  
4 closer to 167 million --

5 MR. VINCE WARDEN: Yes.

6 MR. BOB PETERS: -- again, subject to  
7 check?

8 MR. VINCE WARDEN: Yes.

9 MR. BOB PETERS: And -- and the total  
10 columns that you'd spoke of earlier, sir, just these  
11 three (3) items would indicate that, from CEF-09 to  
12 today, the annual estimated additional revenue  
13 requirement would increase by about \$332 million a year.

14 MR. VINCE WARDEN: Again, Mr. Peters, I  
15 would have to strongly qualify that. Finance expense  
16 wouldn't be constant from year to year to year, so I  
17 wouldn't think this would be the -- an annual number. It  
18 may -- might very well be in the -- the first year of  
19 operation, but -- but would be different in subsequent  
20 years.

21 MR. BOB PETERS: That's a fair comment,  
22 Mr. Warden. If you have Tab 70 of the book of documents  
23 handy, we can just reflect that to the Board, if we  
24 could. In Tab 70, page 181, Mr. Chairman, of Board  
25 counsel's book of document, marked as PUB Exhibit 18,

1 Manitoba Hydro did a run on Bipole 3 as to what -- what  
2 amount would be amortized over the first ten (10) years  
3 of its in-service, correct, sir?

4 MR. VINCE WARDEN: Yes, correct.

5 MR. BOB PETERS: And that's in PUB  
6 Manitoba Hydro Second Round 90B, for the record, but what  
7 you're showing the Board is that, under CEF-09 numbers,  
8 the \$217 million of annual additional incremental revenue  
9 requirement decreased over ten (10) years from 217  
10 million down to 180 million, correct?

11 MR. VINCE WARDEN: Yes.

12 MR. BOB PETERS: So instead of being  
13 approximately 10 percent of the capital cost after ten  
14 (10) years, it was about 8 percent of the capital cost.

15 MR. VINCE WARDEN: Yes.

16 MR. BOB PETERS: And so that 2 percent,  
17 or .2 percent per year, would be the reduction in the  
18 amortization on that particular item.

19 MR. VINCE WARDEN: Right.

20 MR. BOB PETERS: And this would be a  
21 straight line, sir? Have I got that right? It's a --  
22 would be a straight-line amortization?

23 MR. VINCE WARDEN: With respect to  
24 depreciation expense, yes.

25 MR. BOB PETERS: Mr. Chairman, for the

1 purposes of the record, I propose that that document with  
2 page number 3 on it be marked as PUB Exhibit 25, but  
3 subject to the qualification that Mr. Warden has only  
4 taken it subject to check, and he may wish to respond to  
5 it further.

6 THE CHAIRPERSON: Fair enough.

7

8 --- EXHIBIT NO. PUB-25: Document with page number 3

9

10 CONTINUED BY MR. BOB PETERS:

11 MR. BOB PETERS: Mr. Surminski, I'm going  
12 to blame this one on Mr. Bowman because he's not here.  
13 In terms of Wuskwatim and Manitoba's load growth, when is  
14 it we -- when is it that you're telling the Board that  
15 Wuskwatim would be used for domestic purposes?

16 MR. HAROLD SURMINSKI: Our response was  
17 that it was required for both domestic and firm purposes  
18 for 2019.

19 MR. BOB PETERS: 2019/2020?

20 MR. HAROLD SURMINSKI: Correct. That's --

21 MR. BOB PETERS: I'm sorry, sir?

22 MR. HAROLD SURMINSKI: That is a  
23 combination of firm require -- firm export requirements  
24 as well as Manitoba domestic.

25 MR. BOB PETERS: And, Mr. Surminski, the

1 Board has heard evidence that there's been some reduction  
2 in the load growth forecasts. You're aware of that?

3 MR. HAROLD SURMINSKI: Yes, there was  
4 smelter closings and mine closings and the like, yes.

5 MR. BOB PETERS: And that information is  
6 not embedded in this answer, is it?

7 MR. HAROLD SURMINSKI: That was based on  
8 a particular load fore -- on last year's 2010 load  
9 forecast, but we did investigate the expectations of  
10 where the -- the next load forecast would be and -- and  
11 there wasn't -- there was a lot of -- there was several  
12 offsetting factors, so it wasn't clear that the -- that  
13 the next load forecast would necessarily be significantly  
14 reduced.

15 MR. BOB PETERS: So you're working on a  
16 load forecast presently to deal with those issues?

17 MR. HAROLD SURMINSKI: Yes.

18 MR. BOB PETERS: And that's a fall filing  
19 generally for the Corporation?

20 MR. HAROLD SURMINSKI: Yes, correct.

21 MR. BOB PETERS: And did I get it  
22 correct, Mr. Cormie, that the surplus energy from  
23 Wuskwatim is not subject to a firm long-term contract at  
24 this point in time?

25 MR. DAVID CORMIE: Not yet.

1                   MR. BOB PETERS:    And therefore, the plan  
2 of the Corporation at this point in time is to sell the  
3 surplus on the opportunity market?

4                   MR. DAVID CORMIE:    No, that's not  
5 correct.  Our intention is that the surplus dependable  
6 energy that is created from a reduction in Manitoba load  
7 over the next several years will be taken to the -- to  
8 the longer-term market and firm contracts will be put in  
9 place to sell that.  And we're actively negotiating those  
10 arrangements now.

11                  MR. BOB PETERS:    And to the extent those  
12 negotiations don't bear fruit, then the opportunity  
13 market would be the only place left to sell that energy.

14                                 Would that be correct?

15                  MR. DAVID CORMIE:    Only if we're not  
16 successful.  I don't believe we will not be successful.  
17 We will be successful.  We're very -- we have customers  
18 and they're willing to buy and we're willing to sell.

19                  MR. ROBERT MAYER:    These are the smaller  
20 stores in the supermarket we were talking about?

21                  MR. DAVID CORMIE:    Yes.

22

23 CONTINUED BY MR. BOB PETERS:

24                  MR. BOB PETERS:    The non-anchor tenants.  
25 Is that -- is that the reference?

1                   MR. DAVID CORMIE:    Yeah, there are some  
2 opportunities between now and 2021 which we would call  
3 bridging sales that -- we're not selling a bridge, but  
4 we're -- they will bridge the period of time between now  
5 and when we need the Wuskwatim energy to serve Manitoba  
6 load.

7                   MR. BOB PETERS:    And those are actively  
8 being worked on by yourself and your colleagues?

9                   MR. DAVID CORMIE:    Yes.

10                  MR. BOB PETERS:    And, Mr. Warden, when  
11 the IFF -- the twenty (20) year IFF was filed as Exhibit  
12 Manitoba Hydro 154, and for the Board's reference, I  
13 don't -- I don't plan to turn there right yet, but that's  
14 at page 79 of the documents handed out, there were no  
15 changes as a result -- the only change in that IFF over  
16 the IFF-10 was related to the increased capital cost of  
17 Bipole 3.

18                  Have I understand the evidence correctly,  
19 sir?

20                  MR. VINCE WARDEN:    There were two (2)  
21 changes to this document, two (2) major changes, or two  
22 (2) major additions to this document from the document  
23 that was previously provided in these proceedings. As  
24 you pointed out the -- the major change was the update to  
25 Bipole 3. The other change was with respect to the relia

1 -- referencing the reliability option, which is found  
2 towards the end of the document on page 25 if you have  
3 that, or -- or your page 89 in -- in your book of  
4 documents.

5 MR. BOB PETERS: Okay. Well, that'll  
6 give us something to aim for before 4:30. But the IFF  
7 twenty (20) year made no downward revision as a result of  
8 top consumers demand softening?

9 MR. VINCE WARDEN: No, that's correct.  
10 And -- and as Mr. Surminski pointed out, with the new  
11 load forecast that we're in the process of putting  
12 together, it doesn't look like there will be a very  
13 significant drop in the domestic load.

14 MR. BOB PETERS: And there were no  
15 changes, Mr. Warden, in any of the export assumptions?

16 MR. VINCE WARDEN: No, that's right.

17 MR. BOB PETERS: Thank you. When we turn  
18 to page 8 of the documents handed out, we come to the  
19 Wuskwatim Power Limited Partnership issue, and that was  
20 calculated, Mr. Warden, based on 2009 information,  
21 Manitoba Hydro's IFF-09-1?

22

23 (BRIEF PAUSE)

24

25 MR. VINCE WARDEN: Well, Mr. Peters,

1 referring to page 8 of the book of documents, I -- I  
2 don't -- we don't have the attachment, so.

3 MR. BOB PETERS: That's -- that's  
4 correct.

5 MR. VINCE WARDEN: But -- so --

6 MR. BOB PETERS: Yeah.

7 MR. VINCE WARDEN: But if you're telling  
8 me that was based on IFF-09, I'll accept that.

9 MR. BOB PETERS: And this morning one (1)  
10 of my colleagues, I believe it was Mr. Hacault, had taken  
11 you to Manitoba Hydro Undertaking 93, which was Manitoba  
12 Hydro Exhibit 115 which is not in your book, but that was  
13 a matter that you discussed this morning.

14 Do you recall generally that discussion?

15 MR. VINCE WARDEN: Yes, I do.

16 MR. BOB PETERS: And in terms of the  
17 Wuskwatim Power Limited Partnership Agreement the  
18 revenues to that limited partnership, sir, are to flow  
19 based on the average of the new NSP sale together with  
20 any new sales to Wisconsin Public Service and Minnesota  
21 Power?

22 MR. VINCE WARDEN: Yes.

23 MR. BOB PETERS: That payment to  
24 Wuskwatim Power Limited Partnership is not dependent and  
25 does not include any new opportunity sales, does it?

1 (BRIEF PAUSE)

2

3 MR. VINCE WARDEN: Mr. Peters, subject to  
4 check, the revenue that's attributed to Wuskwatim Limited  
5 Partnership also includes opportunity sales. So it would  
6 be -- it would be not only the firm sales but  
7 opportunity sales would be factored into that equation.

8 MR. BOB PETERS: If it's only -- if it's  
9 opportunity sales as well, Mr. Warden, is it opportunity  
10 sales only from that generating station, or would it be  
11 from any other generating stations?

12 MR. VINCE WARDEN: It is from all -- all  
13 generation.

14 MR. BOB PETERS: Existing as well as  
15 future?

16 MR. VINCE WARDEN: Yes.

17

18 (BRIEF PAUSE)

19

20 MR. BOB PETERS: Mr. Warden, help -- help  
21 the Board understand this concept. You had mentioned  
22 before that, as we looked at page 3 of the documents,  
23 that some -- some of the incremental in-service costs in  
24 the first year of the new generating station would be  
25 expected to be significant, such that it may result in a

1 -- a financial loss to the Corporation, correct?

2 MR. VINCE WARDEN: Yes.

3 MR. BOB PETERS: And let's suppose that  
4 Wuskwatim comes in -- and you'd mentioned that Wuskwatim  
5 might have the same assumption, correct?

6 MR. VINCE WARDEN: Correct.

7 MR. BOB PETERS: In the early years  
8 you're not expecting to fully recover the incremental in-  
9 service costs of Wuskwatim, correct?

10 MR. VINCE WARDEN: That's right.

11 MR. BOB PETERS: I'm going to push this  
12 one, but even if Mr. Cormie is wildly successful, will  
13 that be the case?

14 MR. VINCE WARDEN: Well, based on our  
15 current forecast, which includes Mr. Cormie being wildly  
16 successful, as he always is --

17 MR. BOB PETERS: Just to put pressure on  
18 him.

19 MR. VINCE WARDEN: Yes. But it -- it --  
20 it is -- the revenues that are attributed to Wuskwatim do  
21 include the sales that are currently in the financial  
22 forecast for IFF-09 and '10.

23 MR. BOB PETERS: And if -- if Wuskwatim  
24 was to operate at a loss in the first year -- or, let's  
25 just -- for my example, say the first five (5) years,

1 would the limited partnership be expecting a cheque from  
2 Manitoba Hydro in those years?

3 MR. VINCE WARDEN: Well, in effect, what  
4 will happen -- and -- and there is a loss forecast for  
5 the first four (4) years. So the limited -- or the  
6 partners will have to contribute towards that loss, yes,  
7 in -- in proportion to their ownership equ -- interest.

8

9 (BRIEF PAUSE)

10

11 MR. BOB PETERS: And if in fact that loss  
12 continues longer than the four (4) years shown in IFF-10,  
13 then the partners will be expected to contribute as  
14 opposed to receive a cheque from the Corporation?

15 MR. VINCE WARDEN: That's right.

16 MR. BOB PETERS: All right. Thank you,  
17 sir.

18 THE CHAIRPERSON: Mr. Warden, obviously  
19 my understanding of it is a little mixed up. I thought  
20 with the minority partner there was a provision that  
21 would allow payments to the minority partner even in the  
22 case of a loss.

23 Is that not true? That would just be  
24 added on, basically, and later deducted?

25 MR. VINCE WARDEN: Oh, that's true. That

1 -- that's a cashflow issue though, which is different  
2 from what their responsibility is in -- in sharing in  
3 those losses.

4 THE CHAIRPERSON: In a sense, it would be  
5 just increasing the loan --

6 MR. VINCE WARDEN: That's right.

7 THE CHAIRPERSON: -- to the minority  
8 partner?

9 MR. VINCE WARDEN: Correct.

10

11 CONTINUED BY MR. BOB PETERS:

12 MR. BOB PETERS: The Corporation also has  
13 in its IFFs a non-controlling interest line related to  
14 the joint Keeyask limited partnership agreement?

15 MR. VINCE WARDEN: Yes.

16 MR. BOB PETERS: And that agreement only  
17 becomes valid if the Corporation constructs Keeyask,  
18 correct?

19 MR. VINCE WARDEN: Correct.

20 MR. BOB PETERS: Can you recall with whom  
21 that agreement is, how many parties?

22

23 (BRIEF PAUSE)

24

25 MR. HAROLD SURMINSKI: It'S the four (4)

1 parties. Green Nation partners are Tataskweyak and War  
2 Lake, and I'm trying to remember the others, York, yes,  
3 and Fox Lake, yes.

4 MR. BOB PETERS: Does -- Mr. -- Mr. --  
5 and thank you for that, Mr. Surminski, as prompted. Does  
6 the Keeyask generating station, pursuant to this  
7 agreement, have to be constructed before Conawapa is  
8 constructed?

9

10 (BRIEF PAUSE)

11

12 MR. VINCE WARDEN: No, I wouldn't say  
13 specifically linked to Conawapa, but there is a provision  
14 for -- there is provision for time lines which would --  
15 if Conawapa were to be built first, then that would  
16 probably make the agreement void for that reason, or void  
17 may be too strong of a word, but it mi -- might have to  
18 be renegotiated if that were to occur.

19 MR. BOB PETERS: It would expire?

20 MR. VINCE WARDEN: That's better.

21 MR. BOB PETERS: And in -- in terms of  
22 the -- the joint Keeyask limited partnership agreement,  
23 are actions being taken today on that agreement?

24 MR. VINCE WARDEN: Oh, actions are  
25 certainly being taken to protect an in-service date of

1 2019 for Keeyask.

2 MR. BOB PETERS: And that's cost \$400  
3 million to date, correct?

4 MR. VINCE WARDEN: That's cost slightly  
5 in excess of \$400 million to date, yes.

6 MR. BOB PETERS: But -- but my question,  
7 Mr. Warden, wasn't so much with the -- the Keeyask  
8 generating station, but it had to do with the limited  
9 partnership agreement and -- and maybe I'm not  
10 understanding it.

11 But are there things under the limited  
12 partnership agreement that are being acted upon even  
13 though the firm commitment to Keeyask is not yet made?

14 MR. VINCE WARDEN: I wonder if you could  
15 be a little more specific on what you mean by conditions  
16 acted upon, Mr. Peters.

17 MR. BOB PETERS: Manitoba Hydro is  
18 spending -- was it 12, \$13 million a month on -- 15  
19 million a month on Keeyask?

20 MR. VINCE WARDEN: No, that's too high.  
21 I think we...

22 MR. BOB PETERS: Sorry, Mr. Warden, I  
23 don't mean to -- and -- and I appreciate this is a memory  
24 issue for both of us. But I think you had told this  
25 Board that roughly \$25 million a day was being spent on

1 major capital -- sorry, \$25 million a month was being  
2 spent on major capital projects now as the Corporation  
3 moves forward on Conawapa and Keeyask, and -- and  
4 including the transmission line, Bipole 3?

5 Does that sound familiar, or is that not--

6 MR. VINCE WARDEN: Are you including the  
7 transmission line in that?

8 MR. BOB PETERS: I -- I was.

9 MR. VINCE WARDEN: Oh, yes. Okay, yes,  
10 I'll accept that.

11 MR. BOB PETERS: And -- and so -- and the  
12 breakdown of the 25 million, I'm confident, is in the  
13 record, but some of that is related to Keeyask?

14 MR. VINCE WARDEN: Yes, it is.

15 MR. BOB PETERS: And let's -- can we  
16 agree on \$10 million, then, as a number, subject to  
17 confirmation, or is that still too high?

18 MR. VINCE WARDEN: Okay, let's go with  
19 that.

20 MR. BOB PETERS: Okay. Let's go with \$10  
21 million a month on Keeyask, and is any of that \$10  
22 million being used by the joint Keeyask limited  
23 partnership agreement for any of its activities?

24 MR. VINCE WARDEN: Oh, yes. There are --  
25 are provisions for ongoing activities and payments

1 related thereto.

2 MR. BOB PETERS: So Manitoba Hydro is  
3 advancing monies to the four (4) parties under the  
4 agreement currently?

5 MR. VINCE WARDEN: Yes.

6 MR. BOB PETERS: And can you indicate to  
7 the Board what the total -- if Keeyask expenditures to  
8 date are approximately 400 million, or you've said just  
9 over \$400 million, Mr. Warden, what does Manitoba Hydro  
10 expect to be the total expenditure prior to all  
11 regulatory approvals being obtained?

12 MR. VINCE WARDEN: Mr. Peters, I believe  
13 we did provide -- in earlier cross-examination, we did  
14 provide a timeline as to when we expected those approvals  
15 to be obtained, and there was a -- a schedule of -- of  
16 expenditures that were forecast.

17 MR. BOB PETERS: I'm sorry, sir. If you  
18 -- if that's done, then I'll -- I'll take your answer and  
19 I'll find that reference.

20 MR. VINCE WARDEN: I believe that was  
21 done, Mr. Peters.

22 MR. BOB PETERS: So the -- sorry, sir.  
23 Employees are being hired pursuant to this agreement,  
24 this joint partnership agreement on Keeyask?

25 MR. VINCE WARDEN: No, there would be no

1 employees. Well, hired for purposes of design work,  
2 preparatory work, yes, but the -- the number of employees  
3 that would be -- are being hired are -- are minimal.

4 MR. BOB PETERS: Is there -- is there --  
5 there's no contruc -- construction workers being hired is  
6 what I'm hearing in your answer.

7 MR. VINCE WARDEN: There are not.  
8 However, there may be some -- some work done in advance,  
9 with the expectation that approvals will be obtained in  
10 due course. So, in order to protect the -- the proposed  
11 in-service date, or the projected in-service date, of  
12 2019 for Keeyask, there may be certain activities that  
13 would include some construction, some road, some  
14 clearing, some camp work, preparatory work of that nature  
15 that would have to take place prior to all approvals  
16 being in place.

17 MR. BOB PETERS: And when -- when the  
18 Corporation says protect -- protect the date, why, Mr.  
19 Warden -- we can all agree that it takes a long lead time  
20 to build a hydro dam, correct?

21 MR. VINCE WARDEN: It does.

22 MR. BOB PETERS: Maybe as long as ten  
23 (10) years.

24 MR. VINCE WARDEN: Yes.

25 MR. BOB PETERS: And that's a number that

1 we use in these discussions.

2 MR. VINCE WARDEN: Well, it's a number  
3 we've used particularly related to a -- a larger station  
4 like Conawapa, yes.

5 MR. BOB PETERS: And so the in-service  
6 date of Keeyask of 2020 is being protected by the  
7 expenditures being made to date?

8 MR. VINCE WARDEN: Yes.

9 MR. BOB PETERS: Why is it that the  
10 Corporation doesn't first secure the contract from a  
11 customer that wants power in 2020, or now 2021, and then  
12 start building, if it takes the same ten (10) years?

13 MR. VINCE WARDEN: Well, we're -- we're  
14 definitely on that -- on that path towards securing those  
15 contracts. There's every expectation that those  
16 contracts will be finalized, and recognizing, of course,  
17 that we do, not only for -- not only for export  
18 contracts, but we do need a new source of generation to  
19 serve the Manitoba load as well.

20 MR. BOB PETERS: Mr. Warden, though those  
21 same intentions existed with Conawapa 1, and things for  
22 reasons unforeseen didn't pan out, but I'm just wondering  
23 why is it in that -- in your industry, don't you go to  
24 customers and say, if you want power by 2022 you've got  
25 until the end of this year to come to an agreement with

1 us otherwise we need a -- we need more time. And we're  
2 not going to -- we're not going to turn a wheel until you  
3 sign on the dotted line.

4 MR. VINCE WARDEN: Well, that's probably  
5 a -- a question more directed towards Mr. Cormie, but I  
6 think there's a lot of -- of considerations that go into  
7 negotiations and it's not quite as simple as you just  
8 outlined.

9 MR. BOB PETERS: Well, I -- I do  
10 appreciate that the -- the negotiations are complex, but  
11 as the vendor, you're telling Manitobans that they've --  
12 they're -- they're spending up the \$400 million already  
13 and we're still waiting for agreements to be legally  
14 binding and valid. And in the meantime Manitoba Hydro is  
15 going to have to keep spending money to -- to prote --  
16 protect a date that's being used in the negotiations?

17 MR. DAVID CORMIE: Now, Mr. Peters, we  
18 have legally binding and valid contracts with Minnesota  
19 Power, Wisconsin Public Service, and Northern States  
20 Power for 475 megawatts that will come out of Keeyask  
21 once it goes into service.

22 Those contracts are no longer term sheets.  
23 Those are signed and sealed. They are subject to  
24 regulatory approval and that will take some time. But  
25 there's -- we have no concerns that they're not going to

1 -- they're not going to get through the regulatory  
2 process. And those contracts for Keeyask exist.

3 MR. BOB PETERS: I -- I appreciate that  
4 you treat them as legally binding, but at this point they  
5 still have some conditions precedent, or conditions that  
6 have to be met before the parties are obliged, and I'm  
7 not trying to get too legal on this, but before the  
8 parties are obliged to -- to commit to them?

9 MR. DAVID CORMIE: Right. And -- and --  
10 and there are conditions precedent to protect both sides,  
11 including Manitoba Hydro. We need to get regulatory  
12 approval in Canada. Those contracts require our  
13 customers to get regulatory approval in the United  
14 States. There's a -- a risk there that's shared -- a  
15 common risk there that's shared by both parties.

16 MR. BOB PETERS: But Manitoba Hydro is  
17 the one that's spending the money while the risk is being  
18 shared, and -- isn't that the case, Mr. -- Mr. Cormie?

19 MR. DAVID CORMIE: That is -- that is  
20 true, but we are also -- have a very deliberate stage of  
21 that decision process that allows us -- that delays the  
22 expenditure of the money to the last possible date  
23 necessary to protect the in-service date.

24 And we don't take those decisions without  
25 having confidence, as we did with the Minnesota Power

1 sale, that that thing would proceed to signature and we  
2 don't spend money without a high level of confidence that  
3 -- that these customers are going to take delivery.

4 One (1) of the strategies that we have is  
5 -- is negotiating with several customers at the same time  
6 so that we don't get caught like we did with Conawapa  
7 with having one (1) customer walking away. And -- and in  
8 the case of the Keeyask decision we have three (3)  
9 customers who are share -- who are -- who are -- who are  
10 participating and, you know, that just reflects the --  
11 the magnitude of the risk and our need to spread that  
12 risk -- that -- that customer risk out over many  
13 customers.

14 MR. BOB PETERS: Mr. Warden, the monies  
15 being paid relative to Keeyask. Are you able to give the  
16 Board any understanding as to how much of that is being  
17 paid out pursuant to the joint Keeyask partnership  
18 agreement?

19

20 (BRIEF PAUSE)

21

22 MR. BOB PETERS: Percentage-wise will let  
23 us do the math on our own if you're -- if you're able to  
24 give us that?

25

MR. VINCE WARDEN: I don't have that

1 number immediately available, Mr. Peters. If -- if it's  
2 important I can take that as an undertaking. Oh, I'm  
3 told -- I'm told no more undertakings.

4 MR. BOB PETERS: I think I'm agreeing  
5 with your counsel on that one. But what you're telling  
6 the Board is that there's not a lot of money being spent  
7 on the joint Keeyask partnership agreement in comparison  
8 to what's being spent on construction of the dam?

9 MR. VINCE WARDEN: Well, at this stage a  
10 large portion of what's being spent on Keeyask is  
11 interest capitalized. So the expenditures --  
12 expenditures that we have incurred are attracting  
13 interest and that probably represents in the order of 20  
14 to \$25 million per year.

15 MR. BOB PETERS: Mr. Chairman, this might  
16 be an appropriate time to take the lunch recess.

17 THE CHAIRPERSON: Okay.

18 MR. BOB PETERS: And prepare to come back  
19 at the -- the earliest convenience of the Board.

20 THE CHAIRPERSON: One o'clock.

21 MR. BOB PETERS: Thank you.

22

23 --- Upon recessing at 12:02 p.m.

24 --- Upon resuming at 1:02 p.m.

25

1 THE CHAIRPERSON: Okay, folks. Mr.  
2 Peters...?

3

4 CONTINUED BY MR. BOB PETERS:

5 MR. BOB PETERS: Yes. Thank you, Mr.  
6 Chairman. Mr. Warden, if you could return back to page  
7 9. And you'll also remember page 9 has Exhibit Manitoba  
8 Hydro 45, and you'll remember discussing with Mr. Hacault  
9 this morning Manitoba Hydro Exhibit 115.

10 MR. VINCE WARDEN: Yes, I do.

11 MR. BOB PETERS: And, Mr. Warden, Exhibit  
12 MH-45 found at Tab 9, that was as of March 31 of 2010, so  
13 the full amount of the 1.6 billion for Wuskwatim had not  
14 yet been expended or recorded on the books of the  
15 Corporation.

16 Would that be fair?

17

18 (BRIEF PAUSE)

19

20 MR. VINCE WARDEN: Correct.

21 MR. BOB PETERS: So when the Board looks  
22 at Manitoba Hydro Exhibit 115 they note that you are  
23 using the \$1.6 billion project and you have -- is it  
24 notionally allocated 35 percent of internally-generated  
25 funds? That's a notional allocation?

1 MR. VINCE WARDEN: Yes, it is. I think  
2 we may have explained that another -- in another inder --  
3 undertaking.

4 MR. BOB PETERS: You did.

5 MR. VINCE WARDEN: Yes, okay.

6 MR. BOB PETERS: And so what you've done  
7 is you've taken the long-term borrowings of a billion and  
8 you've calculated the carrying cost related to the  
9 billion dollars, correct?

10 MR. VINCE WARDEN: Correct.

11 MR. BOB PETERS: You didn't -- you didn't  
12 take any carrying cost depreciation, capital tax, water  
13 rental on the \$548 million that also comprises the total  
14 capital cost?

15 MR. VINCE WARDEN: No, that wouldn't be  
16 correct. I think we, for purposes of the -- we -- we --  
17 what we were attempting to do here is show the impact on  
18 the operating statement in the first year of operation.

19 So the billion dollars would only be  
20 affected -- or that is finance expenses would only be  
21 affected by the billion dollars. The other -- the other  
22 cost, the depreciation, OM&A, capital tax, water rentals  
23 should all be based on -- on the total capital cost of  
24 Wuskwatim, 1.6 billion.

25 MR. BOB PETERS: And so for the \$548

1 million of -- of ratepayers' money that you've spent on  
2 Wuskwatim is there any return coming to the ratepayers on  
3 that money as if it was long-term debt?

4 MR. VINCE WARDEN: Well, yes, as I  
5 explained this morning in -- in rebuttal, the re -- the  
6 return comes in the form of capitalized interest. So  
7 interest is capitalized on -- on ratepayers' money, as  
8 you call it, such that the current-year operations  
9 reflects interest capitalized on all capital projects.

10 So ra -- current year ratepayers, as far  
11 as the income statement is concerned, receives the  
12 benefit of capitalized interest on monies contributed by  
13 ratepayers during the year.

14 MR. ROBERT MAYER: Mr. Warden, why do we  
15 pay capital tax? Or sorry, not capital tax. Why do we  
16 pay water rentals if we're not producing any power?

17 MR. VINCE WARDEN: This -- this is  
18 projected in the first year of operations, so the water  
19 rentals would be applicable to that first year.

20 MR. ROBERT MAYER: At which point we have  
21 only one (1) turbine running, right?

22 MR. VINCE WARDEN: This would have been  
23 the first full year.

24

25 CONTINUED BY MR. BOB PETERS:

1                   MR. BOB PETERS:    Mr. Warden, the \$548  
2 million of what I've called the ratepayers' monies, the  
3 ratepayers don't get a return on it, but you're saying  
4 their return is in the fact that they don't have higher  
5 interest rates?

6                   Is that what you're saying?

7                   MR. VINCE WARDEN:   Well, in effect, they  
8 do get a return on it. They are receiving a credit on  
9 the income statement of Manitoba Hydro through interest  
10 capitalized that would otherwise, if that credit wasn't  
11 there, would have to be recovered from ratepayers. So  
12 there's a credit against costs that would otherwise have  
13 to be recovered from ratepayers.

14                   So, yes, they are getting a return.  
15 They're getting a return from the day that those monies  
16 are used right through until that capital asset is  
17 ultimately retired, so in -- in the form of interest  
18 capitalized during construction, and then lower interest  
19 costs during -- during operation and -- and use of that  
20 asset.

21                   MR. BOB PETERS:    So they didn't pay for  
22 the interest during the building of it, they used  
23 internally generated funds, and the interest that would  
24 otherwise be on those funds has been put into the capital  
25 side of the -- of the ledger?

1 MR. VINCE WARDEN: Yes, there --

2 MR. BOB PETERS: And then --

3 MR. VINCE WARDEN: It's -- look at it as  
4 -- as an investment in that capital asset on behalf of  
5 ratepayers.

6 MR. BOB PETERS: And when do the  
7 ratepayers have to repay that capital interest that  
8 you've put on the capital side?

9 MR. VINCE WARDEN: They don't. They --  
10 the ratepayers that -- that contribute towards that  
11 capital asset receive the benefits of that investment  
12 throughout the life of that -- of that asset being used.

13 MR. BOB PETERS: But the interest portion  
14 remains capitalized for the entire life of that asset?

15 MR. VINCE WARDEN: Yes. Yes, it forms  
16 part of the cap -- capital costs of that asset.

17 MR. BOB PETERS: And if it forms a part  
18 of the capital costs of that asset, that total capital  
19 cost is eventually recovered through ratepayers.

20 MR. VINCE WARDEN: Well, yes, but -- that  
21 is -- that is correct. So they -- they would recover,  
22 but the -- I think we were talking this morning about an  
23 intergenerational equity issue, and I was explaining that  
24 only the customers that use that asset are going to pay  
25 for that asset. That was yesterday.

1 (BRIEF PAUSE)

2

3 MR. BOB PETERS: Mr. Warden, your  
4 evidence to the Board is that the ratepayers of today are  
5 getting a benefit from having their monies used to pay  
6 for part of Wuskwatim, correct?

7 MR. VINCE WARDEN: They're not being  
8 charged, or -- as was characterized by witnesses for  
9 MIPUG earlier in their testimony, and which I tried to  
10 explain wasn't the case yesterday. They're not being  
11 charged -- they're not prefunding or prepaying for -- for  
12 Wuskwatim, or any other capital asset. Only those  
13 ratepayers that make use of that asset are -- are paying  
14 for the asset when it's used and useful.

15 MR. BOB PETERS: And when it comes in  
16 service, that's when those capitalized interest, as well  
17 as other capitalized costs, will come to bear on the  
18 rates of the consumers?

19 MR. VINCE WARDEN: That's right.

20 MR. BOB PETERS: Mr. Warden at tab --  
21 page 10 of the book of documents, and page 11 and 12 --  
22 does Manitoba Hydro accept the MIPUG calculations on page  
23 12 of the documents I handed out this morning? And I  
24 included there a -- page 58 from the testimony of Messrs  
25 Bowman and McLaren. Actually...

1 (BRIEF PAUSE)

2

3 MR. BOB PETERS: Mr. Wiens -- oh.

4 MR. VINCE WARDEN: Mr. -- Mr. Peters,  
5 we're struggling a little bit to put this into context.  
6 We weren't exactly sure how this was used. The numbers  
7 don't look unreasonable, but on the other hand we  
8 couldn't necessarily verify them at this time. And I --  
9 I'm not too certain, for purposes of your line of  
10 questioning, how important it is we -- we verify the  
11 numbers.

12 MR. BOB PETERS: Well, I'm wondering if  
13 Manitoba Hydro agrees with the bulk power costs shown on  
14 line 1, as calculated by the MIPUG witnesses.

15

16 (BRIEF PAUSE)

17

18 MS. PATTI RAMAGE: Mr. Peters, is this  
19 important for the line of questioning, because the  
20 witnesses haven't prepared for this. It's not part of  
21 the undertakings. It's --

22 MR. BOB PETERS: Well, Ms. Ramage, would  
23 -- when we look at what Manitoba Hydro provided at  
24 Manitoba Hydro Exhibit 50, Manitoba Hydro attempted to  
25 estimate the average bulk power costs as well, and I'm

1 just asking the Company whether or not this new  
2 information is -- is acceptable to them. And I'm  
3 prepared to hear the words: We'll accept it subject to  
4 check.

5

6 (BRIEF PAUSE)

7

8 MR. ROBIN WIENS: Mr. Peters, subject to  
9 check, we will accept the numbers as calculated by  
10 MIPUG's witnesses, and if we have any concerns we will  
11 get back to the -- to the Board in writing.

12

13 CONTINUED BY MR. BOB PETERS:

14 MR. BOB PETERS: And thank you. And  
15 that's -- you're saying that answer, Mr. Wiens, with  
16 respect to the entire calculations they performed on the  
17 page?

18 MR. ROBIN WIENS: Sure.

19 MR. BOB PETERS: All right. Thank you.

20 Mr. Warden, in your direct evidence to Ms.  
21 Ramage on the first day of the Hearing, you provided the  
22 Board with an indication as to what the export prices  
23 were doing. On page 14 of the documents that you have in  
24 front of you, we have the '09 and the fiscal '10 revenue  
25 numbers.

1                   Are you able to provide the Board numbers  
2 they can pencil in from fiscal 2011, that is dependable  
3 and opportunity?

4                   MR. VINCE WARDEN:    I can provide the  
5 Board with imprecise numbers, but they will be close to  
6 the -- to the actual numbers.  I don't have them right in  
7 front of me.

8                   But dependable is in the range of five  
9 point five (5.5), and opportunity would be in the range  
10 of two point three (2.3).

11                  MR. BOB PETERS:    So the dependable export  
12 sales will be just down marginally from the last two (2)  
13 years, in average price?

14                  MR. VINCE WARDEN:   Yes, and that would be  
15 more to do with the exchange rate than it would be with  
16 the actual price that we're receiving on them -- on the  
17 US market.

18                  MR. BOB PETERS:    Well, it would have  
19 everything to do with the price you receive on the US  
20 market, because it's not denominated in US dollars,  
21 wouldn't it?

22                  MR. VINCE WARDEN:   But the price that  
23 we're transacting with couterparties, I'm saying is  
24 affected by the exchange rate.  And that's why we're  
25 seeing the decreases, because of the exchange rate.

1 MR. BOB PETERS: All right. Thank you,  
2 sir. On page 15, are you able to tell the Board in terms  
3 of Manitoba Hydro's purchases of dependable energy for  
4 fiscal 2011 what the average price is, approximately?

5

6 (BRIEF PAUSE)

7

8 MR. VINCE WARDEN: Mr. Peters, the -- the  
9 prices in 2010/'11 have not changed material -- or from -  
10 - from the previous year, from '09/'10.

11 MR. BOB PETERS: So dependable purchases  
12 are around the four point three (4.3) cents, and the  
13 opportunity probably averages out around two point six  
14 (2.6) cents?

15 MR. VINCE WARDEN: Yes.

16 MR. BOB PETERS: And then the overall  
17 average of purchases. then again it's probably close to  
18 the four point one (4.1) cent?

19 MR. VINCE WARDEN: Yes.

20 MR. BOB PETERS: And if I flip back to  
21 page 14, I forgot to ask you then, on a -- on an overall  
22 average the Corporations' exports were returning, on  
23 average, combining both dependable and opportunity,  
24 around three point one (3.1), three point two (3.2)  
25 cents?

1 MR. VINCE WARDEN: Well, I -- I do know  
2 the average in to -- '10/'11 did work out to be  
3 identical, three point three (3.3). So the different mix  
4 that we had in ele -- '10/'11 worked out to be the very  
5 same, three point three (3.3) cents per kilowatt hour.

6 MR. BOB PETERS: Thank you, sir. In  
7 terms of the mix, you'll find at Tab 16 and 17 the mix  
8 that was provided for fiscal 2010.

9 Would you be able to indicate whether the  
10 mix was -- where the difference in the mix was, sir?

11

12 (BRIEF PAUSE)

13

14 MR. DAVID CORMIE: Mr. Peters, the only  
15 difference for the year that just ended compared to the  
16 previous year was that there were probably significantly  
17 less opportunity term transactions and -- and relatively  
18 more spot market transactions. Dependable transactions  
19 would have been about the same.

20 MR. BOB PETERS: They'd stay about 30  
21 percent of your export load?

22 MR. DAVID CORMIE: Yeah.

23 MR. BOB PETERS: Why -- why would that  
24 happen, Mr. Cormie? In general terms for the Board's  
25 understanding, why would your opportunity term be down

1 when, in my words, you're flush with water?

2 MR. DAVID CORMIE: Well, it's -- it's  
3 more having to do with our customers willing -- wanting  
4 to hedge their price risk. And given the soft market and  
5 -- and the lack of volatility, they're not exposed to  
6 high prices. It's that exposure to high prices that want  
7 -- that -- that requires them to lock in at fixed price  
8 in -- in the -- in the forward markets.

9 Over the last few years that appetite has  
10 -- has not been there because of the soft spot market  
11 prices.

12 MR. BOB PETERS: All right. I get -- I  
13 understand your point. What you're telling the Board is  
14 that the customers can -- can shop around for energy  
15 fairly cheaply and they're not worried about having to  
16 lock in opportunity term at a fixed price when they think  
17 the market will be there, perhaps even lower in price for  
18 their -- their spot opportunity purchases?

19 MR. DAVID CORMIE: Yes, the -- both --  
20 both customers want -- they -- they may want to -- want  
21 to hedge. But Manitoba Hydro's not prepared to hedge,  
22 sell forward, unle -- if we don't see a significant  
23 premium over -- taking it to the spot market. Because  
24 any time you forward a contract you attract risk, and if  
25 there's not a premium associated with that, just locking

1 in at prices that you're going to get -- expect to get at  
2 -- on the -- on the spot market doesn't provide any  
3 advantage to Manitoba Hydro, it just creates risk and  
4 potential costs.

5                   So we -- both parties have to find a  
6 reason for doing this, and right now the reasons aren't -  
7 - aren't there that -- that were historically.

8                   MR. BOB PETERS:    So it's not jus -- it's  
9 not just your counterparties who didn't want to come to  
10 the dance; it's Manitoba Hydro wasn't necessarily willing  
11 to lock in either because the -- they'd be carrying the  
12 risk of -- of the market movement?

13                   MR. DAVID CORMIE:    Yes, if we -- if we  
14 realized that the -- the price that they're willing to  
15 settle at is exactly what we'd get in the spot market,  
16 why -- why would we do that? It -- it doesn't -- there's  
17 no business sense to that.

18                   MR. BOB PETERS:    Thank you, sir. On page  
19 18, Mr. Warden, there is a very lengthy list of documents  
20 that ICF reviewed in terms of preparation of its report.  
21 And there are three (3) -- and I -- also at page 19 is an  
22 undertaking that the hyd -- that the Corporation gave  
23 with respect to some reports that I believe I requested.

24                   However, there are three (3)  
25 presentations, Mr. Warden, and I attempted to highlight

1 them: "A Presentation: Past, Present, and Future of  
2 Prairie Droughts, by Leavitt: How Bad is Bad?" and then  
3 the two (2) underneath that.

4 I did not believe those were provided, and  
5 I did not understand those were subject to the copyright  
6 concern that the Corporation had when it answered my  
7 question. What I'm looking for, sir, are copies of those  
8 presentations, and it wasn't provided with this  
9 undertaking or the one at page 19 of the documents I  
10 handed out.

11 And I'm not asking you to take another  
12 undertaking, but I'm asking you to answer this one fully,  
13 if I could get around Ms. Ramage's objection that way.

14 MR. HAROLD SURMINSKI: Mr. Peters, could  
15 you repeat the three (3) again?

16 MR. BOB PETERS: Yes, sir. It's -- it --  
17 three (3) of them start with the word "presentation," and  
18 one (1) is called, "Presentation: Past, Present, and  
19 Future of Prairie Droughts, Leavitt [et al]: How Bad is  
20 Bad?" and the two (2) underneath -- directly underneath  
21 that. And I...

22

23 (BRIEF PAUSE)

24

25 MS. PATTI RAMAGE: Mr. Peters, what --

1 what were you looking for here?

2 MR. BOB PETERS: I'm looking for three  
3 (3) presentations.

4 MS. PATTI RAMAGE: I -- I'm just looking  
5 at Manitoba Hydro Undertaking 62 revised, which is  
6 Exhibit 108 revised, and it says, at the bottom of page 1  
7 of 2:

8 "ICF further reviewed the following  
9 article: The Past, Present, and Future  
10 of Prairie Droughts: How Bad is Bad?"  
11 Authors are indicated.

12 "Due to copyright reasons a link to  
13 this document could not be provided."

14 Is that what you're looking for?

15 MR. BOB PETERS: No, it's not.

16 MS. PATTI RAMAGE: Or that's -- okay.

17 MR. BOB PETERS: What I'm looking for are  
18 the presentations that were in the hands of ICF, not the  
19 actual article itself.

20 Mr. Chairman, I'm prepared to move on and  
21 just have Ms. Ramage alerted to the fact that my position  
22 at this time is that undertaking hasn't been complied  
23 with. And if she could investigate that further, I'm  
24 sure we can resolve this issue.

25 MS. PATTI RAMAGE: Yeah. We can

1 investigate because I suspect it's not a presentation, I  
2 think it's the article, but we'll look into that.

3 MR. BOB PETERS: And -- and if it is an  
4 article and we have the reference to it or the -- where  
5 it can be located, we're certainly prepared to pay the  
6 twenty-five (25) cents a page for copyright acquisitions.

7 Thank you, Ms. Ramage, and thank you, Mr.  
8 Chairman.

9

10 CONTINUED BY MR. BOB PETERS:

11 MR. BOB PETERS: I'd like to turn to page  
12 20. Mr. Cormie, Mr. Gange had -- had already discussed  
13 with you this morning, if we -- the Minnesota Public  
14 Utilities Commission pronouncement has -- relates to what  
15 we've been calling the NSP, or Northern States Power/Xcel  
16 Energy Agreement that Manitoba Hydro has, correct?

17 MR. DAVID CORMIE: Yes.

18 MR. BOB PETERS: And we've often -- we --  
19 this is the sale that's to start in 2015 and run for ten  
20 (10) years, to 2025?

21 MR. DAVID CORMIE: That's correct.

22 MR. BOB PETERS: And it's a 375 megawatt  
23 sale in the winter and -- or sorry, 375 megawatt sale  
24 initially, and it may get bumped up to 500 megawatts,  
25 depending on the capital plans of the Corporation.

1 MR. DAVID CORMIE: Correct.

2 MR. BOB PETERS: And in terms of the  
3 filing on page 21, on the public record of the Minnesota  
4 Public Utilities Commission there's a document where the  
5 Office of Energy Security had some questions or concerns.

6 And you're aware of that, sir?

7 MR. DAVID CORMIE: I do.

8 MR. BOB PETERS: And in -- in response to  
9 the Office of Energy Security, Xcel Energy provided  
10 information responses, much the same as we use in this  
11 regulatory process?

12 MR. DAVID CORMIE: They did.

13 MR. BOB PETERS: And in the -- in the  
14 indication on page 21 that NSP negotiated a reduction in  
15 energy requirements from five (5) by sixteen (16), to  
16 five (5) by twelve (12), in the winter season when we  
17 need less energy, which provides substantial savings.

18 If -- if NSP has substantial savings does  
19 that mean Manitoba Hydro had to forgo some revenue gains?

20 MR. DAVID CORMIE: No, there were  
21 substantial benefits from Manitoba Hydro in those hours  
22 as well, so it was a mutually beneficial change to the  
23 winter. Those hours in the morning, we call them the  
24 "shoulder hours," are from -- they're shoulder hours from  
25 NSP's perspective and so they're of lower value. From

1 Manitoba Hydro's perspective that's when the Manitoba  
2 Hydro load is that highest, and so reducing our  
3 obligation to NSP in the shoulder hours in the winter  
4 time frees up those resources to serve Manitoba load, and  
5 so there is substantial production cost savings to  
6 Manitoba Hydro from doing that.

7                   So this was a change that was beneficial  
8 to both parties.

9                   MR. BOB PETERS:     But Manitoba Hydro  
10 didn't -- doesn't need new energy to serve this NSP  
11 agreement, correct?

12                  MR. DAVID CORMIE:    No, but it's a matter  
13 of lost opportunity costs and production costs.

14                  MR. BOB PETERS:     And does that mean that  
15 Manitoba Hydro will receive greater revenues from its  
16 Manitobans waking up in the morning and using the energy,  
17 rather than shipping it to -- to the counterparty?

18                  MR. DAVID CORMIE:    No, it means that the  
19 cost of serving the combined load of Manitoba Hydro and  
20 Northern States Power under those terms are more  
21 favourable to Manitoba Hydro than if we had maintained a  
22 sixteen (16) hour schedule rather than a twelve (12) hour  
23 schedule.

24                  MR. BOB PETERS:     And when you -- when you  
25 say five (5) by sixteen (16), what -- when does -- when

1 does the sixteen (16) start, and when does the twelve  
2 (12) start, and end, I guess?

3 MR. DAVID CORMIE: The sixteen (16) was -  
4 - is from hour ending seven (7), which starts at six  
5 o'clock in the morning, and it ends at ten o'clock at  
6 night. Those are the sixteen (16) hours.

7 MR. BOB PETERS: And the -- the five (5)  
8 by twelve (12) power would start -- would it also start  
9 at 6:00 a.m.?

10 MR. DAVID CORMIE: No, it won't start at  
11 -- at 6:00 a.m.; it'll be two (2) hours later.

12 MR. BOB PETERS: 8:00 a.m. to 8:00 p.m.  
13 would then be the duration, sir?

14 MR. DAVID CORMIE: Subject to check, I --

15 MR. BOB PETERS: That's fine.

16 MR. DAVID CORMIE: -- agree with that.

17 MR. BOB PETERS: There's also an  
18 indication in the next paragraph that, in terms of  
19 significant features of the negotiations, these  
20 negotiations, sir, which -- which years of term sheets  
21 were at play when one was negotiated into another one, is  
22 -- from what I'm gathering?

23 Maybe I should reword the question. When  
24 NSP and Manitoba Hydro initially were into an  
25 arrangement, it appears there was a negotiation that took

1 place that gave rise to replace the original term sheet.

2 MR. DAVID CORMIE: There was only one (1)  
3 term sheet. It was -- the date on the term sheet was  
4 extended several times, mainly because NSP had  
5 experienced a change of circumstance during the -- the  
6 period. The legislation in Minnesota required them to  
7 buy 4,000 megawatts of wind that they hadn't previously  
8 counted on. That meant they needed to reevaluate the  
9 value of the purchase from Manitoba Hydro. So there was  
10 a nine (9) month hiatus as they reevaluated it.

11 After that, they -- we needed to negotiate  
12 with MISO a product that would be recognized in the MISO  
13 market, because MISO is now starting to accredit the  
14 transactions. And so both parties took a hiatus from  
15 negotiations and went to MISO and -- and worked with  
16 MISO, so that we knew exactly what the product was going  
17 to be. That resulted in a delay.

18 And so, over -- and then -- and then we  
19 had the -- then we had the recession and NSP load  
20 reductions, and that created a -- a change of  
21 circumstances as well. And all through that period of  
22 time, we were negotiating, trying to find a product that  
23 was good for Manitoba Hydro and -- and good for Xcel  
24 Energy. And -- and the renegotiations involved Manitoba  
25 Hydro gaining rights to transmission service that wasn't

1 originally part of the transmission -- of -- of the -- of  
2 the term sheets, and, in exchange for that, we gave up  
3 some things, and, at the end of the day, we came to a  
4 package that was favourable for both companies.

5 MR. BOB PETERS: And the next sentence  
6 indicates that Manitoba Hydro agreed to a decrease in the  
7 capacity in energy prices.

8 MR. DAVID CORMIE: Yes, but it doesn't  
9 indicate it was a decrease in capacity in energy prices  
10 from the prices that were in the term sheet. It said as  
11 part of any negotiation, as you add features, you raise  
12 the price up, and as you renegotiate other values, the  
13 price goes down. Well, they ended up getting the last  
14 bounce on the ball, but it -- but the prices are not  
15 lower than what was originally laid out in the term  
16 sheet.

17 MR. BOB PETERS: And the prices include  
18 environmental attributes, according to the next sentence.

19 MR. DAVID CORMIE: Ultimately, they  
20 decided that they did want the attributes, and they are  
21 included as part of the -- of the price.

22 MR. BOB PETERS: And because they're  
23 included as part of the price, if and when there's a  
24 carbon regime, Manitoba Hydro cannot charge more for  
25 them.

1                   Would that be fair?

2                   MR. DAVID CORMIE:    We've already got our  
3 value through the -- through the price.  The price that  
4 we negotiated included a price for the attributes.

5                   MR. BOB PETERS:    On page 22 we see -- and  
6 a point made by -- I'm just not sure if it was Mr. Gange  
7 or Mr. Hacault.  But under the adverse water provisions  
8 you've not reviewed with, I guess, Mr. Hacault the -- the  
9 available energy tables, and there is no adverse water  
10 provision in the current NSP agreement.

11                   Is that correct?

12                   MR. DAVID CORMIE:    That's correct.

13                   MR. BOB PETERS:    And so there are adverse  
14 water provisions in some of the other agreements the  
15 Corporation presently has with other counterparties other  
16 than NSP?

17                   MR. DAVID CORMIE:    There's one (1), yes.

18                   MR. BOB PETERS:    And in terms of the new  
19 arrangement with NSP that went before the Minnesota  
20 regulator, it indicates that the adverse water provision  
21 cannot be triggered by Manitoba Hydro in the summer  
22 months.

23                   Would that be a correct understanding?

24                   MR. DAVID CORMIE:    Yes, we -- we can only  
25 trigger it for the winter season.

1                   MR. BOB PETERS:    And in the event that  
2 Manitoba Hydro triggers it in the winter season, there  
3 are energy pricing conditions that provide a disincentive  
4 to Manitoba Hydro to declare adverse water except in  
5 extreme circumstances?

6

7                                       (BRIEF PAUSE)

8

9                   MR. DAVID CORMIE:    Because Manitoba Hydro  
10 has to exercise the heat rate call option for the entire  
11 winter in blocks of 50 megawatts, it creates a -- there --  
12 -- there really has to be a very significant economic  
13 situation that -- that would occur for the price of power  
14 to -- for the whole winter season to out of the -- to be  
15 in the money at the heat rate that was negotiated.

16                                       So, as opposed to a call option that you  
17 had on a daily basis, this is a seasonal day -- this is a  
18 seasonal call. You have to exercise it for the whole  
19 winter. And so there is a -- it's structured that way so  
20 that there is an economic disincentive. It -- there  
21 really has to be a need for the power to remain in  
22 Manitoba before Manitoba Hydro would exercise that.

23                                       So NSP is protected by that -- by -- by  
24 that -- by that structure. It doesn't mean that Manitoba  
25 Hydro can't exercise it, and -- but clearly it's not for

1 economic advantage. And our intention would never be to  
2 exercise it to take advantage of the ability to buy based  
3 on the heat rate call option, and then just take that  
4 energy to the export market.

5           Adverse water conditions are there. And  
6 the definition is we're not able to meet our firm load  
7 obligations unless we exercise the option. We're -- it  
8 doesn't say you can exercise these if you think that  
9 there's an economic advantage to it. It has to be tied  
10 that there's a shortage.

11           And so I think the OES in these comments  
12 is saying: Well, there -- in addition to that, there ha -  
13 - there's a very -- there's a huge disincentive for  
14 Manitoba Hydro to do that, so you're -- even though they  
15 have the right, they'll rarely use it unless there is a  
16 shortage. They won't -- they won't exercise it for -- to  
17 -- for -- they won't gain it for economic advantage.

18           And I agree with them. And that was  
19 always our intention.

20           MR. BOB PETERS: And on page 24 of what  
21 I've handed you is the, dare I use the word, redacted  
22 formula that you were referencing in your last answer to  
23 me, Mr. Cormie, and that is the -- the heat rate option  
24 is calculated pursuant to a formula that's spelled out in  
25 this document?

1 MR. DAVID CORMIE: Yes.

2 MR. BOB PETERS: Just a point: The heat  
3 rate option is not exercisable in units of 50 megawatts?

4 It is -- is that correct, or is that  
5 wrong?

6 MR. DAVID CORMIE: No, that -- that's  
7 correct. So we have an obligation in the winter to  
8 supply them with 325 megawatts, which works out to six  
9 and half (6 1/2) blocks of 50 megawatts, right?

10 So we can trigger -- of the three hundred  
11 and twenty five (325), we can exercise it for the first  
12 fifty (50), or for a total of a hundred, or a hundred and  
13 fifty (150), two hundred (200), two fifty (250), three  
14 hundred (300), and then the las -- and then in one (1)  
15 final block of twenty-five (25). So it's in blocks of 50  
16 megawatts except for the last block.

17 MR. BOB PETERS: Is the call option price  
18 of those six and a half (6 1/2) blocks able to be a  
19 different dollar amount?

20 MR. DAVID CORMIE: No, it's all at the  
21 same heat rate.

22 MR. BOB PETERS: Okay.

23

24 (BRIEF PAUSE)

25

1                   MR. BOB PETERS:    And on page 23, if you  
2    could just explain to the board that even under adverse  
3    water conditions, while Manitoba Hydro has the right to  
4    reduce its offer of fixed price energy during the winter  
5    season, however Hydro -- Manitoba Hydro must continue to  
6    offer the fixed price energy portion of Manitoba Hydro's  
7    must-offer energy.

8                   MR. DAVID CORMIE:    Yes.  Yes, that's  
9    correct.  We have two (2) obligations.  One (1) is -- is  
10   to Xcel to provide them with their 325 megawatts, or  
11   three hundred and seventy-five (375) in the summer.  And  
12   -- and we have the right to serve that obligation by  
13   purchasing energy in the market.

14                   And we also have an obligation under the  
15   MISO product that we're -- that we had accredited; we  
16   have to be -- be able to on each and every day of the  
17   contract, supply for a period of four (4) hours and make  
18   physical delivery of energy.  So we at all times have to  
19   be in a position to physically delivery at a -- for at  
20   least four (4) hours.

21                   So that means that this is not something  
22   that you can financially settle.  You have to have  
23   resources that MISO can call on for that four (4) hour  
24   period over their peak.

25                   And so that's the must-offer obligation to

1 MISO. And so even though we financially settled with --  
2 with Xcel, we will have to be physically able to deliver  
3 to MISO those four (4) hours.

4 Now, we can offer them our combustion  
5 turbine energy at thousand dollars a megawatt hour. It  
6 won't clear the market, but we have to have -- we have to  
7 be prepared to -- if it did clear the market, to -- to  
8 deliver that energy.

9 So as I said this morning, it's not likely  
10 that we'll be -- we will ever -- in -- in adverse water  
11 we -- we actually physically deliver. We'll financially  
12 settle, we'll be prepared to physically deliver, but --  
13 but energy won't flow, so the full 629 gigawatt hours  
14 that's available to us under the adverse water right can  
15 be -- can be -- can be counted on. But we need to have -  
16 - we need to be able to deliver under the capacity for at  
17 least four (4) hours each and every day of the contract  
18 period.

19 MR. BOB PETERS: Does the counterparty  
20 mandatorily have to purchase, if Manitoba Hydro makes the  
21 offer?

22 MR. DAVID CORMIE: Yeah. To the extent  
23 that we deliver, NSP buys it at the contract price. It  
24 has nothing to do with what our cost of production is.

25 In the same way if we're able to source

1 the energy off the market at a lower price than our own  
2 production cost, they've said you can do that. They  
3 don't really care what it costs Manitoba Hydro to  
4 deliver, and if we have an opportunity to save money by  
5 sourcing the energy from the market, they -- they'd let  
6 us do that. But it -- in the same way if we can't and we  
7 have to run our combustion turbines to serve the sale,  
8 then that's part of the deal as well.

9                   You fundamentally have to be -- have to  
10 have the resources to deliver the product. Financial  
11 settlement is something that you can exercise, but it  
12 doesn't relieve your obligation to physically back the  
13 transaction.

14                   MR. BOB PETERS: Thank you, sir. As a  
15 result of your negotiations with Wisconsin Public  
16 Service, does the -- does -- on page 25 of the document,  
17 and I appreciate it's not in colour, at least your  
18 version, does the WPS column change in any way?

19                   MR. DAVID CORMIE: No.

20                   MR. BOB PETERS: So you're telling the  
21 Board that it's exactly the same contract on peak price  
22 as before -- as before the most recent announcement of  
23 100 megawatt purchase?

24                   MR. DAVID CORMIE: Yeah, you'll notice on  
25 this chart that those are in 2008 US dollars. It's still

1 -- if you -- you know, no matter when you make delivery,  
2 it's -- if you -- if you -- if you discount it back to  
3 2008 dollars, the 2008 dollars are still the same. We  
4 haven't changed the opening price. We haven't changed  
5 the escalator. We may change the start day of delivered  
6 energy, so the delivery price might go up, because it's  
7 been -- it's subject to more escalation, but that chart  
8 doesn't -- doesn't change.

9 MR. BOB PETERS: And -- and likewise, the  
10 chart on page 26 then doesn't change?

11 MR. DAVID CORMIE: The chart on 26 is  
12 just -- oh, you're referring to the contract price.  
13 That's still the same, yes. Greater than eighty-seven  
14 dollars (\$87) in 2008 dollar -- or 2010 dollars.

15 MR. BOB PETERS: Thank you, sir. On page  
16 27 of the book of documents that I handed out, the -- the  
17 page deals with the potential system participation power  
18 sales to NSP.

19 Has anything on that page changed as a  
20 result of proceedings before the Minnesota Public  
21 Utilities Commission?

22 MR. DAVID CORMIE: The MPUC approved the  
23 transaction, I believe two (2) weeks ago. The only  
24 condition they put on the sale was NSP has to report to  
25 them the progress that Manitoba Hydro is making in

1 building new generation and --

2 MR. BOB PETERS: And they also have to  
3 report Manitoba Hydro's prices over -- every three (3)  
4 months or --

5 MR. DAVID CORMIE: And if we enter into  
6 some forward transactions associated with the non-firm  
7 energy that goes under the transmission, we have to  
8 report those transactions as well. It's a reporting  
9 obligation only.

10 MR. BOB PETERS: On page 28 of what was  
11 handed out again from the ICF document, page 96, this  
12 deals with the Minnesota Power arrangement.

13 Has there -- are there any changes to that  
14 page, as a result of recent events?

15 MR. DAVID CORMIE: Yes. The Minnesota  
16 Power sale now begins on May -- excuse me, June 1st,  
17 2020, and it goes for fifteen (15) years at 250  
18 megawatts. There's no ramp in, there's no ramp out, it  
19 is a block sale. So the -- the start date is now earlier  
20 than indicated on that -- on that table.

21 MR. BOB PETERS: That's the only change,  
22 sir?

23

24

(BRIEF PAUSE)

25

1                   MR. DAVID CORMIE:    I can't go into the --  
2   excuse me, there's been a -- a slight change to the  
3   pricing.  Fundamentally though, the -- the price -- the  
4   price for the fixed price energy hasn't changed, it's the  
5   same.  A portion of -- actually, half of the energy under  
6   the contract had been directly linked to market.  And  
7   there is now a collar around that market that essentially  
8   ties it very close to the fixed price, and that's --  
9   provides benefits both to Minnesota Power if future power  
10  prices in the real-time go very high, and it also  
11  provides significant protection for Manitoba Hydro if  
12  power prices stay low.

13                   And when you evaluate the collar that's  
14  been put around the price, Manitoba Hydro's revenues now  
15  are much less -- are almost 100 percent protected against  
16  marketplace fluctuations, so that -- that was a  
17  significant achievement for Manitoba Hydro.

18                   MR. BOB PETERS:    Are you able to indicate  
19  on the record, Mr. Cormie, in terms of percentage, how  
20  close the collar is to the fixed price?

21                   MR. DAVID CORMIE:    Manitoba Hydro and  
22  Minnesota Power are still negotiating what a -- the  
23  redacted version of the -- the public version of the --  
24  of the contract will look like, and so we're not, at this  
25  point, able to tell you the -- the details of that -- of

1 that collar. But I -- it is a very tight -- a very tight  
2 band, Mr. Peters.

3 MR. BOB PETERS: There is a specific  
4 specified capacity price?

5 MR. DAVID CORMIE: Yes, exactly as was  
6 laid out in the term sheet, the capacity escalates from  
7 the opening price in -- that was agreed to several years  
8 ago. And at the point in time when they start taking  
9 delivery, at that point it's fixed and it doesn't  
10 escalate after that, but the -- the dollar amount is  
11 exactly the same.

12 MR. BOB PETERS: And there is an energy  
13 price as well --

14 MR. DAVID CORMIE: Yes.

15 MR. BOB PETERS: -- that's been agreed  
16 upon?

17 And there still is a portion that is  
18 called "supplemental" that has to be mutually agreed  
19 upon, but you indicate you're close to an agreement?

20 MR. DAVID CORMIE: No, the supplemental  
21 energy is if Manitoba Hydro has energy at -- at  
22 nighttime, and we want to use the transmission service to  
23 get that energy to market, Manitoba Hydro has the right  
24 to sell it to Minnesota Power. They have the obligation  
25 to buy it.

1                   And it will be at -- it's -- it's just  
2 like the NSP agreement where there's -- we're not denied  
3 the use of the transmission to move energy to market.  
4 That's what that supplementary energy's about.

5                   MR. BOB PETERS:    Thank you, sir.  On page  
6 29 is the counterparty summary for WPS, and this document  
7 has materially changed in the fact that Manitoba Hydro  
8 has only committed to 20 percent of the intended WPS sale  
9 at this point in time.

10                  MR. DAVID CORMIE:   Yes, it's the first  
11 hundred of the five hundred (500).

12                  MR. BOB PETERS:    Are all of the pricing  
13 conditions otherwise unchanged for the 100 megawatts that  
14 have been subject to the recent announcement?

15                  MR. DAVID CORMIE:   Pricing is exactly the  
16 same as in the term sheet.

17                  MR. BOB PETERS:    And, again, there are  
18 specific capacity prices, energy prices?

19                  MR. DAVID CORMIE:   Yes.  The major change  
20 is that the initial -- the term sheet had initially  
21 showed delivery starting in June of 2018.  Those  
22 deliveries are now effective by June the 1st, 2021.  
23 Energy is delivered until 2027, so there are six (6)  
24 years of energy deliveries.  The contract goes for a  
25 further two (2) years in order to continue to hold the

1 transmission that already exists for the transaction. So  
2 the contract goes from '21 to '29; now, energy is -- only  
3 flows from '21 to '27.

4 MR. BOB PETERS: Could you explain that -  
5 - the last two (2) years of that agreement? You've  
6 extended the agreement two (2) years to allow Manitoba  
7 Hydro the opportunity to use transmission?

8 MR. DAVID CORMIE: The -- the -- Manitoba  
9 Hydro already has a -- a contract with WPS that utilizes  
10 the 100 megawatts of firm transmission between the  
11 companies. We want to continue to roll that transmission  
12 forward. Manitoba Hydro runs out of dependable energy in  
13 2027, because the Manitoba load's increasing, so we had  
14 to terminate the energy deliveries at that time in order  
15 to serve our own load obligations, even in spite of the  
16 fact that we built Keeyask.

17 But we don't want to walk away from the  
18 transmission. So the transmission agreement continues  
19 for another two (2) years, and, subject to the acquiring  
20 of 500 megawatts of firm transmission service under the  
21 new transmission construction, we will use four hundred  
22 (400) of that from the new, and we'll continue to roll  
23 the other hundred forward.

24 So we're -- we're trying to -- Manitoba  
25 Hydro and WPS are trying to maintain the transmission

1 service that we already have. We've signed an agreement  
2 from 2012 to go to 2021 that -- that encumber --  
3 continues to encumber that transmission, so that it is  
4 available -- so, when Keeyask comes on, that there is a  
5 place for that first hundred megawatts of delivery to  
6 Wisconsin.

7 MR. BOB PETERS: I take from your answer  
8 that the whole reason of protecting the transmission for  
9 those two (2) years, is to protect the -- the first one  
10 hundred (100) that would come via the -- the Keeyask  
11 production?

12 MR. DAVID CORMIE: Yes. We -- we want  
13 Wisconsin to participate in the energy that's made  
14 available from Keeyask, and we want to use the existing  
15 transmission. It was always the intention that WPS would  
16 only build 400 megawatts of new -- new transmission  
17 service. They would be responsible for four hundred  
18 (400), Minnesota Power would be responsible two fifty  
19 (250), Wisconsin already held a hundred; that gets them  
20 up to their five hundred (500).

21 And then there are other companies who are  
22 involved in the transmission service request that will  
23 take the total firm transfer requirement up to eleven  
24 hundred (1,100). Once we've got the anchor tenants in  
25 and -- and on the deal for building the transmission, at

1 that point we'll fill the balance of the transmission  
2 with other transactions.

3 MR. BOB PETERS: You'd only be moving  
4 opportunity sales over that transmission in the two (2)  
5 years after the dependable energy contract expires to  
6 WPS?

7 MR. DAVID CORMIE: The arrangements we  
8 have with WPS for the use of that transmission is, to the  
9 extent that we have surplus firm energy available on a  
10 day-to-day basis, we'll -- we'll put it on that line to  
11 them. So they don't have -- they're not getting  
12 dependable energy.

13 But if we have a hundred megawatts of  
14 energy on a daily basis, it goes to them first, and  
15 that's enough of a transaction to tie up the transmission  
16 in the US. And they consider that to be sufficient to  
17 qualify as a network resource and -- and allow them to  
18 continue to take -- to hold the hundred megawatts of firm  
19 transmission.

20 MR. BOB PETERS: Manitoba Hydro would  
21 classify that as an opportunity term sale?

22 MR. DAVID CORMIE: It's an -- it would be  
23 an opportunity sa -- sale, yes. They just have first  
24 rights to the first hundred megawatts of surplus.

25 MR. BOB PETERS: Mr. Warden, turning to

1 page 39 of the book of documents handed out, Manitoba  
2 Hydro was asked to provide a copy of the draft risk  
3 report pre -- reviewed by Manitoba Hydro. This draft was  
4 presented to the Manitoba Hydro-Electric Board.

5 Would that be correct?

6 MR. VINCE WARDEN: No, Mr. Peters, I  
7 believe the draft that we have in front of us here was  
8 presented to the audit committee of the Manitoba Hydro-  
9 Electric Board.

10 MR. BOB PETERS: Is there more than one  
11 (1) draft, Mr. Warden?

12 MR. VINCE WARDEN: No. No, there is only  
13 one (1) draft. It's just that the -- the full board did  
14 not review the draft, it was the audit committee of the  
15 board.

16 MR. BOB PETERS: And it never did go to  
17 the full board?

18 MR. VINCE WARDEN: The final report did.

19 MR. BOB PETERS: But not the draft  
20 report?

21 MR. VINCE WARDEN: Not the draft, no.

22 MR. BOB PETERS: All right. Thank you  
23 for that, sir. This -- this audit committee of the  
24 board, you attended that, sir?

25 MR. VINCE WARDEN: Yes, I did.

1 MR. BOB PETERS: Along with all of the  
2 other audit committee board members, to the best of your  
3 knowledge?

4 MR. VINCE WARDEN: Yes.

5 MR. BOB PETERS: And as a result of that  
6 meeting, the -- the KPMG report was discussed, correct?

7 MR. VINCE WARDEN: Correct.

8 MR. BOB PETERS: And the Manitoba Hydro  
9 audit committee directed KPMG to make some changes in the  
10 report.

11 Would that also be correct?

12 MR. VINCE WARDEN: Yes, some of these  
13 changes would have been reviewed with KPMG prior to the  
14 meeting and the audit committee would have endorsed those  
15 changes or directed further changes. But, essen --  
16 essentially, the audit committee would have directed KPMG  
17 to make the changes, as indicated here. Yeah, probably  
18 more -- more correct to say requested.

19 Obviously, KPMG maintains their  
20 independence and would not make any changes that they did  
21 not feel appropriate, so the word 'directed' in that  
22 instance would -- would be too strong.

23 MR. BOB PETERS: But the audit committee  
24 wanted, for example, on page 40, KPMG to include a  
25 statement about a consultant asserting in 2008 that the

1 Corporation -- Corporation's actions in the previous five  
2 (5) years have cost the Corporation in the range of a  
3 billion dollars?

4 MR. VINCE WARDEN: Yes.

5 MR. BOB PETERS: And then on the next  
6 page, on 41, we see that KPMG also included a statement  
7 to say that there's no evidence to support that  
8 assertion?

9 MR. VINCE WARDEN: Correct.

10 MR. BOB PETERS: So those would have been  
11 requests made by the audit committee.

12 MR. VINCE WARDEN: yes.

13 MR. BOB PETERS: And on page 42, top of  
14 the page, there was a statement made by KPMG, and I'll  
15 try to read it correctly:

16 "Manitoba Hydro's core business  
17 objective is to provide its domestic  
18 customers low-cost and reliable energy  
19 service."

20 Do you see that, sir?

21 MR. VINCE WARDEN: I do, yes.

22 MR. BOB PETERS: And why did the audit  
23 committee want that struck out of this KPMG Report?

24 MR. VINCE WARDEN: Well, essentially, it  
25 was a -- we'd never described our core business objective

1 in this manner, so it was a truncated interpretation of  
2 Manitoba Hydro's core business objective by KPMG, which  
3 we didn't totally agree with. There's a lot that goes  
4 into Manitoba Hydro's business other than as described in  
5 this simple statement. And in any -- any event was not  
6 really germane to the discussion at that part of the  
7 report, so it was -- rather than elaborate on what the  
8 core business of Manitoba Hydro is, it was just deleted.

9 MR. BOB PETERS: On page 43 there was a  
10 statement that Manitoba Hydro's capital structure and its  
11 risk management practices are linked. And then it goes  
12 on to talk about the -- the debt-equity ratio.

13 Do you see that, sir?

14 MR. VINCE WARDEN: Yes, I do.

15 MR. BOB PETERS: And it was requested  
16 that the words, accordingly, it's capital structure and  
17 its risk management practices are linked, be removed,  
18 correct?

19 MR. VINCE WARDEN: Yes. I think a  
20 rewrite of this section was required because it was  
21 written in the context of achieving a 75:25 debt-equity  
22 ratio when, in fact, by the time the report was produced  
23 that debt-equity ratio had already been achieved.

24 MR. BOB PETERS: Well, if we look at page  
25 44 at the bottom there's a statement that says that:

1                    "In summary the capital structure of  
2                    Manitoba Hydro provides an important  
3                    context to discussions of risk and in  
4                    that the equity of Manitoba Hydro  
5                    provides a buffer against risk."

6                    The statement I just read is also crossed  
7 out of the report?

8                    MR. VINCE WARDEN:    Yes.

9                    MR. BOB PETERS:    It doesn't refer to  
10                    75:25, it just deals with the equity component of the  
11                    capital structure?

12                    MR. VINCE WARDEN:    No, but I think it's  
13                    all related to the same discussion.    And some of these --  
14                    and this would have been made by KPMG themselves when  
15                    they rewrote that section to -- to recognize that the  
16                    75:25 debt-equity ratio was achieved and therefore,  
17                    contextually, some of the statements didn't make as much  
18                    sense as they did previously.

19                    So a lot of these edits were not  
20                    necessarily as a result, a direct result of audit  
21                    committee discussions, but would have been made by KPMG  
22                    themselves.

23                    MR. BOB PETERS:    Is the statement made by  
24                    KPMG incorrect, the one (1) on page 44 at the bottom  
25                    that's crossed out?

1 MR. VINCE WARDEN: No. As I sit here and  
2 read it, I -- I can't say that it's incorrect, but I'd  
3 have to reread the whole section to see whether it fits  
4 with -- within the context of the discussion.

5 MR. BOB PETERS: On page 46 of the  
6 document, the bottom half of the page, there were some --  
7 and this is under the recoma -- recommendation section,  
8 sir.

9 Is that correct?

10

11 (BRIEF PAUSE)

12

13 MR. BOB PETERS: Would you take that  
14 subject to check?

15 MR. VINCE WARDEN: Yes, I'll --

16 MR. BOB PETERS: It's -- it's not  
17 included. And I apologize. When I -- I looked after I  
18 asked my question and I didn't include any other -- the  
19 previous page, but we're on page 287 of the -- the KPMG  
20 report.

21 MR. VINCE WARDEN: Okay. We'll accept  
22 that.

23 MR. BOB PETERS: And there was a  
24 recommendation about Manitoba Hydro considering  
25 probabilistic measures as an alternative tool to further

1 understand potential drought exposure and a few other  
2 items suggested by KPMG.

3 Do you see those things there, sir?

4 MR. VINCE WARDEN: Yes, I do.

5 MR. BOB PETERS: Why would those have  
6 been removed from the -- the draft that KPMG had been  
7 repair -- had prepared?

8 MR. VINCE WARDEN: I think there was some  
9 restructuring of the report from the draft so that the  
10 conclusions would -- and recommendations would be in one  
11 (1) place, so that -- there was a summary -- or a  
12 separate section introduced for -- for conclusions, or at  
13 least moved to -- so that the conclusions were grouped  
14 together.

15 And in so doing, I -- I think some of the  
16 wording was changed. You know, I'd have to refresh my  
17 memory spec -- specifically as to why this was removed.  
18 I don't, though, recall a lot of discussion about this.

19 Maybe I'll just check with my other panel  
20 members to see whether or not they have a better recal --  
21 recalat -- recollection of this section than I do.

22

23 (BRIEF PAUSE)

24

25 MR. VINCE WARDEN: I'd have to, Mr.

1 Peters, look at the final to see whether this -- this  
2 recommendation reappeared elsewhere, perhaps in a  
3 slightly different context or different wording. But,  
4 yeah, offhand, I -- I can't recall why this was deleted  
5 at this stage.

6 MR. BOB PETERS: You don't need to. You  
7 can try to slip that undertaking past Ms. Ramage. I  
8 won't ask for it, Mr. Warden. We can -- we can review  
9 the document to the same extent and --

10 MR. VINCE WARDEN: Okay. Thank you.

11 MR. BOB PETERS: -- alleviate that from  
12 your concern. At page 48 of the book of documents,  
13 Manitoba Hydro was asked in an undertaking to provide a  
14 twenty (20) year IFF electric operations.

15 Do you recall that, sir?

16 MR. VINCE WARDEN: Yes.

17 MR. BOB PETERS: And Manitoba Hydro did  
18 provide a response to that, correct?

19 MR. VINCE WARDEN: Correct.

20 MR. BOB PETERS: And one (1) of the  
21 questions asked in respect of this matter, sir -- one (1)  
22 of the questions asked, sir, was for Manitoba Hydro to  
23 provide the assumptions supporting the twenty (20) year  
24 financial forecast. And I didn't put that in the book  
25 for you, but it was at part (b) of the question. And

1 Manitoba Hydro's response was that the assumptions  
2 supporting the twenty (20) year financial outlook are  
3 outlined on pages 1 to 3 of the report.

4 Do you have any recollection of that?

5 MR. VINCE WARDEN: No, but I can accept  
6 that. I -- I'm not sure whether the page numbers are as  
7 you indicated, but I can accept that to be a fact, yes.

8 MR. BOB PETERS: The reason I'm bringing  
9 it up is that the assumptions that were -- that I was  
10 seeking were in a form consistent with Tab 6 of Board  
11 counsel's first book of documents. You recall that  
12 schedule that had the assumptions supporting IFF-09?

13 MR. VINCE WARDEN: Yes, I do.

14 MR. BOB PETERS: Now, for IFF-10,  
15 Manitoba Hydro provided the assumptions for the first ten  
16 (10) years in a form similar to Board counsel book of  
17 documents, Tab 6, but Manitoba Hydro did not provide the  
18 last ten (10) years of assumptions in that form.

19 Will you accept that, subject to check?

20 MR. VINCE WARDEN: Typically, though,  
21 with our -- the assumptions that we do provide for such  
22 assumptions as interest rate, foreign -- foreign exchange  
23 rates, we project the -- the last years of the forecast  
24 and then forward. So even though it might not have  
25 specifically been identified to the twenty (20) years

1 under question, the -- the assumptions that are stated in  
2 the ten (10) year IFF are carried forward, such that they  
3 would apply to the subsequent ten (10) years.

4 MR. BOB PETERS: Okay. That's a fair  
5 comment. So what you're telling the Board is that if you  
6 used inflation at 2 percent, you would have used  
7 inflation for all twenty (20) of the years at 2 percent,  
8 not just the first ten (10)?

9 MR. VINCE WARDEN: Yes, and it would have  
10 been indicated in the ten (10) year forecast to be --  
11 cover those years as well, subsequent years.

12 MR. BOB PETERS: All right, but not  
13 included in -- in the -- the last ten (10) years would  
14 have been calculations about export sales assumptions  
15 similar to what's found in PUB book of documents, Tab 6.

16  
17 (BRIEF PAUSE)

18  
19 MR. VINCE WARDEN: Yes, yes, Mr. Peters.  
20 I accept that.

21 MR. BOB PETERS: All right. Now, we've  
22 had all this discussion about this document at page 48 of  
23 the book of documents, but this document has now been  
24 superceded by Manitoba Hydro's Exhibit 154.

25 Wouldn't that be correct?

1 MR. VINCE WARDEN: Correct.

2 MR. BOB PETERS: And so where I'm going  
3 and when I get there, with respect to the document at  
4 Manitoba Hydro 154, the Board would welcome the  
5 assumptions used for all twenty (20) years in a format  
6 similar to what was provided in Board counsel book of  
7 documents at Tab 6 that was provided relative to IFF-09.

8 MR. VINCE WARDEN: Okay. And how would  
9 you suggest -- we're not taking undertakings, so --

10 MR. BOB PETERS: Well, that one -- that  
11 one we may have to fight over when we get there, but  
12 that's my request, and you -- you can consider that  
13 between now and when we get there.

14

15 (BRIEF PAUSE)

16

17 MS. PATTI RAMAGE: Mr. Peters, while Mr.  
18 Warden is looking at that, I could perhaps assist you.  
19 Your question regarding the edits at page 46 of the KPM -  
20 - your page 46, regarding KPMG, that was the  
21 recommendations, appear at roman numeral letter 35 of the  
22 KPMG report. They were moved into the -- the front end.

23 MR. BOB PETERS: You're telling the  
24 Board, Ms. Ramage, that they were taken out of the body  
25 of the report and they were moved up to the executive

1 summary?

2 MS. PATTI RAMAGE: That's where we've  
3 located them so far.

4 MR. BOB PETERS: Yeah. Okay.

5 MS. PATTI RAMAGE: I thought that would  
6 be of assistance to you.

7 MR. BOB PETERS: Yeah, thank you.

8

9 CONTINUED BY MR. BOB PETERS:

10 MR. BOB PETERS: And that's your  
11 understanding as well, Mr. Warden?

12 MR. VINCE WARDEN: Yes, I agree with  
13 that.

14 MR. BOB PETERS: Now, Mr. -- Mr. Warden,  
15 at page 58 of the book of documents that I've circulated,  
16 it dealt with Manitoba Hydro's pre-ask question, and it  
17 contained some assumptions. But what we now know,  
18 sitting here today, is, whatever those assumptions are,  
19 sir, they're not accurate with respect to Manitoba  
20 Hydro's IFF-10.

21 Isn't that correct?

22 MR. VINCE WARDEN: Assumptions are just  
23 that, they're subject to change.

24 MR. BOB PETERS: Okay. Fair enough.  
25 What -- what we do know is the assumptions and the -- the

1 information provided and worked through is -- doesn't  
2 include things like the capital updated cost of Bipole 3.

3 MR. VINCE WARDEN: I'm sorry, Mr. Peters.  
4 You're going to have to remind me. The -- which document  
5 you're referring to doesn't include the updated capital  
6 costs for Bipole 3?

7 MR. BOB PETERS: I'm -- I'm suggesting to  
8 you, Mr. Warden, that the twenty (20) year IFF provided,  
9 starting on page 48 of what I've handed you today, is a  
10 twenty (20) year IFF that was prepared with the --  
11 without the updated cost now of Bipole 3.

12 MR. VINCE WARDEN: Yes.

13 MR. BOB PETERS: And so --

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

16 MR. BOB PETERS: And so, sir, on page 57  
17 and 58 -- oh, 58 and 59 of the book of documents I've  
18 handed you, I'm suggesting that those assumptions are --  
19 need to be refreshed because they don't reflect the  
20 assumptions to the latest Manitoba Hydro IFF-10.

21 MR. VINCE WARDEN: Well, Mr. Peters, to  
22 be clear, we -- we only changed the capital costs  
23 estimate for Bipole 3 with the exhibit just filed, and  
24 that was the only purpose. So there -- there definitely  
25 are other changes that will be incorporated in the annual

1 update to the IFF, as we do every year. So we'd use  
2 current assumptions, but we wanted to be clear when we  
3 filed the update to the twenty (20) year outlook that --  
4 that it was only for the change of Bipole 3 estimate.

5 MR. BOB PETERS: All right. Let me ask  
6 the question this way, Mr. Warden. If the Board wants to  
7 look at the assumptions between -- behind Manitoba  
8 Hydro's IFF-10 as filed as Manitoba Hydro Exhibit 154,  
9 can the Board rely on page 59 as what's in front of you?

10 MR. VINCE WARDEN: Yes.

11 MR. BOB PETERS: And in terms of taking  
12 page 59 forward for the last ten (10) years of the IFF,  
13 how -- how does the Board escalate the various costs?

14 MR. VINCE WARDEN: Well, I wouldn't  
15 expect the Board would want to escalate the various  
16 costs.

17 MR. BOB PETERS: Well, I'm looking at --  
18 the assumptions only go for half the time period, sir.  
19 They only go for ten (10) years, and I'm asking about the  
20 last ten (10) years of the IFF.

21 What assumptions should the Board use and  
22 where will they find those?

23 MR. VINCE WARDEN: Well, if you're  
24 looking at -- specifically at page 59, there -- there's  
25 information provided, in terms of export sales, export

1 revenue assumptions which go beyond the 2000 and 1920 ti  
2 -- time frame, as you pointed out.

3 Now if -- if the Board wanted to look at  
4 what those numbers looked like beyond 2000 and 1920 for  
5 purposes of reviewing the -- the background information  
6 that comprises the twenty (20) year financial outlook,  
7 then I would suggest that the best way for -- for that to  
8 be achieved is for us to give you this docu -- that  
9 updated document, which is readily available.

10 MR. BOB PETERS: All right, let's do that  
11 as a friendly undertaking.

12 MR. VINCE WARDEN: We can do that.

13 MR. BOB PETERS: All right. Let's move  
14 on to -- no, we'll -- we'll work offline on that. Thank  
15 you for asking.

16 Mr. Warden, just so the Board is clear  
17 when it looks at page 60 of the book that I handed them  
18 this morning, page 60 contains some natural gas prices  
19 from one (1) of the consultants used by Manitoba Hydro,  
20 correct?

21 MR. VINCE WARDEN: Yes.

22 MR. BOB PETERS: And the assumptions  
23 going forward in IFF-10 for the twenty (20) year IFF  
24 prepared as Manitoba Hydro Exhibit 154, that does not  
25 embed the natural gas spot price assumptions provided by

1 ICF, does it?

2

3

(BRIEF PAUSE)

4

5 MR. DAVID CORMIE: Mr. Peters, that table  
6 is just historic information. It's not a forecast.

7 MR. BOB PETERS: Page 64, Mr. Cormie, Mr.  
8 Warden, thank you for pointing that out. At page 64,  
9 gentlemen, that contains ICF's natural gas forecast out  
10 to 2035.

11 Is that correct?

12 MR. VINCE WARDEN: Yes.

13 MR. BOB PETERS: And Manitoba Hydro's  
14 IFF-10 for the twenty (20) years, filed as Manitoba Hydro  
15 Exhibit 154, does not use the ICF natural gas forecast  
16 prices in determining its export revenues, does it?

17 MR. HAROLD SURMINSKI: Yes, that's  
18 correct, we do not use that.

19 MR. BOB PETERS: You use -- on page 61,  
20 ICF indicates that its forecast in the near-term has  
21 decreased by about 38 percent on average, correct?

22 MR. VINCE WARDEN: Yes.

23 MR. BOB PETERS: And in the long-term,  
24 there's still a further significant forecast reduction  
25 found on page 64 of the documents that I've handed you

1 today?

2 MR. VINCE WARDEN: Yes.

3 MR. BOB PETERS: Would it not be  
4 reasonable, Mr. Warden, Mr. Surminski, for the  
5 Corporation to look at the materials provided and utilize  
6 the information from ICF to assist it in determining its  
7 future export prices?

8 MR. VINCE WARDEN: Future export prices  
9 are -- are based on a composite of forecasters, including  
10 ICF. So, yes, it is reasonable, but we do that on -- on  
11 an annual basis.

12 MR. BOB PETERS: And that annual  
13 adjustment has not yet taken place --

14 MR. VINCE WARDEN: That's --

15 MR. BOB PETERS: -- and that won't take  
16 place until the fall, if I understand your evidence.

17 MR. VINCE WARDEN: That's correct.

18 MR. BOB PETERS: All right, thank you.  
19 Mr. Warden, on page 65 and 66 of the book provided to  
20 you, I just want to make sure the Board understand the  
21 import of Manitoba Hydro's information.

22

23 (BRIEF PAUSE)

24

25 MR. BOB PETERS: The information provided

1 on tab -- on pages 65 and 66, which came out of the MIPUG  
2 book of documents shows a forced 75:25 debt-equity ratio  
3 in each of the years going forward out to 2029.

4 Would that be correct?

5 MR. VINCE WARDEN: Correct.

6 MR. BOB PETERS: And I say forced because  
7 whether the rates would have to go up or down, the model  
8 just spit out whatever the number was, regardless of how  
9 -- how likely that would be that those rates would go  
10 into effect?

11 MR. VINCE WARDEN: Correct.

12 MR. BOB PETERS: And, Mr. Warden, when  
13 you add up the increases and subtract the decreases, do  
14 you know what happens?

15 MR. VINCE WARDEN: No, I didn't do that.  
16 There would be a -- there would certainly be a  
17 compounding effect of the increases/decreases for each  
18 year -- year. So if I was going to calculate an index I  
19 would take that compounding into effect and simple --  
20 simple addition would not be a -- a real meaningful  
21 number.

22 MR. BOB PETERS: Well, I'm just a simple  
23 lawyer and I just used a simple total and didn't compound  
24 it as you suggested. But just take, subject to check, in  
25 simple math the -- the increases totalled 39.4 percent

1 and the decreases totalled 38.1 percent. Almost exactly  
2 the same in simple numbers, correct?

3 MR. VINCE WARDEN: 39.4 is almost the  
4 same as 38.1, yes.

5 MR. BOB PETERS: Can I tell my children  
6 that in twenty (20) years from today, and today I'm  
7 paying about six and half (6 1/2) cents a kilowatt hour  
8 for their electricity that fires their -- their toys,  
9 that in twenty (20) years time they're going to pay six  
10 point five (6.5) cents as well?

11

12 (BRIEF PAUSE)

13

14 MR. VINCE WARDEN: In real terms?

15 MR. BOB PETERS: Real terms.

16

17 (BRIEF PAUSE)

18

19 MR. VINCE WARDEN: I would say it depends  
20 on inflation over that period of time to the extent that  
21 rate changes are aligned with inflation. Then the -- in  
22 real terms the price of electricity won't change. As we  
23 see in our forecast though, we are forecasting rate  
24 increases at least for the next decade higher than our  
25 projected rates of inflation. So, therefore, the real

1 price of electricity will go up. So, no, I wouldn't make  
2 that promise.

3 MR. BOB PETERS: Well, maybe you're  
4 confusing me --

5 MR. ROBERT MAYER: I'd like to know which  
6 kind of toys Mr. Peters' kids use that don't use  
7 batteries, but rather have to be plugged in.

8

9 CONTINUED BY MR. BOB PETERS:

10 MR. BOB PETERS: Let's -- let's take  
11 computers and video games as -- as examples. And I don't  
12 want to get -- I want to make sure I understand when you  
13 say in real terms because maybe you're putting on your  
14 accounting hat on me, but if the increases are roughly  
15 the same as the decreases, on the face of it it would  
16 suggest that the rates today will be the rates exact --  
17 you know, twenty (20) years from now.

18 If it's six and a half (6 1/2) cents  
19 today, it'll be six and a half (6 1/2) cents twenty (20)  
20 years from now.

21 MR. VINCE WARDEN: No, when I -- when I  
22 indicated in real terms, if it's 6 1/2 percent today and  
23 a rate increase next year is 2 percent and inflation is 2  
24 percent, then in real terms the rate hasn't changed.

25 I -- I don't -- I think the arithmetic

1    though, and I don't doubt that you added the numbers up  
2    correctly, it is -- it is flawed because of the  
3    compounding effect, which can have a -- a significant  
4    effect over that period of time.

5                   MR. BOB PETERS:    And when we look at your  
6    Manitoba Hydro Exhibit 154, which I don't need to turn to  
7    at this time, you have for the next eleven (11) years 3  
8    1/2 percent rate increases planned in your IFF, correct?

9                   MR. VINCE WARDEN:    Yes.

10                  MR. BOB PETERS:    And then thereafter it's  
11    still 2 percent?

12                  MR. VINCE WARDEN:    Yes.

13                  MR. BOB PETERS:    2 percent increases?

14                  MR. VINCE WARDEN:    2 percent increases.  
15    I don't think it goes out for the entire period.  It may,  
16    I'd have to double-check that.  But yes, 2 percent in the  
17    second decade.

18                  MR. BOB PETERS:    If you check page 83 I  
19    think you can see that the 2 percent does go out to 2030.

20

21                                       (BRIEF PAUSE)

22

23                  MR. VINCE WARDEN:    Okay.  Yes, I see  
24    that.  We -- we did do some different scenarios because  
25    the equity ratio really gets quite -- quite high.  And

1 it's an unlikely scenario that we would have rate  
2 increases still occurring with that level of equity. But  
3 nevertheless, yes, you're right, the rate increases in --  
4 in this scenario do continue at 2 percent.

5 MR. BOB PETERS: It's not likely that  
6 Manitoba Hydro's ever gonna come before the Public  
7 Utilities Board and ask for rate decreases, is it?

8 MR. VINCE WARDEN: Not in the foreseeable  
9 future, no.

10 MR. BOB PETERS: And even out twenty (20)  
11 years it's not foreseeable that once the mega projects  
12 are up and running that rate aver -- you know, dollar  
13 term rate decreases will be on the agenda?

14 MR. VINCE WARDEN: No, although it's --  
15 you know, it's -- we -- we have had rate decreases in the  
16 past. So what made -- might happen in the future -- I  
17 wouldn't want to speculate too far out, but there --  
18 there ver -- may very well be rate decreases for certain  
19 classes of customers.

20 MR. BOB PETERS: Remind me -- remind the  
21 Board where -- when the rate decreases in the past  
22 occurred?

23

24

(BRIEF PAUSE)

25

1                   MR. VINCE WARDEN:    Yes, there were rate  
2 decreases in -- in or -- or around 2003.  The rate --  
3 rate equalization across the province also resulted in  
4 rate decreases for a large number of customers.

5                   MR. BOB PETERS:    Okay.  I have your  
6 points on that.

7                   On page 67 and 68 we deal with some more  
8 information from -- from ICF.  And, Mr. Warden, you'll  
9 see on pages 67 and -- 67 there was a request made.  
10 You'll see on page 68 some information from ICF including  
11 footnote number 2.  And then on page 69 of what I've  
12 handed you today is Manitoba Hydro's Exhibit 81 with a  
13 further response dealing with the net present value  
14 discussion.

15                   Do you recall that, sir?

16                   MR. VINCE WARDEN:    Yes.

17                   MR. BOB PETERS:    Would it be fair to say  
18 that the increase in capital costs of Keeyask, Conawapa,  
19 and Bipole 3 will eliminate that net present value  
20 benefit of \$153 million that was identified in the  
21 materials from ICF?

22                   MR. VINCE WARDEN:    Well, not necessarily.  
23 I think we have to be very careful how that \$153 million  
24 is used.  It was -- it was one (1) scenario to look at  
25 whether or not impacts on customer bills will be positive

1 or negative, and it indicated that impacts would be  
2 positive.

3                   However, it didn't show the impact on  
4 retained earnings, on equity rat -- ratios. So it was a  
5 very incomplete analysis, so I wouldn't like to conclude  
6 without further analysis what the impacts may be of -- of  
7 the higher capital costs. There's a lot of variables, a  
8 lot of moving parts.

9                   MR. BOB PETERS:    But simply adding in  
10 additional capital expenditures of the kind that have now  
11 been forecast by Manitoba Hydro, that in and of itself  
12 will give cause to eliminate the \$153 million of net  
13 present value benefits associated with the rates of  
14 consumers over the next -- I forget whether it was thirty  
15 (30) years or forty (40) years.

16                   MR. VINCE WARDEN:   Well, as I said, Mr.  
17 Peters, a lot -- a lot of assumptions went into that  
18 calculation, which was done for a very specific purpose.  
19 And those assumptions, those runs, would have to be  
20 recast in order to come to that conclusion again, or to  
21 change that conclusion.

22                   MR. BOB PETERS:    And you weren't prepared  
23 to share with the Board the net present value calculation  
24 that was shared with ICF.

25                                   Is that correct?

1 MR. VINCE WARDEN: It was considered to  
2 be commercially sensitive at the time, yes.

3 MR. BOB PETERS: Is it any longer  
4 commercially sensitive now that it's outdated?

5 MR. DAVID CORMIE: It's still  
6 commercially sensitive, Mr. Peters, we're not -- we're  
7 not through the negotiations with the -- Wisconsin or any  
8 of the other counterparties who we are considering  
9 transacting with.

10 MR. BOB PETERS: Mr. Warden, on page 71  
11 Manitoba Hydro was asked to provide the minutes from the  
12 Manitoba Hydro-Electric Board meeting, and Manitoba Hydro  
13 declined to provide them.

14 Do you recall that?

15 MR. VINCE WARDEN: Well, I think, if we  
16 look at page 71, Mr. Peters, the reference is to the  
17 meeting where KPMG made a presentation to Manitoba Hydro.  
18 It doesn't reference specifically the Manitoba Hydro-  
19 Electric Board, and, as we discussed earlier, the  
20 presentation was made to the audit committee of the  
21 Manitoba Hydro-Electric Board.

22 MR. BOB PETERS: And while the minutes of  
23 the Corporation may not be protected by privilege, you  
24 think there's -- or Manitoba Hydro thinks there's going  
25 to be a precedent set if those minutes are provided on

1 the public record?

2 MR. VINCE WARDEN: That was the answer to  
3 this informa -- or undertaking, yes.

4 MR. BOB PETERS: And what's the precedent  
5 set?

6 MR. VINCE WARDEN: The precedent set  
7 would be that we don't release minutes of committee  
8 meetings.

9 MR. BOB PETERS: It's a committee of the  
10 board of directors, is it not?

11 MR. VINCE WARDEN: It is.

12 MR. BOB PETERS: Does Manitoba Hydro --  
13 and this might have Ms. Ramage get her hand near the  
14 buzzer.

15 Does Manitoba Hydro acknowledge that there  
16 is a -- a -- that the minutes of the meeting -- that the  
17 minutes of the meetings of all business transacted at  
18 Manitoba Hydro are public documents?

19 MR. VINCE WARDEN: No, I don't think --  
20 again, I think we have to make a distinction between the  
21 audit committee and -- and the board. The board minutes  
22 are -- are public. They're available for access by the  
23 public, but the audit committee meeting's minutes --  
24 minutes are -- have not been -- have not been released  
25 and, therefore, that would set a precedent.

1                   MR. BOB PETERS:    Mr. Cormie, at page 74,  
2 we have talk about the MISO market production, and  
3 looking at page 74, which is Manitoba Hydro Exhibit 83,  
4 there's a couple of -- there's three (3) charts of  
5 various installed capacities in the MISO market, sir?

6                   MR. DAVID CORMIE:    I see them.

7                   MR. BOB PETERS:    And would Manitoba  
8 Hydro's numbers be included in the numbers on that page?

9                   MR. DAVID CORMIE:    No, Manitoba Hydro's  
10 generation and load are not included in the MISO market  
11 footprint.

12                  MR. BOB PETERS:    Why is that, sir?

13                  MR. DAVID CORMIE:    Because we're not in  
14 the MISO market. We're a market participant. We're not  
15 in the MISO market.

16                  MR. BOB PETERS:    You're not an associate  
17 member of MISO or something to that effect?

18                  MR. DAVID CORMIE:    We have a coordination  
19 agreement with MISO that -- but our load is not  
20 dispatched by MISO, our -- our -- is not served by MISO  
21 resources, it's served by Manitoba load. Manitoba Hydro  
22 dispatches its own generation, and, to the extent that we  
23 have surplus or we need power, we go to the market as a  
24 market participant. Manitoba Hydro operates independent  
25 of MISO.

1 MR. BOB PETERS: Thank you, sir.

2 Mr. Warden, on page 76 is a -- is Manitoba  
3 Hydro Exhibit 88, and it relates specifically to KPMG's  
4 recommendations and the Corporation's position relative  
5 to them, sir?

6 MR. VINCE WARDEN: Yes.

7 MR. BOB PETERS: This one's a bit of a  
8 song and dance, sir, and I didn't put all the materials  
9 in, but when Manitoba Hydro was initially asked to  
10 provide its position relative to the recommendations, I  
11 think the answer came back that Manitoba Hydro would  
12 provide its position relative to the recommendations made  
13 by KPMG as well as ICF.

14 And I -- I note that as PUB Manitoba Hydro  
15 Risk 136. I don't have it in front of me, but if that's  
16 accurate, sir, is Manitoba Hydro prepared to provide a  
17 table of similar form to what's on page 76, but deal with  
18 the recommendations made by ICF?

19 MR. VINCE WARDEN: We would have no  
20 relucs -- reluctance to do so. I don't believe we have a  
21 table prepared -- in fact, I know we don't have a table  
22 prepared -- in this format, so we would have to undertake  
23 or endeavour to do that.

24 The ICF recommendations are that the --  
25 there weren't as many recommendations in the ICF report.

1 They were more findings than they were recommendations.

2 MR. BOB PETERS: And I suppose what was  
3 being sought was the Corporation's position with respect  
4 to those. Are you prepared to look at it from that  
5 perspective, sir?

6 MR. VINCE WARDEN: There were a long list  
7 of findings in the ICF report which largely supported the  
8 position of the Corporation. So, you know, we -- we  
9 obviously agreed with those -- those findings.

10 MS. PATTI RAMAGE: If I could just jump  
11 in though. I -- I would just point out for the record  
12 that Manitoba Hydro -- Mr. Peters has -- is correct that  
13 in PUB Risk 135 Manitoba Hydro did in fact reference both  
14 ICF and KPMG. That was in October of 2010.

15 So, you know, to be looking for the  
16 undertaking now is -- you know, in terms of the process,  
17 I -- I am sure with all that has gone on, we should be in  
18 a position to wind it up rather than more under -- more  
19 undertakings at this day.

20 THE CHAIRPERSON: I think we're inclined  
21 to go along with you, Ms. Ramage. Mr. Peters, do you --  
22 can you make a contrary argument?

23 MR. BOB PETERS: I'm not going to try.

24 THE CHAIRPERSON: October, 2010, is quite  
25 a while.

1 MR. BOB PETERS: I'm not going to try.

2

3 CONTINUED BY MR. BOB PETERS:

4 MR. BOB PETERS: Mr. Warden, can the  
5 Board take Manitoba Hydro's rebuttal evidence as its  
6 position relative to the KM recommendations and reports?

7

8 (BRIEF PAUSE)

9

10 MS. PATTI RAMAGE: Can you re -- repeat  
11 the question, Mr. Peters?

12

13 CONTINUED BY MR. BOB PETERS:

14 MR. BOB PETERS: In terms of the KM  
15 recommendations, can the Board take Manitoba Hydro's  
16 rebuttal as its response to the recommendations that it  
17 does not agree with in the KM report?

18 MR. DAVID CORMIE: I think, Mr. Peters,  
19 in our rebuttal we dealt with only a portion of the  
20 recommendations that the KM report made. There's lots of  
21 very good suggestions in the KM report, and Manitoba  
22 Hydro treats their advice seriously, but we're also  
23 recognizing that we do not have unlimited resources to  
24 pursue every one of the suggestions that -- that the  
25 doctors su -- suggested.

1                   So as we did with the KPMG  
2 recommendations, we review them. We think about them and  
3 help -- they help guide us as we go forward. And in --  
4 and in -- in a lot of the circumstances, the suggestions  
5 that the doctors made, they were made by the doctors, I  
6 think, with -- without the full knowledge that Manitoba  
7 Hydro was already par -- doing a lot of those activities.

8                   And -- and many of those things that they  
9 suggested, we -- we were already doing, you know, with  
10 regard to climate change modelling, with regard to  
11 informal working groups with modelling, on and on. It  
12 goes a bit -- and then -- and it's -- when we finally  
13 explain to -- to the doctors that these are the things  
14 and -- and we say, We're doing exactly what you  
15 suggested. We're going in that direction.

16                   We may not pursue it at the speed that the  
17 doctors suggested, but where -- where the suggestion was  
18 substantial or disagreed fundamentally with where  
19 Manitoba Hydro thought we should go, I think that's made  
20 clear in our rebuttal evidence.

21                   MR. BOB PETERS: Thank you for that  
22 answer. Let's turn to the last -- the last exhibit,  
23 which is found on page 79. It's Manitoba Hydro's twenty  
24 (20) year financial outlook.

25                   Mr. Warden, we've talked about this

1 already, have we not, sir?

2 MR. VINCE WARDEN: yes.

3 MR. BOB PETERS: What we haven't talked  
4 about, sir, is that this is purportedly Manitoba Hydro's  
5 response to the Chairman's request to provide answers to  
6 the PUB Manitoba Hydro pre-ask Question number 4?

7 MR. VINCE WARDEN: Partly.

8 MR. BOB PETERS: Exactly, sir. Let's --  
9 pre-ask number 4 wanted there to be different alternative  
10 scenarios provided, correct?

11 MR. VINCE WARDEN: Yes, there -- there's  
12 different and alternative pricing scenarios that we still  
13 intend on filing with the Board, so that's yet to come.

14 MR. BOB PETERS: I'm not sure Ms. Ramage  
15 is going to let us work on that. And a timeline you're --  
16 -- you're searching for, Mr. Warden?

17

18 (BRIEF PAUSE)

19

20 MR. BOB PETERS: Sorry, Mr. Warden, I may  
21 have been speaking while you were otherwise occupied, but  
22 --

23 MR. VINCE WARDEN: Oh, sorry, I was -- I  
24 was just trying to confirm the -- the timelines. And  
25 we're talking about two (2) weeks.

1 MR. BOB PETERS: All right. Thank you  
2 for that, sir. Not to be ungrateful, Mr. Warden, but the  
3 -- Manitoba Hydro Exhibit 154 is a consolidated view of  
4 the Corporation, correct?

5 MR. VINCE WARDEN: Yes.

6 MR. BOB PETERS: Why wasn't an electric  
7 view provided as it was in the Exhibit 72 of the  
8 Corporation?

9

10 (BRIEF PAUSE)

11

12 MR. VINCE WARDEN: I think just for the  
13 simple reason is that this was being recognized as an  
14 interim document and will be fully updated in the normal  
15 cycle, that is in the fall, that we really wanted to  
16 focus on the major impacts of -- of the Bipole, and this  
17 document communicates that.

18 MR. BOB PETERS: Well, when you're  
19 considering in the next two (2) weeks what -- what  
20 additional information you're providing the Board, you  
21 might consider whether you can extract the gas side of  
22 the business and just file the electric operations,  
23 comparable to what what was filed under Manitoba Hydro  
24 Exhibit 72, sir.

25 MR. VINCE WARDEN: Those projections are

1 definitely available. They just weren't included in the  
2 documents. So yes, we can do that.

3

4

(BRIEF PAUSE)

5

6 MR. BOB PETERS: I think the new word is  
7 endeavour. No, I thank Mr. Warden for -- for providing  
8 that information to the Board.

9 Mr. Warden, the update of Manitoba Hydro  
10 Exhibit 154 was done because Manitoba Hydro updated its  
11 capital costs of Bipole 3, correct?

12 MR. VINCE WARDEN: Yes.

13 MR. BOB PETERS: And the premise of  
14 Manitoba Hydro Exhibit 154 is that the synchronous  
15 condensers currently used would be replaced by voltage  
16 source converters and save the Corporation about \$400  
17 million?

18 MR. VINCE WARDEN: Yes. The quantum of  
19 those savings I would have to confirm, but -- but yes,  
20 there's a substantial savings in going that -- using that  
21 technology.

22 MR. BOB PETERS: Manitoba Hydro was going  
23 to -- Manitoba Hydro wasn't absolutely positive that it  
24 could use voltage source converters on the Bipole 3.

25 Isn't that correct?

1 MR. VINCE WARDEN: Yes.

2 MR. BOB PETERS: Is that still the case?

3 MR. VINCE WARDEN: I have not been made  
4 aware of any change.

5 MR. BOB PETERS: So it is still uncertain  
6 as to whether voltage source converters at a savings of  
7 400 million will be able to replace the synchronous  
8 condensers that would otherwise be required?

9 MR. VINCE WARDEN: Yes, but I believe  
10 there is a high level of confidence that that could be,  
11 in fact, achieved.

12 MR. BOB PETERS: And that confidence was  
13 based on external consultants giving that advice to the  
14 Corporation?

15 MR. VINCE WARDEN: Largely, or partly.

16

17 (BRIEF PAUSE)

18

19 MR. BOB PETERS: Mr. Warden, when the  
20 Board reviews Manitoba Hydro Exhibit 154, it appears that  
21 the net income for the period of 2011 to 2029 decreases  
22 by about the \$3.3 billion.

23 You'd accept that, sir, subject to check?

24 MR. VINCE WARDEN: Yes.

25 MR. BOB PETERS: And that's due only to

1 the capital cost of Bipole 3 increasing over the previous  
2 -- the previous IFF-09 application version, as well as  
3 the other capital costs of Keeyask and Conawapa?

4 MR. VINCE WARDEN: No, Keeyask and  
5 Conawapa were not changed, it was -- it was Bipole 3  
6 only.

7 MR. BOB PETERS: Yeah. I -- I misspoke  
8 or I -- I didn't convey my thoughts.

9 When I compare the IFF-10, as found in  
10 Manitoba Hydro 154, to the IFF-09 that -- that  
11 underpinned the initial application of Manitoba Hydro,  
12 the net income position is -- is down \$3.3 billion  
13 because of the increase in capital costs?

14 MR. VINCE WARDEN: Well, there would be  
15 other factors that would -- would influence the change  
16 beteen -- between IFF-09 and IFF-10, including  
17 extraprovincial sales, general consumers revenue, all  
18 other components were -- would be subject to change.

19 MR. BOB PETERS: And the -- and the debt-  
20 equity ratio deteriorated from -- in IFF-09 looking at  
21 the -- the year of 2029 at a 51:49 debt-equity ratio, it  
22 falls to a 72:28 in the latest filing in the Manitoba  
23 Hydro Exhibit 154.

24 MR. VINCE WARDEN: Correct.

25

1 (BRIEF PAUSE)

2

3 MR. BOB PETERS: Mr. Chairman, this might  
4 be an opportune time for me to -- well, just -- I -- I  
5 found a few more notes that I could ask of Mr. Cormie and  
6 Mr. Surminski if I do have ten (10) more minutes.

7 Gentleman, yesterday you -- and it was  
8 yesterday, you provided some information to the Board  
9 with respect to some of the pre-ask questions being put  
10 to KM on behalf of the Public Utilities Board.

11 Do you recall that?

12 MR. DAVID CORMIE: I do.

13 MR. BOB PETERS: And one of the  
14 discussions you had was to do with the stat -- Statistics  
15 Canada data?

16 MR. DAVID CORMIE: That's correct.

17 MR. BOB PETERS: Did you tell KM  
18 essentially the same information that you provided to the  
19 Board yesterday?

20 MR. DAVID CORMIE: When we were given the  
21 opportunity to review the draft KM report in the fall we  
22 wrote to KM on three (3) occasions.

23 On one (1) of those occasions we indicated  
24 to them that the data in Stats Canada did not reflect  
25 Manitoba Hydro's data. And in our rebuttal evidence we

1 provided them a second opportunity to recognize that the  
2 information in that table did not reflect Manitoba  
3 Hydro's activities.

4                   And -- and we've had -- have had  
5 discussions with them offline about the fundamental  
6 issues associated with that data. But always suggesting  
7 to them that regardless of the accuracy of the data, the  
8 concept behind their modelling was -- was sound and we  
9 supported that, but just that no conclusions could be  
10 drawn based on their analysis because the model was  
11 fundamentally flawed because the data was flawed and the  
12 calibration was flawed.

13                   MR. BOB PETERS: Did you provide an  
14 opportunity to KM to -- to see the corrected data?

15                   MR. DAVID CORMIE: Yes, in our rebuttal  
16 evidence we showed a table that said, Here, we've  
17 restated Manitoba Hydro's results on a calendar basis,  
18 some of these numbers are off by 200 percent and it -- it  
19 didn't seem to sway them from their argument that they  
20 needed to have independent advice, independent data.

21                   And they -- they wanted to maintain their  
22 independence. And their trust in Stats Canada was -- was  
23 the -- was the reason that they -- they rejected Manitoba  
24 Hydro's offer to provide them correct data.

25                   MR. BOB PETERS: Mr. Surminski, Mr.

1 Cormie, does Manitoba Hydro have a rule curve for a  
2 drought?

3 MR. DAVID CORMIE: We have a rule curve  
4 from a planning perspective that manages in each year of  
5 the future a -- a minimum amount of water that needs to  
6 be kept in reservoir storage, but it's not a constant.

7 MR. BOB PETERS: And Manitoba Hydro, at  
8 least last time I asked this panel, there was no written  
9 drought-preparedness plan?

10 MR. DAVID CORMIE: No, because Manitoba  
11 Hydro is constantly prepared for drought. We don't need  
12 a -- a manual that we pull off the wall as we would an  
13 emergency, but we have -- we have undertaken to -- to  
14 develop such a document, but it won't be in the  
15 prescriptive form that the doctors assumed that other  
16 emergency plans are necessary, that it sits on the shelf  
17 for years and, finally, when the tornado strikes, you  
18 pull it off the plan and you implement various tasks.

19 Drought planning is a constant activity.  
20 We don't -- we -- we're constantly prepared for drought.  
21 Drought is not an emergency at Manitoba Hydro.

22 MR. BOB PETERS: It's a constant  
23 activity, the details of which reside within the  
24 knowledge of the Manitoba Hydro employees as opposed to  
25 being written down somewhere.

1                   MR. DAVID CORMIE:    It is part of the  
2 Manitoba Hydro's business processes, Mr. Peters.  
3 Business processes are -- are embedded in the systems and  
4 -- and new employees come along, they become familiar  
5 with those business systems, and the knowledge is  
6 transferred through the documentation and through  
7 demonstration and interaction with the existing  
8 employees.

9                   MR. BOB PETERS:    The document that you  
10 referred to as the rule curve included in the KM report,  
11 you indicated, I believe, yesterday, that came from a  
12 different document that you provided the -- the  
13 independent experts?

14                  MR. HAROLD SURMINSKI:   Yes.  It was an  
15 internal working document where we had -- when -- some of  
16 our staff had prepared for -- for their own purposes.  It  
17 was a -- a description of the rule curve and -- and some  
18 of the assumptions and -- and how it's developed.

19                  MR. BOB PETERS:    Is that document  
20 available to be included in the record of these  
21 proceedings, Mr. Surminski, or is that a document for  
22 which the Corporation claims a proprietary interest?

23                  MR. HAROLD SURMINSKI:   I would say it is  
24 proprietary, and it's -- it's not designed to be a public  
25 document.  It was written for internal use, it was

1 written in -- in language that was -- that was for  
2 internal use. It's not designed to be a public document.

3 MR. BOB PETERS: What was the purpose of  
4 it internally, sir?

5 MR. HAROLD SURMINSKI: It was basically  
6 for -- for other users to pick up. It was mostly for the  
7 user himself to understand it when we had a new user on  
8 it, but it -- it has assisted in -- new users who come  
9 along. They can pick it up and -- and get up to speed a  
10 lot quicker in -- in using the model.

11 MR. BOB PETERS: It's never been placed  
12 on the public record, other than these proceedings?

13 MR. HAROLD SURMINSKI: No, never has.

14 MR. BOB PETERS: Thank you, sir.

15 Mr. Cormie, you acknowledge, on behalf of  
16 the Corporation, that, in -- in droughts, there can be  
17 some significant financial exposure to Manitoba Hydro?

18 MR. DAVID CORMIE: Yes.

19 MR. BOB PETERS: And yesterday you  
20 indicated that the goals of Manitoba Hydro were to -- to  
21 certainly serve the Manitoba load and to -- also to  
22 maximize revenues.

23 Did I get that right?

24 MR. DAVID CORMIE: I don't believe those  
25 were my words, Mr. Peters.

1                   MR. BOB PETERS:    Can you explain to the  
2 Board whether minimizing cost is a valid goal in a  
3 drought situation?  
4

5                                       (BRIEF PAUSE)  
6

7                   MR. DAVID CORMIE:    Minimizing cost is an  
8 objective once you have set what your criteria are, the  
9 extent.  So if we want to serve the Manitoba load with a  
10 99 percent probability of supply, that sets a reliability  
11 objective.  And then, having set that objective, you do  
12 that in -- at the -- at the least cost, which is  
13 different than saying, I just want to minimize costs  
14 without -- without a -- a benchmark.

15                                       Minimizing costs means you may take a lot  
16 of risks.  And what we're saying is we've set risk --  
17 risk targets, and then we will operate around those  
18 either to minimize costs in drought or maximize revenues  
19 under more normal conditions.

20                   MR. BOB PETERS:    Mr. Chairman, if I could  
21 ask for that ten (10) minute break at this time it would  
22 give me a chance to go through my notes and make sure I  
23 haven't left anything out.

24                   THE CHAIRPERSON:    And we're going to --  
25 I'm going to have some pre-closing comments.  I don't see

1 Mr. Williams here, so.

2 MR. WILLIAM GANGE: Mr. Chair, I can  
3 advise you that Mr. Williams has indicated to me that  
4 he'd like to pass a message along, that he has a family  
5 matter that he had to attend to, and at the time that he  
6 left he had no questions that had not already been asked  
7 by other members of today's presentation, so he -- he's  
8 fine.

9 THE CHAIRPERSON: Just to assist with our  
10 process when we come back because I don't think Mr.  
11 Peters has got a lot more to do, do you have any further  
12 questions?

13 MR. WILLIAM GANGE: No, I have no further  
14 questions or submissions. I'm done.

15 THE CHAIRPERSON: Okay, when we return  
16 then we'll have Mr. Peters wind up and then we'll have  
17 some pre-closing comments.

18

19 --- Upon recessing at 2:51 p.m.

20 --- Upon resuming at 3:07 p.m.

21

22 THE CHAIRPERSON: Okay. Welcome back,  
23 those that still remain with us.

24 Ms. Ramage...?

25 MS. PATTI RAMAGE: Yes, Mr. Chair. Just

1 before Mr. Pe -- we turn the mic back to Mr. Peters,  
2 Manitoba Hydro thought there was a couple of subject to  
3 checks, and that if they could speak to them now we want  
4 to deal with that. And Ms. Boyd -- oh, a couple of the  
5 friendly -- friendly undertakings haven't been copied yet.

6 We thought we would get those distributed  
7 but we'll -- we would -- we're hoping to leave here with  
8 as little possible outstanding as possible. So --

9 THE CHAIRPERSON: I think everyone  
10 appreciates that.

11 MS. PATTI RAMAGE: They haven't been  
12 copied yet. I was hoping to do that. But, also, if we  
13 could just ask Mr. Wiens for his comments. There was a  
14 question on the bulk power system, and it was a MIPUG  
15 exhibit. Mr. Wiens, if you could just identify which  
16 page off this.

17 MR. ROBIN WIENS: Yeah, these are from  
18 Mr. Peters' book of documents that we've been going over  
19 today. It's pages 10, 11, and 12 in his top right-hand  
20 corner, concluding with the item on page 12, which is an  
21 excerpt from the pre-filed testimony of Messrs. Bowman  
22 and McLaren on bulk power costs.

23 The -- the specific subject to check was  
24 did we have any issue with the numbers in this table.  
25 And if my memory had been working as well as it has

1 worked in other proceedings, I would have remembered that  
2 our staff actually did go through this document and did  
3 verify the numbers, so we can -- we can say that.

4                   And I never should have questioned Mr.  
5 Bowman's numbers in the first place. So -- so we -- we  
6 can -- we can say that we accept them, that what they are  
7 is, you know, subject to the -- to the way Mr. Bowman was  
8 trying to present them here, that they were excerpted  
9 from the cost of service study, and I think they've been  
10 done correctly.

11                   But I also wanted to point out because I  
12 do believe that these were associated with Manitoba  
13 Hydro's response to Undertaking 42, which is presented in  
14 Mr. Peters' recent book of documents as, on page 10 and  
15 11, Exhibit MH-50, refers to an undertaking given to Mr.  
16 Peters, transcript page 2,138.

17                   And these tables are in -- intended to  
18 show something that is not quite the same as what is in  
19 the excerpt from Mr. Bowman and Mr. McLaren's evidence.  
20 If you look at the documents it was an attempt to depict  
21 really bulk power revenue, which you can see in the first  
22 column, for extraprovincial and the various rate classes,  
23 net of variable costs, which is feu -- water rentals,  
24 fuel power purchase to come up with an estimate. And  
25 that's what it is, it's a net estimate.

1                   And I think the purpose of it was to try  
2 and compare the net bulk power revenue from  
3 extraprovincial with the various domestic classes. So  
4 it's not quite of the same intent, and in fact, it's not  
5 the same information. Mr. Bowman's information relates  
6 to cost from the cost of service study. This relates to  
7 our best estimate of revenues minus variable costs.

8                   MS. PATTI RAMAGE: And, Mr. Surminski, if  
9 -- he had a follow-up comment just with respect to the --  
10 Dr. Kubursi and Magee's use of the Stats Canada data.

11                   MR. HAROLD SURMINSKI: Yes, Mr. Cormie  
12 had indicated that one (1) of the reasons given by Dr.  
13 Kubursi particularly, and he reinforced it when he was  
14 here testifying, was that they wanted to be independent  
15 as a reason for not using Manitoba Hydro data.

16                   But a second reason that -- that I see as  
17 important and not valid is confidentiality. They -- he  
18 claimed that he would have to use confidential  
19 information. And this is all historic information,  
20 historic average export prices, import prices, firm, non-  
21 firm, all that is either on the public record or could  
22 easily have been obtained for their use.

23                   So I don't think this claim of  
24 confidentiality is at all valid for -- for a reason for  
25 not using better information. And, you know, even after

1 we -- we indicated the Stats Canada data was not good  
2 they just did not want to move off that information.

3 So I just wanted to get on the record that  
4 their confidentiality argument is -- is not valid.

5 THE CHAIRPERSON: Thank you, sir.

6 MS. PATTI RAMAGE: Okay. And if we -- I  
7 -- the undertakings have been distributed. So the first  
8 of those is -- has been marked as Exhibit Manitoba Hydro  
9 155. And that is the assumptions used in the development  
10 of Manitoba Hydro Exhibit 154.

11

12 --- EXHIBIT NO. MH-155: Assumptions used in the  
13 development of Manitoba Hydro  
14 Exhibit 154

15

16 MS. PATTI RAMAGE: The second is the --  
17 has been marked as Exhibit 156. And that is the  
18 extraction of electric operations from out of Manitoba  
19 Hydro Exhibit 154, so that it's the electric operations  
20 on their own.

21

22 --- EXHIBIT NO. MH-156: Extraction of electric  
23 operations from out of  
24 Manitoba Hydro Exhibit 154

25

1 MS. PATTI RAMAGE: And I believe Mr.  
2 Warden gave that friendly undertaking this afternoon.  
3 And just to tidy up the record, there was also an  
4 undertaking discussed earlier on the record, and that was  
5 with respect to the studies, Mr. Peters, you were looking  
6 for. There was three (3) studies.

7 I have located -- I -- I did mis --  
8 misspeak when I said that that's probably not a  
9 presentation it's the article, but the presentation "The  
10 Past, Present, and Future of Prairie Droughts: How Bad  
11 is Bad," is in fact contained in Undertaking number 62  
12 revised. And that's Exhibit Manitoba Hydro 108 revised,  
13 so that is there.

14 And in terms of -- you indicated that you  
15 considered the undertakings still outstanding. There  
16 were two (2) articles by Manitoba Hydro's Bill Girling,  
17 also identified in there. I would suggest the  
18 undertaking isn't outstanding because the -- it says to  
19 provide a list, not the articles. But in any event,  
20 those articles are readily available on the net, or on  
21 the web if you Google them, or we can provide a link.  
22 But if you just Google those names they will pop up. So  
23 I think we can, regardless of the semantics, consider  
24 that undertaking fully responded to.

25 THE CHAIRPERSON: Thank you. Mr.

1 Peters...?

2 MR. BOB PETERS: My thanks to Ms. Ramage  
3 for providing the information, much appreciated. We will  
4 source it out. I -- I don't have in my file the sixty-  
5 two (62) revised and one o eight (108) revised, so I  
6 apologize for not -- not being aware that the document  
7 was provided.

8 I would also like to thank Mr. Wiens for  
9 his prompt update of information as well as Mr.  
10 Surminski.

11 And I have no further questions for the  
12 panel. And I hope they accept my sin -- sincere thanks  
13 for their efforts and their diligence. And I know it  
14 wasn't just the front row, but they took the brunt of  
15 them. And I always say to counsel that they should feel  
16 tested and hopefully exhausted when they leave because  
17 that's -- really the ratepayers of Manitoba expect no  
18 less. And if that's true, then I think they've --  
19 they've held their own and they should be commended, so I  
20 do thank them for their -- for their assistance to the  
21 Board in answering of my questions.

22 That does conclude my questions, Mr.  
23 Chairman.

24

25 (PANEL STANDS DOWN)

1 REMARKS:

2 THE CHAIRPERSON: Thank you, Mr. Peters.  
3 And thanks to the panel today. This, with the exception  
4 of filings of remaining undertakings that may be filed  
5 brings to a close the evidentiary segments of Hydro's  
6 2009/'10 and 2010/'11 GRA.

7 All involved will recognize that the  
8 nature, duration, com -- and complexity of this hearing  
9 has been, at least for this Board, an unprecedented --  
10 unprecedented and extraordinary event. If my count is  
11 correct today marks the 41st sitting day, and this  
12 excludes three (3) pre-hearing conferences, a separate  
13 diesel proceeding, and attention to matters related to  
14 NYC. And we have set aside three (3) days for closing  
15 arguments, those to come in July.

16 Reflecting on the efforts that have been  
17 made by all concerned, my panel-mate, Vice-Chair Bob  
18 Mayer, and myself want to thank Manitoba Hydro, RCM/TREE,  
19 MIPUG, City of Winnipeg, CAC/MSOS, counsels, and  
20 witnesses for their participation, cooperation, and  
21 production of evidence. The latter which has been filed,  
22 attested to, and been subject to direct, cross, and re-  
23 direct examination. We also appreciate the presentations  
24 that were provided.

25 If anything I -- I now say is, in the view

1 of any party, suggestive of an error in understanding or  
2 left to interpretation, it should either be corrected or  
3 edited. The opportunity be -- will reside in the closing  
4 arguments and will be welcome.

5                   While one (1) focus has been on Hydro's  
6 GRA filed in its original state, now well more than a  
7 year ago, and rate increases then sought and since  
8 responded to by way of two (2) interim increases. This  
9 hearing has also dealt with Hydro's risk -- risk and risk  
10 practices in the context of Hydro's generation and  
11 transmission development plan and related forecasts that  
12 have a bearing on the prospects for future net income,  
13 retained earnings, debt, and rates.

14                   The plan to bring into service major new  
15 generation and transmission during a decade of  
16 investment, a plan which has already led to material  
17 expenditures capitalized in advance of final approval, in  
18 all cases except for Wuskwatim, has a direct bearing on  
19 rates. And this Board's mandate is to approve just and  
20 reasonable rates.

21                   In the case of a capital-intensive  
22 monopoly utility, one owned and operated by the  
23 provincial government, pursuing a major capital  
24 development plan, one involving perhaps the expenditure  
25 of approximately 20 billion requiring the borrowing of

1 vast sums and relying on new, yet to be finalized export  
2 contracts and related commitments, given the Board's rate  
3 setting mandate, requires the Board to fully understand  
4 the issues and carefully consider the implications for  
5 the Utility's customers.

6           As noted, the sole shareholder is the  
7 province and that ownership is held in the interest of  
8 the residents of the province, particularly those  
9 dependent on electricity. Consistently this Board has  
10 interpreted its rate mandate to being one of -- one of  
11 establishing fair, reasonable, and just rates, rates  
12 based on revenue requirements, supported by prudent  
13 expenditures. Rates are to be reflective not only of  
14 fairness between the various customer classes, but also  
15 pay appropriate attention to intergenerational equity.

16           Expenditures made cannot be rolled back.  
17 And major new generation and transmission and export  
18 contracts that are proposed to allow for their  
19 advancement ahead of domestic need, once built, will  
20 drive the annual costs of the rates of the Utility for  
21 decades.

22           This Board has always relied, in part, on  
23 Hydro's forecasts, not only on the test years, but also  
24 out into the further future. Twenty years (20) with even  
25 a longer time frame, even with that longer time frame

1 being much shorter than the service lives and hopefully  
2 okano -- economic lives of Hydro's major assets.

3           Amongst the evidence is a recently filed  
4 and partly updated IFF that, while welcome, does not  
5 reflect which -- which may well be changed or possibly  
6 changed expectations as to load, opportunity export sales  
7 prices, export contract terms, recent and newly forecast,  
8 not by Hydro, future interest rates and currency levels.  
9 As well, there -- there is the impression of almost  
10 certainty, given the record, as to further amendments to  
11 construction costs forecasts.

12           This in a way is unfortunate because such  
13 information is critical to a proper testing of the pru --  
14 prudence of plans and costs that future rates will be  
15 expected to recover. We are please that Hydro intends to  
16 address at least some of those aspec -- aspects.

17           Hydro's customers are used to enjoying  
18 what has been called the Manitoba advantage, which we'd  
19 interpreted -- interpreted as being a discount from  
20 otherwise rates due to the expectation of net export  
21 revenues, a discount that varies by the various domestic  
22 rate classes, and we have not heard any suggestion by  
23 Hydro that its plans will deg -- degrade the advantage.

24           However, without understanding and  
25 assessing different capital expenditure scenarios, and

1 the export contract proposals now on the table, it may be  
2 impossible for this Board to conclude on whether the  
3 capital and export plans can be expected, to a reasonable  
4 degree of certainty, to -- to fur -- to either further or  
5 degrade the Manitoba advantage.

6 Risk exists in any enterprise, and the  
7 larger the enterprise and the more important the  
8 enterprise is to its customers, the more risks need to be  
9 understood, quantified, and reviewed. This Board has  
10 long held res -- concerns related to Hydro's risks, and  
11 those risks have implications for rates, and the Board's  
12 concerns have been exasperated (sic) in part by the  
13 economic events that have taken place since the summer of  
14 2008.

15 It is this Board's understanding that  
16 Hydro's capital development plan and the export term  
17 sheets intended to result in contracts allowing for the  
18 profitable advancement of those plans ahead of domestic  
19 need. I note, by the way, the obvious, that, being in a  
20 hydro-reliant system, expected future increased demand  
21 needs need to be addressed ahead of actual need if undue  
22 reliance on imports is to be avoided. These plans and  
23 terms sheets were developed and -- and entered into  
24 before the global credit crisis and recession, a  
25 recession that is still lingering, at least in the United

1 States, and still causing concern.

2 All of this seemingly heightens the need  
3 for a proper and fulsome review of risk and, with respect  
4 to the review of those risks that has taken place and  
5 reported on through this process, the panel acknowledges  
6 the efforts of Dr. Kubursi and Dr. Magee, independent  
7 experts made available by the Board, not only to the  
8 Board's advisors, but also to all parties to this  
9 hearing.

10 The Board al -- was also provided reports  
11 touching on and directly dealing with risks, and we heard  
12 evidence from KPMG and ICF, both engaged by Hydro. In  
13 the case of KPMG, while the Board was consulted ahead of  
14 MH's commissioning of the firm, the mandate eventually  
15 provided to KPMG by Manitoba Hydro was more limited than  
16 that originally sought by the Board.

17 This said, with the evidentiary portion of  
18 this hearing now completed, there remains two (2)  
19 important phases of the hearing to be completed, those  
20 being the closing submissions of Board counsel,  
21 Intervenors, and Hydro, to be followed by the  
22 deliberations of the Board and the issuance of an order.

23 Intervenors' submissions are to be heard  
24 on July 4th and 5th, to be followed by Manitoba Hydro's  
25 submission, which is to come on July the 7th. Following

1 Hydro's submission, the Board will work diligently  
2 towards providing a well thought out and comprehensive  
3 order in a timely fashion.

4           The Board understands that the Intervenors  
5 intend to file written briefs by June 23rd, with June  
6 30th provided for MIPUG, and as well make oral arguments  
7 on, as I said before, July 4th and 5th. This said  
8 schedule is to provide Hydro an opportunity to reflect on  
9 the comments of the Intervenors ahead of their closing  
10 argument, that scheduled for July 7th.

11           The Board expects to benefit from the  
12 reviews of the parties on a wide range and numbers of  
13 issues, some, if not many, raised by the Board on January  
14 31st. A review of the transcript of that session would  
15 best be reviewed by the parties, as some of the Board's  
16 comments on that occasion may warrant further attention.

17           In any case, and in no particular order,  
18 and to assist the parties who have asked for a list of  
19 issues that they may consider addressing in closing  
20 submission -- submissions, the Board would appreciate  
21 hearing from the parties on at least the following  
22 matters: whether the Board should approve as final the  
23 2.9 percent interim rate increase granted for April 1st,  
24 2010; whether the 2 percent interim rate increase granted  
25 April 1st, 2011 should be made final.

1 RCM/TREE alluded to the prospects of an  
2 April 1, 2012 rate adjustment, perhaps conditional,  
3 perhaps interim, with a pros -- with the prospects of a  
4 needs for and alternatives to proceeding, a NFAAT ahead  
5 of -- ahead. Does such approach meet with the party's  
6 interest, particularly with respect to restraining  
7 regulatory costs and avoiding duplication?

8 There have been at least seemingly ever-  
9 increasing cost projections with respect to the proposed  
10 capital projects. I may -- may -- as an aside, that this  
11 is not the only utility where this experience has  
12 occurred.

13 What are the views of the parties as to  
14 the reliability of the current construction cost  
15 forecasts? The latest construction cost estimates for  
16 Keeyask, Conawapa, and Bipole 3 are materially higher  
17 than what was forecast when Hydro entered into the export  
18 sales term sheets in 2000 and early 2008 with Minnesota  
19 Power, Wisconsin Public Service, and Northern State  
20 Power.

21 In its most recent IFF update Hydro  
22 maintains its earlier projection of a need for 3 1/2  
23 percent rate increases through its decade of investment,  
24 and now forecasts, just projections, smaller rate  
25 increases through the decade of return.

1                   Are the parties confident that the  
2 increased cost estimates and cost overalls will be  
3 sufficiently recovered by the combination of export  
4 revenues and projected domestic rate increases?

5                   In short, from the parties' perspective  
6 and based on the evidence before this hearing, do the  
7 forecast initial export volumes and prices provide  
8 support to adequate -- adequate to finance the  
9 advancement of the proposed projects?

10                   Another question that was raised in the  
11 hearing had to do with the tolerance, risk tolerance.  
12 What is the tolerance for risk of domestic customers?  
13 Does it match the tolerance for risk held by Hydro?

14                   Hydro has indicated what I would describe  
15 as complete confidence that adequate export contracts --  
16 and Mr. Cormie put on the record indication of ongoing  
17 negotiations with other parties -- will be realized and  
18 all required regulatory approvals will be achieved to  
19 allow for Hydro's development plan to proceed.

20                   Yet the updated twenty (20) year IFF  
21 appears to may require further amendments and a new  
22 present value runs may or may not be made with respect to  
23 the development plan, but those amendments are not  
24 expected to be prepared until the fall, yet the -- the  
25 acclude -- yet the conclusion moving ahead appears to be

1 in process.

2 Are there party -- are the parties  
3 acceptive of Hydro's capitalization of pro -- of all pre  
4 in-service investments and no reflection of the costs in  
5 current rates, leaving future generations to absorb those  
6 costs in their rates?

7 On other issues, ICF has indicated a  
8 downward revision in natural gas price expectations of  
9 about 40 percent into the midterm. And re -- and recent  
10 surplus energy prices, which some have accepted before as  
11 a proxy of opportunity prices, particularly for the off-  
12 peak periods, have been very low, bringing down the  
13 average export price received by Manitoba Hydro.

14 Do the parties have concerns related to in  
15 particular opportunity export sale prices in an era -- in  
16 an era of seemingly low natural gas prices? The  
17 development of a carbon cost regime that would assist  
18 export price levels has long been forecast but with  
19 changes within the economy and the political environment,  
20 those expectations appear to have been reduced.

21 What are the parties' views on the risks,  
22 if not probability, that the development of a reasonable  
23 premium placed on carbon will affect average export  
24 prices and import prices into the distant future?

25 ICF also provided some views on the

1 evolution of a future carbon regime that the parties may  
2 want to review.

3                   From the evidence filed, it may appear  
4 that while the cost of the assets required to deliver the  
5 required energy increases to meet new export commitments  
6 have risen significantly, are the parties confident that  
7 export revenues will meet these new costs sufficiently  
8 allow for the advancement of projects of domestic need in  
9 the form and shape of Manitoba Hydro's plans without  
10 having domestic rates be -- being required to increase by  
11 even more than Manitoba Hydro currently projects?

12                   On another topic, Mr. Matwichuk, a witness  
13 engaged by CAC/MSOS, noted the evident importance of net  
14 export revenues to Manitoba Hydro's plans and suggests  
15 that an export rate stabilization mechanism to make  
16 transparent differences between projected and actual net  
17 export revenue.

18                   What are the parties' views on his  
19 suggestion? Should such a -- a mechanism be put in  
20 place? Without such a mechanism, will Manitoba Hydro's  
21 future success level with respect to net export revenues  
22 and rates be sufficiently evident to customers?

23                   For some, some of the cost profiles  
24 associated with different development approaches may  
25 appear to involve less risk and perhaps could result in

1 the prospect of lower than now forecast domestic rates in  
2 the long term.

3                   What are the parties' views on the wisdom  
4 of testing alternate development approaches? Should not  
5 all poss -- possible development scenarios be tested?  
6 Should such testing take place before further hundreds of  
7 millions of dollars are invested in the current plans?

8                   Upon the implementation of Hydro's  
9 preferred development plan, including firm export  
10 contracts, involving commitments for delivered power,  
11 what are the views of the parties as to the impression  
12 that with new Hydro generation and transmission in place  
13 Hydro will be more vulnerable to the effects of a major  
14 drought? Are the parties satisfied with the risk  
15 profiles associated with a major drought that have been  
16 brought forward?

17                   Are Manitoba Hydro's projections of needed  
18 retained earnings level considered sufficient for the  
19 risk involved?

20                   What are the parties' views as to the  
21 implications for rates of risk faced by Manitoba Hydro  
22 with respect to future potential rate changes and  
23 inflation and interest rates and curren -- currency  
24 values for domestic customers?

25                   What are the parties' views as to what the

1 Board should make of Hydro's resistance to provide  
2 undertakings respecting various alternative development  
3 scenarios?

4                   How does the non-response inform what some  
5 might see as necessary comprehensive discussion on what  
6 may consider -- what many consider a major public  
7 interest issue?

8                   I note, as well, that Hydro has not shared  
9 its electronic spreadsheets. Apparently this limits the  
10 ability of the parties and exports to readily perform new  
11 sensitivity analysis.

12                   From the party's perspective, are Manitoba  
13 Hydro's retained earnings firm enough? It has been  
14 suggested that retained earnings are composed of  
15 intangible assets, deferred costs, AOCI and constructions  
16 in aid of construction. Without retained earnings that  
17 are comprised of liquid assets, presumably borrowings  
18 will be required to meet any major setback.

19                   From the parties' perspective, how much  
20 retained earnings should be accumulated to buttress  
21 against a five (5) or seven (7) year drought without  
22 reducing the Manitoba advantage through higher domestic  
23 rates?

24                   And is a seventy-five (75)/twenty-five  
25 (25) debt equity ratio still a valid target when the

1 balance sheet debt is expected to materially increase?

2                   Recommendations calling for risk  
3 management improvements were made by KPMG, ICF and the  
4 Doctors Kubursi and Magee, and reports were given by  
5 Manitoba Hydro of ongoing improvements to their approach.

6                   Are the parties confident that the current  
7 risk practices as they continue to develop are sufficient  
8 to allow for confidence in Manitoba Hydro's plans and --  
9 and how or should the Board address recommendations on  
10 that -- in that nature in its upcoming order?

11                   Do any of the parties differ from Manitoba  
12 Hydro's perspective as what represents dependable energy,  
13 a perspective that includes thermal, wind and firm  
14 imports?

15                   Another issue completely, Manitoba Hydro  
16 has applied for demand billing concessions for commercial  
17 and industrial firms, nege -- effective negatively in the  
18 recent recession. The numbers in total dollars are not  
19 overly material.

20                   Should the Board accept the request to  
21 make permanent billing concessions granted under the  
22 temporary program? The Board had called for specific  
23 financial information on each of the applicant firms, but  
24 none of that information was provided.

25

1 (BRIEF PAUSE)

2

3 THE CHAIRPERSON: Another issue: Do the  
4 parties have any updated views on the need for and/or  
5 prospects for a future energy intensive industry rate, or  
6 are the parties satisfied with Manitoba Hydro's ongoing  
7 consultation with large industry, soon, apparently, to be  
8 expanded to include other parties?

9 Is sufficient consideration of the ERI  
10 being prudently set back given the circumstances?

11 From the parties perspective are any cost  
12 of service or rate design changes required?

13 And yet another issue: Mr. Colton called  
14 for a special lower income assistance rate program. What  
15 are the parties' views on that recommendation?

16 As for a low income rate affordability  
17 program, the Board welcomes a summary of the gross costs  
18 and the net costs to the utility of any proposed program.  
19 Should now -- should non-utility costs and benefits be  
20 included in any cost benefit analysis that underpins a  
21 low income rate affordability program by the utility?  
22 Should low income programs be run by agencies outside the  
23 utility?

24 Another issue: Should the Board approve  
25 Manitoba Hydro's request to reduce the basic monthly

1 charge? If the basic monthly charge were to be reduced,  
2 would it be best reduced in a way that retained revenue  
3 neutrality, i.e., rates increased to cover off lost  
4 income?

5 What position do the parties take on rate  
6 class consolidation, rate re-balancing, limited use  
7 billing demand, the surplus energy program, the  
8 curtailable rate program, and the time of use rates, if  
9 any views are out there?

10 What are -- what are the merits to the  
11 proposed interest forecasting methodology advocated by  
12 Mr. McCormick?

13 Should the Board establish an interest  
14 rate deferral account to capture the forecast variance of  
15 interest costs given the major debt borrowings being  
16 contemplated in the forecast?

17 Another issue that has arisen was: How  
18 should the Board address the issue of OM&A cost  
19 increases? Hydro has engaged hundreds of -- of new  
20 employees that are involved in one (1) capacity or  
21 another, it would appear, in implementing the development  
22 plan.

23 Another issue is that the planned new  
24 export contracts are subject to regulatory approval.  
25 Parties may want to take note of ta -- Tab 26 of the

1 Board counsel's book of documents which addresses the  
2 possible involvement of the Board. In light of the  
3 expectations of a needs and justification hearing to be  
4 held prior to final commitment to the Manitoba Hydro's  
5 major capital plans and new export contracts, should the  
6 Board rely on the expected needs and justification  
7 hearing and avoid duplication?

8                   Directly, what are the parties' views on  
9 the necessity of having such a proceeding? And given the  
10 experience of the Board with Hydro matters and the  
11 independence of view displayed by this Board, together  
12 with its jurisdiction and mandate, do the parties hold  
13 that there should be some involvement of the Board in  
14 such a hearing?

15                   In regulatory hearings the issue of the  
16 credibility of witnesses seldom arises. An assessment of  
17 credibility often takes into account the aspects of  
18 independence. Do issues of credibility and independence  
19 arise in any respect in this proceeding?

20                   How much weight should the Board give to  
21 the evidence of the various risk consultants that have  
22 filed written evidence and testified?

23                   The list, the long list of issues that  
24 I've just gone through may be far from being completely  
25 comprehensive and the parties should make their positions

1 known with respect to all issues that they have an issue  
2 in.

3 I'm also aware that some undertakings or  
4 thought of undertakings may still be outstanding and they  
5 should be filed as soon as possible - and certainly by  
6 June 23rd, though preferably earlier.

7 These undertakings include the filing of  
8 confidential material by Hydro with respect to new export  
9 contracts, and draft or final 2010/'11 financial  
10 statements, electric and consolidated with notes.

11 Before adjourning the Hearing and awaiting  
12 closing submissions, I want to take the opportunity to  
13 thank in particular my panel mate, Mr. Bob Mayer. Mr.  
14 Mayer is a practising lawyer based in Thompson, and has  
15 made many personal and business sacrifices to once again  
16 serve in the public interest.

17 I also want to thank Dr. Len Evans, who  
18 unfortunately had to step down from the panel due to a  
19 temporary illness. He is now, I can happily report,  
20 fine, but prior to that was very involved in preparing  
21 for the hearing. And with respect to Board's advisors  
22 and counsel and staff, we are well served once again.

23 So, with all that, we stand adjourned and  
24 await closing arguments to come as scheduled. Thank you.

25

1 --- Upon adjourning at 3:41 p.m.

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5 Certified Correct,

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Cheryl Lavigne, Ms.

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