MANITOBA PUBLIC UTILITIES BOARD

Re: MANITOBA HYDRO

GENERAL RATE APPLICATION

2014/15 AND 2015/16

Before Board Panel:

Regis Gosselin - Board Chairperson

Marilyn Kapitany - Board Member

Richard Bel - Board Member

Hugh Grant - Board Member

HELD AT:

Public Utilities Board

400, 330 Portage Avenue

Winnipeg, Manitoba

June 3, 2015

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1 APPEARANCES

2 Bob Peters)Board Counsel
3 Sven Hombach (np))
4
5 Odette Fernandes)Manitoba Hydro
6 Brent Czarnecki)
7
8 Byron Williams)Consumer Coalition
9 Meghan Menzies)
10 Jared Wheeler (np))
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12 William Gange (np))GAC
13 Peter Miller (np))
14 David Cordingley)
15
16 Antoine Hacault)MIPUG
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18 Michael Anderson (np))MKO
19 George Orle)
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21 Tomas Masi)MMF
22 Kris Saxberg (np))
23
24 Denise Pambrun)City of Winnipeg
25

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1 --- Upon commencing at 9:00 a.m.
2
3 THE CHAIRPERSON: Good morning. I
4 believe that we can start today's proceedings, and I
5 will turn the microphone over to you, Mr. Peters.
6 MR. BOB PETERS: Thank you. Good
7 morning, Mr. Chairman, good morning Board members, good
8 morning ladies and gentlemen, and including the
9 Manitoba Hydro witness panel, with whom I'll have more
10 questions today.
11
12 MANITOBA HYDRO PANEL 4 - FINANCE RESUMED:
13 DARREN RAINKIE, Previously Sworn
14 SANDY BAUERLEIN, Previously Sworn
15 LIZ CARRIERE, Previously Sworn
16 MANNY SCHULZ, Previously Sworn
17 IAN PAGE, Previously Affirmed
18
19 CONTINUED CROSS-EXAMINATION BY MR. BOB PETERS:
20 MR. BOB PETERS: Mr. Chairman and panel
21 members, at the end of business yesterday, we were
22 talking about foreign exchange, and I just want to tidy
23 up the record on that. And perhaps, Ms. Carriere, we
24 could turn to Volume I of PUB Exhibit 20 and look at
25 page 63?

1 We reviewed with a prior panel the
2 foreign exchange rate that was embedded in the IFF, and
3 if we look to the very -- the bottom part of the page,
4 we see the years 2013/'14 all the way through to
5 2019/'20, correct?
6 MS. LIZ CARRIERE: Yes, I see that.
7 MR. BOB PETERS: And the average
8 exchange rate that's shown on page 63 of Board
9 counsel's Volume I book of documents PUB Exhibit 20,
10 that -- that number would have come from the integrated
11 financial forecasts?
12 MS. LIZ CARRIERE: Well, it would have
13 came from the economic outlook or fall update, or...
14
15 (BRIEF PAUSE)
16
17 MS. LIZ CARRIERE: Just a moment,
18 please.
19
20 (BRIEF PAUSE)
21
22 MS. LIZ CARRIERE: Yes, Mr. Page just
23 confirmed that those are the fall update numbers.
24 MR. BOB PETERS: And those were the
25 numbers used in the IFF14?

1 MS. LIZ CARRIERE: I believe so, yes.
2 MR. BOB PETERS: And, Mr. Page,
3 yesterday as I understood your evidence for the year
4 2015/'16, one (1) of the test years in this rate
5 application, the fall update numbers that were carried
6 through to the IFF was a foreign exchange rate of 1.12
7 percent?
8 MR. IAN PAGE: Yes, that's correct.
9 And that's which I -- yes, and that's what's shown on
10 your table on the screen there for '15 and '16.
11 MR. BOB PETERS: And -- thank you, Mr.
12 Page. What's not shown on the screen is that in
13 January of 2015, you ran a January update, and that
14 number changed to a dollar twenty nine ($1.29)?
15 MR. IAN PAGE: That's -- that's
16 correct.
17 MR. BOB PETERS: And then you also did
18 a -- what I gathered was a more contemporaneous to this
19 hearing update, and it had slipped to about a dollar
20 twenty-seven ($1.27).
21 MR. IAN PAGE: That's correct.
22 MR. BOB PETERS: And so for the '14/'15
23 test year, would it -- would the Board be correct in
24 understanding that Hydro is now forecasting a dollar
25 twenty-seven ($1.27) as the exchange?

1 MR. IAN PAGE: The '14/'15 or '15/'16
2 test year?
3 MR. BOB PETERS: '15/'16.
4 MR. IAN PAGE: For '15/'16, yes, a
5 dollar twenty-seven ($1.27) is -- is our current
6 forecast.
7 MR. BOB PETERS: And for the -- for the
8 year that changed, are you able to tell the Board what
9 the number is if it's not a dollar ten ($1.10), as
10 shown on page 63?
11 MR. IAN PAGE: I -- I wouldn't update a
12 forecast for something that's already happened. We'd
13 have to look to the -- although, it is easier to
14 forecast the past, but we'd have to look -- look to the
15 financial statements and see what the actual year end
16 ayer -- year end average was.
17 MR. BOB PETERS: Well, Mr. Page, I'm
18 having a lot of difficulty getting Mr. Rainkie to
19 provide those financial statements. So -- so I'll keep
20 trying with you later.
21 MR. DARREN RAINKIE: Mr. Peters, you're
22 -- you're getting it out of me bit by bit.
23 MR. BOB PETERS: No, that -- that's
24 fine, Mr. --
25 MR. DARREN RAINKIE: I can -- I can

1 actually indicate -- I -- I've seen a calculation that
2 the average exchange rate was around one point one-
3 three (1.13). You have to remember that -- that during
4 most of the -- the exchange rate fluctuation was
5 towards the back end of the year, so it's -- you have
6 to distinguish between balance sheet exchange rates and
7 what the average was during the year.
8 And the calculation I've seen is it was
9 about one point one-three (1.13) during the year.
10 MR. BOB PETERS: And -- and in
11 fairness, Mr. Rainkie, just so the Board is current
12 with my line of thinking, your president, I believe,
13 took an undertaking from me to inquire and to take an
14 undertaking to see whether or not the financial
15 statements will be provided to this Board prior to July
16 1. And I believe that undertaking is still
17 outstanding.
18 And is that your understanding?
19 MR. DARREN RAINKIE: That's my
20 understanding, sir.
21 MR. BOB PETERS: All right. Thank you.
22 And, Mr. Page -- you see, it's much easier when I talk
23 to you than when I talk to Mr. Rainkie, but if I look
24 at that same page 63 and look at the average exchange
25 rate going forward, for the 2016/'17 year, the

1 Corporation has moved off of the one point one-two
2 (1.12), or a dollar twelve ($1.12)?
3 MR. IAN PAGE: Yes, our current
4 forecast for that is now one twenty-three (1.23).
5 MR. BOB PETERS: And then as we go even
6 further forward, is there a revised number for '17/'18?
7 MR. IAN PAGE: Yes, we've got revised
8 numbers out to 2023/'24, and -- and we're preparing to
9 include that in the undertaking from yesterday.
10 MR. BOB PETERS: All right. That would
11 be helpful. Now, you said to the panel yesterday that
12 Manitoba Hydro's long-term forecast of the exchange
13 rate increased from a dollar ten ($1.10) out to a
14 dollar thirteen ($1.13), as I recall?
15 MR. IAN PAGE: That's correct.
16 MR. BOB PETERS: Where does that dollar
17 thirteen ($1.13) -- when does that kick in?
18 MR. IAN PAGE: 2020 -- 2020/'21.
19
20 (BRIEF PAUSE)
21
22 MR. BOB PETERS: Ms. Carriere, at the
23 end of the day yesterday, we were trying to demonstrate
24 to the Board what the impact was going to be. And I'm
25 just going to pick the 2015/'16 test year as to the

1 change in the foreign exchange rate that Mr. Page has
2 told us about.
3 Do you recall those discussions?
4
5 (BRIEF PAUSE)
6
7 MS. LIZ CARRIERE: Yes, I recall that
8 discussion.
9 MR. BOB PETERS: And one (1) of the
10 things that we were trying to narrow down is what
11 impact the change from a dollar twelve ($1.12) to a
12 dollar twenty-seven ($1.27) was going to have on
13 Manitoba Hydro's 2015/'16 test year?
14 MS. LIZ CARRIERE: That's correct,
15 yeah.
16 MR. BOB PETERS: And one (1) of the
17 things you asked the panel to do at that time was to
18 look at an appendix. I think it was Appendix 3.6,
19 where a pro forma calculation had been done as to the
20 sensitivity dealing with changes in foreign exchange
21 rates, correct?
22 MS. LIZ CARRIERE: That's correct.
23 MR. BOB PETERS: That pro forma
24 calculation, as I've called it, Ms. Carriere, was not
25 done specifically for the 2015/'16 fact situation, was

1 it?
2 MS. LIZ CARRIERE: I'm just looking.
3 And the impacts shown in that table reflect two (2)
4 years, for '15/'16 and '16/'17.
5
6 (BRIEF PAUSE)
7
8 MS. LIZ CARRIERE: So the actual impact
9 for 2016 is approximately 1 million. And the impact
10 for 2017 is approximately 3 million.
11 MR. BOB PETERS: Would you be able to
12 file the calculations that gave rise to that
13 information that show the export revenue changes, the
14 finance expense changes, and the power purchase changes
15 as affected by the foreign exchange, all to determine
16 the overall net impact on net income?
17 MS. LIZ CARRIERE: Well, we could file
18 a table that would simplify that for that Board, yes,
19 but the financial statements for each of the
20 sensitivities is filed in -- in Appendix 3.6. So it's
21 just make -- taking a comparison of -- of MH14 to the -
22 - the fina -- the projected operating statement in --
23 in Appendix 3.6. But, yes, we could file that.
24 MR. BOB PETERS: I -- I think that
25 would be appreciated if you could undertake to do that,

1 Ms. Carriere. Thank you.
2
3 --- UNDERTAKING NO. 34: Manitoba Hydro to file the
4 calculations that gave rise
5 to that information that
6 show the export revenue
7 changes, the finance
8 expense changes, and the
9 power purchase changes as
10 affected by the foreign
11 exchange, all to determine
12 the overall net impact on
13 net income
14
15 CONTINUED BY MR. BOB PETERS:
16 MR. BOB PETERS: Mr. Rainkie, coming
17 back to you, sir, yesterday when we were having this
18 discussion, and some of your comments were to the
19 effect, as I understood them, that a ten (10) cent
20 change in the foreign exchange rate could have an
21 approximate $10 million impact on the Corporation.
22 Did -- did I hear you correctly
23 yesterday?
24 MR. DARREN RAINKIE: Mr. Peters, I
25 think I muddied the water on that when I was trying to

1 communicate, and rather poorly I might add, was that
2 that -- that that is our tolerance level. So it's not
3 what we expect or are forecasting in those years. What
4 we expect is what Mr. -- Ms. Carriere was just chatting
5 about, the $1 million impact in '15/'16.
6 And if the exposure got to a long or
7 short of a hundred million dollars, meaning the
8 cashflow was out of balance -- the US cash in and out
9 was out of balance by a hundred million dollars, then
10 we would look at taking action to bring that back into
11 balance.
12 So, for instance, if we were long in US
13 dollars, meaning we had more inflows from revenues than
14 outflows from US finance expense, we might do a debt
15 issue in US dollars or swap a Canadian debt issue to US
16 to -- to recalibrate the -- the offset, if you like.
17 So I was talking about our tolerance,
18 not about what we were forecasting. I apologize if I
19 muddled up or confused the matter for the Board.
20 MR. BOB PETERS: All right, I thank you
21 for clarifying that, Mr. Rainkie. And I did understand
22 -- at least I understood yesterday, I believe it was
23 Mr. Schulz who was saying that the Corporation sits as
24 much as a hundred million dollars long right now, which
25 means that you're expecting a hundred million dollars

1 of more US inflows than you are of US outflows, as I
2 understood the evidence?
3 MR. MANNY SCHULZ: Mr. Peters, I -- I
4 don't recall saying that we're a hundred million
5 dollars long. Again, it's perhaps referring to the
6 policy aspect that Mr. Rainkie just spoke to. If in a
7 policy position where a hundred million dollar long and
8 we see that long position continuing through the
9 forecast into the foreseeable future, then action ought
10 to be taken in order to rebalance it. It wasn't giving
11 an indication as to what our relative position was this
12 year.
13 MR. BOB PETERS: Can you indicate, Mr.
14 Schulz, for the 2015/'16 test year whether the
15 Corporation is long or short on the US inflows versus
16 outflows?
17 MR. MANNY SCHULZ: Well, for '15/'16 it
18 would still be a forecast. I can indicate that for the
19 year just completed we were slightly long and that for
20 '15/'16 what our intention was, was to see what our
21 long position was as we get through the -- the spring
22 season with the water levels and so on to see what our
23 forecast would be for our extraprovincial revenues
24 moving forward, to see if there was a rebalancing
25 required.

1 Our intention and our expectation is
2 that we would still be slightly long, but that we might
3 be subject to rebalancing through that fiscal year.
4 MR. BOB PETERS: And, Mr. Schulz,
5 recognizing you and I may talk in different dollar
6 levels, what does 'slightly long' mean to you?
7 MR. MANNY SCHULZ: Thank you for that.
8 Well, if we get to 100 million, then we're -- I would
9 consider it to be long. If we're slightly long, that
10 takes us perhaps into the -- the $50 million category.
11 So if we're $50 million long and we have
12 a ten (10) cent instantaneous change at any point in
13 time, the revaluation would be 5 million. And so that,
14 within our risk tolerance, would still be acceptable.
15 So what we're trying to do is to see where we are
16 within the risk tolerance for that.
17 MR. BOB PETERS: And you were going to
18 wait until the spring of 2015/'16 to see whether or not
19 any rebalancing was needed. Are we at that point yet,
20 Mr. Schulz, or have you been tied up with other
21 matters?
22 MR. MANNY SCHULZ: Well, currently, I'm
23 tied up with other matters, Mr. Peters. It was our
24 intention to get to it through the latter part of June
25 and into the summer months.

1 MR. BOB PETERS: All right. Thank you
2 for that, sir.
3 I want to turn to the topic of the
4 interim rate increase that this Board had previously
5 granted. And to do that, we'll go back to Board
6 counsel's book of documents, Volume III, and page 67,
7 if we could.
8
9 (BRIEF PAUSE)
10
11 MR. BOB PETERS: Ms. Carriere, the
12 application for interim rates for April 1 of 2014 was
13 made during the currency of the NFAT process.
14 Have I got that right?
15 MS. LIZ CARRIERE: That's correct, yes.
16 MR. BOB PETERS: And at -- in terms of
17 the forecast that Manitoba Hydro had filed, it was a
18 forecast to support a 3.95 percent rate increase.
19 Is that correct?
20 MS. LIZ CARRIERE: Yes, it was.
21 MR. BOB PETERS: And the 2013/'14
22 forecast was showing net income of $116 million, 55
23 million for 2014/'15, and then 12 million out for
24 '15/'16, correct?
25 MS. LIZ CARRIERE: That's correct, yes.

1 MR. BOB PETERS: And that information
2 was provided to the Board, if I look to the bottom of
3 that page, and it was provided to the Board in -- in
4 mid-April of 2014?
5 MS. LIZ CARRIERE: Yeah.
6 MR. DARREN RAINKIE: Mr. Peters, I
7 think this is an Information Request. My recollection
8 is our application was filed with the Board on March
9 7th, and then there was a small process to get to a May
10 1st rate change.
11 So I'm not -- I -- I think this document
12 looks like an Information Request that was filed in
13 April. It's got -- it's got April 15th on it, but the
14 actual application was filed March 7th.
15 MR. BOB PETERS: And --
16 MR. DARREN RAINKIE: -- 2014.
17 MR. BOB PETERS: -- if we turn to page
18 68, we now see that for the 2014 year, instead of 116
19 million, the actual results came in at one forty-seven
20 (147).
21 Have I got that right, Ms. Carriere?
22 MS. LIZ CARRIERE: Yes, that's correct.
23 MR. BOB PETERS: There was a $31
24 million improvement?
25 MS. LIZ CARRIERE: Yes, there was.

1 MR. BOB PETERS: And then likewise for
2 the 2014/'15 test year, the initial forecast was 55
3 million, and the results shown on page 68 in front of
4 you is -- the forecast is now 102 million.
5 And that was IFF14, correct?
6 MS. LIZ CARRIERE: That's correct, yes.
7 MR. BOB PETERS: And that's a $47
8 million improvement?
9 MS. LIZ CARRIERE: Yeah.
10 MR. BOB PETERS: And we have to just
11 put a little asterisk beside that as Mr. Rainkie has
12 indicated that the year-end results will be
13 unfavourable, but less than $10 million unfavourable,
14 if I have that right.
15 You concur, Ms. Carriere?
16 MS. LIZ CARRIERE: That --
17 MR. DARREN RAINKIE: Mr. Peters, I'm
18 not sure Ms. Carriere has seen the financial results.
19 She's been rather -- rather preoccupied too in the last
20 few weeks. But, yes, we're talking about '14/'15. And
21 I indicated that we were within $10 million
22 unfavourable on the 150 million.
23 And, sir, you know, on the 2014 the
24 differential was largely weather. It was related to
25 the coldest winter in a hundred years. Like the -- the

1 difference in 2014 between 147 million and the 116
2 million that we originally forecast was largely
3 weather.
4 But if I take you back to page 67 for a
5 second, just to show the volatility of what we deal
6 with, if you move two (2) columns over to the 2011/'12
7 actual of 61 million, my recollection is we had
8 forecast a $92 million net income. Well, that was a
9 warmer winter, so we were down about 25 or $30 million
10 on weather in 2011/'12.
11 So, you know, this is -- I think we've
12 been trying to ensure the Board understands the
13 volatility of what we're dealing with, and that's --
14 weather and water are two (2) of our primary sources of
15 volatility in our actual financial results.
16 MR. BOB PETERS: Thank you, Mr.
17 Rainkie. We'll come to that in just a few minutes.
18 Again you're ahead of me, but we'll -- we'll rein you
19 back for a minute.
20 If we look at the 2015/'16 test years,
21 the forecast was for $12 million of net income, and if
22 we go to page 68 that forecast is now revised for $115
23 million, Ms. Carriere, correct?
24 MS. LIZ CARRIERE: That's correct, and
25 that's primarily due to favourable water flows, and

1 favourable interest rates and -- and lower depreciation
2 rates.
3 MR. BOB PETERS: And that's a $103
4 million improvement?
5 MS. LIZ CARRIERE: That's correct.
6 MR. BOB PETERS: Does it -- does it --
7 is it influenced --
8 MR. DARREN RAINKIE: Sorry, sir, what
9 was that last question? Moving from fifty-five (55) to
10 a hundred and fifteen (115) is -- is not $102 million--
11 MR. BOB PETERS: No, I was moving from
12 $12 million on page 67, I believe, Mr. Rainkie, unless
13 I've made a mistake in my columns, the $12 million
14 number to the $115 million number.
15 MR. DARREN RAINKIE: No, we're moving
16 from 12 million to 59 million, including the rate
17 increase, sir. Sorry --
18 MS. ODETTE FERNANDES: No, you're
19 looking at the wrong years.
20
21 (BRIEF PAUSE)
22
23 MR. DARREN RAINKIE: Oh, sorry, sir, I
24 think we're shifting a year. That's right. Oh, these
25 two (2) tables are not consistent. Sorry, I was mixing

1 it up, Mr. Peters.
2 MR. BOB PETERS: It's okay. You're
3 forgiven. Ms. Carriere, in light of that last comment
4 about due to water flows, does the fact that the
5 '15/'16 year is now closer to reality than what it was
6 at the interim Application, does that give the
7 Corporation any higher comfort as to what the actual
8 water flows are going to be?
9 MS. LIZ CARRIERE: Well, if you compare
10 the two (2) forecasts, the '15/'16 forecast from this
11 April document is prepared based on the average of all
12 flow conditions. The '15/'16 forecast in MH14 was
13 prepared based on expected reservoir levels moving into
14 '15/'16 plus a median inflow conditions and
15 precipitation.
16 So there is a little bit more un -- more
17 certainty in terms of relative to the 2015/'16 from the
18 previous forecasts. However, those -- those conditions
19 can still change rapidly.
20 MR. BOB PETERS: If we go back to page
21 67 that you were referring to, and let's focus on the
22 '13/'14 year where the forecast was $116 million and
23 then it was revised to $147 million, as we've seen.
24 I have those numbers correct, Ms.
25 Carriere, do I?

1 MS. LIZ CARRIERE: Yes.
2 MR. BOB PETERS: And when we look at
3 the forecast on page 67 of $116 million, was that
4 information confirmed after the fiscal year end of the
5 Corporation, or were you relying on materials from
6 before the yea -- the fiscal year end to come up with
7 $116 million?
8 MS. LIZ CARRIERE: After which fiscal
9 year end?
10 MR. BOB PETERS: After the '13/'14 year
11 end.
12 MS. LIZ CARRIERE: And for which -- the
13 hundred and sixteen (116) or the hundred and forty-
14 seven (147)?
15 MR. BOB PETERS: The 116 million was my
16 question.
17 MS. LIZ CARRIERE: I would have to -- I
18 don't think it would have incorporated the full year of
19 actuals in April. I -- but I would have to check to
20 see if -- if we had incorporated actuals up to a point
21 in time during that fiscal year.
22 MR. BOB PETERS: No, I'm not going to
23 ask for the undertaking, Mr. Carriere.
24 MR. DARREN RAINKIE: Mr. Peters, I -- I
25 recall that. I can -- I can help here.

1 MR. BOB PETERS: Well, Mr. Rainkie, let
2 me -- let me rephrase the question. It may have been
3 awkward, but as you clarified that your filing was in -
4 - in March and this answer may have come in April, but
5 it would have come April 15th, which would have been
6 after the fiscal year ended for 2013/'14, correct?
7 MR. DARREN RAINKIE: Sir, let's --
8 let's back up for a second. The application was filed
9 with the Board in March. I think the application was
10 prepared in January and February. IFF13 was approved
11 by our board, I think, at the end of February. As I
12 recall, it included actual information up to either
13 November or December.
14 So the difference between the 116 and
15 the $147 million number is the effects of the coldest
16 winter that we had in one hundred (100) years in
17 Manitoba. That is the differential. There were
18 Information Requests that asked us for an update and we
19 indicated that there would be slightly more favourable
20 results than what had been forecast during that
21 Information Request process that happened, my memory
22 and I think your document confirms it, in April, sir,
23 so.
24 MR. BOB PETERS: So -- so Manitoba
25 Hydro would have been surprised, Mr. Rainkie, at the

1 $31 million improvement?
2 MR. DARREN RAINKIE: Well, I'm not sure
3 about surprised, sir, but as I said, it was one (1) of
4 the coldest winters we've had in a century, so I don't
5 think it was -- certainly it wasn't anything that we
6 predicted in the preparation of IFF13, which subject to
7 check, either included November or December actuals at
8 that -- at that point, sir.
9 So it wasn't a -- I'm not sure about the
10 word 'surprise'. I -- I can't predict Mother Nature.
11 We don't predict Mother Nature. We would have assumed
12 the actuals up to November and December and then normal
13 weather for the last quarter of the year. And of
14 course, the last quarter of the year is -- is where
15 most of our net income comes from.
16 We have a loss, usually, positioned
17 throughout the first two (2) quarters of the year. We
18 tend to be -- come into more of a -- of a net income
19 position in the third quarter. And then really, the
20 fourth quarter is the make or break for us. That's how
21 the cycle of our -- we have fix -- largely fixed costs
22 during twelve (12) months, but the big part of our
23 revenues, of course, come in in the last quarter,
24 because that's when we sell the most power, so.
25 MR. BOB PETERS: Ms. Carriere, when

1 would -- when would your department been aware of the
2 additional revenues, net income, for the Corporation as
3 of March 31 of 2014?
4 MS. LIZ CARRIERE: We would be aware
5 about the same time as the rest of the Corporation,
6 because we're in the planning department and when those
7 statements are published internally, that's when we
8 would find out when -- what the level of income is.
9 MR. BOB PETERS: How long --
10 MR. DARREN RAINKIE: Mr. -- Mr. --
11 MR. BOB PETERS: -- after the year end
12 does that happen?
13 MR. DARREN RAINKIE: Sorry, Mr. Peters,
14 I -- Ms. -- Ms. Carriere's not in the corporate
15 accounting department, so I have responsibility for
16 both the planning and the corporate accounting. We
17 hold our books open. We have twenty (20) some billing
18 cycles. We hold our books open for those twenty (20)
19 some days after April 1st, so we wouldn't know what the
20 final tally is, if you like, and -- on -- on this until
21 after -- at the -- towards the end of April.
22 Then we go through a extensive process
23 of preparing information for our auditors. And they
24 come in in early May in our -- in our offices for most
25 of the May into -- into early June, so. So during that

1 time, the corporate accounting folks are actually
2 looking at the results, analyzing them, making sure
3 they're appropriate.
4 We don't release -- that's one (1) of
5 the reasons we don't release information out of the GL
6 before both our corporate accounting folks have a
7 chance to review it and make sure there's no errors or
8 adjustments required, and -- and before our auditor --
9 auditors have a chance to -- to look at it, sir.
10 And that -- of course, the -- the
11 results, really, are not looked at by our audit
12 committee. Well, they're not looked at our audit
13 committee or our board until the middle of June for the
14 audit committee. This -- this year, the date is June
15 17th. And the board looks at it at their meeting at
16 the end of June, which this year I think is June 24th.
17 MR. BOB PETERS: All right, having said
18 that, Mr. Rainkie, how can you be so confident before
19 this Board in telling them that the results for the
20 2015 fiscal year that ended on March 31 are going to be
21 negative by no more than $10 million if it hasn't yet
22 gone to your audit committee or you haven't come
23 through the audit?
24 MR. DARREN RAINKIE: Well, sir, I -- I
25 was trying to be as helpful as I could. I think I did

1 indicate it there were preliminary results. But we
2 have now the calculation of those billing cycles in
3 this case for our -- for our general consumers revenue.
4 Our corporate accounting group has gone
5 through the results and verified them and tried to
6 explain. They do an extensive variance analysis for --
7 for management, and so we're -- we're at that point.
8 Now we're at the point where the auditors are reviewing
9 the results and seeing if they see anything wrong with
10 them at this very point in time.
11 So, I mean, that's our hesitancy to redu
12 -- to release results before they've gone through the
13 proper process. But I was trying to be as helpful as I
14 could on day 1 of the hearing to the Board in terms of
15 where we were at for 2014/'15.
16 MR. BOB PETERS: No, I understand your
17 intention, Mr. Rainkie. But I'm just wondering what
18 degree of confidence this Board should give to -- to
19 your qualified answer.
20 And you qualified it, as you indicated,
21 you had to?
22 MR. DARREN RAINKIE: Well, our -- our
23 books are usually pretty clean. We're pretty good at
24 keeping decent records. There usually isn't a huge
25 number of audit adjustments, I'm proud to say. So I --

1 I think there's a -- a pretty good level of confidence
2 at this point, sir. I -- I just don't want to
3 denigrate what the auditors do in terms of reviewing
4 and -- and making sure that they see everything the
5 same way that we see it, sir.
6 MR. BOB PETERS: When you say you have
7 to make adjustments, Mr. Rainkie, to your year-end
8 results, what is the nature of those adjustments?
9 MR. DARREN RAINKIE: Well -- well, sir,
10 there are, of course, all types of accruals for
11 unbilled sales. You know, we -- we do a very extensive
12 year-end. We -- I mean, you have to look back at the
13 size of the Company, $16 billion worth of assets, $2
14 billion worth of revenue. Like, this -- this is not a
15 small operation. We have a very con -- different
16 contracts all over the place.
17 Like, we -- we have a very complex
18 company, sir, and so there is a very extensive year-end
19 process in terms of preparation of working papers. Our
20 audit fee is very, very competitive, very, very low
21 compared to what you would see in other companies. And
22 -- and that's because Manitoba Hydro prepares huge
23 binders of working papers and analysis for the auditors
24 so they don't have to waste their time trucking
25 through, you know, all the GLs and getting their own

1 analysis. So that's -- that's what we've traditionally
2 done.
3 That also gives management confidence in
4 the information, because we've done the analysis, not
5 just left it to the auditors to, you know, look at the
6 figures, but... So there's always accruals. I mean,
7 Ms. Bauerlein can probably speak to this, but there's
8 always accruals, looking at contracts and seeing if we
9 have to book liabilities. We have hundreds of
10 contracts across the Company.
11 We have very complex accounting, First
12 Nation payments. When I -- when I look at the types of
13 accounting issues we have, we have pretty much all of
14 them except income tax, luckily enough, but...
15 MR. BOB PETERS: Thank you, Mr.
16 Rainkie. I want to turn with you to page 83 under Tab
17 8 of the book of documents. And you'd indicated in one
18 (1) of your prior answers that weather was a
19 predominant reason for the better than forecast net
20 income for the 2014 fiscal year, correct?
21 MR. DARREN RAINKIE: Yes, sir.
22 MR. BOB PETERS: And what we have on
23 the screen in front of us is the calculation of degree
24 day heating, which is a -- a methodology used by the
25 Corporation to gauge the financial impact of the cold

1 or warm weather, correct?
2 MR. DARREN RAINKIE: Yeah. I mean, it
3 -- the -- the degree day heating and cooling is a -- is
4 a means of calculating normal weather and calculating
5 normal expectations of revenue, Mr. Peters.
6 MR. BOB PETERS: And what the Board can
7 see from what's in the -- front of them on the screen
8 on page 83, Mr. Rainkie, is that for the year ending
9 March 31 of 2014, the Corporation had $48 million of
10 additional net income due to colder than normal
11 weather.
12 MR. DARREN RAINKIE: Sir, I'm not
13 certain of the source. I suppose this is an
14 Information Request, so it's our information. I'm --
15 what I'm not sure on this one, if this was the actual
16 calculation or it was an assumption of a certain dollar
17 amount per degree day, sir.
18 My recollection -- I mean, I -- I think
19 it's --
20 MR. BOB PETERS: Yeah. I think I'm on
21 page 82, Mr. Rainkie. If -- if -- I didn't mean to
22 confuse you with it, but the Corporation has a rule of
23 thumb, and I'll call it that, of fifty-five thousand
24 dollars ($55,000) per one (1) degree day of heating
25 colder or warmer than normal.

1 MR. DARREN RAINKIE: Yes, sir. That
2 appears to be the case on 80 -- page 82 of your book of
3 documents.
4 MR. BOB PETERS: And then on page 83,
5 when we look at the schedule, would the Board be
6 correct in understanding that IFF13 that Ms. Carriere
7 mentioned was used to prepare the interim application,
8 that's dated in February of 2014.
9 Is that correct, Ms. Carriere?
10 MS. LIZ CARRIERE: Yeah. It's dated
11 February 13. That was approved by the Board, but it
12 was prep -- prepared months before that.
13
14 (BRIEF PAUSE)
15
16 MS. LIZ CARRIERE: Just to clarify, it
17 won't have actuals up to February. And I'm not sure
18 when there -- the point to which there are actuals in
19 that forecast.
20 MR. BOB PETERS: And so, Ms. Carriere,
21 if the IFF wouldn't have caught up to the actual
22 information, would you have that actual information
23 update in a separate -- separate information or
24 separate document?
25 MS. LIZ CARRIERE: I'm advised by my

1 back row that the actual information is in there up to
2 approximately December, but it'll be at a much higher
3 level than what we're looking at here.
4 MR. DARREN RAINKIE: Mr. Peters,
5 there's another variable in here as well. You were --
6 we're looking at the impacts of weather to December,
7 but my recollection is that we also had a negative
8 variance in terms of average -- or usage by industrial
9 customers and large customers.
10 So -- so we're only once again looking
11 at one (1) -- one (1) of the factors that we would have
12 had in the final preparation of IFF13. And my
13 recollection is, by December, those factors were
14 largely offsetting.
15 So the favourability in IFF13 -- sorry,
16 versus IFF13 came literally in January, February, and
17 March of that year.
18 MR. BOB PETERS: So, Ms. Carriere, you
19 would know in February of 2014 that Manitoba Hydro was
20 about $37 million positive in the net income as a
21 result of colder than normal weather?
22 MS. LIZ CARRIERE: At what point is
23 that till?
24 MR. BOB PETERS: I -- I suggested
25 February.

1 MS. LIZ CARRIERE: Well, I wouldn't
2 have known that in February, because the -- the
3 statements for February aren't complete until, you
4 know, towards the end of March.
5 MR. BOB PETERS: So you'd know you were
6 $28 million better off in January of '14?
7
8 (BRIEF PAUSE)
9
10 MS. LIZ CARRIERE: Honestly, I can't
11 recall what -- where we were at in terms of variance
12 from forecast back then.
13 MR. DARREN RAINKIE: As I indicated,
14 Mr. Peters, a question ago, we were running a negative
15 variance in terms of usage. So when we were looking at
16 this in December of 2013, I think we were relatively
17 flat, and we were expecting that negative usage to
18 continue through the following months be somewhat of an
19 offset to any weather that would have occurred. But,
20 of course, in the forecast for us, I mean nor -- normal
21 weather for January, February, and March.
22 MR. BOB PETERS: When we look at page
23 83 on the screen, Mr. Rainkie and Ms. Carrier, and see
24 that the net income will be favourable by about $48
25 million on account of colder than normal weather, we

1 keep that $48 million number in mind, and if we can go
2 back to page 68, of that additional 48 million doll --
3 that we talked about, net income went up by only $31
4 million for the year, correct, Ms. Carriere?
5
6 (BRIEF PAUSE)
7
8 MS. LIZ CARRIERE: That's correct, but
9 --
10 MR. BOB PETERS: Perhaps we can go to
11 page 72 in the book of documents, and we see again the
12 comparison between actuals and the IFF13 forecast. So
13 the $38 million -- sorry, the $48 million that appear
14 to be the gain on account of colder than normal weather
15 didn't translate dollar for dollar through to the net
16 income of the Corporation, did it?
17 MS. LIZ CARRIERE: No. As you can see,
18 there's other factors at play there. And as Mr.
19 Rainkie mentioned, there's industrial customers, as
20 well.
21 MR. BOB PETERS: Well, I'm looking at
22 the $28 million adjustment at the top, and was that on
23 account of -- what was the $28 million adjustment for
24 shown at the top of the 2013/'14 columns?
25 MR. DARREN RAINKIE: Mr. Peters, that

1 would be the net of -- revenues are inherently volumes
2 times rates, right? So that would be the net of -- and
3 volumes are dependent on usage and weather, crudely.
4 So that would have been the net of the
5 increase due to colder than normal weather, and lower
6 usage than forecast by our customers. So there was a -
7 - an offset to the $48 million figure that -- that we
8 had previously talked about.
9 MR. BOB PETERS: Does that suggest that
10 the industrial load was down $20 million off of the
11 forty-eight (48) to make the $28 million difference
12 that we see on this schedule, Mr. Rainkie?
13 MR. DARREN RAINKIE: You know, it was a
14 factor, sir. I'd have to go back to our detailed
15 working papers, because we have a very complex company,
16 and there's always ten (10) factors in every line item.
17 I can usually remember the top two (2) factors.
18 But I think -- my memory was the usage
19 in the larger customer class was a large part of the
20 offset. There are probably two (2) or three (3) other
21 things in there, Mr. Peters, that I'm not recollecting,
22 but certainly we could find them if it's of interest to
23 the Board.
24 MR. BOB PETERS: No, I'm not asking for
25 that undertaking, Mr. Rainkie, but thank you.

1 Still on page 72 on the screen out of
2 Board counsel's third volume of the book of documents,
3 there's a line item, Mr. Rainkie and Ms. Carriere,
4 called 'other expenses'.
5 Is that a brand new line item?
6 MR. DARREN RAINKIE: Yes, we introduced
7 that, I think, in our '13 -- 2013/'14 fiscal year, sir.
8 MR. BOB PETERS: And what does that $6
9 million -- shown in the '13/'14 fiscal year, Mr.
10 Rainkie?
11 MR. DARREN RAINKIE: That is -- it's --
12 there's a couple million dollars of other expenses we
13 have for -- for business initiatives. And I think
14 there was also a writeoff of a plant that was under
15 development. And we -- we looked at a project and
16 decided that it wasn't economically viable to go
17 forward, so we wrote -- wrote off the work in process,
18 as I recall.
19 MR. BOB PETERS: What were the business
20 initiatives for the $2 million? Do you recall?
21
22 (BRIEF PAUSE)
23
24 MS. SANDY BAUERLEIN: This would be
25 your Manitoba Hydro International business initiatives.

1 Okay. Sorry, I'm thinking my consolidated statements.
2 This would be business initiatives that
3 are undertaken by the -- a group within Mr. Kuczek's
4 area, Industrial and Commercial Solutions. And I could
5 give you -- I'm trying to think off the top of my head
6 of some of the examples of the types -- types of
7 initiatives that they work with customers on.
8 And these would be the expenses
9 associated with those initiatives. So they're
10 initiatives to assist customers. Just -- just give me
11 a minute.
12
13 (BRIEF PAUSE)
14
15 MS. SANDY BAUERLEIN: Some of the
16 initiatives would be related to self-generation for
17 some of the customers. And again, this reflects the
18 expenses for those initiatives.
19 MR. BOB PETERS: Ms. Bauerlein, does
20 that all relate to what -- what the Board would know as
21 its DSM initiatives?
22 MS. SANDY BAUERLEIN: It's not DSM
23 initiatives. It would be other types of initiatives
24 supporting self-generation, but not specifically under
25 the DSM umbrella.

1 MR. BOB PETERS: Why wouldn't that be
2 considered DSM, Ms. Bauerlein, in terms of categorizing
3 the expenses?
4 MR. DARREN RAINKIE: Well, Mr. Peters,
5 I think this would be, subject to check, I'm trying to
6 remember because this is a fairly small item on our
7 financial statements, I -- this would be I think if a -
8 - a large customer wanted us to install a transformer
9 that the customer owned themselves, we might do some
10 work for them.
11 And the -- the reason that we split this
12 out is that I think we had this netted -- we had it
13 netted in other revenues. So in 2013/'14 in
14 preparation for IFRS, once again -- IFRS doesn't like
15 netting of expenses and revenues. It likes to present
16 them in two (2) different columns. So we broke out
17 another revenue item and another expense item for the
18 first time in our financial statements.
19 MR. BOB PETERS: And the writeoff of
20 plant that was mentioned as perhaps being in my mind,
21 the other $4 million of this 'other expense' line item,
22 do you recall what that was, Ms. Bauerlein or Mr.
23 Rainkie?
24 MS. SANDY BAUERLEIN: It was the
25 writeoff of some work that had been planned at the Pine

1 Falls station and which the decision was made that it
2 was not economic to proceed, so those costs needed to
3 be expensed.
4 MR. BOB PETERS: I -- I apologize, Ms.
5 Bauerlein, I missed the first part of your answer. The
6 -- what kind of expenses were they at the Pine Falls
7 plant?
8 MS. SANDY BAUERLEIN: It was some -- a
9 -- a planned project, a capital project, which upon
10 further review and analysis was determined that it was
11 not economic or prudent at that time to proceed. So
12 those costs could no longer remain in construction work
13 in progress and needed to be expensed.
14 MR. BOB PETERS: There was no capital
15 val -- value to them?
16 MS. SANDY BAUERLEIN: Correct.
17 MR. BOB PETERS: When we turn to the
18 middle columns of 2014/'15 on page 72, the net income
19 is now forecast to be about $48 million higher, subject
20 to Mr. Rainkie's qualification, than what was presented
21 in IFF13, correct?
22
23 (BRIEF PAUSE)
24
25 MS. LIZ CARRIERE: Yes, that's correct.

1 MR. BOB PETERS: Thank you, Ms.
2 Carriere. And I certainly don't want to steal any
3 thunder from an upcoming panel on depreciation, but the
4 largest reduction in expenses was related to
5 depreciation and amortization, correct?
6 MS. SANDY BAUERLEIN: That is correct.
7 MR. BOB PETERS: And just so the Board
8 understands, that reduction in depreciation expense was
9 because Manitoba Hydro extended the service lives of
10 its assets on a net basis?
11 MS. SANDY BAUERLEIN: The reduction
12 does reflect the results of the most recent
13 depreciation study which extended services lives in
14 some cases of some of the assets, yes.
15 MR. BOB PETERS: But, Ms. Bauerlein,
16 it's the extending of service lives that have given
17 rise to the $35 million, correct?
18 MS. SANDY BAUERLEIN: That would be one
19 (1) of the factors, yes. It's really the change in the
20 depreciation rates themselves. And those rates are
21 driven -- one (1) of the factors is, of course, the --
22 the service lives of the assets.
23 MR. BOB PETERS: Thank you.
24
25 (BRIEF PAUSE)

1 MR. BOB PETERS: I'd like to turn with
2 the panel to a new topic on financial targets. We can
3 perhaps start... If I go to page 101 of Board
4 counsel's book of documents, Volume III, this is an
5 extract from Board Order 116/'08.
6 Have I got that correct, Ms. Carriere?
7 MS. LIZ CARRIERE: That's correct.
8 MR. BOB PETERS: And can you confirm
9 that the last time the financial targets were reviewed
10 in any detail by this Board was back in 2008?
11 MR. DARREN RAINKIE: Sorry, sir, we
12 talk about the financial targets at every application,
13 including the last one in two thou -- that resulted in
14 Order 43/'13.
15 MR. BOB PETERS: And, Mr. Rainkie, was
16 the -- the actual review of the targets was in depth, I
17 -- I'll say, back in 2008 as compared to the
18 discussions that have occurred since?
19 MR. DARREN RAINKIE: I'm not sure I
20 recall the specific discussions in 2008. I think we
21 have a fair -- a fair portion of each hearing is
22 devoted to financial targets. We also had the risk
23 review after this in 2010 where there would be -- was
24 quite a discussion of risk and financial targets, sir,
25 so.

1 I'm not sure what turns on it, Mr.
2 Peters, but I -- I think we have a fairly lively
3 discussion at each hearing on financial targets that
4 may ramp up a little bit and down in the particular
5 proceeding, but it's always a component of the
6 discussion and the decision by the Board, as I recall.
7 MR. BOB PETERS: Would it be correct,
8 Mr. Rainkie, that the financial targets were first
9 established by Manitoba Hydro's board back in 1995?
10 MR. IAN PAGE: Maybe I could just jump
11 in here a bit. Having the benefit, I think is the
12 word, of more history than most of the other people on
13 this panel, the first financial targets I was aware --
14 I was involved in setting were about in 1988 where we
15 set a minimum reserve target of $370 million. And the
16 plan was to try to get to that in five (5) years.
17 And then, after we got to the milestone,
18 then the target was let's try to get to an 85:15 as --
19 again, as a milestone. And once we got past that, then
20 we got into the setting of the 75:25 target that we're
21 all talking about today.
22 So I think we -- you have to remember
23 that we've -- we've been talking about financial
24 targets for a lot longer than what's shown on this
25 table.

1 MR. BOB PETERS: Thank you, Mr. Page.
2 As the resident historian on the panel, the 1988 target
3 that you mentioned to obtain a financial reserve of 370
4 million within five (5) years, do you know what level
5 you were -- what the Corporation was sitting at in
6 terms of retained earnings back in 1988?
7 MR. IAN PAGE: I'm not sure exactly
8 what it was at the time, but shortly after that,
9 Limestone began coming into service. And I think
10 around -- sort of in the middle of that period, we got
11 down to a low -- low of I think about $64 million of
12 retained earnings at one (1) point.
13 MR. BOB PETERS: Do you remember what
14 the debt-equity ratio was back then, Mr. Page?
15 MR. IAN PAGE: When I first started
16 with the company, it was -- I think it was 95:5. And
17 then it deteriorated a few years -- well, again, as I
18 mentioned, as we had Limestone debt and had some --
19 some losses. So we -- we've -- we've come a long way.
20 MR. BOB PETERS: 95:5, approximately
21 what year, since I don't recall your CV?
22 MR. IAN PAGE: The 95:5 would have been
23 -- I guess would have been about 1988. And -- we've
24 got -- we've got the table here. Actually, there's a
25 table on page 119 that has the history going back to

1990.

MR. BOB PETERS: We were going to come to that, but if that helps aid your memory --

MR. IAN PAGE: So -- so it would have -- I guess it would have been worse prior to the 1990 because I do remember the 65 million or something like that retained earnings.

MR. BOB PETERS: So you think it was probably in the 98:2 range? Am I stretching on that?

MR. IAN PAGE: I can't quote exact, but -- but it would have been in that range probably.

MR. BOB PETERS: All right. And, Mr. Page, back in those days, were credit-rating agencies still visiting Manitoba Hydro and/or the province?

MR. IAN PAGE: They would have been. I wouldn't have been involved in those discussions at that time. But we also had a different -- a different legislative rules around us.

We -- things like we didn't have any exposure at all to foreign exchange because there was this Energy Rate Stabilization Act. So the province bore all foreign exchange risks. So there -- there was quite a number of things that have changed over the years since -- since that time. So I -- I don't think we could just compare all this today to then and on a

1 like-for-like basis.
2 MR. BOB PETERS: Mr. Page, you recall
3 that once the Corporation achieved $370 million in
4 retained earnings and hit that financial target, the
5 Board then established 85:15 as a debt-equity financial
6 target.
7 MR. IAN PAGE: That's my recollection.
8 MR. BOB PETERS: Do you recall in what
9 year that target was established?
10 MR. IAN PAGE: No, I don't.
11 MR. BOB PETERS: And the 75:25 debt-
12 equity target, Mr. Page or Ms. Carriere -- I'm looking
13 on page 101 -- that came about in 1995?
14 MS. LIZ CARRIERE: That's correct.
15
16 (BRIEF PAUSE)
17
18 MR. BOB PETERS: Well, 101 sets out the
19 -- the targets, and here we see the debt-equity target
20 of 75:25. The second target is annual gross interest
21 coverage ratio of one point two-zero (1.20) annually.
22 And thirdly, to fund all new capital construction
23 requirements except major new generation and/or major
24 new transmission, which include the new head office
25 from internal sources, is the capital coverage ratio.

1 And that would ostensibly be a one point
2 zero (1.0) capital coverage ratio?
3 MS. LIZ CARRIERE: That's right, at the
4 time that it was. However, if you go a little further
5 into this order, around page 127, the PUB Board at that
6 time noted that they were concerned that Manitoba Hydro
7 was not meeting their targets on time, and that IFF07
8 projected 75:25 beyond the -- the '17/'18, which was
9 five (5) years -- or six (6) years beyond what the
10 target was.
11 So there was consider -- considerable
12 pressure to strength tar -- the -- the capital coverage
13 target, because that -- that -- excuse me -- that
14 target assists in getting to an appropriate debt-equity
15 ratio.
16 MR. BOB PETERS: Thank you, Ms.
17 Carriere. Before I go with further questions along
18 that answer, there's an indication that these targets
19 are set for the consolidated operations.
20 Have I that correct?
21 MS. LIZ CARRIERE: That's correct.
22 MR. BOB PETERS: What significance
23 should this Board put that the ratios are set on a
24 consolidated operations, and Manitoba Hydro is before
25 the Board today looking only at the electricity rates?

1 MS. LIZ CARRIERE: Well, when -- when
2 the credit-rating agencies come and they're looking at
3 our consolidated operations, we don't actually have an
4 electric entity on its own. We just have the
5 consolidated and gas operations.
6 So we -- so we formulate ratios for the
7 electric operations based on the same -- same
8 calculation, but they're relatively close to what is
9 projected for -- or what actually is for the
10 consolidated operations. There's really very little
11 difference.
12 MR. BOB PETERS: And I won't pull up --
13 MR. DARREN RAINKIE: Mr. Peters, sorry,
14 I just -- just to round that out a bit. Given that the
15 electric operations are about, give or take, 90 percent
16 of the balance sheet of Manitoba Hydro in total,
17 obviously as Ms. Carrier had just indicated, they're
18 the dominant factor in terms of the consolidated
19 financial statements.
20 Not to say that the gas operations are
21 unimportant, but just by sheer size in terms of the
22 asset base they tend to move in tandem to one another,
23 that being consolidated targets in any calculation of -
24 - of those same targets at the -- just the electric-
25 only level.

1 MR. BOB PETERS: And, Mr. Rainkie, if
2 we -- if we take the electric operations as being 90
3 percent of the -- of the Corporation, the gas utility
4 would be about 9 percent of the Corporation, with 1
5 percent being for the other subsidiaries?
6 MR. DARREN RAINKIE: Subject to check,
7 sir, that sounds like the right proportions.
8 MR. BOB PETERS: Well, I -- I made that
9 up actually so I don't -- I didn't -- you can't check
10 my work on that. But I'm just saying, I want this
11 Board to know that when you're talking these
12 consolidated targets, the largest portion of course is
13 the electric side, the gas side is the next largest at
14 probably one-tenth (1/10) the size of the electric
15 operations, and that leaves 1 percent for Manitoba
16 Hydro international and Delaware companies, and
17 whatever else you have, including your partnerships in
18 Manitoba.
19 MR. DARREN RAINKIE: I'm not sure if
20 they even round up to 1 percent, sir, but for the
21 purposes of this conversation I think your proportions
22 are, yeah, pretty good.
23 MR. BOB PETERS: All right. And then
24 so when we -- we're not going to talk too much about
25 the gas side of the business, Mr. Rainkie, but you grew

1 up there and that company is running at least a 75:25
2 debt-equity ratio, as well?
3 MR. DARREN RAINKIE: We don't have
4 financial targets that calculate that, sir, and it
5 seems to be -- it seems to be a matter of disagreement
6 between ourselves and the Board. I think the Board
7 specified a calculation that they would like us to
8 file, and I think -- when we take that approach I think
9 it's at 30 percent or something. Of course, the
10 historic equity ratio on the gas side would be around
11 40 percent equity, which is common for investor-owned
12 utilities. MR. BOB PETERS: Put another way, Mr.
13 Rainkie, the gas side of the business isn't diluting
14 the debt equity on the electricity -- on the overall
15 basis.
16 MR. DARREN RAINKIE: Yeah, I think
17 that's a fair statement, Mr. Peters. I don't think
18 it's -- it's diluting.
19
20 (BRIEF PAUSE)
21
22 MR. BOB PETERS: And I think, Ms.
23 Carriere, you got a bit ahead of me but on page 131 of
24 the book of documents, the debt equity target
25 established at 75:25 in 1995 was targeted to -- a

1 target to be reached by 2005. Would that be
2 correct? And I'm looking in the top box on page 131.
3 MS. LIZ CARRIERE: Yes. By 2005/'06,
4 yes.
5 MR. BOB PETERS: And the debt equity
6 back in 1995 was approximately 92:8.
7 Did you know that?
8
9 (BRIEF PAUSE)
10
11 MR. BOB PETERS: I may have got that
12 from page 119, Ms. Carriere.
13 MS. LIZ CARRIERE: 92:8.
14 MR. BOB PETERS: That was my suggestion
15 to you and just asked you to confirm that.
16 MS. LIZ CARRIERE: Correct.
17 MR. BOB PETERS: And we can see on page
18 131, if we go down to the 2002 year, that the 75:25
19 debt-equity ratio that was then to be achieved was
20 moved back to 2011/'12, correct?
21 MS. LIZ CARRIERE: That's correct.
22 MR. BOB PETERS: So it was moved from
23 '05/'06 to '11/'12, correct?
24 MS. LIZ CARRIERE: That's correct.
25 MR. BOB PETERS: Are you able to tell

this Board why the change in that financial target achievement date?

(BRIEF PAUSE)

MS. LIZ CARRIERE: One moment, please.

(BRIEF PAUSE)

MS. LIZ CARRIERE: I can't recall what the reasons were for changing that at that time.

(BRIEF PAUSE)

MR. BOB PETERS: Is it correct...

(BRIEF PAUSE)

MR. BOB PETERS: Ms. Carriere, the Corporation achieved its 75:25 debt-equity target in 2009?

MS. LIZ CARRIERE: Yes, that's correct.

MR. BOB PETERS: And so from the revised target dates it was reached three (3) years early?

MS. LIZ CARRIERE: Yes, it was.

MR. BOB PETERS: And the interest coverage ratio has moved from a range of one point two-zero (1.20) to one point three-five (1.35) in 1995?

(BRIEF PAUSE)

MS. LIZ CARRIERE: Correct.

MR. BOB PETERS: And in 2001 that was revised to -- to meet only a one point two-zero (1.20) ratio?

MS. LIZ CARRIERE: Well, it was revised to maintain a minium of one point two-zero (1.20).

MR. BOB PETERS: That was in 2001?

MS. LIZ CARRIERE: Correct.

MR. BOB PETERS: And in 2002 that ratio -- the interest coverage ratio target was then dropped to one point one-zero (1.10)?

MS. LIZ CARRIERE: Correct. That would have been at the same time that the 75:25 target date was pushed back. Mr. Rainkie reminds me that there may have been some concern about the rate increases that were being projected to -- to achieve that.

So rather than adversely impact customers, it was decided to push that target back.

1 MR. BOB PETERS: And do you recall the
2 -- the magnitude of the rate increases that were then
3 proposed, or at least indicative?
4
5 (BRIEF PAUSE)
6
7 MS. LIZ CARRIERE: It seems that we are
8 -- the rate increases were zero at the time, so. No,
9 we'll have to find out.
10 MR. BOB PETERS: So Mr. Rainkie's
11 wrong. Is that what you wanted to say?
12 MS. LIZ CARRIERE: He could be.
13 MR. DARREN RAINKIE: He'll discharge,
14 sir. We shouldn't speculate, but --
15 MR. BOB PETERS: No.
16 MR. DARREN RAINKIE: -- we can go back
17 and find that. It's -- it's --
18 MR. BOB PETERS: No, we -- we can --
19 MR. DARREN RAINKIE: No?
20 MR. BOB PETERS: That may be an
21 exercise for another day, Mr. Rainkie. But I think if
22 it was helping the panel understand the -- the target
23 movements, I -- I wanted them -- I wanted that
24 information now, if we could.
25 But what we do know from this

1 information that was provided -- and -- and what we're
2 looking at on page 131, Mr. Carriere, is -- is
3 information that was provided by Manitoba Hydro to
4 KPMG?
5 MS. LIZ CARRIERE: That's correct.
6 MR. BOB PETERS: And we know, then,
7 that the -- the target for the interest coverage ratio
8 went back up to one point two-zero (1.20) in 2007?
9 MS. LIZ CARRIERE: That's correct.
10 MR. BOB PETERS: And --
11 MR. DARREN RAINKIE: Mr. Peters, I
12 think that one twigs a memory in my mind, because I
13 think the Public Utilities Board asked us when we
14 reduced that -- that interest coverage ratio from one
15 point two-o (1.20) to one point one-o (1.10), they
16 asked us to look at that. They were concerned that
17 that was moved down, and we looked at that. And then
18 we moved that back to one point two-o (1.20).
19 So back to our earlier conversation,
20 there has been a history over this time period of the
21 Board -- the Public Utilities Board being very
22 supportive of our financial targets, and we're grateful
23 for that. I think it's important that the Manitoba
24 Hydro Electric Board and the Public Utilities Board
25 have a common goal in terms of, you know, financial --

1 financial integrity.
2 I'm -- I'm the person that shuffles back
3 and forth, if you like, between the Manitoba Hydro
4 board and the Public Utilities Board, trying to explain
5 to each board the -- the thought pattern of -- of one
6 another, so -- at least that's part of my job anyway,
7 sir. And it's good to have common goals, I think, on
8 behalf of customers. And so we're -- we're thankful
9 for the support over the years that the Public
10 Utilities Board has had of our -- and they certainly
11 have given us direction or food for thought at certain
12 points in terms of these financial targets.
13 MR. BOB PETERS: The interest coverage
14 ratio of one point two-zero (1.20) has remained since
15 2007, Ms. Carriere?
16 MS. LIZ CARRIERE: Yes, it's still in
17 place today.
18 MR. BOB PETERS: And would the Board be
19 correct in understanding that the -- that the point
20 two-zero (.20) portion of the one point two-zero (1.20)
21 is a cushion, if you will?
22 MS. LIZ CARRIERE: Yes. It allows for
23 revenues to decrease or -- or expenses to increase by
24 20 percent and -- and still be able to make -- meet the
25 financial obligations of the Corporation.

1 But having said that, it's meant as --
2 you know, we don't -- we don't look at it in isolation
3 in one (1) year. We look at it over a period of time.
4 And how this ratio functions is to ensure that, you
5 know, we're -- we're keeping debt at manageable levels,
6 and we're not borrowing to fund our -- our finance
7 expense.
8 So that's the purpose of that.
9 MR. BOB PETERS: The last target on the
10 capital coverage ratio, Mr. Rainkie, maybe to you, sir.
11 Would -- would I be correct in hearing
12 Manitoba Hydro's evidence and reading what the
13 application that was filed in the IRs that -- that the
14 capital coverage ratio is -- is the most important of
15 the three (3) ratios that are in this GRA?
16 MR. DARREN RAINKIE: No, sir, I don't -
17 - I don't think that there's -- it's the most
18 important. I -- I think, looking at the next ten (10)
19 years and the amount of borrowing that we're -- we're
20 doing, certainly, cashflow becomes important.
21 If -- if you look at -- I'm trying to
22 find an analogy for this. If you look at the 3.95
23 percents, I -- I think they're a little bit like paying
24 the minimum amount on your credit card, sir, that we
25 certainly are looking at cashflow and debt as any

1 responsible, prudent company would. You -- you can't
2 ignore the effects of the large investments that we are
3 entering into, both in terms of Keeyask, Bipole III,
4 and sustaining capital.
5 So we've had these, as you've indicated
6 here -- kindly indicated, we had these targets since
7 1995, all three (3) of them. And we try to keep all
8 three (3) of them working together for a common
9 purpose, to make sure that we have a financially strong
10 corporation and can maintain rate -- rate stability for
11 customers and maintain our access to low-cost capital,
12 as I -- as I mentioned on day 1.
13 So I -- you know, external to the
14 Company, a lot of people would say the debt-to-equity
15 ratio is probably the most important ratio, because
16 that's what parties -- parties look at. It's -- you
17 know, capital structure is a common ratio in all kinds
18 of corporations.
19 But as Ms. Carriere, I think, has
20 indicated, they all three (3) work together. We have
21 one (1) for each financial statement. The -- the
22 balance sheet has the debt-to-equity ratio, the income
23 statement has the interest coverage ratio and the
24 cashflow statement, the often forgotten cashflow
25 statement, and the three (3) accounting statements, has

1 the -- the inter -- or sorry, the capital coverage
2 ratio.
3 All three (3) of them work in tandem.
4 You can see that when one (1) of them deteriorates,
5 usually the other two (2) deteriorate. So they all
6 guide us in terms of -- and -- and they allow us to
7 look at each one of the three (3) key financial
8 statements that we have and -- and measure our
9 financial position at any one (1) point in time, plus
10 the outlook of our financial position, sir.
11 Short question, long answer. Sorry.
12 MR. BOB PETERS: And -- and I'm -- I
13 asked the question, Mr. Rainkie, as to whether or not
14 the capital coverage ratio was the most important of
15 the three (3) financial targets for this general rate
16 application. And on one (1) hand you said, No, but on
17 the other hand, I think you said, Yes, the cashflow is
18 -- is what's important. And the cashflow statement is
19 really the statement that reflects the capital coverage
20 ratio.
21 MR. DARREN RAINKIE: That -- that's
22 correct, sir, but if you look at what's ahead of us, we
23 -- we are making these large investments. Our cost of
24 service is going to double. It's going to increase by
25 100 percent as the chart that Mr. Car -- sorry, Mr.

1 Carriere -- Ms. Carriere went through yesterday with
2 the Board.
3 And we're projecting rate increases that
4 accumulate to 42 percent, so a little less than half of
5 the actual increase in cost of service. What that
6 means is that all of our ratios will deteriorate and
7 our debt is going to increase significantly.
8 So of course we would be imprudent
9 managers if weren't looking at cashflow and debt at
10 this point in time of our history. Perhaps at other
11 points in time, we were generating more cashflow than
12 what our sustaining capital expenditures were, and we
13 weren't investing in new major gen and transmission.
14 So at that point, it might have not have
15 been as huge a concern, but I -- I don't get the
16 discussion that's happening with some of the
17 Intervenors that cashflow's not important. I -- I
18 don't understand that.
19 Businesses that don't look at their
20 cashflow and debt pay the price, ultimately. They
21 often say that small businesses fail not because they
22 don't have a good business idea or model. They fail
23 because they -- they fail to -- to manage cash.
24 And unfortunately, the focus always seem
25 to be on the balance sheet and the income statement,

1 and the cashflow statement seems to be the weak of --
2 the weak of the three (3). And that's not a prudent
3 business way of looking at things, sir.
4 MS. LIZ CARRIERE: I like to think of
5 these three (3) financial targets as a hockey team.
6 And they all work together to -- to achieve an
7 objective. And that objective is to maintain the
8 financial position of the Corporation and maintain
9 reasonable levels of debt so that we don't get
10 ourselves into trouble and threaten that self-
11 supporting status.
12 MR. BOB PETERS: With the first game of
13 the Stanley Cup tonight, Ms. Carriere, that's an apt
14 metaphor that you bring up. But if we can stay with
15 the capital coverage ratio maybe just for a few
16 minutes, on page 131 that's on your screen, in 1995,
17 the capital coverage ratio was -- was set at one point
18 zero (1.0), correct?
19
20 (BRIEF PAUSE)
21
22 MS. LIZ CARRIERE: Can you repeat that?
23 Sorry.
24 MR. BOB PETERS: Well, I'm -- I'm
25 interpreting what's on the screen on page 131 under the

1 row of 1995 that Manitoba Hydro wanted to -- to fund
2 all capital construction requirements from internal
3 sources except when major new generation and
4 transmission are being added to the system. And I
5 interpreted that to be a ratio of one point zero (1.0).
6 MS. LIZ CARRIERE: That's correct, 1:1.
7 MR. BOB PETERS: It's correct on --
8 MS. LIZ CARRIERE: Oh, 1:1
9 relationship, one point zero (1.0), yes.
10 MR. BOB PETERS: Thank you. And then
11 in 2009, that capital coverage ratio was increased by
12 20 percent?
13 MS. LIZ CARRIERE: That's correct.
14 MR. BOB PETERS: What is the
15 significance that you can explain to the Board of in
16 2005 having the capital coverage ratio of one point
17 zero (1.0) excluding new major generation and
18 transmission, and also excluding DSM?
19 MS. LIZ CARRIERE: Well, conceptually,
20 the major new generation and transmission and DSM,
21 generate incremental revenue for the Corporation. So
22 there's an incoming source of revenue that you can pay
23 off incremental debt, whereas sustaining capital
24 expenditures conceptually are paid for through existing
25 domestic rates. So I believe that's the -- the theory

1 behind why new many -- major generation and
2 transmission is excluded.
3 MR. BOB PETERS: And that's because on
4 the DSM side, it's seen as an opportunity to gain
5 revenue for the Corporation as a result of DSM?
6 MS. LIZ CARRIERE: Well, the savings
7 that arise from DSM res -- result in surplus energy
8 that we can sell on the export market. So, yes, it's
9 seen as a resource that provides incremental revenue to
10 the Corporation.
11 MR. BOB PETERS: Would it be correct
12 that the increase in capital coverage ratio in 2009 by
13 that 20 percent was to provide surplus funds to farther
14 -- to fund other capital projects?
15 MS. LIZ CARRIERE: In the same vein as
16 the interest coverage, I think the 20 percent is like a
17 cushion as well to ensure that, you know, if -- if
18 capital expenditures go up by 20 percent, because we do
19 have system emergencies that are -- you know, can't be
20 predicted ahead of time, or that, you know, revenues
21 can go down, and as we see with our -- our revenues
22 from exports, that's quite conceivable that that could
23 happen.
24 So over a period of time, we are making
25 -- we're ensuring that we are -- you know, despite the

1 variability in either capital expenditures or revenues,
2 that we are still meeting cap -- sustaining capital
3 expenditures without increasing the level of debt over
4 a -- a period of time.
5 MR. BOB PETERS: In 2009, Ms. Carriere,
6 when that 20 percent cushion was added to the capital
7 coverage ratio, the capital coverage ratio calculation
8 still excluded new major generation and transmission,
9 correct?
10 MS. LIZ CARRIERE: That's correct.
11 MR. BOB PETERS: And as the Board
12 should understand, your answer is that for new major
13 generation and transmission, that's designed to bring
14 in revenue, or have a revenue source, that'll pay for
15 itself once it gets in service and up and running.
16 MS. LIZ CARRIERE: Well, I -- I
17 wouldn't say, "pay for itself," but -- because over
18 time, domestic customers are going to use that asset.
19 So -- but just the nature of hydraulic generation, when
20 we bring it online, it brings on huge surpluses, and
21 export customers help pay for that.
22 MR. DARREN RAINKIE: As well, Mr.
23 Peters, in the case of a -- a major expenditure like
24 Bipole III, I think we're recognizing that you're not
25 going to generate cashflow to pay for all that in one

1 (1) year. So the -- the note -- the -- the
2 construction of the capital coverage ratio is that we
3 have some coverage over our sustaining capital
4 expenditures to keep our existing system going.
5 We recognize that there's going to be
6 some large projects that -- that are grouped within the
7 major new gen and transmission line item in our
8 forecast that we can't possibly generate the cashflow
9 for in one (1) year. That's why we build up rates over
10 time gradually to pay for them, so.
11 So there's the revenue generation or the
12 increase of the capacity in the system, but there's
13 also those large investments like Bipole III that --
14 that are in that category, sir.
15 MR. BOB PETERS: While you raise it
16 then, Mr. Rainkie, Bipole III is not going to generate
17 any revenue, is it?
18 MR. DARREN RAINKIE: There will be some
19 reduction in line losses, sir, as I understand, but
20 certainly that is not an expenditure that will generate
21 revenue to cover its carrying costs, no.
22 MR. BOB PETERS: No, and -- and the
23 point that you make is that it'll -- it'll reduce line
24 losses if the load from northern Manitoba is put over
25 three (3) Bipoles as opposed to two (2), is -- is an

1 engineering phenomenon, not a -- not a marketing skill?
2 MR. DARREN RAINKIE: Yes, from time to
3 time, I dabble in the art of lawyering, Mr. Peters, but
4 I stay away from engineering. So I'll -- I'll accept
5 your -- your engineering explanation as how I
6 understand it as well, sir.
7 MR. BOB PETERS: I think the engineers
8 thank you, Mr. Rainkie, but -- but if we turn to page
9 103 of the book of documents, I want to look at the
10 financial targets from the last GRA, when the Board
11 last saw them. The left-hand side of the page,
12 although not drawn into a -- an official chart, deals
13 with the consolidated ratios and results.
14 Would I have that correct, Ms. Carriere?
15 MS. LIZ CARRIERE: Yes.
16 MR. BOB PETERS: And then if we go to
17 the right-hand side of the page, the equity ratio for,
18 let's pick 2012/'13 year, in IFF Manitoba Hydro 11-2 to
19 Manitoba Hydro 12, there was a -- a bump up in the
20 equity ratio of 1 percent to come in at 25 percent?
21 MS. LIZ CARRIERE: That's correct.
22 MR. BOB PETERS: And so the Board
23 should read it similarly. In the '13/'14 year there
24 was an increase in the -- in the debt-equity ratio from
25 19 percent equity, it increased up to 22 percent equity

1 in the IFF12?
2 MS. LIZ CARRIERE: That's correct.
3 MR. BOB PETERS: And here we see that
4 the actual electric-only equity ratio is 23 percent.
5 Is that difference between twenty-two (22) and twenty-
6 three (23) simply a rounding error, or was there some -
7 - some exclusion that would cause the ratio to be
8 higher in -- in what's reported on page 103?
9
10 (BRIEF PAUSE)
11
12 MS. LIZ CARRIERE: I'm not sure what
13 the difference is based on what we see here.
14 MR. BOB PETERS: And we can likewise
15 see for the '13/'14 year, the interest coverage ratio
16 improved and it appears that the electric-only capital
17 coverage ratio also improved.
18 Would I have read those correctly?
19 MS. LIZ CARRIERE: That's correct.
20 That bump up would mainly be due to the increase in --
21 in net income in that year.
22 MR. BOB PETERS: So the additional net
23 income provided the -- the better financial ratios that
24 the Board can see?
25 MS. LIZ CARRIERE: In terms of the

1 interest coverage, yes. But it'll be the cash
2 associated with the -- the revenues that increase the
3 capital coverage ratio.
4 MR. BOB PETERS: Still sticking with
5 the ratios for a few more minutes if we could, Ms.
6 Carriere, on page 105 -- actually, let's go to 108 of
7 the book of documents. This perhaps can be a -- a
8 better summary.
9 We've seen from the Corporation's charts
10 and graphs that both you and Mr. Rainkie have explained
11 to the panel the financial targets being challenged
12 over the next twenty (20) years, correct?
13 MS. LIZ CARRIERE: That's correct.
14 MR. BOB PETERS: And on page 108, where
15 the Board sees the capital coverage improve, and I'm
16 looking at the 2023 to 2026 years, would the Board
17 interpret that correctly by understanding that once
18 Keeyask is up and running and in service, and Bipole
19 III is in service, there's less pressure on that
20 capital coverage ratio?
21 MS. LIZ CARRIERE: That combined with
22 the domestic rate increases, yes.
23 MR. BOB PETERS: Can you isolate one
24 (1) over the other, Ms. Carriere, as to how much of
25 that improvement is tied to the rate increases that are

1 listed as indicative 3.95 percent rate increases and
2 how much is due to the Keevask revenues?
3
4 (BRIEF PAUSE)
5
6 MS. LIZ CARRIERE: I can't right at
7 this moment, no.
8 MR. BOB PETERS: Well, when the Board
9 looks at the year, let's pick 2022, Ms. Carriere, and
10 we look at the capital coverage ratio, it's a -- shows
11 a 0.94 percent, correct?
12 MS. LIZ CARRIERE: That's correct.
13 MR. BOB PETERS: And at that point in
14 time, Keevask is not fully in service, is it?
15 MS. LIZ CARRIERE: Well, it's -- by the
16 end of that fiscal year it'll be fully in service.
17 MR. BOB PETERS: So the real in-service
18 year is -- the full in-service year is the 2023 year?
19 MS. LIZ CARRIERE: No, sorry, I'm
20 wrong. It comes into service over 2020 and '21. By
21 2022, it's fully in service; that's right.
22 MR. BOB PETERS: And so there'll be new
23 cash expected on account of Keevask starting at least
24 in late '21 and into '22, and then certainly into '23
25 and beyond?

1 MS. LIZ CARRIERE: That's correct.
2 MR. BOB PETERS: When the Board looks
3 at the total debt column on page 108 of Volume III of
4 PUB Exhibit 20, this was Mr. Rainkie's point, I think,
5 Ms. Carriere, that the total debt of the Corporation
6 today is about -- and I'm seeing Mr. Schulz cringe,
7 about $12 billion, and he's going to increase that
8 total debt up to $23.2 billion?
9 MR. MANNY SCHULZ: Well, Mr. Peters, I
10 don't know that I would be cringing because what I'm
11 seeing is the net assets are also moving up
12 significantly and that the financing that's undertaken
13 for that while increasing is supporting our asset
14 growth, so I'm pleased to say that, in that case, debt
15 is good.
16 MR. BOB PETERS: We've heard that from
17 a different -- different person, but thank you for
18 continuing the tradition. The interesting part though
19 that causes Mr. Rainkie to sleep as well as that, as
20 you say, Mr. Schulz, is the retained earnings line goes
21 from $2.7 billion, where it sits approximately today,
22 and it'll double to $5.6 billion by 2034?
23 MS. LIZ CARRIERE: That's correct, yes.
24 MR. BOB PETERS: And would it be
25 correct, Ms. Carriere, that it's taken sixty-three (63)

1 years to get that $2.7 billion of retained earnings by
2 2015?
3 MS. LIZ CARRIERE: Well, yes. That
4 represents the cumulative earnings over the
5 Corporation's history, yeah.
6 MR. BOB PETERS: Of sixty-three (63)
7 years?
8 MS. LIZ CARRIERE: Sure.
9 MR. BOB PETERS: And then, in twenty
10 (20) years it's going to double to $5.6 billion?
11 MS. LIZ CARRIERE: That's correct,
12 under average revenues.
13 MR. DARREN RAINKIE: As is the asset
14 base of the Company, sir, it's going to double over
15 that time frame. But you seem to have made a large
16 leap from 2.7 to 5.5. We skipped over the what I refer
17 to as the lean years of the IFF with losses and
18 decreased financial integrity, sir, so I -- I'm not
19 sure why we do that and we continue to do that.
20 We don't get to the 5.5 billion without
21 the 3.95 percent rate increases for eighteen (18)
22 years, so I'm not -- I'm not sure why that would be a
23 figure we would point out here. What keeps me up at
24 night is those losses in the -- in the next four (4) to
25 ten (10) years, sir, and reduction of our retained

1 earnings despite all of our expenditures and the
2 increase in debt, so.
3 MR. BOB PETERS: Well, Mr. Rainkie,
4 you've spoken at length about them and we've
5 highlighted some of them here on the chart, so they're
6 not -- it's not that they're invisible to the -- to the
7 Board or the panel when you've -- you've brought them
8 to the Board's attention.
9 But while we're looking at that retained
10 earnings line, the retained earnings, Mr. Rainkie, are
11 looked at by the Corporation as -- as a reserve account
12 in case of adverse risks manifesting themselves to the
13 Corporation?
14 MR. DARREN RAINKIE: Yes, they're --
15 they're a buffer against risk. They're a rate
16 stability tool as is embedded in the Manitoba Hydro
17 Act. They're also what helps to keep our lenders who
18 are providing those source -- those extra $12 billion
19 in the next number of years happy that they can
20 continue to provide us those funds that we need to
21 invest.
22 MR. BOB PETERS: And we heard from a
23 previous panel that, of Manitoba Hydro's risks, drought
24 is considered still to be one (1) of the largest risks,
25 Mr. Rainkie?

1 MR. DARREN RAINKIE: Yes, sir, a pro --
2 a prolonged drought is the -- is -- is probably the
3 hugest risk that we face.
4 MR. BOB PETERS: And prolonged would in
5 -- in the order of a five (5) year drought?
6 MR. DARREN RAINKIE: That's the data
7 set that we use, sir, the -- the five (5) years that
8 we've talked -- Mr. Cormie's talked about.
9 MR. BOB PETERS: And the five (5) year
10 drought was quantified by the Corporation at
11 approximately $1.7 billion?
12 MR. DARREN RAINKIE: Yes, a five (5)
13 year drought would essentially wipe out the retained
14 earnings of the Company, sir.
15 MR. BOB PETERS: Well, it would wipe
16 out 1.7 billion of the retained earnings of the
17 Company, depending on -- on when it came?
18 MR. DARREN RAINKIE: Well, sir, we're
19 getting down to 1.9 billion, so certainly -- well,
20 depending on when it came. But if it -- if it comes in
21 not the too-distant future, it would wipe out the
22 retained earnings.
23 MR. BOB PETERS: Ms. Carriere wouldn't
24 promise me yesterday that she wouldn't ask the
25 Corporation to come in for more rate increases if there

1 was a drought because it would have to depend on the
2 circumstances of the day, if I -- did I summarize you
3 correctly on that, Ms. Carriere?
4 MS. LIZ CARRIERE: That's right, yes.
5 MR. BOB PETERS: And we know from
6 history that in 2003/'04 when the Corporation had a
7 severe drought that caused the Corporation to lose $426
8 million of net income, the Corporation did come in for
9 additional rate increases, Mr. Rainkie?
10 MR. DARREN RAINKIE: Yes. As I recall
11 on the sheet, we came in for a 3 percent, and the Board
12 saw fit to give us a 5 percent rate increase.
13 MR. BOB PETERS: And in addition, the
14 Board also gave two point two-five (2.25) and two point
15 two-five (2.25) for the next twelve (12) months.
16 MR. DARREN RAINKIE: Yes. I think they
17 were concerned about our financial position at that --
18 at that time for the reasons that I've just mentioned.
19 MR. BOB PETERS: And, Mr. Rainkie, that
20 $1.7 billion that you quantified in terms of being the
21 -- I'll call it the hugest risk, that did not include
22 finance expense, did it?
23 MR. DARREN RAINKIE: Yes. I think the
24 $1.7 million (sic) figure includes finance expense, but
25 I'm -- I think that -- that calculation only goes out

1 the five (5) years. What I'm trying to recall, and Ms.
2 Carriere can probably help me, is what happens in the
3 few years after that.
4 The difficult part with the prolonged
5 drought is, once you get on that -- that downward
6 cycle, once you're down in that dip, it is very hard to
7 get back up. And we're talking like 10 percent rate
8 increases every year for a number of years to -- to get
9 you back up.
10 We don't want to get into that
11 circumstance. There's no reason to get into that
12 circumstance. What we're doing through these ra --
13 rate applications and the 3.95 percent is we're asking
14 Manitobans to invest in their own power system, just as
15 if your car was getting a little -- a little older,
16 you'd invest in it. If your house was getting a little
17 older, you'd invest in it as well.
18 Like, this is not a bad-news story.
19 There -- most jurisdictions in this country would love
20 to be in the favourable position that we are in right
21 now, seven (7) cent kilowatt power as opposed to ten
22 (10), twelve (12), thirteen (13) cents.
23 Rate increases, yes, 4 percent projected
24 every year, accumulating to 42 percent over the next
25 ten (10) years. A lot of the other jurisdictions have

1 had their 30 or 40 percent rate increases over the last
2 five (5) or six (6) years. So in terms of pacing, we
3 are pacing them over the next ten (10) years.
4 And as I keep repeating, we're only
5 asking for 42 percent of the increase in the cost of
6 service. So like let -- we -- we don't need this to go
7 in a downward spiral.
8 With a -- with a slight level of
9 increased investment in the -- the power system that
10 the people of Manitoba own, that -- that provides
11 reliable power to them every day -- your -- your power
12 is -- is as important as your house and your car to
13 your existence.
14 So we're asking for a small investment
15 in that. We don't have to get into that circumstance.
16 I don't want to be sitting here five (5) years from now
17 and people saying, Mr. Rainkie, what did you do? Why?
18 I don't want the regret factor. We don't need to do
19 that, sir, and that's what this application is about.
20 It's not about ASL and ELG. It's about the future.
21 MR. BOB PETERS: Mr. Chairman, in light
22 of the hour, and maybe to allow Mr. Rainkie to cool
23 down, we'll -- I'll ask for the morning recess. But I
24 -- his points are -- are well made, and I -- I don't --
25 Mr. Rainkie and I kid each other lots on the -- on the

1 microphone. And I know his sincerity, and it comes
2 through. Thank you.
3 THE CHAIRPERSON: Well, you know, my
4 concern is around what happens in 2019 when we're
5 borrowing to pay interest. I mean, I understand your
6 concern around sta -- rate stability, but in truth,
7 this scenario that we're looking at right now suggests
8 that we would be borrowing for a period of, what, eight
9 (8) years to cover interest.
10 And that tells me that alternatives here
11 are, you know, we'd have to increase rates then to make
12 sure that doesn't happen. So I hear you on rate
13 stability, but, you know, does it make sense for us to
14 be borrowing for eight (8) years to pay interest?
15 I mean, I wouldn't do that personally on
16 my credit card, and I don't know that that would be
17 wise for us to -- to do that. But maybe that's not a
18 choice we have to make today. I mean, it's a choice.
19 You know, we know we have to make a short-term decision
20 here, but clearly, this is not a scenario that -- that
21 is very appealing because of interest borrowing.
22 MR. DARREN RAINKIE: I agree, sir, and
23 that's why we indicate that we think the three point
24 nine-five (3.95) is the minimum amount over time
25 gradually to give us that cashflow to make our minimum

1 payment on our credit card. You know what happens when
2 you don't make the minimum payment on your credit card.
3 It's -- you're saddled with death -- debt for the rest
4 of your life.
5 And I know, you know, the Intervenors
6 are concerned that Manitoba Hydro's, you know, Teflon
7 3.95 percent rate increase, we have no other -- we have
8 no flexibility. We're -- you know, we're not looking
9 at any other options but we're looking -- we're looking
10 at the reality. It would be irresponsible for us to
11 not look at this set of projections and come to that
12 conclusion.
13 We're not asking for all of the increase
14 in cost of service, so we're -- we're already at the
15 three-nine-five (3.95) accepting a fair degree of risk
16 on behalf of Manitobans. And -- and I hope that that
17 point is getting across to the Board because I -- I
18 can't accept the characteristic -- the characterization
19 that Manitoba Hydro is just, you know, Teflon on the
20 three-nine-five (3.95) and there's no other option in
21 the world.
22 Sure there are other options but the
23 question is: Are the other options better? What is in
24 the public interest, even if it's not popular to -- to
25 have rate increases?

1 THE CHAIRPERSON: Thank you. I think
2 it's probably the right time to take a break. Let's
3 take ten (10) minutes. Thank you.
4
5 --- Upon recessing at 10:40 a.m.
6 --- Upon resuming at 10:56 a.m.
7
8 CONTINUED BY MR. BOB PETERS:
9 MR. BOB PETERS: Good morning. Mr.
10 Rainkie, earlier this morning one of your answers, as
11 well as in discussion with Ms. Carriere, was that
12 Manitoba Hydro has monthly financial statements and
13 reports that are prepared internally, as I understand
14 it.
15 MR. DARREN RAINKIE: Sorry, I don't
16 remember that discussion but certainly, just like every
17 other corporation, we do.
18 MR. BOB PETERS: Yes, and I -- the
19 discussion was really around how current is the
20 information relative to real time that you're able to
21 obtain in -- as the CFO of the Corporation.
22 MR. DARREN RAINKIE: Sir, we -- we do
23 have monthly internal reporting. We only, like most
24 corporations, issue unaudited information once a
25 quarter, and we provide the quarterly reports to the

1 Board, and then we do our annual report. But we -- we
2 do, like most corporations that are advanced, or
3 whatever the right word is, sir, have -- have monthly
4 reporting against forecast.
5 MR. BOB PETERS: And the quarterly
6 reports that are published, those are not audited
7 reports, are they?
8 MR. DARREN RAINKIE: No, they're
9 unaudited, sir, as is the normal practice.
10 MR. BOB PETERS: And certainly your
11 internal materials will -- will not be audited.
12 They'll just be your unofficial information.
13 MR. DARREN RAINKIE: That's correct,
14 sir. I mean, there -- there's a huge degree of rigour
15 at the year end in terms of review of results and --
16 and audit, as is common in --
17 MR. BOB PETERS: Okay. Where -- where
18 I'm going --
19 MR. DARREN RAINKIE: Right.
20 MR. BOB PETERS: -- with this, Mr.
21 Rainkie and Ms. Fernandes, is that the Public Utilities
22 Board will see your quarterly reports when they're --
23 when they're made public, correct?
24 MR. DARREN RAINKIE: I think -- I
25 think, yes, sir, the Public Utilities Board is one --

1 I'm unsure how it actually gets to the Board. I think
2 they --
3 MR. BOB PETERS: Well, it's -- it's
4 publicly --
5 MR. DARREN RAINKIE: -- get it as part
6 of --
7 MR. BOB PETERS: -- available.
8 MR. DARREN RAINKIE: Well, I think
9 they're part of the distribution list, correct me if
10 I'm wrong, once it's publicly available, yeah.
11 MR. BOB PETERS: But -- but either way,
12 once they're publicly available, Manitoba Hydro
13 generally does a news release, and then the report can
14 be picked up off the Manitoba Hydro website?
15 MR. DARREN RAINKIE: Yes. Yes, once
16 again, once it's had -- that occurs after our audit
17 committee has reviewed and I've reported the results to
18 the Board.
19 MR. BOB PETERS: And those quarterly
20 reports are within forty-five (45) days of the actual
21 quarter ending. That's when Manitoba Hydro has to
22 report those to the -- to the province?
23 MR. DARREN RAINKIE: Yes, that's by
24 legislation, sir.
25 MR. BOB PETERS: And where I'm going

1 with this, Mr. Rainkie and Ms. Fernandes, is that are
2 there statements that would be available for
3 distribution to the Public Utilities Board on a monthly
4 basis in terms of where the Corporation is going and
5 how its results are tracking relative to its forecast?
6
7 (BRIEF PAUSE)
8
9 MR. DARREN RAINKIE: Well, sir, we have
10 -- we have the same issue there that Mr. Thomson is --
11 is looking at, is can we publicly release anything,
12 because the same stipulations on a year-end financial
13 results are there for the quarterly results. It's the
14 -- our minister that -- as I understand it, lays it
15 before the legislature, and that's the release of those
16 -- that information.
17 I would be also hesitant to release
18 monthly information, quite frankly. We have a volatile
19 business and qui -- it's quite common to release
20 quarterly information. I don't think there's many
21 companies that would put that out on the street,
22 monthly information, that changes, so.
23 And, sir, I -- I'm -- I'm not sure --
24 like, in one (1) particular month, our financials --
25 position will not change. Say we have $2.7 billion

1 dollars of retained earnings, so if something's up 5
2 million or down 5 million, and it's not that we don't
3 think that 5 million or -- is a -- is a lot of money,
4 but -- sir, but that is not going to change the
5 financial position of the Corporation. That's not
6 going to change the rate increases.
7 As we talked about this morning, yes, we
8 had one (1) of the coldest winters in Manitoba for a
9 hundred (100) years in 2013/'14, but we had a warm
10 winter in 2011/'12. We didn't alter from the 3.9 -- 95
11 percent rate increases because of those small --
12 relatively small variations in our results, sir.
13 So I -- I think -- no disrespect to the
14 Board, but I think the quarterly results are -- are
15 something better to rely on. We do more rigour on the
16 quarter than we do on the months in terms of financial
17 reporting. The -- the monthly reporting is really
18 there for management to get a sense of what's going on,
19 and we do quarterly reporting out on the street, so to
20 speak, as most other Crown corporations do.
21 You know, we'll have to look at this
22 issue that has been raised in terms of when, becau --
23 when finan -- and how the Board gets an update on year-
24 end financial results, because quite often we find
25 ourself in the circumstance that we're in these

1 hearings in May and June as the year-end results are
2 going through their -- their normal processes.
3 So I -- I'm not sure that -- I -- I
4 don't think monthly results are going to be of use to
5 the -- to the Board, sir. I think quarterly and
6 annual. And I think -- I guess we have to find a
7 solution for that.
8 MR. BOB PETERS: And maybe it's a
9 matter that we can discuss further offline amongst all
10 the parties, Mr. Rainkie. In -- included in that would
11 be the timing of the general rate applications and
12 whether they have to be timed as they currently are, or
13 is there an opportunity to change the window of
14 opportunity to bring those forward?
15 MR. DARREN RAINKIE: I suppose that's
16 part of the -- the discussion, Mr. Peters, but it's not
17 an easy thing to simply change the -- the planning
18 cycle of the Corporation. It's not something that can
19 just be changed by months, but, you know, I -- I think
20 it's part of an on -- ongoing dialogue between Manitoba
21 Hydro and the Public Utilities Board how to most
22 efficiently carry out our respective duties, and I
23 respect that.
24 MR. BOB PETERS: And when you talked of
25 your monthly reports that you get, Mr. Rainkie, does

1 management also get the monthly capital expenditures,
2 how they're tracking relative to budget?
3 MR. DARREN RAINKIE: Yes, as -- as
4 would be expected, sir.
5 MR. BOB PETERS: And that's blended
6 into the overall monthly reports that you prepare?
7 MR. DARREN RAINKIE: Yes, sir.
8 MR. BOB PETERS: And is that
9 incorporated into the quarterly reports that the
10 Corporation files?
11 MR. DARREN RAINKIE: Yes, sir, the
12 quarterly report is the culmination of the three (3)
13 months before it.
14 MR. BOB PETERS: Can we look, starting
15 at page 119, please, and we'll keep this page 108 not
16 too far away, but 119 has been referred to, I think
17 first by the panel, and let's -- Mr. Page, you --
18 you're the -- as I dubbed you, the honorary historian
19 on the panel, we only go back to 1990 on this chart,
20 but would I be correct in saying that Limestone was
21 fully in service in approximately 1992?
22 MR. IAN PAGE: I -- I believe that's
23 correct. I think its first power was in 1990.
24 MR. BOB PETERS: And after it came in
25 service, there was a drop in the equity of the

1 Corporation?
2 MR. IAN PAGE: Yeah, there were
3 operating losses for one (1) or possibly two (2) years
4 after it came in service. So there was --
5 MR. BOB PETERS: Not unexpected?
6 MR. IAN PAGE: -- so there -- so there
7 was a net loss. No. And that certainly wasn't an --
8 was -- was not unexpected.
9 MR. BOB PETERS: And, Mr. Rainkie, I
10 know what you've said previously in your evidence,
11 including before the recess this morning.
12 In the Corporation's history, it
13 embarked on a major new generation under what would
14 then be different circumstances, but to build Limestone
15 back in the early '90s, correct?
16 MR. DARREN RAINKIE: Well, sir,
17 Limestone came into service, I think, in the early
18 '90s, so the embarking on it was before this chart.
19 MR. BOB PETERS: And Manitoba Hydro's
20 equity ratio fell below 10 percent with no negative
21 impact on Manitoba Hydro back in the Limestone era, if
22 I may call it that?
23 MR. DARREN RAINKIE: I wasn't there,
24 sir. But the difficult part with trying to compare
25 that to now is looking at -- and I'm no economist, but

1 I -- I provide my views, is that we have the same
2 fiscal and monetary policies now in the world that we
3 did back in the '90s. I was fairly young back then.
4 And I remember a lot of talk about, well, back in the
5 '90s, and -- and given the levels of inflation that we
6 had, that it was good to borrow money, because you were
7 paying that money back in terms of deflated dollars
8 later on.
9 So then comes the end of the '90s, I
10 suppose, and a -- a much different monetary and fiscal
11 policies, not only in Canada and the United States, but
12 I would suggest in the world in terms of improving
13 balancing sheets and such, lower inflation, you know,
14 the targeted 2 percent inflation, all those types of
15 things.
16 And I'm certainly not an economist, so
17 I'm not going to try pretend I'm one. But I -- I'm not
18 sure you can take 2015 and go back to 1990 or 1991 and
19 say, well, it's the same -- it's the same
20 circumstances, sir. So, yes, certainly you can find
21 parts of our history where our debt-to-equity rat --
22 ratio went below ten (10). That's a matter of fact, a
23 matter of record.
24 But to simply suggest that things are
25 the same now as they were back then, I think is not --

1 is not a proper conclusion.
2 MR. IAN PAGE: Mr. Peters, there was
3 also a -- a very important difference back then in
4 terms of our risk profile, is that the -- the export
5 market was not very well developed at that point. We
6 had -- our interconnections were much smaller -- were
7 much smaller than they were at that than they were --
8 are today, and so our -- our exposure to drought or
9 variations in water flow were much smaller than they
10 are today. So that's an important part that has to be
11 considered, as well.
12 MR. MANNY SCHULZ: Just finally to add
13 to that. If you're looking at that period post-
14 Limestone, when you're looking at the financial
15 statements and in response to -- I believe it was a
16 Coalition question, we did provide the DBRS credit
17 rating report from that earlier period of time that's
18 shown here in the equity ratio chart.
19 And what you do see during that time is
20 the -- from a cashflow statement perspective, the
21 investing activities were -- were very small, and the
22 cashflow from our operations were very strong. And so,
23 not surprisingly, that's where you're seeing the net
24 income moving up, you're seeing this return period, the
25 equity going up.

1 But from a cashflow and an interest
2 coverage perspective, and further to the point,
3 perhaps, about self-supporting, throughout this entire
4 period, Manitoba Hydro was self-supporting in large
5 measure post-Limestone because of the -- the risk
6 profile that Mr. -- Mr. Page also spoke to. But we had
7 enough cashflow coming in at that period of time to
8 meet all of our cashflow requirements, and so that
9 period there is more analogous, perhaps, to the period
10 we have in 2030 when we're -- you know, post the
11 investments, and we're seen reaping the rewards of that
12 from a cashflow perspective.
13 So one needs to understand the context
14 for these matters when you're looking at this chart.
15 MR. BOB PETERS: Mr. Schulz, thank you.
16 I don't have that document at hand, but perhaps I can
17 ask Diana to go to Volume IV of Board counsel's book of
18 documents, and also part of PUB Exhibit 20.
19 And in Volume IV at page 26, there's a
20 chart that was filed in response to a minimum filing
21 requirement. And we can perhaps have a quick peek at
22 that, Mr. Schulz and Mr. Page, in terms of your answers
23 to the panel on the previous two (2) questions.
24 This doesn't, Mr. Schulz, go before
25 1992, as you can see on the -- page 26 in front of you.

1 But we're looking at an equity ratio of 94:6 back in
2 1992. And the equity deteriorated in the subsequent
3 year of 1993, correct?
4 MR. MANNY SCHULZ: Correct.
5 MR. BOB PETERS: And interest coverage
6 ratio in 1993 also dropped below one point zero (1.0),
7 correct?
8 MR. MANNY SCHULZ: Correct.
9 MR. BOB PETERS: And looking at the
10 DBRS bond ratings -- and I wasn't sure which credit-
11 rating agency you were referring to in the Coalition
12 answer, but it appears that the bond ratings for
13 Manitoba Hydro and the flow-through from the province
14 was a stable rating at that time of 'A'?
15 MR. MANNY SCHULZ: Correct. And what
16 you'll see here, and it's further to the point that Mr.
17 Page made, if you're looking at -- for instance, in the
18 interest coverage and you can see that also in the
19 equity ratio, there's a slight dip that happened.
20 But then in the interest coverage ratio,
21 and to my point, from 1996 through to the period of
22 2001, you see a fairly robust recovery in interest
23 coverage ratio. And that speaks to the point that I
24 made.
25 Throughout this entire period, DBRS

1 maintained its stable credit rating. And that's not a
2 surprise because, from Manitoba Hydro's perspective, we
3 were self-supporting, so we didn't impact the credit
4 rating for the Province of Manitoba.
5 And presumably through this period of
6 time, the Province of Manitoba's credit rating was
7 stable and was not affected in any way, shape, or form
8 by Manitoba Hydro because we were self-supporting. So
9 that's not a surprise.
10 MR. BOB PETERS: What may be a
11 surprise, Mr. Schulz, is that it appears that Limestone
12 only lost money for maybe one (1) year, maybe two (2),
13 if I understood Mr. Page's answer previously. So it
14 meant that the export revenue was -- was favourable for
15 that plant fair -- relative to its costs almost
16 immediately?
17 MR. IAN PAGE: Actually, the export
18 revenue was very small back then. And I mentioned that
19 earlier that retained earnings target that we had back
20 then, that 370 million, about 40 or 50 million of that
21 was for self-insurance purposes.
22 The balance was take -- was based on
23 taking the worst drought that we could conceive of and
24 doubling it. So that was -- so our risk exposure to
25 drought was in the order of just over $300 million back

1 then. And as -- as we've heard since, our -- our
2 exposure to drought right now is about 1.7 billion. So
3 there's been a huge shift in -- in the -- in the
4 drought risk.
5 And that's the -- the export market at -
6 - at that time was not very well developed and the
7 interconnections were very small. So Limestone was
8 basically -- at that time was being -- was principally
9 being paid for by the domestic customer. We didn't
10 have the huge portion of export revenues that we have
11 today.
12 MR. BOB PETERS: Is there an
13 explanation as to why the capital coverage ratio was
14 not available for those '92, '93, '94 years on -- on
15 here?
16 MR. MANNY SCHULZ: I don't have -- that
17 certainly predates my time at Manitoba Hydro. And
18 that's -- you know, I'm -- I have no direct answer for
19 that, no.
20 MR. DARREN RAINKIE: Mr. Peters, once
21 again, maybe speculating is not the right thing, but I
22 don't think we adopted a capital coverage target --
23 ratio target until 1995. So it hadn't been calculated
24 to that point.
25 I guess the other thing to keep in mind

1 -- I'm trying to compare back to history -- is that
2 when you look at other Crown corporations, similar
3 Crown corporations, electric utilities across the --
4 the country, their plans are to bolster their capital
5 structure, not to weaken their financial targets, but
6 to bolster them.
7 And we're all competing for capital. So
8 we have to be careful in this large investment period
9 that we do not become out of the acceptable range of
10 financial targets. And that's what's concerning us
11 about the 10 -- the 10 percent equity rat -- ratio, in
12 particular, Mr. Peters, is that we don't want to be the
13 outlier in -- in the group.
14 Now often, you know, companies like NB
15 Power -- New Brunswick Power is rec -- is recognized as
16 the outlier, but they have plans to bolster their
17 equity ratio, and I think there's legislation in place
18 to bolster their equity ratio. And I think they've
19 directed their equivalent of the Public Utilities
20 Committee, the Government of New Brunswick, to have
21 rate increases that would get them to that 20 percent
22 equity ratio over a period of time.
23 We know Hydro-Quebec has a 30 percent
24 equity ratio. SaskPower, I think, has a 30 percent
25 equity ratio. BC Hydro was trying to move from a

1 twenty (20) to a forty (40). They have a particular
2 problem, I know we'll get to this the next week, that
3 they have four point four (4.4) -- or, sorry, something
4 like $4.9 billion of regulatory deferral accounts on
5 their balance sheet. Twenty (20) percent of their
6 assets are in non-producing assets. They're paper
7 entries.
8 Manitoba Hydro has 2 percent at roughly
9 around 400 million. So -- so we have to be careful.
10 We are competing for capital out there. We -- we are -
11 - you have to remember the -- the debt number doesn't
12 just drop from the -- I keep telling the people
13 internally, The money doesn't come from the sky. I
14 just don't -- Mr. Schulz doesn't just go, you know,
15 Presto, it's there, right? There's another party on
16 the other end of that transaction that expects to get
17 their -- their interest paid on time, and their
18 principal repaid.
19 So, you know, it's -- it's always nice
20 to reminisce about the good old days, but one -- when
21 one is looking forward, one has to look at the
22 landscape and the various factors that are at play to -
23 - to make reasonable business judgments about what the
24 right things to do are.
25 MR. BOB PETERS: Mr. Rainkie, Manitoba

1 Hydro's bond holders have been paid every penny that
2 they've been due since 1992?
3 MR. DARREN RAINKIE: Yes, they have,
4 and that's the way we want to keep it. And we want to
5 have access to the lowest cost funds in -- during a
6 period where we're going to make the largest investment
7 in the history of this company, and that's critical.
8 MR. BOB PETERS: Back to page 108 of
9 Board counsel's Volume III book of documents. Mr.
10 Schulz, the Chairman was -- I think 108, please.
11 Mr. Schulz, I think the Chairman, just
12 before the recess, was looking at this page, and I
13 won't take you there, but in Board counsel's book of
14 documents, way up on page 138 to 142 is a -- a
15 transcript extract where you and I had a discussion, I
16 believe it was at the NFAT. Did you review that?
17 MR. MANNY SCHULZ: I do recall that,
18 yes.
19 MR. BOB PETERS: All right. And
20 looking at the chart that's in front of us here in
21 terms of the capital coverage ratio, let's -- let's
22 start with the interest coverage ratio.
23 What steps can Manitoba Hydro take so
24 that that interest coverage ratio stays above one point
25 zero (1.0)?

1 (BRIEF PAUSE)

2

3 MR. MANNY SCHULZ: Well, one (1) of the

4 things that we're doing right now is seeking rate

5 increases that will provide the cashflow from

6 operations to sustain our operations and to -- to meet

7 all of our cashflow requirements. It's a whole company

8 kind of perspective, and that's the whole application

9 in totality in terms of what we're talking about.

10 The transcript, as I recall from the

11 NFAT, and I thought there was a good conversation on

12 interest coverage ratio, is pertaining to, you know,

13 the buffer above the one (1) and how low can you go,

14 and so on, so I don't know if you're -- you're wanting

15 to go there or not.

16 But from a technical perspective, we can

17 go slightly below one (1), and that's because the

18 interest coverage ratio is a net income calculation,

19 accounting calculation, that includes depreciation

20 amortization. So as a technical matter, you can -- if

21 you back out the depreciation amortization, you have

22 the cashflow you need to -- to make the threadbare

23 requirement in -- in the case of emergency.

24 But as a going concern, because you are

25 making cashflow contributions towards sustaining

1 capital, so it's a proxy for the depreciation amounts,
2 it's best to have higher levels. And so one (1) is
3 sort of the sustaining baseline. And the one point two
4 (1.2) gives us that extra cushion that gets us there.
5 What do we need to maintain this? What
6 can -- what steps can we take? I mean, it's a whole
7 company kind of perspective. It -- it's looking at
8 making sure that we have the cashflow that's necessary.
9 I mean, I indicated this in my direct, it -- it's about
10 cash for me, and -- and perhaps selfishly as treasurer,
11 that -- that's my perspective. Although, I've been
12 corporate controller in the past and understand the --
13 the machinations of accounting and how we can move
14 things around, the depreciation entires and -- and
15 perhaps seduce ourselves into thinking we have a better
16 position.
17 But at the end of the day, I need to
18 have cash. And so we need to have that cash. And if
19 I'm short -- if there's a shortfall in cash, droughts,
20 or in situations as you might be seeing here with the
21 net income dec -- decreasing in those years, the likely
22 scenario would be we -- we'd undertake debt financing
23 to bridge through that period of time.
24 The consequence of that, though, is that
25 it's not only more debt, but that you'd likely have to

1 borrow money to pay the incremental interest payments.
2 And so there's a bit of a compounding that occurs
3 during that period of time. And while I do subscribe
4 to the perspective that on a whole, debt is good in our
5 case, there's a straining period here, and Mr. Rainkie
6 has spoken to that. And that's a vulnerable period.
7 Mr. Chairman, you've spoken to that, and -- and you can
8 see that on the equity ratio.
9 And from our perspective, that's why we
10 earnestly believe that this is -- the three point nine-
11 five (3.95) is the minimum, because it takes us on that
12 journey towards a fairly low level on the equity ratio.
13 And I think it's been stated here that if we wanted to
14 have an equity ratio of 15 percent, and -- and Ms.
15 Carriere spoke yesterday, I think she said that it
16 would be something that would be more comfortable for
17 our Corporation and -- and I would agree with that,
18 then we would need to have rate increases of 5 and 6
19 percent.
20 But we recognize customer sensitivity,
21 which is why we're going to 3.95 percent. And that's
22 why we say that's the minimum. So, Mr. Peters, to your
23 question, and so again, a long answer and I thank you
24 for your indulgence on this, but it's a whole system
25 Corporation answer to this and -- and we need to have

1 the cashflow.
2 We need to make the right decisions on
3 OM&A and be prudent in all those kind of things at the
4 same time, make our capital expenditures that are
5 prudent. You heard the -- the planning and ops groups,
6 I think, fairly passionately talk about crawling around
7 with purposes Mr. Read spoke to, and all those other
8 things.
9 We take that all seriously. And in
10 totality, we need to have this solution. It is our
11 minimum view. Plus or minus, you could squint at it,
12 is it three point nine (3.9) versus three point nine-
13 five (3.95), but I think you get the point here is that
14 it's very important for us. And we can borrow our way
15 through it temporarily. We have good access to
16 financing, but it would be best to not go too far down
17 that line. The -- there is risk there.
18 MR. BOB PETERS: Mr. Schulz, although
19 it wasn't directly in your answer, Manitoba Hydro,
20 you've told the Board before, could get down to a
21 decimal eight (.8)?
22 MR. MANNY SCHULZ: Yes, and that was in
23 the transcript. But again, that's -- that was a
24 technical answer to the question, How low could we go
25 for any period of time? And that's just, as I said, to

1 -- to the Board just now about backing out the
2 depreciation amounts and -- and it's a threadbare
3 measure. It's a -- it's a liquidity test that says,
4 How low can you go at any one (1) point in time? It's
5 not a going concern measure, because I would say --
6 make the supposition, then, that we don't have enough
7 cashflow to meet sustaining operations.
8 And then you'd have Mr. Morin, Mr.
9 Swatek, and then Mr. Read and others certainly unhappy.
10 So, you know, we need to maintain those ratios. So for
11 a period of time, technically, you know, the
12 theoretical perspective, you can go low, but it's not
13 one that we would advocate, which is why we still hold
14 true to the soundness and prudency of the one point two
15 (1.2) interest coverage ratio.
16 MR. DARREN RAINKIE: As did the -- as
17 did the Board a number of years ago when it encouraged
18 Manitoba Hydro to move its interest coverage ratio back
19 to one point two-o (1.20) from one point one-o (1.10).
20 MR. BOB PETERS: And, Mr. Schulz,
21 you're planning for the eventuality that'll come in
22 2019 all the way through to 2026 in the schedule that's
23 in front of you for the interest coverage ratio?
24 MR. MANNY SCHULZ: Sorry, can you
25 repeat your question? I -- I --

1 MR. BOB PETERS: Well, the Corporation
2 is telling the Board that it's prepared to accept the
3 interest coverage ratios that are on the screen in
4 front of it in -- on page 108.
5 MR. MANNY SCHULZ: I think from our
6 perspective, we've indicated that we can manage through
7 this situation. There are challenges, and we will
8 manage through them, but this is what we've put forth
9 as -- as part of our application.
10 MR. BOB PETERS: And can you manage
11 through the 2019 to 2026 period without borrowing to
12 pay interest on Manitoba Hydro's debt?
13 MR. MANNY SCHULZ: At the theoretical
14 levels we could because we would be above the --
15 approximately the point eight (.8). That being said,
16 you know, anything below the one (1) you are, you know,
17 theoretically, as part of the arithmetic of this,
18 starting to curtail your capital, which is kind of why
19 the capital coverage ratio is also sort of labouring at
20 that time.
21 Ms. Carriere talked about this as being
22 members of the same hockey team. I kind of thought of
23 it as they're siblings, like, they are one to the
24 other. And it's not a big coincidence that the debt
25 equity ratio interest coverage and the cap coverage

1 ratio all show the same trajectory, because they're all
2 sort of hemorrhaging on the -- the cash aspect of that.
3 So we can undertake incremental
4 borrowings during that time because we're self-
5 supporting and we can still access the funding that we
6 need through our vehicle with the Province of Manitoba.
7 But again, that's why the self-supporting argument is
8 so very important to us and -- and why it's absolutely
9 critical that we maintain that support, and -- and we
10 will.
11 So, yes, we can manage through it, but
12 it's a -- it's a formidable challenge, but we think
13 it's manageable, sir.
14 MR. BOB PETERS: A formidable challenge
15 is there's no headroom for you at -- at decimal eight
16 (.8)?
17 MR. DARREN RAINKIE: Mr. Peters, these
18 are abysmal levels of interest coverage. Let's face
19 it, this is not a happy circumstance where we should,
20 you know, do the happy dance. Our board is concerned
21 about this. They understand the impacts on Manitobans
22 of 3.95 percent rate increases. It certainly a
23 financial case for asking for more.
24 We are taking some risk on this already.
25 But, I mean, I -- I can't sit here and -- and say,

1 well, let's -- let's jump up and down about a point
2 eight-five (.85) interest coverage ratio no matter how
3 it's -- it's measured. These are very low financial
4 targets. I don't -- I wouldn't want the Board to take
5 away that our board is looking at these and going, Oh,
6 I guess this is a great circumstance. No, we're --
7 we're taking a high degree of risk at three-nine-five
8 (3.95) as it is.
9 MR. BOB PETERS: My point, Mr. Rainkie,
10 was that, recognizing all that you've said and that
11 Corporation has a strategy to go through this period of
12 time without having to borrow to pay interest because
13 it can get down if it has to as low as .8 percent?
14 MR. DARREN RAINKIE: Well, first of
15 all, that was a theoretical number that I'd have --
16 we'd have to go through the particular circumstances
17 here to see if it is, you know, point eight-o (.80). I
18 don't know if that is what we're trying to do through
19 financial targets, is trying to determine what's the --
20 what's the point where we're at the precipice looking
21 over, is that -- you know, is that the policy here?
22 It certainly isn't the policy of the
23 Manitoba Hydro Electric Board to do that. In -- in the
24 past, the Public Utilities Board has been, and
25 thankfully so, very supportive of us maintaining our

1 financial integrity, so I wouldn't say that was the --
2 the policy of the Public Utilities Board.
3 I -- I don't think we should be looking
4 at this as how low can you go. I think we should be
5 looking at this as how can we manage this for our
6 customers and our -- and the taxpayers in Manitoba
7 ultimately. And these are very low ratios. When you
8 look at their -- these ratios compared to what other
9 comparable entities across Canada generate, ours are
10 low.
11 And the other par -- the other
12 comparable entities are not weakening their financial
13 targets, they are moving to strengthen those. If we
14 aren't careful we are going to be looked at as -- we'll
15 be the ones that are talked about in other filings in
16 terms of being the weakest. We'll take New Brunswick
17 Power's, you know, spot in terms of discussions at
18 other rate proceedings about who's the weakest in
19 Canada.
20 Is that what we want for Manitoba?
21 That's what we have to ask ourselves, is that what we
22 want for Manitoba Hydro.
23 MR. BOB PETERS: Well, the question,
24 Mr. Rainkie, wasn't how low can you go, it's whether or
25 not Manitoba Hydro has a strategy to manage through the

1 period of the low-interest coverage ratio without
2 having to borrow to pay interest, which was a question
3 the Chairman was concerned about before the recess.
4 And as I understood from Mr. Page --
5 sorry, from Mr. Schulz, that there is the ability to
6 manage below one point zero (1.0) because depreciation
7 and amortization are non-cash expenses, but that's
8 certainly not a favourable position to be in, as been
9 repeated many times. But the Corporation does have a
10 strategy as it appears before the Board today to manage
11 through that time period.
12 Would you agree with my summary of what
13 I -- what I think I've heard?
14 MR. DARREN RAINKIE: Yes, we do. We
15 have an aggressive operating cost target that we have
16 to achieve in the next ten (10) years. The sustaining
17 capital that we have in our forecast I think is at
18 probably the minimum range to -- to be able to sustain
19 our operations. Certainly there's potential that as we
20 refine our capital projections over time, they could be
21 higher than what we have in the forecast.
22 So, yes. Yes we have a strategy, but
23 it's putting us very thin, and we're worried about it.
24 MR. BOB PETERS: And if we can go back
25 to page 59 for I hope only a minute of Board counsel's

1 third volume of book of documents, the -- the
2 discussion yesterday was about the finance expense as
3 the -- of the Corporation has decreased as a result of
4 more favourable interest rate forecats -- casts.
5 I have that correct, Mr. Page?
6 MR. MANNY SCHULZ: Perhaps I'll just
7 step in here. So the lower interest rate forecast that
8 had been produced notionally in support of our response
9 to PUB-10 from the First Round did have lower interest
10 rates. And you can see the manifestation of that here
11 in -- in the schedule that you're showing.
12 Again, the caution is -- and I mentioned
13 this yesterday -- interest rates are not going -- you
14 know, they actually captured a point at the low point.
15 And even this morning, interest rates went up another 4
16 basis points. And so one needs to be careful about the
17 over-representation of the -- the great saving grace
18 that we're going to have through this low interest rate
19 period.
20 That being said, you are going to be
21 able to get a benefit through the extension of the low
22 interest rate environment. And -- and that's why we're
23 trying our best not only when we get the opportunity,
24 Mr. Chairman, to borrow at the low rates, but to fix
25 them for a long time so that we don't have any further

1 refinancing risk.
2 We have no floating-rate risk on this,
3 so we're locking it down and we're securing it. So
4 we're taking those measures, Mr. Peters, as part of our
5 plan, as part of our debt management plan. And we're
6 taking steps. We have been for a number of years, but
7 very actively as part of our investment period.
8 MR. BOB PETERS: And in fairness in
9 balancing the record, you may not have been on the
10 panel, Mr. Schulz, but we heard from a previous
11 planning panel of Manitoba Hydro that the export
12 revenues weren't going to be as favourable as -- as
13 initially thought, according to Manitoba Hydro's most
14 recent assessment of it.
15 But we see on this calculation that was
16 done that there's a benefit to Manitoba Hydro over the
17 long term based on the lower finance rate which isn't
18 fully offset by the lower expected export revenues,
19 correct?
20 MR. DARREN RAINKIE: Mr. Peters --
21 MR. IAN PAGE: I think --
22 MR. DARREN RAINKIE: -- I think we went
23 through this yesterday. The difficult part is that
24 you're looking at the very end of the forecast to make
25 that calculation. As indicated yesterday, the -- the

1 reduction in export revenues is going to be very
2 gradual over the time period, and the benefit from the
3 lower interest rates is going to come into our income
4 statement later on.
5 So once again, in that very vulnerable
6 time period that we have in the next ten (10) years,
7 this doesn't -- this isn't going to help us. The --
8 the interplay of those two (2) variables is unlikely to
9 help us. It -- it's --
10 MR. BOB PETERS: Let's -- let's --
11 MR. DARREN RAINKIE: -- going to be
12 great maybe in 2030, but how is that going to help me
13 in 2018/'19 or 2019/'20?
14 MR. BOB PETERS: Well, let me ask the
15 question you've already answered then, Mr. Rainkie. On
16 page 108 of Board counsel's book of documents, we're
17 looking at the chart that the Chairman was looking at
18 before the break.
19 We've now talked about there being a
20 lower finance expense over the twenty (20) year
21 planning horizon, and it's broken down on page 58 and
22 59 of Board counsel's book of documents.
23 So now when we go back to page 108,
24 which is on the screen in front of us, what relief does
25 that provide to Mr. Page and Mr. Schulz in terms of

1 what we've seen happen on the interest rate forecast
2 reduction?
3 MR. IAN PAGE: Mr. Peters, I think
4 maybe I didn't make the point strong enough yesterday
5 is that I just -- I did want to point out that the
6 January update that -- that we saw on pages 58 and 59,
7 that was based on a single long-term source. So it's
8 not one that we would put a lot of credibility in.
9 And then when we did pre -- prepare that
10 forecast in -- in -- later this -- this spring, we had
11 the full suite of forecasts. And we saw the interest
12 rates have gone back up, so any of the benefit that you
13 -- that you were looking for in that -- from that 10(b)
14 on this -- on this chart that we're looking at on the
15 screen -- that's page 108, is it? -- I -- I -- you
16 know, I don't think we want to start counting --
17 counting that as -- as -- sort of banking on that
18 because it looks like it's -- it's probably -- based on
19 our current interest rate forecast, that's not likely
20 to translate.
21 And then as I mentioned earlier -- or in
22 -- yesterday in my presentation, what we'd seen on
23 natural gas prices is since that January update we've
24 also seen a deterioration in natural gas prices. And
25 as Mr. Miles has pointed out, there's a very strong

1 correlation to what we see happening on the natural gas
2 side and the export side.
3 So from all -- all the indications we're
4 sitting at right now is that, Well, yes, interest rates
5 happen to be low right now. In the longer term we're
6 looking at higher interest rates than last year's
7 forecast and lower export prices than last year's
8 forecast, and neither of those I would characterize as
9 favourable.
10 MR. BOB PETERS: All of that will come
11 --
12 MR. MANNY SCHULZ: If I just may add to
13 that, just slightly, because I think what Mr. Rainkie
14 is also speaking to is the net income impact. So if
15 you're looking at finance expense, and you again go
16 back to what I had presented in the direct where you --
17 you may recall the green line of the total cashflow
18 requirements, but then we have the -- the interest
19 capitalized amounts.
20 And so those interest capitalized
21 amounts don't hit our income statement straightaway.
22 So, you know, the benefit that Mr. Rainkie is speaking
23 to are the benefits down the line from a net income
24 perspective arising out of the low interest rate
25 environment largely.

1 So it's a combination though in terms
2 of, yes, we are de-risking somewhat our portfolio on
3 the interest rates by taking out long-term fixed rate
4 financing at these low levels. The manifestation of
5 the accounting recognition of that takes time, as it
6 manifests itself through the system. So it's a
7 combination of all of these measures.
8 But it's not like you can just throw
9 pixie dust on this and -- and wish it away by having a
10 lower interest rate forecast that suddenly materializes
11 in -- in the period of January, and that's your -- the
12 holy grail of -- of the solution.
13 It's -- it's looking at this earnestly
14 day-by-day, step-by-step, and we'll be, I'm sure,
15 speaking through future rate increases and in further
16 applications we'll have in subsequent years. This is
17 an ongoing challenge, and one that we're prepared to
18 meet. And we think it's manageable, but as I
19 indicated, there's a formidable challenge here. And
20 part of it is needing to have these rate increases at -
21 - we think, at a minimum of 3.95 percent.
22 MR. DARREN RAINKIE: Peter -- Mr.
23 Peters, the answer to this question is on page 56 of
24 your book of documents, if we can -- if we can move to
25 that, sir, because I -- I can demonstrate the point I'm

1 trying to make for the Board. I'm not sure I'm making
2 it very well once again.
3 So what we have on page 56 is taking
4 IFF14 and rolling in the updated interest rates, which
5 are lower, and the updated net extraprovincial
6 revenues, which -- which is lower, and we see the same
7 pattern as in IFF14 for the first ten (10) years of the
8 forecast. We see losses -- fairly large losses
9 starting as early as 2019, and happening for the next
10 five (5), seven (7) years.
11 We see interest coverage down at the
12 point-nine (.9), point eight (.8) level. We see
13 capital coverage at the point nine (.9), point eight
14 (.8) level. We see equity ratio for a number of years
15 down to the 11 percent level, which is the same as
16 Manitoba Hydro-14.
17 We don't really see improvement from the
18 interplay of these two (2) variables until the next ten
19 (10) years, which is on the next page, at the very back
20 end of the forecast when we, through this scenario, get
21 to a 28 percent equity ratio by 2034 as opposed to, I
22 think, a 25 percent.
23 So the interplay of these two (2)
24 variables in the vulnerable period in the first ten
25 (10) years of the forecast is really nullified. There

1 really isn't much of an upside. You have to fast
2 forward, you know, seventeen (17), eighteen (18) years
3 in the future to see the net benefit.
4 So once again, the vulnerable period
5 that we have is -- it's not -- the interplay of those
6 two (2) variables is not really particularly helpful to
7 us on a net basis.
8 MR. BOB PETERS: And by the time, Mr.
9 Rainkie, it comes to do Manitoba Hydro's IFF15,
10 Manitoba Hydro will have had an updated export forecast
11 from its consultants, together with perhaps a stronger
12 feeling on the interest rate forecast, and all of that
13 will be demonstrated in the next IFF?
14 MR. DARREN RAINKIE: That's correct,
15 sir.
16 MR. BOB PETERS: All right. On Tab 15
17 of the book of documents, over to page 125, while we
18 have that on the screen, Mr. Rainkie, you'll recall as
19 well that in terms of the Board's NFAT recommendations
20 one of the recommendations, the thirteenth one the
21 Board -- the panel made was to recommend that Manitoba
22 Hydro relax it's 75:25 debt-to-equity ratio to moderate
23 its proposed electricity rate increases, correct?
24 MR. DARREN RAINKIE: Yes, sir, that was
25 the recommendation.

1 MR. BOB PETERS: And that
2 recommendation, you understand that to carry with it a
3 concern that there's domestic rate increases that are
4 being assumed or indicated by Manitoba Hydro that --
5 that are of concern?
6 MR. DARREN RAINKIE: Yes, sir, I think
7 the Board is concerned about the same balancing act
8 that Manitoba Hydro is.
9 MR. BOB PETERS: Except the Board may
10 be balancing different considerations, but they're
11 still balancings, the interest of the utility, as well
12 as the consumer?
13 MR. DARREN RAINKIE: Well, I don't see
14 the interests of the utility and the consumer as being
15 different. Manitoba Hydro is a conduit to our
16 customers. We don't -- we're not an investor-owned
17 utility such that we pay large bonuses or large
18 dividends or are worried about our share price, so I
19 don't think of it as a war between Manitoba Hydro and
20 the customers.
21 I mean, we're trying to make decisions
22 on behalf of our customers.
23 MR. BOB PETERS: But -- but you
24 acknowledged yesterday there is a conflict between your
25 Corporation and your consumers because your -- your

1 consumers don't want a 3.95 percent rate increase?
2 MR. DARREN RAINKIE: Well, I understand
3 that I'm a ratepayer, as well. I understand that
4 people do not want rate increases. But I -- I don't
5 think there's a conflict between the utility and its
6 customers. I think we're trying to be the best
7 stewards that we can of the Company.
8 Certainly our view is, is that gradual
9 rate increases are the best way to go rather than
10 having lower increases at the front and building up
11 pressure for higher rate increases at the end. In the
12 end, as we talked about yesterday, we can't poll six
13 hundred thousand (600,000) customers. And,
14 unfortunately, the Board is the determiner of the
15 public interest. It has a huge responsibility in that
16 regard in terms of trying to look at the various
17 options and determine what the best pass forward is.
18 But certainly, from the corporate
19 perspective, we don't look at it as we're fighting our
20 -- our customers. We're -- we're trying to do what we
21 think -- we believe is right, why the customers -- even
22 if -- we -- we wouldn't expect our customers
23 individually to understand our complex operations and
24 our complex financial position. That's why we have
25 regulatory boards and Intervenors and board advisors,

1 so we can hash through all the detailed issues and come
2 to the best determination.
3 But the certainly the Company does not
4 look at it as -- we -- we're here on behalf of our
5 customers, not trying to bamboozle them with rate
6 increases.
7 MR. BOB PETERS: Mr. Rainkie, the NFAT
8 recommendation to consider relaxing the 75:25 debt to
9 equity ratio policy to moderate proposed electricity
10 rate increases is one (1) of the aspects that Manitoba
11 Hydro has referred through to the consulting firm KPMG?
12 MR. DARREN RAINKIE: Yes, sir, we've
13 asked for an independent review of that because it has
14 been since 1995 that we had an independent view. But
15 make no mistake, I'm not outsourcing that -- you know,
16 that to the -- to the consultant. The consultant will
17 provide the recommendations to management and we'll
18 consider those recommendations. And then management
19 will be providing our -- our recommendation to the
20 Manitoba Hydro Electric Board. And ultimately, the
21 results of that review will come to the Public
22 Utilities Board, sir.
23 So I wouldn't -- I just don't want to
24 leave the impression I've hired somebody just to tell
25 me what to do. We'll -- we'll look at their

1 recommendations, and -- and we may accept them, we may
2 not.
3 MR. BOB PETERS: It would be safe to
4 conclude, Mr. Rainkie, that this application does not
5 reflect the conclusions and recommendations from KPMG?
6 MR. DARREN RAINKIE: No, sir, because
7 we have not had the opportunity yet to take KPMG's work
8 and put our understanding on top of it and go to our
9 board.
10 MR. BOB PETERS: And can you also
11 confirm that the KPMG review and study is looking at
12 quantifying and probability weighting Manitoba Hydro's
13 risks?
14 MR. DARREN RAINKIE: Yes, sir, we're --
15 we're looking at how to extend the -- and we've done a
16 lot of excellent modelling on taking the twenty-seven
17 (27) scenarios we had at the NFAT and mixing water
18 flows, ninety-nine (99) water flows. So we're up to
19 about two (2) -- twenty-seven hundred (2,700) or so
20 financial runs, so I'm quite impressed actually.
21 The folks behind me have been working on
22 this. Mr. -- Mr. Epp has been working on this for a
23 number of months. And we are in a far better position
24 to have this discussion now than we were even a year
25 ago, sir.

1 MR. BOB PETERS: That includes, Mr.
2 Rainkie, measuring the risk of drought on a
3 probabilistic basis?
4 MR. DARREN RAINKIE: Yes. What we're
5 trying to do is we're trying to use more probabilistic
6 scenarios. But it -- it -- what we're trying to do is
7 narrow down to once again those key variables that --
8 because a lot of the risks in the Company, there's
9 hedges against them. So we're trying to look at the
10 key risks and analyse those, sir.
11 So we're -- we're doing both. We're
12 looking at reviewing our financial targets as well as
13 being able to respond to the Board's directive to
14 provide further information on that. We -- we put that
15 in one (1) -- I don't look at that as two (2) different
16 endeavours, if you like. I look at that as one (1).
17 So -- and we're also getting the benefit
18 of an independent consultant to -- to provide us
19 advice. So it's -- it's actually very exciting,
20 actually. It's hard for people to get excited about
21 financial stuff, but I'm excited about what we're doing
22 and I think it's going to be excellent information when
23 it comes to the Public Utilities Board.
24 MR. BOB PETERS: I think you had it
25 right when you said it's hard to get excited about it,

1 Mr. Rainkie. But let me -- let me just be clear,
2 because the -- the Board has given its directions and
3 you see them on the screen in front of you. And then
4 on page 133 of the book of documents we see the terms
5 of reference that Manitoba Hydro has issued to -- to
6 KPMG. And in the bullet that -- at the top of the
7 page, it's to:
8 "Provide an analysis to satisfy the
9 PUB directive to review Manitoba
10 Hydro's operating and financial risks
11 in order to assess the adequacy of
12 financial reserves including, as
13 appropriate, the use of qual --
14 quantitative and probabilistic
15 analysis."
16 You're telling the Board, Mr. Rainkie,
17 that those will be part of the work that's been tasked
18 to KPMG to report on?
19 MR. DARREN RAINKIE: Yes, that's part
20 of their work, but as well, there's an internal aspect
21 of this, that Manitoba Hydro said we have exponentially
22 improved our -- our capability of our internal
23 analysis. And so what I'm interested in is to actually
24 use that analysis to further respond to the PUB
25 directives.

1 So it's not just the work that KPMG is
2 doing, but we will probably have some additional runs
3 to share with the Board, additional financial
4 information of our own through the use of those models
5 that we've improved.
6 MR. BOB PETERS: All right. Thank you
7 for that clarification, Mr. Rainkie. I take from your
8 then last few answers that KPMG will be providing a
9 quantitative probabilistic risk analysis?
10 MR. DARREN RAINKIE: Yes, there's --
11 there's three (3) parts to their report. It's the
12 benchmarking, looking at other comparable electric
13 utilities. Number -- number 2 is looking at credit
14 rating perspectives and financial market perspectives.
15 So the folks that provide the -- looking at the
16 perspectives of the -- of the provider of the debt
17 funds that will finance the investment. And then the
18 third aspect is a quantitative aspect, sir.
19 But what I'm trying to say though is
20 that we won't -- we have, I think, fifty-five (55) risk
21 profiles in our risk profile report. It's impossible
22 to cross-quantify all of the probabilistic potential of
23 all fifty-five (55) risk categories, sir.
24 So what we're -- by necessity have to do
25 is narrow down to those most significant risks and

1 that's what KPMG will have in its report. To the
2 extent we'll -- that we can, we'll use our internal
3 modelling capability to bolster up and above what the
4 KPMG folks have undertaken.
5 MR. BOB PETERS: Ms. Carriere, in the
6 slides that you presented yesterday morning in your
7 PowerPoint, were any of those slides from KPMG or were
8 those all Manitoba Hydro slides?
9 MS. LIZ CARRIERE: They were all
10 Manitoba Hydro slides.
11 MR. BOB PETERS: Has KPMG indicated
12 that they're not able to measure any of these certain
13 risks that they've been asked to look at, Mr. Rainkie?
14 MR. DARREN RAINKIE: Well, I think what
15 KPMG recognized, as we have recognized, is that you
16 cannot go through and quan -- cross-quantify all of the
17 probabilities of all of the -- all the risk and that
18 you have to look -- you have to narrow that down to the
19 key risks, because you can't run a million different
20 scenarios, sir, you --
21 And it's impossible to cross-quantify
22 some of these risks, because they're offsetting.
23 They're hedging risks. So by necessity, just like any
24 other work product that anybody does you have to look
25 at what the key factors are and try to do your analysis

on that, sir. MR. BOB PETERS: How many of these most significant risk items are included in the review by KPMG, Mr. Rainkie?

(BRIEF PAUSE)

MR. DARREN RAINKIE: Sir, I think it -- it would be fairly similar to the -- well, I know it would be fairly similar to the risks that Ms. Carriere had in her presentation yesterday, you know, water flows, capital, interest rates, export revenues. I'm probably forgetting one (1) or two (2), but the -- the major factors that can influence are -- are financial outlook.

MR. BOB PETERS: Is there a work plan you could file with this Board, Mr. Rainkie, at this time?

MR. DARREN RAINKIE: Well, actually, sir, the -- the KPMG report is complete. It was presented for information purposes to our audit committee on May 17th I think was the -- was the date, sir. So their part -- I look at this as two (2) phases.

The first phase was to go out and get an independent review of our financial targets from KPMG.

1 And they were provided to us with recommendations. And
2 the second phase is then for Manitoba Hydro's senior
3 management to review those recommendations plus use our
4 modelling capability to do whatever else we want to do.
5 And we haven't -- we haven't done that
6 yet, because the folks that have been working on this
7 hearing ARE -- are the same folks that would be doing
8 that.
9 And then management will make a
10 recommendation to our board in the fall in conjunction
11 with IFF15. And at the point where our board has
12 decided what they'll do in terms of the review, we
13 would then share that with the Manitoba Public
14 Utilities Board.
15 And I would expect in a future general
16 rate application, we might see KPMG here as a -- as an
17 independent consultant testifying to their report.
18 Can't predict the future 100 percent, Mr. Peters, but
19 that doesn't seem like an unreasonable outcome.
20 MR. BOB PETERS: All right. Thank you,
21 Mr. Rainkie. In the time before lunch, maybe we can
22 turn to operating, administrative, and maintenance
23 expenses of the Corporation. And just to ground the
24 panel, when we turn in Volume III to page 23, we get
25 back to an IFF that had been prepared, Ms. Carriere,

1 correct?

2

3 (BRIEF PAUSE)

4

5 MR. BOB PETERS: Just putting it on the

6 screen in front of you, ma'am.

7

8 (BRIEF PAUSE)

9

10 MS. LIZ CARRIERE: Yes. This was

11 prepared in an IR.

12 MR. BOB PETERS: And I believe you and

13 I talked about this one yesterday?

14 MS. LIZ CARRIERE: Yes, we did.

15 MR. BOB PETERS: And operating and

16 administrative expenses in the year ending 2016 is at

17 $542 million, and it's the largest expense Manitoba

18 (sic) has in that year?

19 MS. LIZ CARRIERE: Yes, that's correct.

20 MR. BOB PETERS: And in the first test

21 year that's before this Board, the 2015 test year, the

22 O&A expenses are, I guess, the second largest expense

23 next to finance expense in the 2015 year?

24 MS. LIZ CARRIERE: That's correct.

25 MR. BOB PETERS: And would it be

1 correct, Mr. Rainkie, for the Board to understand that
2 Manitoba Hydro is submitting these expenses, and it's
3 inherent in Manitoba Hydro's request that these be
4 approved by the Board?
5 MR. DARREN RAINKIE: Well, Mr. Peters,
6 the -- the Public Utilities Board approves the rate for
7 power. It doesn't go to the extent of approving each
8 line item of Manitoba Hydro's application. So I -- but
9 inherently, I mean, the costs that Manitoba Hydro has
10 form part of the PUB's determination.
11 MR. BOB PETERS: And so if Manitoba
12 Hydro (sic) was to approve Manitoba Hydro's rates, they
13 would be -- as applied, they'd be, in essence,
14 approving the underlying line items of expense?
15 MR. DARREN RAINKIE: Well, I -- sir,
16 I'm sure. I guess it depends if you want to get too
17 technical. I don't think we're -- our request is not
18 for the Manitoba Public Utilities Board to approve our
19 operating cost, but to consider our overall level of
20 costs over the next number of years in terms of setting
21 rates.
22 And then the Board doesn't have the rate
23 -- doesn't exercise the rate base rate of return type
24 of regulatory methodology, where it goes through and
25 approves every line item, and then approves financing

1 costs and a return on equity on top of that. So it's -
2 - it's a -- it's a different regulatory construct, I --
3 sir.
4 MR. BOB PETERS: But you're asking the
5 Board to, in essence, approve the cost of service of
6 Manitoba Hydro?
7 MR. DARREN RAINKIE: We're -- yes,
8 we're asking -- we're asking the Board to approve our
9 rate request. That's -- that's how, on the electric
10 side of the business, it has, and always has been, to
11 my knowledge.
12 MR. BOB PETERS: And while we look at
13 these OM&A expenses, Ms. Carrier, at 572 million -- oh,
14 I'm sorry, 542 million for 2016, there's additional
15 payroll expense that's not reflected in this amount.
16 Is that correct?
17
18 (BRIEF PAUSE)
19
20 MS. SANDY BAUERLEIN: Could you be more
21 specific, Mr. Peters?
22 MR. BOB PETERS: I was afraid you'd say
23 that. If we turn to page 160, it might be able to help
24 you and the panel. What we see on page 160, Ms.
25 Carriere, is that we get down to the wages and benefits

1 for the employees of Manitoba Hydro, and if we go to
2 the 2015/'16 forecast year, towards the right-hand side
3 of the page, the Board will see that the employee
4 subtotal of benefits and salaries and overtime and
5 wages is about $751 million, correct?
6 MS. SANDY BAUERLEIN: That is correct.
7 MR. BOB PETERS: And then underneath
8 that, you're showing that labour and benefits are
9 charged to capital, so there's about $282 million that
10 is not being included in the current operating and
11 administrative expenses?
12 MS. SANDY BAUERLEIN: That is correct.
13 It is an approximation of the labour and benefits that
14 are charged to our capital projects.
15 MR. BOB PETERS: Thank you, Ms.
16 Bauerlein. And...
17
18 (BRIEF PAUSE)
19
20 MR. BOB PETERS: What we see on the
21 chart, Ms. Bauerlein, is that the labour and benefits
22 that are charged to the operations for 2015/'16 are the
23 $469 million?
24 MS. SANDY BAUERLEIN: That is correct.
25

1 (BRIEF PAUSE)

2

3 MR. BOB PETERS: If we stick in that
4 2015/'16 column for the benefit of the panel, and we go
5 down towards the bottom of the page, there's a number
6 of deductions. And there's operating and
7 administrative charges over to Centra of about $66.691
8 million? Thank you, Diana, for moving the cursor in
9 that area.
10 MS. SANDY BAUERLEIN: Correct. And
11 that would include some of the payroll costs associated
12 with employees who work for our gas operations.
13 MR. BOB PETERS: And those are -- those
14 are also, then, removed from the operating and
15 maintenance expenses for Manitoba Hydro?
16 MS. SANDY BAUERLEIN: They are the
17 piece of the operating and maintenance expenditures
18 that are charged to the gas operations, so that the
19 balance at the end is the operations and maintenance
20 costs of electric operations.
21 MR. BOB PETERS: If we turn to page 147
22 at Tab 17 of Volume III, Exhibit 20, we see a -- a
23 depiction of the operating and maintenance expenses.
24 This time it's broken down into what appear to be ten
25 (10) business units. Have I got that correct, Ms.

1 Bauerlein?
2 MS. SANDY BAUERLEIN: That is correct.
3 MR. BOB PETERS: Does each business
4 unit have its own vice president?
5
6 (BRIEF PAUSE)
7
8 MS. SANDY BAUERLEIN: Yes, they do,
9 with the president and CEO being under Mr. Thomson.
10 MR. BOB PETERS: Manitoba Hydro
11 provides the Board with two (2) general accounting
12 views of its operating and administrative expenses.
13 One (1) of them is by business unit, and another one
14 (1) is by -- by what is referred to as cost element,
15 correct?
16 MS. SANDY BAUERLEIN: That is correct.
17 MR. BOB PETERS: Well, let's stay with
18 the -- the business unit view. And if we look at the
19 bottom of page 147...
20
21 (BRIEF PAUSE)
22
23 MR. BOB PETERS: And we -- if we can
24 see the compounded annual growth rate, it appears that
25 the O&A expenses have grown at the rate of 5.4 percent

1 over the last ten (10) years, correct?
2 MS. SANDY BAUERLEIN: That is correct,
3 including the accounting changes of which there have
4 been a significant component of accounting changes
5 since 2009/'10.
6 MR. BOB PETERS: And we'll come to
7 those accounting changes just as I think you did in
8 your presentation yesterday. Manitoba Hydro has
9 presented a view where the accounting changes have been
10 removed to -- to show what the increases would be
11 without those accounting changes, correct?
12 MS. SANDY BAUERLEIN: Correct. As Mr.
13 Rainkie, I believe, indicated in his initial
14 presentation, we believe that as a result of being in a
15 period where we've had a significant number of
16 accounting changes, it has sort have, in his words
17 again, Muddied the waters in terms of how the
18 Corporation has been managing its controllable
19 operating expenses.
20 MR. BOB PETERS: That doesn't mean, Ms.
21 Bauerlein, that those accounting changes haven't been
22 charged through as increased revenue requirement to
23 Manitoba's domestic customers?
24 MS. SANDY BAUERLEIN: Those accounting
25 changes are reflected in the revenue requirement to the

1 ratepayers of Manitoba.
2 MR. DARREN RAINKIE: But -- but as was
3 recommended by the Public Utilities Board, Mr. Peters,
4 and accepted in the last general rate application.
5 MR. BOB PETERS: And -- and put
6 bluntly, then, Ms. Bauerlein, those accounting changes
7 have caused rates to Manitobans to increase?
8
9 (BRIEF PAUSE)
10
11 MS. SANDY BAUERLEIN: They are a
12 component of the revenue requirement, yes.
13
14 (BRIEF PAUSE)
15
16 MR. BOB PETERS: When we look at some
17 of the specific items on one-four (14) -- on page 146,
18 the general council and corporal secretary business
19 unit, I believe on the previous page, on page 146,
20 we'll see here that that business unit has increased by
21 about 7 percent on an annual basis for the ten (10)
22 prior years, correct?
23 MS. SANDY BAUERLEIN: That is correct.
24 MR. BOB PETERS: When we go down to
25 finance and regulatory, the corporate risk management

1 department increased -- and I know it's just a
2 mathematical calculation, but at 24 percent a year for
3 those ten (10) -- each year for those ten (10) years.
4 What did that relate to?
5
6 (BRIEF PAUSE)
7
8 MS. SANDY BAUERLEIN: Over that ten
9 (10) year period, there was a recognition that we
10 needed a strong middle office function for our export
11 sales. And as a result of that, and per a
12 recommendation from a -- a consultant that we hired, we
13 did establish a formal middle office, which would be in
14 line with other organizations who do have an export
15 function.
16 So it was really staffed to support a
17 middle office function.
18 MR. BOB PETERS: The transmission on
19 page 147 shows significant increase in the VP
20 transmission administration of about 28 percent a year
21 for ten (10) years on average.
22 Can you explain to the Board what that
23 relates to?
24 MS. SANDY BAUERLEIN: Under our VP of
25 transmission is the trainee program for our operating

1 technician program, which houses all of the trainees
2 that are deployed throughout the generation and
3 transmission business units. As well, it has the
4 engineering and training trainee program. So it is
5 maintained centrally.
6 The -- we have had an increase in our
7 trainen -- trainee levels, recognizing expected
8 attrition levels. Many of these programs are years in
9 length, and it's not that you can bring an individual
10 in today and hope that he has the skill set or she has
11 the skill set to perform that work six (6) month, seven
12 (7), eight (8) months.
13 These trainee programs are -- are years
14 in length. And as a result, Manitoba Hydro has
15 undertaken to ensure that as we're recognizing, you
16 know, the baby boomers are starting to retire, that we
17 needed to have the skill -- the technical skill sets of
18 our employees to be able to manage as those levels of
19 attrition are occurring.
20 MR. BOB PETERS: Ms. Bauerlein, are
21 those expenses that could be capitalized?
22 MS. SANDY BAUERLEIN: Where a trainee
23 is working on a specific capital project, the cost of
24 the trainee will be charged to capital.
25 MR. BOB PETERS: But in this schedule,

are there -- are some of these costs going to then be capitalized?

MS. SANDY BAUERLEIN: This would represent the net effect after capitalization.

MR. BOB PETERS: If we could turn to page 148, in terms of the composition of Manitoba Hydro's OM&A, there's a, I'll call it a pie chart, on the screen. I'm not sure if this was in your presentation, but you're conveying to the Board that salaries over time and benefits are a full 77 percent of the OM&A costs, correct?

(BRIEF PAUSE)

MS. SANDY BAUERLEIN: This pie chart represents, actually, before costs are capitalized and before any allocation to Centra. So it's our total costs. And approximately 77 percent of those costs represent the salaries and benefits of employees.

MR. BOB PETERS: On page 149, we look at Manitoba Hydro's presentation of OM&A expenses, but this time on a -- a cost element basis, correct?

MS. SANDY BAUERLEIN: That is correct.

MR. BOB PETERS: And if we look at employee benefits, and we get down to the increase that

1 we're -- we're seeing here, there's been an average
2 annual increase of 5.3 percent per year over the 2012
3 to 2016 period?
4
5 (BRIEF PAUSE)
6
7 MS. SANDY BAUERLEIN: That is correct.
8 MR. BOB PETERS: And it appears as well
9 that the labour and benefits that are charged to
10 capital have also increased at about 7.6 percent a year
11 for the -- for the five (5) years that are depicted?
12 MS. SANDY BAUERLEIN: That is correct.
13 I did want to note that the -- the increase in the
14 benefit costs is primarily due again to a change in the
15 discount rate. So it is an accounting change, not due
16 to employees receiving additional benefits.
17
18 (BRIEF PAUSE)
19
20 MR. BOB PETERS: Would the Board be
21 interpreting this schedule correctly, Ms. Bauerlein,
22 that under the subtotal, that the overall payroll has
23 grown from 658 million in 2012 to 766 million in the
24 forecast 2016/'17 year?
25 MS. SANDY BAUERLEIN: I would include

1 payroll costs as well as the benefit costs that are
2 expensed in each year, yes.
3 MR. BOB PETERS: And this is based on
4 sixty-three hundred and eighty-one (6,381) EFTs in the
5 Corporation?
6 MS. SANDY BAUERLEIN: Can you direct me
7 to that reference, Mr. Peters?
8
9 (BRIEF PAUSE)
10
11 MR. BOB PETERS: On page 225 of Board
12 counsel's book of documents, Ms. Bauerlein. It's on
13 the screen in front of you. I was looking at the
14 2016/'17 forecast year for sixty-three hundred and
15 eighty-one (6,381) employee -- or EFTs.
16
17 (BRIEF PAUSE)
18
19 MS. SANDY BAUERLEIN: That would be the
20 number of EFTs for the '16/'17 fiscal year. But that
21 would represent wages and salaries only. Those are
22 straight-time EFTs. The 766 million you referred to
23 would include overtime as well as benefit costs.
24
25 (BRIEF PAUSE)

1 MR. BOB PETERS: On page 149, Ms.
2 Bauerlein, the Board will note that all components have
3 a growth rate of greater than inflation in -- in
4 looking at the salaries over time and benefits?
5 MS. SANDY BAUERLEIN: Again, that would
6 include -- those are gross salaries and gross benefits
7 prior to capitalization. So those aren't -- those are
8 not a representative of the growth in operating costs,
9 but in the total wages and salaries and benefits for
10 all employees.
11 And you will note if you go to -- again,
12 if we would turn to Appendix 5.5, page -- page 13, and
13 I believe this was also a chart in my presentation,
14 that the growth is primarily due to increases in
15 capital construction staff required for the investment
16 and reinvestment in our capital expenditures, and that
17 those employees who work on the operations and
18 maintenance functions of the Corporation or provide our
19 support and governance functions such as areas like
20 finance are -- those EFT levels are declining.
21 MR. BOB PETERS: Ms. Bauerlein, the
22 overall payroll that we talked about on -- I think it
23 was on page 149, this represents a cash expense that
24 has to be made by the Corporation?
25 MS. SANDY BAUERLEIN: The wages and

1 overtime would represent a cash expense, not neces --
2 the benefit costs aren't -- aren't necessarily cash
3 expenditure.
4 MR. BOB PETERS: Until paid out?
5 MS. SANDY BAUERLEIN: In many cases we
6 have liabilities for those expenditures, so as they're
7 paid out they're a draw down on the liability.
8 MR. BOB PETERS: And the -- the
9 salaries then that are paid is the largest internal
10 cashflow expense of the Corporation?
11
12 (BRIEF PAUSE)
13
14 MS. SANDY BAUERLEIN: Are you
15 referencing in total our cash expenditures? Primarily
16 there would be a significant portion of cash being used
17 for our investing activities, and property plant and
18 equipment when we have to purchase large pieces of
19 equipment such as some of our large transformers, et
20 cetera.
21 MR. BOB PETERS: All right. Thank you
22 for that. And just to conclude --
23 MR. DARREN RAINKIE: Mr. -- Mr. Peters,
24 while we're on the schedule I just -- I had made a
25 point in my presentation, and I wanted to make sure

1 that the Board understood it because it was rather --
2 sorry to interrupt the lunch period, sir, but it -- it
3 was something that has bothered me for a couple of
4 general rate applications now, so it was something I
5 wanted to get off my chest.
6 So Manitoba Hydro, as -- as we've
7 indicated, payroll and benefit cost tend to increase at
8 4 percent. In the last number of years, for as long as
9 I can remember, we have made allowances for increased
10 budgets, or limited the increase to 2 percent, so
11 there's been a 2 percent productivity factor built into
12 our -- into our cost equation.
13 So I've puzzled over the conclusions
14 that have been made in the last couple of GRAs why we
15 have been characterized as a reluctant cost container
16 when we've had -- we've been managing our costs from
17 the 4 percent down to the two (2). And when I
18 reflected on that before we built this last GRA, I
19 realized it's because of the difference between the
20 gross payroll and the net payroll that's charged to
21 operations.
22 So -- so if you -- if you looked at the
23 line here that says, "Subtotal," you'd see that the
24 wages, benefits, and overtime has gone from 658 million
25 to -- projected to 766 million. So if -- fortunately

1 we haven't calculated on this schedule, but if you took
2 the average annual increase you can see that the wages
3 is three point five (3.5), overtime is four point eight
4 (4.8), and benefits is five point three (5.3).
5 If you took the average of all of that,
6 it probably would be somewhere 4 or 5 percent. So I
7 think that's -- the problem is the Board has been
8 looking at that line item and said, Well, Manitoba
9 Hydro isn't controlling its costs. It's -- it's, you
10 know, increasing all of these things at 4 or 5 percent
11 a year. But, of course, what that reflects is the fact
12 that we have more people working on capital projects
13 because those are the gross payroll costs.
14 If you move down to the line that says,
15 "Labour and benefits charged to operations," those
16 portion of our costs that are operating costs versus
17 those that are charged to capital, you see over that
18 time period that increases from four hundred and forty-
19 two million five hundred and ninety-one (442,591,000)
20 forecast to four seventy-eight one forty (478,140,000),
21 so a 2 percent increase.
22 So that 2 percent increase is reflective
23 of our efforts to manage costs in an era where contract
24 wage settlements merit progression type increase are
25 happening at 4 percent. So this is what I think we've

1 mixed up the Board in the past, or provided not the
2 clearest information because this -- this kind of stuff
3 comes right out of our GL, the detail that we have in
4 our internal reports once again. But on reflection, I
5 think this is why the Board has concluded that we're
6 reluctant cost containers is just because of the
7 complexities of the schedule.
8 Now, as we go forward we are limiting
9 the increase in operating costs, or those costs that
10 get charged to operating to 1 percent. So we are now
11 installing a 3 percent productivity factor in the
12 Corporation during this time when we're asking
13 customers to pay higher rates at 3.95 percent a year.
14 So I think it's -- this is -- this is what demonstrates
15 the point I was trying to make in my presentation on
16 day one.
17 We have to be very careful about how we
18 go through all this very complex material, and the
19 impressions that we leave with the Board and certainly,
20 at some point in time, be prepared to answer any
21 questions you have about this because this is a very --
22 a very important point.
23 When Manitoba Hydro's asking for 3.95
24 percent rate increases I want to make sure that it's
25 clear to both the Board and -- and all parties in terms

1 of what we are doing to constrain our costs.
2 MR. BOB PETERS: Mr. Chairman, in light
3 of the hour and in light of Mr. Rainkie again having
4 the last word, this might be the opportune time for the
5 lunchbreak.
6
7 (BRIEF PAUSE)
8
9 THE CHAIRPERSON: Okay. I thank you
10 for that, Mr. Peters. I think we should resume at one
11 o'clock. Have a good lunch, everyone.
12
13 (PANEL STANDS DOWN)
14
15 --- Upon recessing at 12:19 p.m.
16 --- Upon resuming at 1:01 p.m.
17
18 THE CHAIRPERSON: Good afternoon. I
19 believe that we are ready to resume the proceedings.
20 Ms. Fernandes, please?
21 MS. ODETTE FERNANDES: Thank you, Mr.
22 Chairman. I guess to start this afternoon, it's --
23 it's a bit unusual for Manitoba Hydro to be responding
24 to presentations that have been made before the Board,
25 but in light of the interest this panel has shown, and

1 your direction yesterday, Mr. Chairman, that you
2 expected a response by Manitoba Hydro, we are going to
3 be providing a little bit of a presentation for you.
4 I'd like to note that the Bipole III
5 coalition did make some of the same arguments at the
6 CEC when Bipole III was being reviewed by the CEC, and
7 so just being very careful with that, I think this
8 information that we're providing is consistent with the
9 information that we provided to the CEC as well. So
10 I'd just like to make that known to this Board.
11 And administratively, I guess this would
12 be Manitoba Hydro Exhibit number 57?
13 MR. KURT SIMONSEN: That's correct.
14
15 --- EXHIBIT NO. MH-57: Information provided to CEC
16 by Manitoba Hydro
17
18 MS. ODETTE FERNANDES: And with me
19 today to present is Dr. Swatek, and beside him is Mr.
20 Cormie, and then in our back row, assisting is Mr. Pei
21 Wang and Mr. Alastair Fogg. And with that, I'll turn
22 it over to Dr. Swatek.
23
24 MANITOBA HYDRO PANEL 5 - RESPONSE TO BIPOLE III
25 COALITION PRESENTATION:

1 DAVID CORMIE, Previously Sworn
2 DAVID SWATEK, Previously Sworn
3
4 PRESENTATION:
5 DR. DAVID SWATEK: All right. Thank
6 you very much, Ms. -- Ms. Fernandes, and -- and thank
7 you, Mr. Chairman, and members of the Board for -- for
8 giving us the chance to collect our ideas in the form
9 of a presentation here.
10 So I would like to talk about why we do
11 need Bipole III. I'll talk a little bit about the
12 existing -- the existing system, the -- the challenges,
13 the risks, and the analysis. So I'll just get right
14 into it, the technology here.
15 The -- this -- this first slide shows
16 the existing Bipole I and II system. As -- as has been
17 mentioned many times dur -- during these -- these
18 hearings, 70 percent of Manitoba Hydro's total
19 generating capacity is carried over these two (2)
20 skinny lines that run -- that run side by side for 900
21 kilometres. And all of this capacity terminates in the
22 same station shown below, the Dorsey converter station.
23 Just to put that into a -- a global per
24 -- perspective here, this chart shows the maximum
25 percentage of power through a single -- through a

1 single facility. And we are looking globally: Hydro-
2 Quebec, at less than 10 percent through a single
3 facility; Brazil, less than twenty (20); China, just
4 over 10 percent.
5 And Manitoba Hydro really does stand out
6 globally with the -- with respect to the number of eggs
7 we are prepared to carry in one (1) basket.
8 Of the -- the three (3) lines for
9 Manitoba Hydro, the blue line on the left shows our
10 current state. The green line shows the -- the modest
11 reduction that we will achieve with the Bipole -- the
12 Bipole III line. And we've added a bar on the right
13 showing yesterday's proposal of the Coalition to add
14 even more power to those existing two (2) -- two (2)
15 lines.
16 So why are we looking at Bipole III? It
17 really is required for reliability. We are -- we're
18 concerned about Bipole I and II transmission tower
19 failures and -- and the fact that these two (2) lines
20 terminate in one (1) station.
21 When we -- when -- well, I could -- I
22 can say 'when' rather than 'if', because we have had
23 catastrophic outages. We are -- we are faced with long
24 restoration times to get that cap -- capacity back.
25 Now, we have experienced loss, so these

1 risks are not academic. These are -- we -- we -- these
2 -- these are real -- real risks. So, yes, we need to
3 ensure a reliable supply of power for Manitoba.
4 Now, some of the events we've had.
5 There was the wind storm of September 19 -- 1996 where,
6 at two o'clock in the morning on a very warm -- warm
7 Sep -- September morning, we lost nineteen (19) of
8 these HVDC towers. They were blown down. Now, this --
9 the map on the left, the -- the black squares show the
10 locations of the towers that -- that were lost.
11 Most importantly, it shows the proximity
12 of thos -- of those outages to the Dorsey Converter
13 Station, only 3 kilometres away. It also shows the
14 separation fro -- between those lost towers and our 500
15 kV line that kept us alive during -- during this
16 outage. The storm that took out the two (2) HVDC
17 Bipole lines missed our 500 kV import line by only 1.2
18 kilometres.
19 Also shown on this -- this map is
20 Provincial Highway number 6, which goes right though
21 the storm zone. So we were able to get -- what -- we
22 had -- we had very convenient access to get heavy
23 equipment in to restore these -- these lines.
24 We're als -- I also mentioned our
25 concern about the lines terminating in one (1) station.

1 There are significant tornado events in Manitoba. This
2 -- the photograph on the left here is the first -- the
3 -- the first F5 class tor -- tornado observed in
4 Manitoba. This is near Elie. Again --
5 THE CHAIRPERSON: Dr. Swatek, how long
6 were we down?
7 DR. DAVID SWATEK: Were we down? In --
8 in 1996 it took us approximately one (1) week --
9 THE CHAIRPERSON: Okay.
10 DR. DAVID SWATEK: -- to -- to get one
11 (1) of the two (2) lines restored on a temporary wood
12 pole structure. It took us another week to get the
13 other line up on steel. And then that's when we had
14 the event I mentioned the other day. There was that
15 hiccup that induced power and brought the whole thing
16 down.
17 I -- I -- again, the contractor had
18 walked off the job and would not return until Manitoba
19 Hydro could ensure that we could carry out the job
20 safely. So we -- we had restored power in
21 approximately one (1) week. It was -- it was, however
22 -- it was, however, several months before we had
23 everything restored to a -- to a -- restored to a
24 secure state, yes.
25 THE CHAIRPERSON: Thank you.

1 DR. DAVID SWATEK: If -- if a -- now,
2 if an F5 tor -- tornado -- just going back to this
3 slide, if an F5 tornado were to hit something like the
4 Dorsey Converter Station, which is such an incredible
5 hub of power in Manitoba, we would -- we would estimate
6 outages ranging from -- from -- ranging from several
7 months to up to three (3) years, depending on the
8 extent of the damage.
9 This next slide is -- these -- these are
10 photographs from what we've -- from what we've come to
11 call the -- from what we've come to call the ice wars.
12 In 2011 when -- when we had all that terrible -- when
13 we -- when we had all that terrible flooding in
14 Manitoba, that water had to go somewhere. And that
15 water went -- went north, and we ended up with some
16 very significant overland flooding in the -- the Lower
17 Nelson area there.
18 And so what happened was, you have the
19 overland flooding. That water begins to -- that water
20 begins to freeze, and we had several towers that were
21 actually -- that had actually -- actually been -- the
22 towers had been -- the towers had been lifted off of
23 their pins, and these towers were held up by the ice.
24 And that's the photograph you see on the right.
25 This is where we -- we had to go in and

1 build new structures to hold up these towers that at --
2 at that moment, were just being held up by the ice.
3 Just to speak a little bit more to the extent of it, we
4 were -- we were doing work at fifty (50) sites over a
5 range of a 112 kilometres. And we are very, very lucky
6 that these towers did -- did not go down.
7 In fact, I was just told over lunch that
8 at the very moment that our crews were scrambling to
9 take action, Mr. Cormie was here before the PUB to, I -
10 - I believe -- was it to talk about the -- talk about
11 the need for Bipole III? Coincidence, but well -- well
12 timed.
13 Now, this happened in 2011. We are
14 still -- to -- to this day, we are still working to
15 complete the permanent repairs to these towers. So I
16 want to stress that -- that the risk is not -- the risk
17 is not academic. We are -- it -- it's an ongoing
18 struggle to keep these towers -- to keep these towers
19 off the -- the grou -- well, to keep the conductors off
20 the ground.
21 A question that came up during some of
22 the previous presentations dealt with the governing
23 criteria that Manitoba Hydro needs to comply with. We
24 have our generation planning criteria, which involves
25 main -- maintaining reserves and respecting our low --

1 our -- our low water years. I'm -- I'm not going to
2 speak to those.
3 But the transmission -- the NERC
4 transmission reliability -- reliability standards that
5 we -- that -- that we comply with, and, in fact, just -
6 - just the other week, Manitoba Hydro completed our on
7 -- our on-site audit from -- by the -- the Midwest
8 Reliability Organization, and once again, we have -- we
9 -- we have demonstrated our compliance with NERC TPL-
10 001, 2, and 3.
11 TPL-001 deals with the -- deals with the
12 system in -- the system intact. No outages. Can you
13 meet all performance criteria? TPL-002, I mentioned
14 that during my previous presentation. That deals with
15 the -- the -- that deals with what we call the -- the
16 end minus one (1) that we -- we -- that we have to keep
17 -- we -- we have to be able to serve Mani -- Manitoba
18 load, even if we lose one (1) signifi -- our most sig -
19 - sig -- our most significant single transmission
20 asset.
21 I see Mr. Cormie making notes. And I
22 think -- I think that's encouraging me to say it's not
23 just Manitoba load that -- that we are continuing to --
24 to serve. We do have to meet our export contract
25 obligations. But for our most severe contingencies, we

1 would likely end up doing that by calling upon our --
2 by calling upon the reserves in the -- the MISO pool,
3 and that -- and that's a very -- it's -- which is very
4 advantageous for Manitoba Hydro to be able to make
5 those reserve calls.
6 TPL-003 deals with having to survive
7 credible 'N' minus twos (2s), so credible double con --
8 contingencies where it's very likely, if you lose this
9 -- this one (1) asset, you're going to lose the next
10 one.
11 We -- we also have HVDC adequacy
12 criteria. Since about 1986, we've had what we call a
13 spare pole overload cri -- criteria for -- an -- an
14 example, Bipole II is a 2,000 megawatt Bipole, so one
15 half (1/2) of it is one (1) pole. That's 1,000
16 megawatts.
17 That spare pole overload, which was
18 Manitoba Hydro's own criteria, that's now covered off
19 by the NERC TPL-002, because we consider the -- the
20 loss -- we -- we consider the loss of a -- a single
21 pole to be an 'N' minus one (1).
22 With -- just -- just following up on
23 HVDC, HVDC adequacy cri -- criteria, this spare pole
24 overload, that's being replaced with an online spare
25 valve group. So on Bipole II, we have two (2) valve

1 groups per pole. That's five (5) -- 500 megawatts per
2 -- per valve group, making up a 1,000 megawatt pole.
3 Valve group outages are a fairly common occurrence, so
4 it's considered very prudent to have a spare valve
5 group capacity.
6 Next, I -- I want to talk about the
7 composite reliability criteria that takes into account
8 generation and trans -- transmission. And this is the
9 -- this is the loss of load -- the loss of load
10 expectation that we've -- that we've talked about
11 before. And it -- there's a point one (.1) day per
12 year guideline in the -- in -- in the NERC utilities.
13 Now, performing these loss-of-load
14 expectation studies has been a -- a NERC guideline
15 since 1996 with changes in Manitoba -- we -- we --
16 changes in Manitoba -- Manitoba legislature in 2012.
17 This -- we now have an explicit reporting requirement
18 to report the results of our LOL -- our -- our LOLE
19 studies to -- to NERC.
20 Now, note that the requirement is to --
21 the requirement is to report. At this point, NERC has
22 not nailed down hard -- hard cri -- hard criteria and
23 hard meth -- methodology. They -- they are -- they are
24 in that process now.
25 The engineer who conducts these loss-of-

1 load expectation studies for Manitoba Hydro is on the
2 NERC probabilistic assessment working group that is
3 currently working to define exactly what the
4 methodology and criteria is so that eventually all NERC
5 ent -- NERC entities are -- are carrying out this
6 analysis the same way. Now, we expect -- we expect
7 some harder criteria by 2016.
8 Now, the last one on the list, this is
9 the NERC TPL-004 criteria, which -- which mandates that
10 NERC utilities -- that NERC utilities study the
11 consequences of low-probability but extreme events.
12 The criteria mandates that -- that we study them. It
13 does not mandate that we -- that -- it does -- does not
14 mandate that we fix, but it mandates that we report.
15 And a very important point I have to
16 stress here because of a -- a statement made -- made
17 yesterday is that the loss-of-load expectation does not
18 replace the TPL-004 criteria. There is still the --
19 the requirement to study the consequences of low
20 probability extreme events.
21 So con -- continuing with this TPL-004
22 deterministic analysis, this graph here shows what we
23 call the supply deficit curve. This is the -- this is
24 -- this shows either the -- the surplus or deficit
25 power for loss of Dorsey or the Interlake corridor.

1 And so be -- we -- we see that we -- we
2 had a low point. We -- we had a -- if we were to lose
3 either the Dorsey converter station or the Interlake
4 corridor, we would have been 1,500 megawatts short in -
5 - well, just -- just last year, in 2014.
6 In October of 2014, we com -- completed
7 the Riel reliability project, where we terminated the
8 existing 500kV line at the Riel con -- at -- at the
9 Riel station. And this gave us an extra 300 megawatts
10 of reliable import capability.
11 If -- if we follow out the -- the curve,
12 we -- we would have approximately a 700-megawatt
13 deficit for the loss of the Bipoles I and -- and III
14 line -- sorry, I and II lines in the winter of 2020, as
15 opposed to a 1,300 megawatt surplus with Bipole III in
16 service.
17 Now, that -- that blue line shows a -- a
18 little jut at the top there. That is the additional
19 700 megawatts of import capability that we would have
20 with the new MMTP 500 kV line.
21 You can see by looking at the red curve
22 below that the additional import capability achieved
23 with the MMTP still does not resolve that -- the power
24 deficit. That 700 megawatt deficit works out to
25 approximately a hundred and forty thousand homes

1 (140,000) using a -- using -- using the -- using the
2 industry standard -- standard estimate of 5 kilowatts
3 per household. And that is even with the new 500 kV
4 line.
5 And when -- when I'm talking about those
6 homes, I'm talking about rotating -- rotating blackouts
7 during -- during winter peak. Now, that -- that last
8 slide, that was the -- that -- that was what you would
9 call the deterministic analysis. We have done
10 probabilistic analysis as well. Looking at the weather
11 hazards, Manitoba Hydro has worked closely with experts
12 to evaluate weather hazards such as tornados, wide-
13 front winds, ice, et cetera, and -- well, risks that
14 would result in the loss of our 500 kV system.
15 Now, since 2001, three (3) studies have
16 been completed. And these -- and the -- and these have
17 -- these three (3) -- three (3) studies completed by
18 Teshmont Consultants in 2001, 2006, and 2012 use -- use
19 suc -- use successively more sophisticated analysis and
20 weather data. And the results of these three (3)
21 studies have been filed as evidence in the CEC hearings
22 justifying Bipole III.
23 Just to go to the most recent -- most
24 recent study, the 2012 Teshmont report, this identified
25 the return period for failure of a tower due to an

1 extreme event. The return period for tornados is one
2 (1) -- well, the return period is seventeen (17) years,
3 giving a frequency of one (1) in seventeen (17) years.
4 That is listed on Table 4-2 of the Teshmont 2012
5 report. Wide front winds, a return period of ninety
6 (90) years, and combined wind and ice, a return period
7 of twenty (20) years. Some testimony from the follow -
8 - from the other day suggested that the Teshmont 2012
9 report did not include a 1:17 year event. That is not
10 the case.
11 I -- I do not know why the Bipole III
12 Coalition did not report this number that is in the
13 Teshmont 2012 report. I -- I have an asterisk beside
14 the combined wind and ice return period of twenty (20)
15 years. For Manitoba Hydro's probabilistic analysis, we
16 increased that to one (1) in -- we increased it to
17 fifty (50) years. We -- we thought that was probably
18 more realistic, given the short span of time that you
19 have ice or that we would -- we would expect to -- to
20 find ice on transmission lines. So we weren't take --
21 we -- we weren't using numbers as extreme as were in
22 the 2012 Teshmont report.
23 Now, the analysis, the loss of load
24 expectation, we performed a probabilistic adequacy
25 analysis to evaluate the impact of Bipole III looking

1 at the -- looking at the existing -- existing system
2 with and without. That was done in 2012. And the
3 results of that study were that the existing -- the
4 existing system does not meet the industry loss of load
5 expectation guideline of zero point one (0.1) days per
6 year without Bipole III.
7 I -- I have that listed as an -- as an
8 emerging NERC requirement because the requirement right
9 now is just to report your studies. There's -- we
10 expect by 2016 there will be some harder criteria. The
11 Bipole III line does significantly improve the system
12 reliability, and does enable us to -- to meet the zero
13 point one (0.1) day per year guideline. This is in a
14 draft report that we -- that was -- that was put
15 together in 2012 in preparation for the CEC hearings,
16 but was -- but -- but was not disclosed during the
17 hearings.
18 More recently in preparation for the
19 2014 NFAT, we performed a loss of load evaluation with
20 the proposed 500 kV tie-line, and the Keevask
21 Generating Station, and -- and of course Bipole III,
22 which was common to all alternatives. And we were able
23 to demonstrate that Manitoba Hydro meets -- or Manitoba
24 Hydro can achieve a -- can achieve a secure supply from
25 the perspective of loss of load expectation.

1 Now, I -- I want to go back to a point I
2 made previously, that loss of load expectation, as
3 important as it's becoming in the industry, does not
4 replace NERC TPL-004, which -- which mandates you to
5 study these low-probability extreme events. And -- and
6 I can give an example of why that's the case.
7 Mr. Chairman, if we were to toss a coin,
8 and if it's heads I pay you one dollar ($1), if it's
9 tails you -- you pay me one dollar ($1). We toss that
10 coin over and over and over again. The expected value
11 of that game for the two (2) of us is -- it -- the
12 expected value is -- it -- the expected value is nil.
13 If we -- if we toss the same coin but
14 heads I pay you $1 million, tails you pay me one (1) --
15 $1 million. We toss that coin over and over and over
16 again. The expected value is still nil, but the
17 difference is I need to have $1 million in my pocket if
18 I want to play that game. That's ver -- very important
19 and -- and we why don't -- why we -- why TPL-004 is --
20 is definitely still in play.
21 So just in conclusion, we are -- we are
22 building Bipole III for reliability. These low-
23 probability extreme need -- need to be studied. And
24 although NERC does not mandate that you do everything
25 for every single event that -- that you may -- that you

1 may possibly cons -- that you may possibly con --
2 conceive of, the risks -- the risks posed to the Bipole
3 I and III common corridor are not academic hypothetical
4 risks. These -- these are real risks that we -- that
5 we have experienced, and to this day we were still
6 dealing with them.
7 And that's -- that's all I have for my
8 presentation. If there are any questions, I would be
9 happy to try to answer those.
10 MS. MARILYN KAPITANY: So, Dr. Swatek,
11 I don't know if this is for you or for Mr. Cormie. But
12 in the 1996 wind event when both Bipoles went down --
13 DR. DAVID SWATEK: M-hm.
14 MS. MARILYN KAPITANY: -- was there any
15 impact on our export contracts?
16 MR. DAVID CORMIE: Yes, Ms. Kapitany.
17 At the time, we were exporting probably 2,000
18 megawatts. And immediately, those experts were
19 reversed and we -- we be -- became an emergency
20 importer. And -- and that's essentially how we kept
21 the lights on in Manitoba.
22 Since 1996, there's been about 1,500
23 megawatts of load growth. So even in -- even if that
24 were to occur today, in September there would be an
25 outage in -- in Manitoba because the load is just too

1 great for our -- for our import capability now.
2 MR. RICHARD BEL: I remember there was
3 controversy in the route choice, but it's -- is there -
4 - the route that was taken for Bipole III was because
5 it wasn't to go in the same corridor, which would nul -
6 - nullify --
7 DR. DAVID SWATEK: Yes. The -- the key
8 criteria for locating Bipole III was that it could not
9 be located in the same physical corridor as the
10 existing Bipoles I and II lines. An event like 1996
11 that took out Bipoles I and II and took out the
12 electrode lines on either side of them would -- you
13 know, could very well take out any line that ran side
14 by side.
15 So, yes, the criteria was you have to
16 build it and you have to build it -- you have to build
17 it somewhere else.
18 MR. DAVID CORMIE: And I guess the
19 interesting point is to understand how we got into that
20 situation in the first place. And when these
21 facilities were designed it was expected that we would
22 be marching down the Nelson River and that Bipole III
23 would have followed quite quickly in -- in order.
24 But we built Limestone without building
25 Bipole III, thinking that we would -- we were able for

1 a few years to carry the power from Limestone on Bipole
2 I and II. And, ultimately, Conawapa would be built and
3 -- and Bipole III would come, but -- but the period of
4 time was only going to be a matter of a few years. And
5 it was judged that, you know, we can -- we can take the
6 risk for a few years.
7 But Conawapa was cancelled in 1990. And
8 now we're twenty-seven (27) year -- twenty-five (25)
9 years later it's still not built, and it's -- it's
10 going to be an -- at least another ten (10) or fifteen
11 (15) years if -- ever if it gets built.
12 And so, you know, following the -- the
13 windstorm of '96 it became very apparent that we needed
14 -- we couldn't wait for Conawapa, we needed to do that.
15 And there's just been delays, you know, over the
16 routing, the whole issue of where the corridor is going
17 to go.
18 And meanwhile, the load is growing year
19 by year, and more and more load is at risk by the day.
20 So that's -- that's just clear that we need this. We
21 needed it a long time ago, and we just can't afford to
22 delay any more.
23 The probability is of one (1) in
24 seventeen (17). That means that in a hundred (100)
25 year period, you'll probably have five (5) or six (6)

1 tornado outages, one (1) in ninety (90). Maybe one (1)
2 of those outages will be as a result of a -- of a wind
3 storm.
4 The -- the ice event that occurred a few
5 winters ago as we were sitting here debating the rates
6 in 2011, that was completely unexpected. No one ever
7 anticipated that those -- those towers on that 100
8 kilometres of line were anywhere near that state of --
9 of peril.
10 And it's just that we just don't know
11 necessarily all the risks and what can happen. And we
12 just have too much at stake as a province to continue
13 to rely completely on Dorsey, completely on a single
14 corridor. And, you know -- and -- and I think the
15 province has decided we need to deal with that.
16 MS. MARILYN KAPITANY: You may have
17 said this already, and I apologize if you did, but was
18 there consideration given to -- rather than going with
19 an ATV -- HVDC line, to going with a -- another five
20 hundred (500) line that would have been less costly
21 than a Bipole?
22
23 (BRIEF PAUSE)
24
25 DR. DAVID SWATEK: I've just been

1 informed by my colleague that for the -- for the CEC
2 hearings, we had presented an -- we had presented an AC
3 line alternative. The -- the HVDC alternative was the
4 most economic.
5 THE CHAIRPERSON: There have been some
6 criticisms that the newest Bipole is still too close to
7 the -- running too close to Bipole I and II and also
8 Dorsey. Can you address that?
9 DR. DAVID SWATEK: The -- the wind
10 studies looked at -- I -- I believe they included how
11 far you would need to be located away. I'll get more
12 information from my subject matter expert here.
13
14 (BRIEF PAUSE)
15
16 DR. DAVID SWATEK: I can just refer
17 back to information presented to the CEC. This was CEC
18 Manitoba Hydro Round 2-023. Okay. This refers to the
19 2012 Teshmont study when -- when it -- when it carried
20 on with the analysis and determined the estimated
21 probabilities of occurrence of weather events and the
22 probabilities of failure for single and multiple lines,
23 considering the final preferred Bipole III west route.
24 The 2012 report concludes that routing
25 Bipole III west route would significantly reduce the

1 weather-related risks of Manitoba Hydro -- of the
2 Manitoba Hydro HVDC system.
3 In terms of tornado or downburst
4 performance, the Bipole -- the Bipole III final
5 preferred route was found to reduce the risk of losing
6 all three (3) Bipoles by more than two hundred (200)
7 times. So that reduces it to a one (1) in thirty-seven
8 hundred (3,700) year event.
9 Synoptic or wide -- wide front winds
10 including wind and ice combinations remain the greatest
11 threat to all three (3) DC transmission lines. The
12 probability of failure due to severe weather events,
13 wind-ice combined is reduced by an order of magnitude
14 with the three (3) DC lines. Higher mechanical tower
15 loading cri -- criteria, one (1) in five hundred (500)
16 year return, will be applied to select portions of the
17 Bipole III line to further enhance its reliability
18 against the wind and ice events in sections where the
19 separation, the -- the distance between Bipole III and
20 Bipoles I and II is compromised by other selection
21 criteria.
22 So they are looking at hardening the tow
23 -- hardening the Bipole III tower in locations where it
24 might be uncomfortably close.
25

(BRIEF PAUSE)

DR. HUGH GRANT: The 1996 wind event, what would have been the direct, very direct, economic cost of -- of losing -- losing the line for a week?

Would it show a -- if I thumb through the 1996 forecast, and actual -- would you notice it?

MR. DAVID CORMIE: Yes, I -- the -- the number was about eighteen (18) -- $18 million in damage, which includes the lost value of the exports during the period of outage and the increased costs of thermal generation and power purchases.

DR. HUGH GRANT: And a total -- what would total revenue have been in that time period? Is it -- is -- is one fifty-second (1/52) of total revenue a -- a reasonable estimate of a one (1) week outage?

MR. DAVID CORMIE: I -- you know, I don't -- I don't know that number, Dr. Grant.

(BRIEF PAUSE)

THE CHAIRPERSON: In the slide -- slide number -- number 9, there's a reference to a rotating blackout for a hundred a forty thousand (140,000) homes. Is -- is that what would happen in a -- in a

1 blackout if it was to occur?
2 I mean, would -- would it be homes, or
3 would it be -- I mean, does Manitoba Hydro has planned
4 what it would do in -- in a scenario like this?
5 DR. DAVID SWATEK: The -- the shortfall
6 of -- of power, even at the best case on that red line
7 is -- is 700 megawatts. The fourteen thousand (14,000)
8 homes, that -- that comes just by dividing by the 5
9 kilowatts per household, which is an industry number.
10 Exactly how it would be portioned out
11 would depend on criticalities at that time. So I -- I
12 am not able to say exactly how it would be portioned
13 out, but there's no question that there would be
14 rotating blackouts, because we simply do not have the
15 capacity, the capability to serve -- to -- to serve our
16 load.
17 THE CHAIRPERSON: Thank you. That's
18 all the questions that the panel has. I appreciate you
19 coming in to speak to us about this topic. It has been
20 a very informative presentation, and has been very
21 useful. Thank you very much.
22 DR. DAVID SWATEK: Thanks.
23 MS. ODETTE FERNANDES: Thank you, Mr.
24 Chairman. If we could just have a couple of minutes to
25 get our finance panel back up? Thank you.

(BRIEF PAUSE)

THE CHAIRPERSON: I'm sorry, Mr. Williams, I should have given you...

(BRIEF PAUSE)

MR. BYRON WILLIAMS: Just before Dr. Swatek leaves, I -- I might have one (1) or two (2) questions for him rather than -- I don't know if he's coming back for others or... I leave it to Ms. Fernandes, but I'm just -- he's here.

MS. ODETTE FERNANDES: Again, it's a -- it's a bit unusual, because we've been asked to --

DR. DAVID SWATEK: I don't have anything else here --

MS. ODETTE FERNANDES: Yeah.

DR. DAVID SWATEK: -- with -- with me, but --

MS. ODETTE FERNANDES: Because we've been asked specifically to respond to a presentation, so...

(BRIEF PAUSE)

1 MS. ODETTE FERNANDES: Yeah, I think
2 from our perspective, we just want to be very careful,
3 because this is something that has been reviewed by
4 another regulatory administrative body and, you know,
5 we don't want to get into a situation where we have,
6 you know, a recommendation that's been made, and now
7 all of a sudden, we're re-reviewing this information
8 again.
9 MR. BYRON WILLIAMS: And -- and that's
10 my -- that's my exact point, Mr. Chair. And if -- if
11 Manitoba Hydro -- you know, there's almost been a
12 discussion like there was a needs for and alternative
13 analysis as part of the Clean Environment Commission
14 process, and that was clearly not the case. The
15 Minister expressly said so in correspondence. And
16 parties were denied the opportunity to -- to bring
17 evidence on that.
18 So we wouldn't want this panel to be
19 left with the impression that there was a rigorous
20 assessment of the need for and alternative to Bipole
21 III. And so, however -- you know, if Manitoba Hydro's
22 prepared to concede that, which I think they would
23 quite properly do so, that would be fine from our
24 client's perspective.
25 But I would hate for this Board to be

1 left with the mistaken impression that we had an NFAT
2 for Bipole III akin to the NFAT that we had for the --
3 for Keeyask and Conawapa. It was -- the -- the mandate
4 of the Clean Environment Commission was much -- much
5 more restricted.
6
7 (BRIEF PAUSE)
8
9 MR. BYRON WILLIAMS: And so that being
10 said, Mr. Chairman, as -- as long as Hydro is on all
11 fours with that, I -- we certainly -- we understand
12 that you were merely being responsive to a
13 presentation, and -- and if Hydro's con -- prepared to
14 confirm that, we certainly don't wish -- don't see any
15 need to pursue questions of Dr. Swatek.
16 MS. ODETTE FERNANDES: The review
17 conducted by the CEC was pursuant to terms of reference
18 issued by the government. I personally have not
19 reviewed them, so I -- you know, I can't say what was
20 included and what was not included in them. But I
21 believe for purposes of this presentation, we are
22 responding as requested to a presentation made by the
23 Bipole III Coalition.
24 And I believe -- I -- my understanding
25 is that the information that we've presented here is

similar to the information that was presented to the CEC.

THE CHAIRPERSON: I want to make sure I understand your request, Mr. Williams. Are you asking to question -- ask questions of this -- this particular panel?

MR. BYRON WILLIAMS: Well, I -- I guess, Mr. Chairman, I'm just flagging the concern. And I know Hydro is responding to the Bipole III Coalition. I'm quite concerned that the -- the panel may be left with the impression that something took place during the Clean Environment Commission process that -- that didn't happen.

And so I -- I guess I've had my opportunity to -- to make my comments. We'll -- we'll -- we may say something about this in terms -- in closing, but I -- I just want to get that point across. So as long as I've made that point, then I see no need to cross-examine this witness.

THE CHAIRPERSON: I was under the impression you would -- you would -- you were seeking to ask questions of these individuals, and -- and frankly, I think the panel would be open to -- to hear what you have to ask.

MR. BYRON WILLIAMS: Well, sir, really,

1 my questions would be focussed on the scope of the
2 hearing, which I'm not sure Dr. Swatek can -- can speak
3 to.
4 THE CHAIRPERSON: Okay. I think that -
5 - I think we're -- we can have the panel stand down,
6 and then move on to the next series of questions.
7 MS. ODETTE FERNANDES: Thank you.
8
9 (PANEL STANDS DOWN)
10
11 MANITOBA HYDRO PANEL 4 - FINANCE RESUMED:
12 DARREN RAINKIE, Previously Sworn
13 SANDY BAUERLEIN, Previously Sworn
14 LIZ CARRIERE, Previously Sworn
15 MANNY SCHULZ, Previously Sworn
16 IAN PAGE, Previously Affirmed
17
18 THE CHAIRPERSON: Mr. Peters, I believe
19 that we can continue with your line of questioning.
20
21 CONTINUED CROSS-EXAMINATION BY MR. BOB PETERS:
22 MR. BOB PETERS: Yes. Thank you very
23 much, Mr. Chairman, panel members. Let's get back and
24 talk finance. Ms. Bauerlein, I think this is addressed
25 to you, and if not, please refer it to who it should

1 be. But Manitoba Hydro is implementing IFRS in
2 2015/'16.
3 That is the current year we're in?
4 MS. SANDY BAUERLEIN: That is correct,
5 with comparative reporting for the 2014/'15 fiscal
6 year.
7 MR. BOB PETERS: All right, that
8 comparative reporting is an accounting requirement
9 where, if you change your methodology you have to
10 pretend you did it a year earlier just to see what the
11 comparative would look like?
12 MS. SANDY BAUERLEIN: That would be a
13 fair assessment, yes.
14 MR. BOB PETERS: I don't think you like
15 the word 'pretend' in there, but -- but the reality is
16 you didn't -- you didn't adopt IFRS in the 2014/'15
17 fiscal year did you -- or did Manitoba Hydro?
18 MS. SANDY BAUERLEIN: Correct. We
19 adopted April 1st, 2015, with comparative reporting,
20 correct.
21 MR. BOB PETERS: All right. And on
22 page 167 of Board counsel's Volume III book of
23 documents, page 167 contains, I believe, a high level
24 snapshot of the conversion to IFRS and the restatement,
25 if you will, of certain -- certain activities in the

1 prior year.
2 Do I have that right?
3 MS. SANDY BAUERLEIN: That is correct.
4 It's showing the adjustment to retained earnings
5 effective for April 1st, 2015, which would really
6 you've -- comparative year, and the adjustment to
7 accumulated other comprehensive income as well as the
8 net income impacts for the 2015/'16 fiscal year.
9 MR. BOB PETERS: And because you put in
10 comparative statements, that's why the impact is on the
11 retained earnings, not the net income.
12 Would I have that right?
13 MS. SANDY BAUERLEIN: That would be
14 correct.
15 MR. BOB PETERS: And so for the year --
16 and when the Board looks at the 2015/'16 column on page
17 167 they can conclude that the conversion to IFRS has
18 impacted net income by a negative $20 million?
19
20 (BRIEF PAUSE)
21
22 MS. SANDY BAUERLEIN: Yes, and I do
23 know that this is for both gas and electric. This is a
24 consolidated view, not simply just an electric view.
25 MR. BOB PETERS: And in terms of the

electric view only, are you able to tell the Board what the net income effect is in 2015/'16?

MS. SANDY BAUERLEIN: Yes, just give me a moment and I'll give you the reference.

(BRIEF PAUSE)

MS. SANDY BAUERLEIN: We would want Appendix 5.7 from our application, page -- I believe this is page 5.

MR. BOB PETERS: Thank you. The largest negative impact of converting to IFRS is from increasing the overhead -- the administrative overhead costs?

(BRIEF PAUSE)

MS. SANDY BAUERLEIN: Yes, that would have an increase to operating and maintenance expenditures of approximately $50 million.

(BRIEF PAUSE)

MR. BOB PETERS: You were looking in the 2016 column at the total increase to retained

1 earnings -- decreased retained earnings line that shows
2 the $50 million negative, were you, Ms. Bauerlein?
3 MS. SANDY BAUERLEIN: Correct. So this
4 is the adjustment. Again, this was the comparable to
5 what you were looking at on the IFRS Status Update
6 Report, but it would be for electric only. So again,
7 this is the comparative year, the adjustment to
8 retained earnings as a result of the cost no longer
9 eligible for capitalization under IFRS.
10 MR. BOB PETERS: Is it not only items
11 that are not eligible for capitalization, but also ones
12 that the Corporation wanted to remove from
13 capitalization so as not to be as aggressive as they
14 were previously?
15 MS. SANDY BAUERLEIN: These changes in
16 this are the prospective changes. So they are the
17 changes as a result of compliance with IFRS.
18
19 (BRIEF PAUSE)
20
21 MR. BOB PETERS: On page 168 of Board
22 counsel's book of documents there's a highlighted
23 portion from your Appendix 5.4.
24 And is it correct to understand it that
25 as a change in this application is how Manitoba Hydro

1 wants to treat rate-regulated accounts?
2 MS. SANDY BAUERLEIN: There is a new
3 interim standard under IFRS and I want to emphasize
4 that it's an interim accounting standard that does
5 permit regulatory deferral accounts. So in the
6 previous GRA, for example, our demand-side management
7 costs are treated as a -- a regulatory deferral
8 account. And with the interim standard we can continue
9 to capitalize those costs as a regulatory deferral.
10 MR. BOB PETERS: Ms. Bauerlein, would
11 the Board understand it that these regulatory deferral
12 accounts allow for Hydro to continue to recognize
13 assets and liabilities resulting from the decisions of
14 this Board?
15 MS. SANDY BAUERLEIN: Yes, that is
16 correct. But I did want to emphasize again that this
17 is an interim standard and we don't know the final
18 direction that the International Accounting Standards
19 Board will take on this matter. And as well, to Mr.
20 Rainkie's comments yesterday, again, any changes --
21 selective changes to our accounting policies, for
22 example, the overhead or depreciation changes simply to
23 result in a -- a lower rate increase, again, will
24 result as lower rate increases, lower cash. As a
25 result, higher financing costs, higher debt levels.

1 So the selective change of accounting
2 policies, again, we do not feel is in the best
3 interests of the ratepayers of Manitoba.
4 MR. BOB PETERS: Thank you, Ms.
5 Bauerlein. But this interim standard continues to
6 allow the Board to establish regulatory assets and
7 liabilities for rate-setting purposes?
8 MS. SANDY BAUERLEIN: Yes, it does.
9 MR. BOB PETERS: When you say,
10 "interim" --
11 MS. SANDY BAUERLEIN: -- again --
12 MR. BOB PETERS: I'm sorry. I didn't
13 mean to cut you off.
14 MS. SANDY BAUERLEIN: I just wanted to
15 emphasize again, it's an interim standard. So we do
16 not know the final direction the International
17 Accounting Standards Board will take with respect to
18 allowing regulatory deferral accounts.
19 MR. BOB PETERS: How long has it been
20 interim, Ms. Bauerlein?
21 MS. SANDY BAUERLEIN: Since January of
22 2014, and there is a project that is underway with the
23 International Accounting Standards Board. But we are
24 still not expecting to have resolution on this issue
25 for another few years, a couple -- two (2) to three (3)

1 years.
2 MR. BOB PETERS: Thank you.
3
4 (BRIEF PAUSE)
5
6 MR. BOB PETERS: Just to pick up on the
7 point you were making to the panel, Ms. Bauerlein --
8 and we understand the position that the Corporation
9 wants. And I think Mr. Rainkie used the word 'cherry
10 picking' on the record, so I -- I fully remember the
11 discussion.
12 But if the Board's rate-setting
13 decisions are going to be reflected under IFRS
14 accounting, that can be done in Manitoba Hydro's IFRS-
15 compliant financial statements, as I understand this
16 interim standard.
17 MS. SANDY BAUERLEIN: Yes, it can, but
18 again, it is an interim standard.
19 MR. BOB PETERS: Thank you. And if we
20 turn to page 169, in the property, plant, and equipment
21 box in the middle of the page and the second last
22 bullet, there's an indication that Manitoba Hydro will
23 remove the provision for asset removal costs, also
24 called negative salvage, from the depreciation rates,
25 as this is not an IFRS-eligible cost for self-

1 constructed assets, correct?
2 MS. SANDY BAUERLEIN: That is correct.
3 However, as Mr. Rainkie indicated, we had made that
4 decision in order to -- primarily in order to ensure
5 that we were offsetting the impacts of some of the
6 other accounting changes so as to minimize the impact
7 to ratepayers.
8 MR. BOB PETERS: So maybe we'll turn
9 back to page 167 to have the panel understand your
10 answer, Ms. Bauerlein.
11 What you're telling the Board is that
12 Manitoba Hydro did not have to remove asset retirement
13 costs from depreciation expense until it adopts IFRS,
14 correct?
15
16 (BRIEF PAUSE)
17
18 MS. SANDY BAUERLEIN: Correct. We
19 chose not to remove asset removal costs from
20 depreciation rates prior to IFRS. We do believe it is
21 a sound regulatory construct, and we will be discussing
22 this more in the depreciation panel.
23 MR. BOB PETERS: And let's help the
24 panel understand now that the removal of asset
25 retirement costs from depreciation has decreased

1 depreciation expense by $64 million in the 2015/'16
2 test year?
3 MS. SANDY BAUERLEIN: On a consolidated
4 basis, that would be correct.
5 MR. BOB PETERS: All right. Thank you
6 for that clarification. And is 2015/'16 the first year
7 in which Manitoba Hydro has removed asset retirement
8 costs from depreciation expense?
9 MS. SANDY BAUERLEIN: Yes, it is the
10 first year.
11 MR. BOB PETERS: All right. The
12 problem I'm having, Ms. Bauerlein, is Manitoba Hydro
13 has made a decision to become IFRS compliant, correct?
14 MS. SANDY BAUERLEIN: Correct, while
15 balancing the needs of -- and -- and it's that
16 balancing act, again, that we're trying to be IFRS
17 compliant and balance the requirements of the
18 ratepayers to try and minimize the impact on rates.
19 MR. BOB PETERS: The decision, Ms.
20 Bauerlein, that Manitoba Hydro has made is Manitoba
21 Hydro either wants to or has to move to IFRS?
22 MS. SANDY BAUERLEIN: Manitoba Hydro
23 has to move to IFRS.
24 MR. BOB PETERS: And if you have to
25 move to IFRS, IFRS says that the $64 million on a

1 consolidated basis of asset retirement costs should be
2 removed from depreciation?
3 MR. DARREN RAINKIE: Mr. Peters --
4 MR. BOB PETERS: Have I got that
5 correct?
6 MR. DARREN RAINKIE: -- that's true for
7 financial reporting purposes. The question is: What
8 would one do for rate-setting purposes?
9 MR. BOB PETERS: All right. Thank you,
10 Mr. Rainkie. I -- I'm coming back to a word that you
11 used, and Ms. Bauerlein also used, and that was
12 Manitoba Hydro made a policy decision to remove asset
13 retirement costs from depreciation expense. And I'm
14 having trouble understanding where the policy decision
15 is as opposed to it's a requirement under IFRS that it
16 be removed, and Manitoba Hydro therefore had to do it.
17 Have I got that right, Mr. Rainkie?
18 MR. DARREN RAINKIE: Sorry, sir, I
19 think you said your -- you don't have it right, so you
20 want me to clarify that, is the question. Is that
21 correct, sir?
22 MR. BOB PETERS: Let's start there.
23 MR. DARREN RAINKIE: Okay. We have to
24 go back to 2010, when we did our first IFRS-compliant
25 depreciation study. IFRS was a few years away at that

1 point. We weren't -- we weren't quite sure what was
2 going to happen with respect to asset retirement costs
3 upon the movement to IFRS. But as we started looking
4 on -- or not started, as we were looking at what our
5 options were with respect to depreciation methodologies
6 -- and -- and I was there at the time. Sorry, Ms.
7 Bauerlein wasn't part of this meeting, but I was part
8 of the string of meetings that resulted in this policy
9 decision, so I -- I might be the last person on -- I'm
10 the last person on this panel to be here to talk to it,
11 that's for sure, sir.
12 At that point, we made a decision to
13 move to equal life group -- equal life group
14 methodology, and I we -- I think we explain --
15 explained in the materials why believe that's a -- a
16 better methodology to achieve IFRS compliance, but we
17 recognized at that point that there was an impact.
18 There always has -- ELG, we -- we've known about ELG
19 for years. We think it's a superior methodology. But
20 there's always been the -- a -- a fairly large impact
21 in terms of moving to it in its initial transition.
22 So once we went around and round and
23 decided that we were going to do Equal Life Group, we
24 then started looking at negative salvage value, or
25 asset retirement costs, net salvage. It's got three (3)

1 different terms, depending on -- you'll see all the --
2 three (3) of them in the material, unfortunately, but
3 they're all referring to the same thing.
4 So at that point, we said, Well, okay,
5 even though net salvage is a valid regulatory construct
6 for rate setting, and it had been in our -- both our
7 financial reporting and our rate-setting applications
8 for thirty (30) years, and accepted by the Board for
9 decades, we said we were going to remove that to manage
10 the impact at that point.
11 And quite frankly, at that point, I --
12 and I remember this to this day thinking, Okay, this is
13 good. I -- our stakeholders, including the Public
14 Utilities Board and Intervenors, will be happy about
15 this. This is going to reduce depreciation
16 significantly.
17 Never in my wildest dreams did I ever
18 think that this was going to have attached the
19 discussion that we've had over the last couple years,
20 and I -- I wish I could have done something more to
21 have decompressed this discussion before it got to this
22 state.
23 But that was the intention of the
24 Company to make those two (2) switches, which would --
25 you know, in -- in -- given the size of our company,

1 the differential would be manageable for customers. So
2 we felt that we had both the solution for moving to
3 IFRS in terms of ELG. We felt we had a solution in
4 terms of minimizing the impact on ratepayers.
5 So we felt we had covered all bases in
6 terms of, you know, both financial reporting and rate
7 setting, and being fair to customers, and -- and never
8 in my wildest dream did I ever expect that it would
9 have come to this, where it seems that everybody is at
10 loggerheads.
11 But so -- so that was -- when I -- when
12 I say we made the policy decision, negative salvage
13 value, removing it was never on the table until we
14 decided to move to ELG. It was only at that point that
15 we started looking for an offset, because we had been
16 in front of this Board for decades saying that asset
17 retirement costs or negative salvage was an appropriate
18 thing for both financial reporting and for rate
19 setting.
20 So it got thrown under the bus in the --
21 in the consideration here in an attempt to manage
22 things for -- both for our book purposes and for rate
23 setting purposes and that -- I think -- I think we
24 failed to get that across at the last hearing. Perhaps
25 if we had, things might have been different right now,

1 but... I wish I could go back in time, but I can't.
2 MR. BOB PETERS: Mr. Rainkie, Ms.
3 Bauerlein, Manitoba Hydro could ask the Public
4 Utilities Board to leave net salvage costs in the
5 depreciation expense, correct?
6 MR. DARREN RAINKIE: We could for rate
7 setting purposes, but we certainly are not trying to go
8 back on our word.
9 MR. BOB PETERS: But for financial
10 reporting purposes, Manitoba Hydro cannot do that
11 because it would be against IFRS rules?
12 MR. DARREN RAINKIE: Yes, sir. Yes,
13 sir.
14 MR. BOB PETERS: If Manitoba Hydro asks
15 the Board to leave net salvage costs in the
16 depreciation expense for rate setting purposes would
17 Manitoba Hydro have to set up a regulatory deferral
18 account?
19 MR. DARREN RAINKIE: Yes, that's my
20 understanding, sir.
21 MR. BOB PETERS: And, therefore, Mr.
22 Rainkie, in terms of the application that's now before
23 the Board for rate -- for rate setting purposes, the
24 policy decision is not to ask for a continuation of the
25 asset retirement costs as a regulatory deferral

1 account?

2 MR. DARREN RAINKIE: That's correct,

3 for the same reason as it was back in 2010. We want to

4 manage the overall impact of -- of the move to a new

5 accounting system, if you like, both for financial

6 reporting purposes and -- and rate setting purposes, as

7 Mr. Bauer -- Ms. -- sorry, I got to get this right, Ms.

8 Bauerlein said yesterday in her presentation. That is

9 our approach.

10 We don't look at these at two (2)

11 solitudes. Once again, we look at them and -- and we -

12 - we say, How can -- whatever we do for financial

13 reporting purposes should be good for regulatory

14 purposes, too, because this is not a war between the

15 two (2) solitudes, sir, it's -- it's simply trying to

16 manage the impacts.

17 What we tried to do in the application

18 and -- was to indicate that this is not impacting the

19 need for rate increases, it's the investment in assets

20 and that we had tried to manage this on behalf of

21 customers.

22 MR. BOB PETERS: On page 172 of the

23 book of documents is a response to one (1) of the

24 Information Requests, Ms. Bauerlein. And I was trying

25 to -- and when you brought me to the appendix to see if

1 there's any material difference to what I recall being
2 here, but I think it -- this essentially shows, does it
3 not, the same information that you were trying to show
4 on Appendix 5.7, page 5?
5 MS. SANDY BAUERLEIN: Yes, except this
6 response also includes the accounting changes that have
7 been previously approved by this Board.
8 MR. BOB PETERS: And those are noted at
9 the top called CGAAP changes, the CGAAP changes?
10 MS. SANDY BAUERLEIN: That is correct.
11 MR. BOB PETERS: And would the Board be
12 correct in understanding, Ms. Bauerlein, that those
13 changes were made so that Manitoba Hydro wouldn't be
14 quite as aggressive in its capitalization of overheads
15 as it -- as it had previously been?
16 MS. SANDY BAUERLEIN: Yes, we were
17 complying with some of the directions of previous board
18 and, as well, looking across the industry in terms of
19 the types of overhead costs that were being capitalized
20 by other utilities.
21 THE CHAIRPERSON: What page are you on,
22 Mr. Peters, in the book of documents?
23 MR. BOB PETERS: We were -- we are
24 looking at page 172. It's on the -- on the screen, Mr.
25 Chairman. And the vertical black line in the middle of

1 the chart just shows the Board where, going forward,
2 there are additional forecast accounting policy changes
3 that are going to increase or decrease the revenue
4 requirement as the individual case may be?
5
6 (BRIEF PAUSE)
7
8 MR. DARREN RAINKIE: Sorry, sir, you're
9 looking at me like I should be saying something. Is
10 there a question, sir, that I could help with?
11 MR. BOB PETERS: All right. I'll --
12 I'll move -- when we see on the screen in front of us
13 there's $61 million of capitalized overheads.
14 That's the -- the amount shown as the
15 Canadian GAAP changes?
16 MR. DARREN RAINKIE: Yes, those are the
17 prior accounting changes.
18 MR. BOB PETERS: And those are now
19 expensed in the year in which they occurred, as opposed
20 to being capitalized, Mr. Rainkie?
21 MS. SANDY BAUERLEIN: That is correct.
22 MR. BOB PETERS: Yes, thank you, Ms.
23 Bauerlein. And would the Board be correct by turning
24 to page 177 of the Board counsel book of documents that
25 at the last GRA, Manitoba Hydro impact -- indicated

1 that the -- that the impact of the additional changes
2 in 2015 would amount to $38 million for the same cas --
3 cost categories?
4 MS. SANDY BAUERLEIN: Sorry, I'm not
5 following along. Whereabouts are you?
6 MR. BOB PETERS: It may have been that
7 pregnant pause that Mr. Rainkie brought to my
8 attention. But if we go back to page 172, I want to
9 look at the -- the IFRS changes that are shown under
10 2014 -- 20 -- sorry, 2016/2017 at $55 million, and
11 they're highlighted, Ms. Bauerlein?
12 You'll see those?
13 MS. SANDY BAUERLEIN: Yes, 55 million
14 for the 2016/'17 fiscal year.
15 MR. BOB PETERS: And at the last
16 general rate application, I don't believe you had a
17 microphone, but if we turn to page 177 of the Board
18 counsel book of documents, we see that in that appli --
19 application, the IFRS changes, in approximately the
20 middle of the page, is shown at about 37/$38 million
21 for the 2015 or 2016 test years?
22 MS. SANDY BAUERLEIN: That is correct.
23 And I can take the Board to an IR which would explain
24 why that number has grown from 38 million to 55
25 million.

1 MR. BOB PETERS: If you could just
2 summarize it, that would be helpful.
3
4 (BRIEF PAUSE)
5
6 MS. SANDY BAUERLEIN: So our overhead
7 costs, and we have an example in -- I'm just going to
8 grab the IR for a moment. The IR number, just for the
9 Board's reference, will be PUB/MH-II-44. And in there,
10 we provide a simple example to explain the concept.
11 If you have a hundred dollars ($100) of
12 overhead costs, and those costs need to be allocated to
13 our operating world, for operating programs and -- and
14 projects versus our capital programs and projects, we
15 use a cost driver. And that driver is where the
16 allocation of the labour force is -- is working.
17 So at the time when we estimated the 38
18 million, we were looking at a staff deployment -- a
19 significantly less staff deploy -- deployment to our
20 capital construction work than we are currently
21 anticipating as a result of the ramp up.
22 So you can see in this example here, if
23 your staff deployment was 35 percent to capital
24 construction and 65 percent to operations and
25 maintenance, thirty-five dollars ($35) of your hundred

1 dollars ($100) of overhead costs would go to capital,
2 versus sixty-five dollars ($65) would be charged in the
3 period to expense.
4 If you now turn the page, as a result,
5 over the last number of years -- number of years, we'd
6 -- have had a significant ramp up as demonstrated in
7 showing where our EFT levels are going with respect to
8 capital construction. So we're looking at closer to a
9 45 percent redeployment of staff, between staff working
10 on capital construction work versus staff working on
11 our operations and maintenance.
12 So although the total dollars in this
13 particular example do not change, you can see that the
14 amount that you would capitalize would be higher.
15 Under IFRS, these costs are no longer eligible for
16 capitalization. So you previously in this particular
17 example would have estimated that you would have had
18 thirty-five dollars ($35) of overhead costs that would
19 not be eligible for capitalization, versus now we're
20 saying we have forty-five dollars ($45). This example
21 was designed to try and illustrate the concept, which
22 is what's happening between our 38 million and our 55
23 million.
24 It -- we do have -- there is a slight
25 increase in our overhead costs. It's about 3 to $4

1 million, but the primary driver for the increase is
2 result of the redeployment of staff to capital
3 construction work, and therefore, the overhead costs
4 follow that.
5 MR. BOB PETERS: Thank you, Ms.
6 Bauerlein. And back to, I think the same document's
7 actually at page 197 of Board counsel's book of
8 documents. Just to look at the bottom of page 197,
9 just to close the loop, Ms. Bauerlein, the capitalized
10 overhead that has risen to $58 million is broken down
11 by the various sub-categories that you've now shown on
12 the -- on the chart at the bottom of page 197?
13 MS. SANDY BAUERLEIN: That is correct.
14 MR. BOB PETERS: I want to turn to a
15 different subject, if I could. On page 218 of Board
16 counsel's book of documents, there's a discussion about
17 operational efficiencies.
18 And I wonder if I could ask Diana -- Ms.
19 Villegas to pull up slide number 41 from Manitoba
20 Hydro's Exhibit 52 presentation of yesterday. That's
21 Manitoba Hydro Exhibit 52, page 41. And I apologize
22 for the lack of notice, but -- and -- and I believe the
23 witnesses spoke to this yesterday, but I want to make
24 sure the panel -- the Board is clear.
25 The projections to reductions in the EFT

1 complement to March 2015 are shown at a hundred and
2 forty-six (146) on -- on the slide 41, correct?
3 MS. SANDY BAUERLEIN: Correct. That
4 was the projected or forecasted reductions in
5 positions.
6 MR. BOB PETERS: And we heard
7 yesterday, did we, Ms. Bauerlein, that that number is
8 actually two twenty-six (226)?
9 MS. SANDY BAUERLEIN: Yes. The actual
10 results to March 31st of 2015 are a reduction of two
11 hundred and twenty-six (226) operational positions.
12 MR. BOB PETERS: That's an extra eighty
13 (80) positions?
14 MS. SANDY BAUERLEIN: Correct.
15 MR. BOB PETERS: And in terms of the
16 quantification of those eighty (80) positions, what
17 would be the dollar value associated with the -- the
18 lower OM&A costs?
19 MS. SANDY BAUERLEIN: I believe, Mr.
20 Peters, you have, again, in your book of documents,
21 page 223, where we've made a -- again, it's a fairly
22 simplistic assumption in terms of the savings. We have
23 assumed for every position that's reduced, that there
24 is an average cost of salary plus benefits of a hundred
25 thousand dollars ($100,000).

1 We assume those positions are reduced
2 throughout the year. So you're -- you take sort of the
3 halfway points, because you won't have had all
4 positions reduced on day 1, April 1st. You will be
5 reducing them -- eliminating those positions throughout
6 the year. So we've approximated our savings for the
7 2014 fiscal year at approximately $7.3 million.
8 MR. BOB PETERS: The $7.3 million, Ms.
9 Bauerlein, does that include the additional eighty (80)
10 positions that we've talked of just now as the revised
11 number?
12 MS. SANDY BAUERLEIN: No, that was the
13 estimate of the projected one forty-six (146). So we
14 would -- would do a calculation to add on the
15 additional eighty (80), but at -- a hundred thousand
16 (100,000) times eighty (80) would be another --
17 MR. BOB PETERS: Eight (8) million
18 dollars.
19 MS. SANDY BAUERLEIN: -- yeah. Yeah.
20 MR. BOB PETERS: And that 8 million --
21 MS. SANDY BAUERLEIN: But half way
22 through the year again. We would assume half way
23 through the year again because not every person is gone
24 on day 1.
25 MR. BOB PETERS: Understood. It might

be simplest, Ms. Bauerlein, if I could ask you to undertake to refile page 223 of Board counsel's book of documents with the most current information that the Corporation has related to the operational staffing reductions that have been spoken about?

MS. SANDY BAUERLEIN: We could do that.

--- UNDERTAKING NO. 35: Manitoba Hydro to refile page 223 of Board counsel's book of documents with the most current information that the Corporation has related to the operational staffing reductions

CONTINUED BY MR. BOB PETERS:

MR. BOB PETERS: And can you tell the panel, will there be any change in the cumulative column in terms of the three hundred and thirty-one (331) number?

Will that now be increased by eighty (80)?

MS. SANDY BAUERLEIN: At this point, no. This is just reflecting of the timing of when those position reductions but -- the projected goal was

1 to have three hundred and thirty-one (331) positions
2 reduced by the end of the 2016/'17 year, and it's
3 simply a timing of when those happen, given that many
4 of the reductions are taking advantage of some of the
5 attrition opportunities, and some of the timings of
6 when those are occurring.
7 MR. BOB PETERS: Are there voluntary
8 termination incentive packages available?
9 MS. SANDY BAUERLEIN: No, there is not.
10 MR. BOB PETERS: So it would be
11 correct, Ms. Bauerlein, that the Corporation is about a
12 hundred and thirteen (113) EFTs ahead of schedule, or
13 higher than projected?
14 MS. SANDY BAUERLEIN: I'm sorry, Mr.
15 Peters, I'm not following.
16 MR. BOB PETERS: I was back on slide 41
17 trying to do math, and maybe I shouldn't have while I
18 was listening.
19 I see that there was an indication that
20 there was thirty-three (33) ahead of schedule on the --
21 page 41, and I just added eighty (80) more EFTs to that
22 to come to my...
23 MS. SANDY BAUERLEIN: No, to December
24 we were at one seventy-nine (179). We're now at two
25 twenty-six (226). So that would be the twenty-one (21)

1 plus twenty-six (26) to get you to the two twenty-six
2 (226).
3 MR. BOB PETERS: All right, thank you.
4 I understand your point.
5 THE CHAIRPERSON: I'm surprised by how
6 little -- little the costs go down when you remove that
7 number of positions. You know, I would have expected
8 costs to more in the order of a hundred thousand
9 (100,000) per -- per employee and, you should be get --
10 getting something closer to 14 million, or something
11 like that from savings. So I'm surprised that only
12 roughly fifty thousand (50,000) per employee.
13 MS. SANDY BAUERLEIN: I'm not sure I'm
14 following your fifty thousand (50,000) comment. So
15 we're assuming a hundred-thousand (100,000) --
16 THE CHAIRPERSON: Could you go back to
17 the last -- previous slide, please?
18 MR. BOB PETERS: Slide -- page 223 from
19 Board counsel's book of documents.
20 THE CHAIRPERSON: So a hundred and
21 forty-six (146) positions leave -- yield a savings of
22 7.3 million. Is that -- is that just a timing issue,
23 or -- I would have expected the savings to be more
24 significant than 7.3 million.
25 MS. SANDY BAUERLEIN: Well, that would

1 be -- if you had every -- a hundred and forty-six (146)
2 people -- positions removed on April 1st --
3 THE CHAIRPERSON: I see. Okay.
4 MS. SANDY BAUERLEIN: -- you would have
5 much higher. But again, some people may retire in
6 January of 2015 versus April of 2014, so you don't
7 fully reflect a full annualized savings until the
8 following year.
9 THE CHAIRPERSON: But even so, looking
10 at '15/'16 the number should be far higher than that,
11 wouldn't it? Because you're getting the next year --
12 the full next year on those initial one forty-six (146)
13 and then the ninety-one (91) for half a year, for
14 example.
15 Shouldn't you be getting a lot higher
16 than 7.3 million?
17 MS. SANDY BAUERLEIN: You're getting --
18 for the next year, if you look on the screen, your
19 cumulative annual savings are 19.3 million.
20 THE CHAIRPERSON: I got it. Thank you.
21 MS. SANDY BAUERLEIN: Okay.
22
23 CONTINUED BY MR. BOB PETERS:
24 MR. BOB PETERS: And, Ms. Bauerlein,
25 that 19.3 million only includes a half a year

1 recognition of the ninety-one (91) forecast to
2 positions to be removed in 2015/'16?
3 MS. SANDY BAUERLEIN: That would be
4 correct.
5
6 (BRIEF PAUSE)
7
8 MR. BOB PETERS: Ms. Bauerlein, when I
9 asked you to update page 223 I understood that the
10 number of three thirty-one (331) is not going to
11 change. Have I understood the Corporation correctly?
12 MS. SANDY BAUERLEIN: At this point,
13 it's not anticipated that the three thirty-one (331)
14 would change. It would simply be the timing of when
15 those reductions are achieved. So cumulatively, at the
16 end of the three (3) years and staring in '17/'18 you
17 will have probably slightly a little more in savings as
18 a result of an earlier implementation of some of those
19 reductions.
20 MR. BOB PETERS: Okay, I don't
21 understand that because there's -- there's only eighty-
22 five (85) more positions to target between the next two
23 (2) text years.
24 Is -- is that correct?
25 MS. SANDY BAUERLEIN: Correct. So your

1 savings will be actually higher because you will have
2 some of those -- so again you're going to now achieve a
3 full year of the two-hundred and twenty-six (226)
4 reduction in '15/'16 versus just having a hundred and
5 forty-six (146) for a full year in '15/'16.
6 So there will be a higher level of
7 savings anticipated as a result of the earlier timing
8 of some of those reductions.
9 MR. BOB PETERS: Those additional
10 savings aren't reflected in IFF14?
11 MS. SANDY BAUERLEIN: No. We update
12 our forecast only annually, so it would be incorporated
13 in IFF15.
14 MR. BOB PETERS: And if I turn to page
15 225 of the book of documents there's an indication that
16 Manitoba Hydro from '13/'14 to '16/'17 is actually
17 going to increase total EFTs by seven (7).
18 Is that correct?
19 MS. SANDY BAUERLEIN: Correct. So
20 that's the total, which is what Mr. Rainkie was trying
21 to get at before. That previously, we were always
22 presenting the total but referring it to his operating,
23 but it's not. It's the total EFTs and, therefore, the
24 total gross payroll.
25 So our capital EFTs are going up by two

1 ninety-nine (299), offset by a decrease in our
2 operations and maintenance and support and governance
3 of two ninety-two (292) for a net increase of seven
4 (7).
5 MR. BOB PETERS: The combined offset
6 isn't going to total the three thirty-one (331) that
7 Mr. Rainkie mentioned?
8 MS. SANDY BAUERLEIN: No. The
9 differences between an EFT -- so an EFT is an
10 equivalent full-time. So that's measured in hours. So
11 for an employee equivalent full-time at Manitoba Hydro
12 is one thousand, nine hundred and twenty-one (1,921)
13 hours.
14 One (1) position though could be
15 different than an EFT. You may have a staff member who
16 only works point-six (.6), so they -- or a point-eight
17 (.8), they don't work every Monday. So they would be
18 point eight (.8) of an EFT. But if we eliminated their
19 position it would count as one (1) position, which is
20 why you'll see a lower number on your EFTs than you
21 will for positions, depending on whether or not the
22 individual in that position was working full-time
23 hours.
24 MR. BOB PETERS: I think I now
25 understand the difference. The rationalization of

1 operational staffing reductions is coming from the
2 removal of positions as opposed to removal of
3 employees?
4 MS. SANDY BAUERLEIN: It's the removal
5 of positions, but there are employees in those
6 positions.
7 MR. BOB PETERS: And some of the
8 positions that have been reduced to date have been
9 vacant positions, or have all -- or have all two
10 hundred and twenty-six (226) positions that have been
11 reduced have people reclassified?
12 MS. SANDY BAUERLEIN: People
13 reclassified? I'm not sure I understand that comment,
14 Mr. Peters.
15 MR. BOB PETERS: All right. Sorry, let
16 me rephrase the question. Of the three hundred and
17 thirty-one (331) EFT positions, how many of those are
18 vacant?
19
20 (BRIEF PAUSE)
21
22 MS. SANDY BAUERLEIN: They would become
23 vacant as the individual was leaving that position,
24 either as a result of retirement or they were
25 successful at applying on a position elsewhere in the

1 Corporation.
2 MR. BOB PETERS: Are people being asked
3 to assume different positions, or is it left to be
4 voluntary?
5 MS. SANDY BAUERLEIN: It is voluntary.
6
7 (BRIEF PAUSE)
8
9 MR. BOB PETERS: While we're on page
10 225, I had heard previous evidence from, I believe,
11 this panel, that in the capital construction number,
12 how many of those two thousand three hundred and fifty-
13 seven (2,357) EFTs are on term agreements with the
14 Corporation?
15
16 (BRIEF PAUSE)
17
18 MS. SANDY BAUERLEIN: I -- I wouldn't
19 be able to quantify it from an EFT perspective. We
20 would have positions. They would be in the major new
21 generation and transmission area. Most of the staff
22 working on sustaining capital would not be -- would be
23 in permanent positions. I -- I don't have that figure.
24 MR. BOB PETERS: Is that an infor --
25 some information you could obtain and provide to the

1 Board in written form through your counsel, Ms.
2 Fernandes?
3
4 (BRIEF PAUSE)
5
6 MS. ODETTE FERNANDES: Mr. Peters,
7 maybe I'll take that one under advisement, because
8 we're not sure about how much work that would be. We
9 need to go back and talk to our HR department and --
10 but we'll see what we can provide this panel.
11 MR. BOB PETERS: All right. If we
12 don't have actuals, estimates would be satisfactory,
13 but please determine and take it under advisement, not
14 as an undertaking. Thank you, Ms. Fernandes.
15 On page 227 of Board counsel's book of
16 documents, the average salaries by business unit is
17 shown. And this would simply be, Ms. Bauerlein, a
18 mathematical calculation of the number of employees
19 divided by the payroll?
20 MS. SANDY BAUERLEIN: That is correct.
21 It would look at EFTs, again, not number of people, an
22 EFT payroll divided by an EFT count.
23 MR. BOB PETERS: And your -- your quan
24 -- your clarification was that some people are not a
25 full EFT?

1 MS. SANDY BAUERLEIN: That is correct.
2 MR. BOB PETERS: Are there any people
3 who, other than Mr. Rainkie, who -- who are more than a
4 full EFT?
5 MS. SANDY BAUERLEIN: I am more than a
6 full EFT.
7 MR. BOB PETERS: So just the two (2) of
8 you.
9 MR. DARREN RAINKIE: Note to that, Mr.
10 Peters, so.
11 MR. BOB PETERS: I -- I take it in
12 addition to the -- the salaries, there are -- there's
13 been an introduction of -- of a new remuneration
14 package of -- by way of bonuses to certain employees.
15 Have I got that right?
16 MR. DARREN RAINKIE: No, sir, it's not
17 a -- it's not a bonus. It's just a -- it's a system of
18 -- of looking at -- I mean, we call -- we call it
19 performance based, but what it is, it's a system of
20 setting objectives and determining pay increases based
21 on ability to meet those objectives. That -- that -- I
22 think that's the last sentence on that -- on that page,
23 Mr. Peters. It isn't on the screen right now, but --
24 now it is.
25 MR. BOB PETERS: I -- I interpreted

1 that to a bonus situation, but if you -- if you meet
2 your objective, you -- you get a higher than full EFT
3 salary?
4 MR. DARREN RAINKIE: Well, if you meet
5 -- we would establish a range, and if you meet all of
6 your objectives, you get towards the higher end of the
7 range. If you meet none of them, you get towards the
8 bottom. If you are in the middle, you'll be in the
9 middle, sir.
10 MR. BOB PETERS: And Mr. Rainkie, when
11 we look at the chart at the top of the page -- and I
12 didn't mean to cut it off from you -- but the average
13 annual increase projected going forward is between 3
14 and 7 percent, correct?
15 MR. DARREN RAINKIE: That's correct,
16 sir.
17 MR. BOB PETERS: There's no accounting
18 changes that give rise to any of that average annual
19 increase?
20 MR. DARREN RAINKIE: Not to my
21 knowledge, sir.
22 MR. BOB PETERS: And so when Manitoba
23 Hydro explains to their ratepayers why they need
24 another $60 million this year, is it factually correct
25 to say some of that money will end up going to

1 remunerate the employees to a higher level?
2 MR. DARREN RAINKIE: Yes. We have
3 collective agreements. We have, just like any other
4 company, folks that receive promotions, have merit and
5 move through their range as they -- as they progress
6 and become more productive in their range, sir, so.
7 MR. BOB PETERS: All right. On page
8 219 of the book of documents, you talked about wage
9 settlements. I believe this is an extract of what we
10 found is the most current information related to
11 Manitoba Hydro's collective agreements.
12 Would you know that to be the case, Mr.
13 Rainkie?
14 MR. DARREN RAINKIE: Yes, I believe
15 that was out of our Appendix 5.5.
16 MR. BOB PETERS: Yes, sir. And are
17 there any negotiations ongoing at this time?
18 MR. DARREN RAINKIE: As I recall, the
19 IBEW agreement would expire on December 31st, 2015. So
20 negotiations would be this fall. I hope I got my years
21 right.
22 MR. BOB PETERS: And when it says,
23 "all," under the union, you're referring to all of the
24 unions, or is it all employees of Manitoba Hydro, even
25 those who are not part of a collective bargaining unit?

1 (BRIEF PAUSE)

2

3 MS. SANDY BAUERLEIN: This was based on

4 contracted wage settlements with the unions, so 'all'

5 would be indicating all unions.

6 MR. BOB PETERS: And are there any

7 other unions other than those listed in the chart, Ms.

8 Bauerlein, that -- that Manitoba Hydro works with?

9 MS. SANDY BAUERLEIN: No. That is the

10 complete list of the unions.

11 MR. BOB PETERS: And so while we have

12 the effective date, could you provide the Board, Mr.

13 Rainkie, with the -- the end-of-term date of the

14 agreement?

15 MR. DARREN RAINKIE: Sure. Our HR

16 department would be more than happy to dig that up,

17 sir.

18 MR. BOB PETERS: All right. Thank you,

19 Mr. Rainkie.

20 MR. DARREN RAINKIE: Maybe 'happy' is a

21 strong term, Mr. Peters, but I'm sure they would do it

22 for us.

23

24 (BRIEF PAUSE)

25

1 THE CHAIRPERSON: Could we talk briefly
2 about the issue of executive pay again? You know, Mr.
3 Thomson indicated that there was a compare --
4 comparison done with pay elsewhere in other similar
5 organizations and so on. And from that, there was a
6 decision made to go with salary increases and a
7 performance pay system.
8 So the -- the outcome of that process
9 meant enhanced pay for executives. What would that
10 pace you in terms of the comparison with other
11 organizations?
12 MR. DARREN RAINKIE: As I recall, sir,
13 the idea was to move to the median of the comparator
14 group over a period of two (2) to three (3) years. So
15 that would be kind of at the 50 percent median. It
16 certainly wasn't on the high end of the range. I can
17 tell you that from personal experience.
18 But, you know, the -- over year -- over
19 the years, we had quite a bit of compression, such that
20 there was very little change between being a division
21 manager and a vice president. And -- and so there was
22 a -- a salary review done, as you mentioned, and we
23 were aiming for the -- the median, if you like, over a
24 -- a period of a number of years, dependent on
25 performance, once again. You're not going to get to

1 the median if you're a poor performer.
2 THE CHAIRPERSON: Now, the -- the
3 objectives that you indicated are in place for the
4 senior executives, are they linked to the outcomes that
5 are contained in the strategic plan?
6 Is that -- or are they specific to
7 individuals' positions?
8 MR. DARREN RAINKIE: They're -- they're
9 -- each person, or each VP, would have an initiative in
10 terms of meeting its operating and -- their operating
11 and capital cost targets. Then there would be
12 individual objectives based on their area, so the
13 operational VPs, for instance would have performance
14 objectives around safety. Mine wouldn't -- mine
15 wouldn't be around safety as -- because while all of us
16 believe in safety, it's -- it's not a huge -- huge part
17 of my activities.
18 So it would break down based on which --
19 you know, which area of the Corporation you were -- you
20 were managing as a vice president. But certainly tied
21 to strategic objectives, and -- I'm sure I gave you a
22 very good answer there, sir, if that's what you were
23 looking for but, you know, I think Mr. Thomson
24 addressed this briefly on day number 2, but it -- it
25 varies depending on -- on the executive and the areas

1 under their responsibility.
2 THE CHAIRPERSON: But we're looking at
3 what percentage of -- of the performance -- what --
4 what percentage of the -- the regular salary base would
5 represent performance pay?
6 So is it 10 percent? Fifteen (15)
7 percent?
8 MR. DARREN RAINKIE: It -- it wasn't
9 quite set up that way, because it's not a -- it's not a
10 bonus scheme. It's -- there's a -- a salary grid put
11 in place, and you would progress through that salary
12 grid based on your performance. So, you know, you --
13 you'd get a lower rating -- a lower increase, sorry, a
14 lower increase if you -- if you hadn't achieved as many
15 objectives, and you'd get to your -- your top end of
16 your range if you had achieved all of it sooner.
17 So it was a -- it's not a -- it's not a
18 bonus scheme. It's a -- it's a scheme of moving
19 through the -- through the pay grid based on
20 performance.
21 THE CHAIRPERSON: Was that -- wasn't
22 that in place before? I mean, wouldn't you have been
23 moving up the schedule in accordance with your
24 performance, particularly for senior executives?
25 MR. DARREN RAINKIE: The -- the

1 problem, sir, was that the differential was so little
2 that you moved up and stayed there forever. Like there
3 -- we had such a -- a compression at the top end of our
4 -- of our salary grid, because our -- our compensation
5 at the executive level was so low relative to market
6 comparators.
7
8 CONTINUED BY MR. BOB PETERS:
9 MR. BOB PETERS: Mr. Rainkie, on page
10 230 of Board counsel's book of documents, there's an
11 indication of the number of employees that are eligible
12 for retirement in a particular year in the middle of
13 the page.
14 MR. DARREN RAINKIE: Yes, sir.
15 MR. BOB PETERS: And historically,
16 Manitoba Hydro is telling the Board that based on
17 history, only 20 percent of those eligible in a
18 particular year elect to take full retirement from the
19 Company?
20 MS. SANDY BAUERLEIN: That is correct,
21 if we look at the historical take up.
22
23 (BRIEF PAUSE)
24
25 MS. SANDY BAUERLEIN: We just love

1 working for Manitoba Hydro.
2 MR. BOB PETERS: Well, it's on the
3 record now, and...
4
5 (BRIEF PAUSE)
6
7 MR. BOB PETERS: I was looking for the
8 chart, Ms. Bauerlein, on page 236. Is it here where we
9 can see that the actual retirement outcomes for the
10 year compared to forecast, how high they've been?
11 MS. SANDY BAUERLEIN: That is correct.
12 MR. BOB PETERS: But just because a
13 person is in the column of forecast doesn't mean that
14 they will then end up in the actual column. Some of
15 these people may be from previous years?
16 Is that a correct way to read the chart?
17 MS. SANDY BAUERLEIN: What we do is we
18 look at who is eligible to retire. And then we, in
19 calculating a forecast, look at historical take-up
20 rates. So that would determine the forecast column.
21 And then the actual reflects, you know, those people
22 who have decided in those years to -- to retire.
23 MR. BOB PETERS: And I probably worded
24 my question poorly. But that forecast column in the
25 middle of the page, 2010 forecast, that was based on

your 20 percent of those eligible.

Did I understand that correctly?

MS. SANDY BAUERLEIN: That would be my understanding, subject to check, as our human resources area did prepare this response.

MR. BOB PETERS: And while you forecast 20 percent retirements, the actual is less than 20 percent of those eligible to retire in a particular year?

MS. SANDY BAUERLEIN: In those years. But you can note that in 2011 our actuals were higher than forecasted. Again, it's a historical trend, if -- or, you know, the average historical take-up, but actuals will be what actuals are as people make their own personal decisions as to when they choose to retire.

MR. BOB PETERS: Has Manitoba Hydro used incentives in any of the years that were shown, Ms. Bauerlein?

MS. SANDY BAUERLEIN: Subject to check, but I believe not.

MR. BOB PETERS: While we're on the topic of operational efficiencies there's one (1) last topic I'd like to cover before I request the afternoon recess, and that's on Tab 26 of the book of documents.

1 On page 249, Manitoba Hydro has provided
2 the historical vacancy allowances and shown it here on
3 the table, correct?
4 MS. SANDY BAUERLEIN: That is correct.
5 MR. BOB PETERS: And the -- the bottom
6 line of forecast is what Manitoba Hydro had forecast to
7 be vacant in that particular year and all the years
8 that are shown with the actual vacancy percentage shown
9 above, correct?
10 MS. SANDY BAUERLEIN: That is correct.
11 MR. BOB PETERS: And so what -- what
12 the Board will see is that Manitoba Hydro is under
13 forecasting their vacancy rate.
14 Would you agree with that?
15 MS. SANDY BAUERLEIN: Historically, our
16 actual vacancy factor has been higher than what we have
17 forecasted.
18 MR. BOB PETERS: The current
19 application before the Board is based on the historical
20 vacancy level?
21 MS. SANDY BAUERLEIN: No, it is not.
22 It is based on what we anticipate vacancy levels to be
23 over the next number of years.
24 MR. BOB PETERS: Does Manitoba Hydro
25 have data more current, that is for the '14/'15 test

1 year as well as the '15/'16 test year, that you could
2 put on the record?
3
4 (BRIEF PAUSE)
5
6 MS. SANDY BAUERLEIN: I believe the
7 response to Coalition 2-16 provides the forecasted
8 vacancy rates incorporated.
9
10 (BRIEF PAUSE)
11
12 MS. SANDY BAUERLEIN: As indicated in
13 the second page of that response, we are forecasting
14 approximately a 4 1/2 percent vacancy factor.
15
16 (BRIEF PAUSE)
17
18 MR. BOB PETERS: And you'd have the
19 actual number for 2014/'15?
20
21 (BRIEF PAUSE)
22
23 MS. SANDY BAUERLEIN: We don't have
24 that figure calculated yet.
25 MR. BOB PETERS: Is that information

that could be provided to the Board?

MS. SANDY BAUERLEIN: Yes, we could.

MR. BOB PETERS: Would you then undertake to provide the -- the actual vacancy percentage for 2014/'15?

MS. SANDY BAUERLEIN: Yes, we can.

MR. BOB PETERS: Thank you, Ms. Bauerlein.

--- UNDERTAKING NO. 36: Manitoba Hydro to provide actual vacancy percentage for 2014/2015

MR. BOB PETERS: While we're on the topic of vacancies, in one (1) of the questions in PUB/MIPUG-12, so PUB/MIPUG-12, the question was posed to the MIPUG consultants as to quantifying what the reduction in salary costs would be if, instead of the -- well, if the forecast was used based on the actual vacancy. And it appears that there was a high and a low that were used by Manitoba Hydro.

Ms. Bauerlein, have you had an opportunity to review this PUB/MIPUG Question 12 before today?

MS. SANDY BAUERLEIN: Yes. We actually

1 provided a response in our rebuttal on pages, I
2 believe, 18 and 19.
3 MR. BOB PETERS: And can you explain to
4 the Board Manitoba Hydro's position in response to this
5 information?
6 MS. SANDY BAUERLEIN: So once again,
7 Manitoba Hydro does not believe that the historical
8 vacancy factors that have been -- have been shown are
9 reflective of what's happening on a go-forward basis
10 for really two (2) -- two (2) key reasons.
11 One is that we are entering a period of
12 course of significant capital investment. And as a
13 result of that, there is positions that need to be
14 filled to be able to ensure that we protect the in-
15 service dates of those -- those projects.
16 So as a result, the time frames --
17 because vacancy is really just the time frame between
18 when a position is -- is vacated versus when it's
19 filled again. We need to shorten those time frames in
20 order to be able to ensure that we can meet those in-
21 service dates and to address the capital requirements
22 that we discussed in the planning and operations panel.
23 And the second factor is the fact that
24 we are reducing the number of overall positions. So by
25 reducing -- and in this case, this year we've reduced

1 two hundred and twenty-six (226) positions -- again,
2 you have less positions that are available to be
3 vacant, and to still be able to provide the serv -- the
4 essential services that the Corporation needs to do
5 from an operations and maintenance perspective.
6 So given those two (2) factors, the
7 historical vacancy rates were not appropriate to be
8 used for a forecast basis.
9 MR. BOB PETERS: Mr. Chairman, I'd like
10 to request that this might be an opportune time for the
11 panel to consider an afternoon recess. And I'll
12 continue after the break probably for most of the
13 afternoon, if not all.
14 I've spoken to Mr. Williams, and I had -
15 - I had him on alert, but I -- I wasn't aware there was
16 going to be a presentation from Manitoba Hydro on the
17 Bipole. So I apologize for waking him up early.
18 THE CHAIRPERSON: Thank you, Mr.
19 Peters. Let's take -- ten (10) minutes will bring us
20 to 3:15 or so. Thank you.
21
22 --- Upon recessing at 3:06 p.m.
23 --- Upon resuming at 3:18 p.m.
24
25 THE CHAIRPERSON: I believe that we're

1 ready to resume the proceedings. Ms. Fernandes,
2 please.
3 MS. ODETTE FERNANDES: Thank you, Mr.
4 Chairman. I believe Ms. Bauerlein wanted to clarify
5 her response she provided just prior to the afternoon
6 break.
7 MS. SANDY BAUERLEIN: So it was with
8 respect to the vacancy factors. I'm just not sure if I
9 -- I was clearly articulating my point, but in making -
10 - if we -- if we look at our growth in OM&A over the
11 past, since the 2009/'10 period to 2013/'14, we had
12 indicated that we had limited -- excluding our
13 accounting changes, our growth in OM&A was 1.9 percent.
14 We had done that -- a lot of that was
15 achieved by holding vacancies, which is again why you
16 see those very, very high vacancy levels in the -- in
17 the previous years. Manitoba Hydro has taken a
18 different approach on this go-forward basis, and we are
19 looking to eliminate positions through taking advantage
20 of attrition opportunities and using technology, et
21 cetera, changing work processes.
22 So as a result, again, that would be why
23 the vacancy factor on a go-forward basis should not be
24 reflective of historical vacancy factors. I -- I hope
25 that makes sense to the Board.

1 (BRIEF PAUSE)

2

3 MR. BOB PETERS: Thank you. Mr.
4 Schulz, you've indicated that Manitoba Hydro receives a
5 passthrough credit rating of the Province of Manitoba,
6 correct?
7 MR. MANNY SCHULZ: Yes, indeed.
8 MR. BOB PETERS: And that credit rating
9 agencies have looked at Manitoba Hydro's debt as -- as
10 being self-supporting?
11 MR. MANNY SCHULZ: Correct.
12 MR. BOB PETERS: And it's not rated
13 separately?
14 MR. MANNY SCHULZ: Correct.
15 MR. BOB PETERS: Would it be correct,
16 Mr. Schulz, for the Board to understand that the exact
17 impact of a credit rating downgrade is unknown?
18 MR. MANNY SCHULZ: I think the word we
19 used was 'indeterminable'.
20 MR. BOB PETERS: What may be
21 determinable, if that's a word, is that Manitoba
22 Hydro's cost of borrowing appears to be going up seven
23 (7) to nine (9) basis points since Moody's gave a
24 credit downgrade warning to the province?
25 MR. MANNY SCHULZ: Well, perhaps we can

1 move to the reference that -- that gets you to that
2 comment.
3
4 (BRIEF PAUSE)
5
6 MR. MANNY SCHULZ: And with your
7 indulgence, Mr. Peters, I -- I would perhaps reference
8 you to Volume IV, page 29, if we could have that
9 brought up, which is a response that we had to First
10 Round PUB Manitoba Hydro's 6(a) through (c). If that's
11 what you're referring to.
12 MR. BOB PETERS: That -- that's on page
13 29 of our book of documents.
14 MR. MANNY SCHULZ: Twenty-nine (29),
15 yes. Yeah.
16
17 (BRIEF PAUSE)
18
19 MR. BOB PETERS: You -- you'll see, Mr.
20 Schulz, in front of you, an indication that on August
21 18th of 2014, Moody's placed the provinces AA1 long-
22 term debt rating on a negative outlook.
23 You're aware of that?
24 MR. MANNY SCHULZ: I am, yes.
25 MR. BOB PETERS: And would it be

1 correct that as a result of that, Manitoba Hydro's cost
2 of borrowing would be going up approximately seven (7)
3 to nine (9) basis points?
4 MR. MANNY SCHULZ: Indeterminable.
5 Again, if I may indulge, it -- it's a little bit of a -
6 - a longer answer, because there are many, many moving
7 parts to the financial markets. There's many moving
8 parts to the financial analysis that's undertaken by
9 investors, and there's lots of different participants
10 that are moving through this.
11 So on August 18th, 2014, Moody's did
12 place the Province of Manitoba's AA1 long-term debt
13 rating on negative outlook. And one (1) of the things
14 that we look at when we're doing our long bond issues
15 is the benchmark Canadas, and then the provincial
16 spreads.
17 When -- when we look at the provincial
18 spreads, we largely benchmark ourselves against the
19 provincial benchmark, which is Ontario. And one (1) of
20 the things that we look at is our relative pricing to
21 Ontario. So the observation that's made here, and you
22 can see that highlighted, is since mid-July of 2014,
23 the Province of Manitoba's provincial credit rating
24 spreads relative to the Ontario provincial benchmark
25 have weakened by seven (7) to nine (9) basis points for

1 ten (10) and thirty (30) year bonds respectively.
2 So when an issue goes out -- so for
3 instance, right now -- today, I think the Province of
4 Ontario did a ten (10) year bond. So they take their -
5 - their -- they take the -- what's the benchmark
6 Canada? Then there's the spread that's in the
7 marketplace. I believe it might have been eighty-three
8 (83) basis point, something of that ilk today. I
9 haven't -- you know, subject to check. And that would
10 be the pricing for that ten (10) year bond.
11 What we look at in the Manitoba sphere
12 is, Where are we relative to Ontario? Are we plus or
13 minus them? And so today, we're actually flat to
14 Ontario, I think, on the ten (10) year bond. And then
15 we also look at the thirty (30) year bonds, because
16 that's also very relevant to the undertakings and
17 financings that we take.
18 And so what we have observed is from the
19 time in mid July, and that's when, relative to Ontario,
20 we were -- Manitoba was at its best, we were less
21 expensive than Ontario, i.e., our spreads were lower --
22 from Canada to -- to where our bonds could be issued
23 were lower than Ontario. We were through Ontario, is
24 how it's called.
25 Now, on the ten (10) year space, we're

1 even to them, and on the thirty (30) year space, we're
2 actually three (3) basis points back of them, so more
3 expensive. So the observation that we're making here
4 is that since that period of time, since the time when
5 we had our best performance relative to Ontario, we've
6 noted that there's been a weakening in the relative
7 spreads between seven (7) and nine (9) basis points.
8 It's -- actually has widened since then,
9 and -- and it's approaching eleven and a half (11 1/2)
10 basis points on the long end. So there's a continued
11 erosion that has occurred subsequent to the Information
12 Request.
13 To the point that you're making, though,
14 about how much of this is related to Moody's and the
15 downgrade, you know, that's where the yes and no
16 happens, an indeterminate aspect of that. And you can
17 see that in part in here in the last sentence to that
18 paragraph:
19 "Although it remains unclear to what
20 degree the negative outlook impacted
21 the relative spread performances,
22 investors have recently shown a
23 preference for big liquid issues of
24 Ontario and Quebec in these markets,
25 as opposed to less frequent issuers,

1 such as Manitoba."
2 So what we have seen is -- and was
3 somewhat familiar to the -- the phenomena that we saw
4 in January, was a -- a -- the movement for investors to
5 seek safe havens, and so you saw a lot of movement into
6 Ontario. And the reason investors like Ontario bonds,
7 called big liquid bonds, is because they would have
8 less risk, i.e., they could buy the bond and then they
9 could quickly trade it, because the volume of that bond
10 issue was so large.
11 And so whenever there is a significant
12 amount of uncertainty, the liquid bonds have a lot of
13 appeal to investors as part of their de-risking, while
14 at the same time having to make investments. So it's
15 been an interesting phenomenon that we've seen.
16 So the observation, as we've seen, is
17 weakening, and it's been kind of a conversation. Well,
18 how much of that is really dominated by Ontario,
19 Quebec, the big issuers? And also keeping in mind
20 during this time, and Mr. Page has referenced it as
21 well, is with the monetary policy of the Bank of Canada
22 was the interest rate cut on the low end?
23 And so there was also some FX movements.
24 The weakening of the Canadian dollar made the Ontario
25 economy seem much better to a lot of investors because

1 of the manufacturing base was strengthened. So there
2 was this movement to liking Ontario, and maybe not
3 liking everybody else so much.
4 So the western provinces as a whole saw
5 this same trajectory in the terms of the relative
6 weakening. It's just -- not just a Manitoba story. So
7 that's why there's so many commingling of factors in
8 here, so that's why we wanted to point out to here,
9 while we don't have clarity in terms of what percentage
10 of this might be associated with the negative outlook,
11 if at all, what we do state is there has been a
12 weakening in the relative performance.
13 That being said, the underlying Canadas
14 are still amazingly low, and so that was interesting
15 that we've had this occurrence happening on the
16 relative spread at the same time as our -- our overall
17 financings are -- still stayed in pretty tight. And
18 that's because of the underlying Government of Canada.
19 So the other reason why it's
20 indeterminate is we haven't had any history of a
21 downgrade. So I think the last rating downgrade was in
22 1986 for Manitoba, so there's no real clear sort of
23 historical precedence for analyzing what the cost of
24 the downgrade might be.
25 MR. BOB PETERS: This wasn't a

1 downgrade, was it, Mr. Schulz?
2 MR. MANNY SCHULZ: This was a negative
3 outlook. And again, one (1) of the -- another key
4 aspects that we'd look at -- and if you scroll further
5 down this page, there are many different factors in
6 here. So the first -- there's six (6) bullets that are
7 part of the considerations that you would be looking at
8 here.
9 So the -- what's the impact? So there's
10 the financial market context in which the downgrade
11 occurred, so the market tone, investor appetite, the
12 liquidity. I kind of spoke a little bit to that
13 already, the degree to which the change in the relative
14 provincial credit specs have been priced into the
15 marketplace before the announcements.
16 Credit-rating agencies are often a lag
17 indicator. The markets actually kind of chase it a
18 little bit early. And so how much has been priced into
19 the marketplace before anything actually happens as an
20 -- as an event is a key issue. Which crediny agen --
21 red -- credit agency provounded -- provided the
22 downgrades is also important, as you may recall during
23 the opening presentation that I made, and it's on slide
24 26, if I could, for the finance panel direct.
25 You'll see that Manitoba has a split

1 credit rating. So you can see here, for instance, with
2 Moody's, Manitoba, if you look at the far-right column
3 for Moody's, they have an AA1 rating. We are the only
4 AA1 rating within the provinces, and so it's still
5 within the 'A' category, S&P -- or AA category, and S&P
6 is also in the AA.
7 So if Moody's were to downgrade from an
8 AA1 to an AA2, it would be still within the double-A
9 category. So many investors, when they're looking at
10 this from their investment policy criteria, they say
11 they have to have double A category for investment
12 grade investments, it would still fit in there, so
13 there may not be that much of an impact. If the
14 downgrade was to a single 'A', that would have a
15 greater impact. And so that's part of the complexity
16 that -- that plays into this, as well.
17 And if I could just finish up the point,
18 Mr. Peters, coming back to the book of documents to
19 finish up on the bullets that were indicated there.
20 The fourth bullet, the investor credit risk policy
21 limits, credit rating requirements, that's what I spoke
22 to about the investments, what's in their investment
23 policy guidelines, you know, what -- what percentage of
24 double-A is needed and so on and so forth, there's a
25 bit of that.

1 The denomination of the issue, if it's
2 Canadian or US, makes a difference, as well as the term
3 to maturity that's ten (10) years or thirty (30) years,
4 so lots of moving parts. But it's not clear how much
5 of that observed change is related to the outlook going
6 negative, if at all.
7 MR. BOB PETERS: Mr. Schulz, do you
8 have an -- a valuation as to what a fifty (50) basis
9 point downgrade would end up costing Manitoba Hydro?
10 MR. MANNY SCHULZ: A five-zero (5-0)
11 basis points?
12 MR. BOB PETERS: Correct.
13 MR. MANNY SCHULZ: Ms. Carriere and I
14 had a -- a bit of a discussion about that the other
15 day. And I -- I think one (1) way you could possibly
16 look at that is to look at our interest rate
17 sensitivities, where we have the plus or minus 1
18 percent as a rough proxy for that.
19 So you might take half of that. Instead
20 of being a hundred basis points, you may take fifty
21 (50), or ten (10) basis points would be one tenth
22 (1/10) of that.
23 MR. BOB PETERS: All right, thank you.
24 Mr. Schulz, back in Volume III of board counsel's book
25 of documents at the IFF statement on page 28, it's

1 actually a cashflow statement, which I want to bring to
2 your attention. At the bottom, for the years 2030 and
3 2034, would I be correct in understanding that long-
4 term debt costs more than short-term debt?
5 MR. MANNY SCHULZ: In almost all
6 circumstances with an upwardly sloped yield curve, that
7 would be the case.
8 MR. BOB PETERS: And when -- when we
9 look at the cashflow statement, we see under,
10 "Financing activities," that there's -- there's not a
11 lot of debt that's maturing in -- in those last three
12 (3) years?
13
14 (BRIEF PAUSE)
15
16 MR. MANNY SCHULZ: So I'm assuming you
17 would be speaking to the line item called, "Retirement
18 of long-term debt"?
19 MR. BOB PETERS: Correct. And we can
20 use from 2030 out to 2034 on that starting, you know,
21 70 million, 700 million, 13 million, nothing, and 20
22 million.
23 MR. MANNY SCHULZ: I see that.
24 MR. BOB PETERS: And then if we drop to
25 the bottom part of the page and look at the cash, that

1 is the net increase in cash, would it be correct to say
2 that Manitoba Hydro finds itself in a situation where
3 it's -- it has a fair bit of cash left over?
4 MR. MANNY SCHULZ: The cashflow from
5 operations, as indicated by Ms. Carriere in her opening
6 slide, did in fact show that cashflows from operations
7 exceeded the investing activities which you're seeing
8 here.
9 So in the back end of the forecast, when
10 we're in a recovery, we do have surplus cash which we
11 can use for debt retirement.
12 The fact that you don't see the
13 retirement of long-term debt in here as a potential
14 off-ramp to retire debt would be a function of where we
15 are now with our existing debt portfolio. And Dr.
16 Grant and I went through a bit of a discussion of the
17 debt maturities.
18 But also between now and then, what debt
19 we would take. So in our actual undertakings for
20 securing debt, we would make sure that we actually
21 would -- if that's an op -- opportunity for off-
22 ramping, we would look to have debt maturing in
23 2032/2033.
24 We would take shorter pieces of debt
25 that would land there in order that there might be a

1 potential off ramp.
2 In the IFF, as a simplifying function of
3 the algorithm, all new debt is assumed to be twenty
4 (20) years in duration. So if we're in 2015 right now,
5 that forecasted debt would not be maturing until twenty
6 (20) years hence in the forecast, which would be, you
7 know, 2035.
8 So it's a simplifying assumption. So on
9 an actual basis, whatever cash we would have surplus,
10 we'd have the opportunity to off-ramp.
11 MR. BOB PETERS: All right. I -- it
12 disconnected to me, Mr. Schulz, and that's -- you're
13 saying that you may not be depicting on this schedule
14 the retirements that come due in those particular
15 years?
16 MR. MANNY SCHULZ: This is based on our
17 existing debt portfolio that we have now. And then the
18 assumption is, because there's only one (1) term to
19 maturity that can be placed into the finfor modelling,
20 that they would have -- all new debt would be twenty
21 (20) years in duration.
22 And so just the arithmetic, you know.
23 If we're in 2015 today, that forecasted piece of debt
24 won't land on a maturity schedule until 2035.
25 But on a practical basis, as indicated,

1 we actually take debt that's within a range. That
2 might be from three (3) to forty (40) years or three
3 (3) to fifty (50). On average, in the last number of
4 years, it's been approximating twenty (20) years, which
5 is why that's a good assumption for us to get the right
6 interest rates in there.
7 But we only can pick one (1) term for
8 the forecasting, but on an actual basis, we will
9 anticipate to have debt maturing in those periods of
10 time.
11
12 (BRIEF PAUSE)
13
14 MR. BOB PETERS: Does that suggest
15 then, Ms. Carriere, that the level of long-term debt is
16 overstated in those particular years?
17 MS. LIZ CARRIERE: If you turn to the -
18 - the balance sheet, you'll see by 2034 there's $23
19 billion in debt. That's net of sinking funds. And so
20 in actual fact -- and we also have short-term
21 investments.
22 It's a simplifying modelling assumption
23 that we have. Rather than try and decide where to put
24 cash twenty (20) years out, we just assume it's in
25 short-term investments.

1 In practice, you know, as debt matures
2 and, you know, very shortly after the time period we're
3 -- we're looking at, you're going to see that debt --
4 more debt will be retired.
5 But there's also a build-up in the
6 sinking fund here, and those are -- you'll see, if we
7 turn back to that cashflow statement, in 2031 there is
8 a retirement of long-term debt of 700 million. And
9 that's -- the obligation of repayment of that principal
10 amount is met by a withdrawal from the sinking fund.
11 But on a net basis, it's -- it's
12 lowering debt over time.
13 MR. BOB PETERS: If we can just turn to
14 page 26 of Volume III then, just to make sure the panel
15 captures that point.
16 The years 2031 out to 2034, when we look
17 across at current and other assets, I understood your
18 last answer, Ms. Carriere, to be that that $1.8 billion
19 in cash is going to be somewhere in that three point
20 six (3.6), increasing to $5.7 billion number?
21 MS. LIZ CARRIERE: That's correct.
22 MR. MANNY SCHULZ: And that's why, Mr.
23 Peters, when I showed the chart of net fixed assets to
24 net debt, we always use net debt so that we get the
25 proper representation of the gross debt less the net

1 debt in order to arrive at the -- the appropriate
2 number.
3 MR. BOB PETERS: I have your point.
4 Turning to page 73, if I could, moving to payments to
5 government. Mr. Rainkie, I think you -- page 73, if I
6 have it right. Oh, I'm sorry, I'm on Volume IV of the
7 book of documents.
8
9 (BRIEF PAUSE)
10
11 MR. BOB PETERS: On page 73. We're
12 showing the panel here what payments Manitoba Hydro
13 makes to the province in municipalities, correct?
14 MR. DARREN RAINKIE: Yes, sir.
15 MR. BOB PETERS: And, Mr. Rainkie, I
16 didn't want to belabour this, and I won't, but the
17 provincial payments as a percentage of gross revenue of
18 Manitoba Hydro comes in 12 to 15 percent. It seems to
19 be a -- somewhere in there seems to be an average
20 number?
21 MR. DARREN RAINKIE: That's fair, Mr.
22 Peters.
23 MR. BOB PETERS: And when you were
24 talking to the Chairman earlier about Hydro-Quebec and
25 -- and the dividends that are paid, do you know as a

1 percentage of gross revenues what -- what their
2 payments are to governments?
3 MR. DARREN RAINKIE: My recollection,
4 because we do these calculations from time to time,
5 sir, is that the payments to government and Hydro-
6 Quebec is a much larger percentage than -- than this.
7 Of course, it depends on the dividend, but there's been
8 some fairly hefty dividends I -- as I recall.
9 We -- we do calculations and comparisons
10 of this once in a while internally. So I -- I think
11 it's higher. I get mixed up between BC Hydro and
12 Hydro-Quebec, sir, so.
13 MR. BOB PETERS: Thank you to --
14 MR. DARREN RAINKIE: I've found over
15 time that they're kind of all in a relative range, but.
16 MR. BOB PETERS: Well, I wonder if you
17 could just undertake to file your Hydro-Quebec and BC
18 Hydro payments to the provincial government either as a
19 percentage of gross revenue or per megawatt, or some
20 other metric relative to Manitoba Hydro?
21 MR. DARREN RAINKIE: It saw -- as a
22 percentage of gross revenue which would be comparable
23 to this chart, so that's probably the best way to --
24 we'll see what we can dig up, Mr. Peters. We do that
25 periodically, so we'll --

1 MR. BOB PETERS: All right. If you can
2 find something, please provide it through your counsel
3 and we'll provide it to the -- to the Board.
4 MR. DARREN RAINKIE: Certainly.
5
6 --- UNDERTAKING NO. 37: Manitoba Hydro to file the
7 Hydro-Quebec and BC Hydro
8 payments to the provincial
9 government either as a
10 percentage of gross revenue
11 or per megawatt, or some
12 other metric relative to
13 Manitoba Hydro
14
15 CONTINUED BY MR. BOB PETERS:
16 MR. BOB PETERS: In 2015 line item
17 there appears to be a mitigation payment of $8 million.
18 Can you remind the Board what that's for?
19 MR. DARREN RAINKIE: Sir, the
20 particulars of this are before my time, but there was a
21 water rental freeze at one (1) point for a number of
22 years. And in exchange for that freeze we were taking
23 on some mitigation responsibilities of the province.
24 And in the end there's a -- there's still a liability
25 sitting on our balance sheet. But the -- there hasn't

1 been any real expenditures from that fund.
2 So every year in the forecast we -- we
3 assume that that fund is going to be fully expended the
4 next year and come down to zero. That's the 8 million
5 that you see there on the line and -- and -- but it --
6 it's really just been consistently floating along at
7 that number, sir.
8 MR. BOB PETERS: On the topic of
9 capital taxes, Mr. Rainkie, there was a recent
10 provincial budget. Did that impact capital taxes?
11 MR. DARREN RAINKIE: Not for us, just
12 for financial institutions.
13 MR. BOB PETERS: So Manitoba Hydro was
14 unaffected? It stayed at a -- I guess it's a half of
15 one (1) percentage point of your -- your capital?
16 MR. DARREN RAINKIE: Rate of capital,
17 yes, sir.
18 MR. BOB PETERS: And are those capital
19 taxes capitalized before the in service date of the
20 project to which they relate, Mr. Rainkie?
21 MR. DARREN RAINKIE: No, taxes are a
22 period cost, so they're expensed when they're incurred.
23 MR. BOB PETERS: Is there an option to
24 capitalize them?
25 MR. DARREN RAINKIE: No, sir. They're

1 looked at as a period cost.
2 MR. BOB PETERS: Does Manitoba Hydro
3 capitalize the provincial debt guarantee fee?
4 MR. DARREN RAINKIE: Effectively
5 through our calculation, yes.
6 MR. BOB PETERS: It didn't sound
7 straightforward. I just don't know if I want to ask
8 you -- oh, I'm sorry, my mic is on.
9 But you add the -- add the provincial
10 debt guarantee fee to the financing costs that are
11 capitalized to particular projects?
12 MR. DARREN RAINKIE: Yes, sir. The --
13 through our interest capitalization rate, effectively
14 that gets capitalized on the assumption that we would
15 never be able to borrow at the rates that we do based
16 on our -- our own stand-alone balance sheets. So we
17 consider that -- that fee, if you like, to be part --
18 part of the cost of financing -- sorry, the provincial
19 guarantee fee to be part of the cost of financing.
20 MR. BOB PETERS: Mr. Rainkie, on the
21 topic of capital tax, does Manitoba Hydro charge
22 capital tax to Manitoba Hydro's First Nation partners
23 on the development of Wuskwatim and Keeyask?
24 MS. LIZ CARRIERE: No, there's no
25 capital tax being charged to the partnership.

1 MR. BOB PETERS: Ms. Carriere, on page
2 82 -- first of all, Ms. Carriere, I understand from
3 your evidence through Ms. Fernandes yesterday that you
4 are responsible for the implementation, is it, of the
5 First Nation agreements?
6 MS. LIZ CARRIERE: Well, there's a
7 number of people at Hydro that administer and implement
8 those agreements.
9 MR. BOB PETERS: You're listed under
10 the WPLP agreement changes. Did you negotiate them on
11 behalf of the Corporation?
12 MS. LIZ CARRIERE: Yes. I was one of
13 the team members that did.
14 MR. BOB PETERS: All right. And on
15 page 82 of the book of documents, Volume IV, we have
16 what I understand to be the latest projected operating
17 statement for the Wuskwatim Power Limited Partnership,
18 Ms. Carriere?
19 MS. LIZ CARRIERE: That's the latest
20 forecast, yes.
21 MR. BOB PETERS: And when we look at
22 this forecast under the expenses there's no capital
23 tax, and that's what you've indicated is -- it's --
24 it's not charged through in any way to the WPLP?
25 MS. LIZ CARRIERE: That's correct.

1 MR. BOB PETERS: And I was wondering if
2 Ms. Villegas could put up on the screens Appendix 11.5,
3 which was a corporate overview in response to MFR-7,
4 and page 1 of 2.
5
6 (BRIEF PAUSE)
7
8 MR. BOB PETERS: Ms. Carriere, I'm
9 going to ask you to gently assist me in understanding
10 this arrangement that Manitoba Hydro has. And what we
11 see on the screen is the structure of the arrangement
12 with and for the Wuskwatim Power Limited Partnership?
13 MS. LIZ CARRIERE: That's correct.
14 MR. BOB PETERS: And Manitoba Hydro is
15 the general partner?
16 MS. LIZ CARRIERE: Yes.
17 MR. BOB PETERS: And in terms of the
18 limited partners, Manitoba Hydro takes two-thirds -- 66
19 percent -- 67 percent interest amongst the limited
20 partners?
21 MS. LIZ CARRIERE: That's essentially
22 correct, yes, for -- for the --
23 MR. BOB PETERS: And has it been
24 determined that NCN will take a full 33 percent
25 interest?

1 MS. LIZ CARRIERE: That's correct.
2 MR. BOB PETERS: And we see on the
3 right-hand side that there's a number of agreements,
4 and we actually see those on the left-hand side as
5 well.
6 Have all of these agreements now been
7 renegotiated or is it just -- just one (1)?
8 MS. LIZ CARRIERE: No, not all of them
9 have been renegotiated. The PDA supplement 2 is a
10 standalone new agreement. But included in that there
11 were revisions to the limited partnership agreement,
12 the NCN financing agreement, the project fining --
13 financing agreement, and the power purchase agreement.
14
15 (BRIEF PAUSE)
16
17 MR. BOB PETERS: I want to bring to the
18 Board's attention and have Ms. Carriere explain that
19 when we look under the 2015 column back on page 82 of
20 Board counsel's book of documents, Volume IV, it
21 appears that the expenses that are recorded are $119
22 million for 2015?
23 MS. LIZ CARRIERE: That's correct.
24 MR. BOB PETERS: And if we focus, one
25 (1) of the expenses is finance expense, and it's the

1 largest expense, at $74 million?
2 MS. LIZ CARRIERE: That's right.
3 MR. BOB PETERS: And if we go to page
4 84 of Board counsel's book of documents, what I
5 understand has been provided here in MFR-9, min --
6 minimum filing requirement 9, was an indication from
7 Manitoba Hydro of the in-service costs of various
8 projects.
9 That would be correct, Ms. Carriere?
10 MS. LIZ CARRIERE: Well, it's an
11 estimation of the revenue requirements post-in-service
12 for certain projects.
13 MR. BOB PETERS: And for Wuskwatim we
14 see that for the 2015 year it's forecast at $151
15 million?
16 MS. LIZ CARRIERE: Yes, that's what
17 we're estimating.
18 MR. BOB PETERS: And the finance
19 expense is estimated at -- I believe that's $98
20 million?
21 MS. LIZ CARRIERE: Correct.
22 MR. BOB PETERS: But when we turn back
23 to 82 we see that the finance expense that went through
24 to WPLP is only $74 million, correct?
25 MS. LIZ CARRIERE: That's correct.

1 MR. BOB PETERS: And in addition -- so
2 there was a $24 million difference in the finance
3 expense, correct?
4 MS. LIZ CARRIERE: Yes, that's right.
5 MR. BOB PETERS: And then you've
6 indicated, if we go back to page 84, that Manito --
7 that WPLP didn't pay $8 million of the capital tax or
8 any portion of it, and so that's also for Manitoba
9 Hydro to -- to fund?
10 MS. LIZ CARRIERE: That's correct.
11 MR. BOB PETERS: So would it be correct
12 to say that when the costs to WPLP are shown and we
13 compare those to the in-service costs of -- of
14 Wuskwatim there's about $32 million that Manitoba Hydro
15 is paying and WPLP is not paying?
16 MS. LIZ CARRIERE: Well, it's a matter
17 of timing, in some respects. For example, the finance
18 expense on the WPLP partnership, the original
19 arrangement, the capital contributions for -- from each
20 of the limited partnershi -- partners were set up such
21 that 75 percent of the capital cost of the project
22 would be set up as -- as debt and the remaining 25
23 percent would become as equity from -- or capital
24 contributions from each of the limited partners.
25 So that's why you're seeing a lower

1 finance expense on -- from -- on the -- on the
2 partnership side. But from Manitoba Hydro's
3 perspective, we are -- our 67 percent of the 25 percent
4 equity, we are, in effect, funding that through debt.
5 So we've capitalized that portion of
6 interest into the project. And then ongoing, we're
7 reflecting that the -- that amount of -- of finance
8 expense is actually hitting our net income.
9 In addition to that, we have loaned NCN
10 approximately $100 million for their portion. They've
11 put up twenty-two (22), but their portion of the equity
12 was about a hundred and twenty-five (125). So a
13 hundred (100) of that was loaned by Manitoba Hydro.
14 So we'll be getting repaid for that over
15 time through future distributions. So that'll reduce
16 the finance -- or the finance expense here on -- on the
17 Manitoba Hydro side is reduced by income, interest
18 income on that -- that -- on that equity loan.
19 MR. BOB PETERS: Can you show the Board
20 where that interest income comes back to Manitoba
21 Hydro?
22 MS. LIZ CARRIERE: You know, on this
23 schedule, I'm not sure that it does, because we don't
24 have -- we don't have a system that tracks finance
25 expense by project. So here we're just estimating it.

1 And in thinking on this here now, it's
2 pos -- possible that we don't have the interest income
3 reflected in here. And the other thing is we don't
4 have the non-controlling interest showing NCN's 33
5 percent going to NCN and reducing our -- increasing our
6 net income.
7 I see confused looks.
8 MR. BOB PETERS: Well, what you're
9 telling -- let's -- let's try it this way, Ms.
10 Carriere.
11 You've agreed with me that Manitoba
12 Hydro shows a financing expense of $98 million, and the
13 partnership with WPLP shows $74 million of finance
14 expense --
15 MS. LIZ CARRIERE: That's right.
16 MR. BOB PETERS: -- in the 2015 year.
17 So that's a $24 million -- I'll call it a subsidy that
18 Manitoba Hydro is making to the partnership in the 2015
19 year, correct?
20 MS. LIZ CARRIERE: Well, no. It's not
21 a subsidy.
22 MR. BOB PETERS: It's a benefit?
23 MS. LIZ CARRIERE: No.
24 MR. BOB PETERS: Is there another --
25 it's -- it's an advance?

1 MS. LIZ CARRIERE: No.
2 MR. BOB PETERS: Help me out with the
3 word.
4 MS. LIZ CARRIERE: Well, Manitoba Hydro
5 owns 67 percent of it. And we have invested equity --
6 or the overall equity amount is 25 percent. So two-
7 thirds (2/3) of that 25 percent, Manitoba Hydro has
8 borrowed. So that will also be reflected in Manitoba
9 Hydro's statements, but not in the partnership's.
10 MR. BOB PETERS: I -- I understand
11 that, and I understand, though, that the -- are you
12 saying, then, it's only -- it's 67 percent of the $24
13 million that is really Manitoba Hydro's responsibility,
14 and so it's only one-third (1/3) of the $24 million
15 that falls to the partnership that is being subsidized
16 by Manitoba Hydro at this point in time?
17
18 (BRIEF PAUSE)
19
20 MS. LIZ CARRIERE: I think I'd have to
21 go back to the debt and -- and look at -- and parcel it
22 out.
23 MR. BOB PETERS: You -- if we look to
24 page 84, we won't find the offset coming back in to
25 finance expense or in any of the line items shown for

1 Wuskwatim at the top of the page, not in this time
2 frame at least, Ms. Carriere?
3 MS. LIZ CARRIERE: Can you repeat that?
4 MR. BOB PETERS: Well, I'm just
5 wondering. You say in some ways that timing is a -- is
6 an issue here. And I'm wondering, if the benefit, as I
7 called it, is being provided in 2015, when does
8 Manitoba Hydro get the return benefit from the
9 partnership?
10 MS. LIZ CARRIERE: Do you mean in terms
11 of when we're being repaid for the -- the NCN equity
12 loan?
13 MR. BOB PETERS: That's one (1) item,
14 yes.
15 MS. LIZ CARRIERE: Well, that starts
16 about seven (7) or eight (8) years out, but we're --
17 we're accruing interest all the way along, interest
18 income based on the equity loans. So we're charging
19 interest to the partners for loaning them equity.
20 But I'm just not sure if it's reflected
21 in this -- this schedule.
22 MR. BOB PETERS: All right. I -- I
23 think what we'll do at the end is we'll just ask you to
24 provide a written undertaking, where you can try to
25 explain the points we're going to come across.

1 --- UNDERTAKING NO. 38: Manitoba Hydro to provide a
2 written undertaking to
3 explain points addressed
4 regarding partnerships
5
6 MR. BOB PETERS: The -- the same -- the
7 same situation -- would -- would it be fair to say, Ms.
8 Carriere, then, that the difference between the numbers
9 that we see on page 82, which -- of Board counsel book
10 of documents, which is the WPLP Operating Statement,
11 and page 84, which is some financial information about
12 the -- the revenue requirement on in-service of
13 Wuskwatim, the difference between those numbers is a
14 project cost to Manitoba Hydro that the partnership
15 doesn't have to pay?
16 MS. LIZ CARRIERE: That's correct.
17 It's to reflect our -- essentially our ownership in --
18 in the partnership, less NCN's one-third (1/3).
19 MR. BOB PETERS: On page 82, which is
20 before the Board on the screen, under the net income
21 line, the WPLP partnership loses money in all but two
22 (2) of the years that are shown on the -- on the
23 screen?
24 MS. LIZ CARRIERE: That's correct.
25 Well, it -- it shows losses and earnings, yeah.

1 MR. BOB PETERS: And would it be
2 correct that the WPLP unit revenues are essentially the
3 same as the IFF average unit revenues that the
4 Corporation has calculated for Wuskwatim?
5 MS. LIZ CARRIERE: I would say under
6 the original agreement, yes. But the revision to the
7 supplement basically took a weighted average of
8 domestic and export revenues, a weighted average of the
9 two (2) combined.
10 MR. BOB PETERS: Didn't that work out
11 to -- then export revenues of approximately seven (7)
12 to nine (9) cents a kilowatt hour out to 2030?
13
14 (BRIEF PAUSE)
15
16 MS. LIZ CARRIERE: I'm sorry, where are
17 you looking, Mr. Peters? Twenty (20) --
18 MR. BOB PETERS: I was looking on page
19 85 in the minutiae under -- at the bottom of the page,
20 under total export sales. And if we can slide over to
21 the right-hand side, and we see that, you know, out to
22 2030 or 2033, there's about -- it's approximately ten
23 (10) cents a kilowatt hour. That's Manitoba Hydro's
24 average forecast export revenue price?
25 MS. LIZ CARRIERE: Well, the supplement

1 to -- the revision to the PPA would take you -- you
2 would have a combination of 70 -- roughly 70 percent of
3 the domestic price and 30 percent of the export price
4 up to about 2024. Thereafter, you would see a -- a
5 price roughly the same as the export prices you see
6 here, yes.
7 MR. BOB PETERS: Then would you --
8 would you agree, Ms. Carriere, that what we just talked
9 about for Wuskwatim would be also applicable on page 97
10 of Board counsel's book of documents, related to the
11 Keeyask/Hydro Power Limited Partnership?
12 MS. LIZ CARRIERE: Can you repeat that,
13 Mr. Peters?
14
15 (BRIEF PAUSE)
16
17 MR. BOB PETERS: If we go through the
18 same calculations, respecting Keeyask partnership as we
19 did with the WPLP and compare that to the revenue
20 requirement costs for Keeyask, we're going to find the
21 same discrepancies, although on a different scale.
22 Would -- would you accept that, Ms.
23 Carriere?
24 MS. LIZ CARRIERE: Yes.
25 MR. BOB PETERS: And would it be for

1 the same reasons? The finance expense would be
2 different, and --
3 MS. LIZ CARRIERE: And the capital tax
4 essentially, correct.
5 MR. BOB PETERS: Now, has the Keevask
6 Hydropower Limited Partnership Agreement been -- been
7 renegotiated?
8 MS. LIZ CARRIERE: No.
9 MR. BOB PETERS: Is it on the table to
10 be renegotiated?
11 MS. LIZ CARRIERE: No. The Keevask
12 Partnership is a different type of arrangement.
13 They're -- while the Keevask partners have a common
14 unit option that's available to them, they also have a
15 preferred option available to them. And, you know,
16 they haven't -- they won't make a decision on which way
17 they're going to go, but if we expect export prices on
18 the current trend that they are, it's our expectation
19 that they'll take the preferred option, which
20 essentially gives them -- you know, it protects them
21 from capital cost risk, and gives them more assured
22 returns.
23 But the trade-off is, is that the -- if
24 they don't take the capital cost risk, they -- the --
25 the returns for them are lower under the preferred

1 option as -- than they would be under a common option.
2 MR. BOB PETERS: Are you at liberty to
3 indicate whether the Keeyask Hydropower operating
4 statement on page 97 is prepared under the preferred
5 option?
6 MS. LIZ CARRIERE: Yes, it's -- we've -
7 - we've assumed for forecast purposes it would be
8 prepared. It's under -- prepared under the for --
9 preferred option.
10 MR. BOB PETERS: And you'll reconcile
11 the debt and the -- or the finance expense items that
12 we talked about for Keeyask just like you plan to do
13 for the Wuskwatim project?
14 MS. LIZ CARRIERE: Well, we'll try to.
15 It's -- I mean --
16 MR. BOB PETERS: It's all we can ask.
17 MS. LIZ CARRIERE: -- you have to
18 recognize that we're trying to come up with a number
19 here to -- it's not something that we track. Finance
20 expense in particular is very difficult to attribute to
21 a plant, because we've talked many -- I think we've
22 said many times before that finance expenses is managed
23 and -- and we do all of our borrowing at a consolidated
24 level.
25 And there are so many factors that

1 influence finance expense, it's hard to isolate how
2 those factors are affecting the financing expense of
3 the partnership. So we're just making a guess here
4 based on a number of assumptions.
5 MR. BOB PETERS: Ms. Carriere, when it
6 comes to the allocation of export revenues in term --
7 between Manitoba Hydro and the partnership, if we go
8 out to 2030 as the year I picked on page 83 of my book
9 of documents for Wuskwatim Power Limited Partnership,
10 we see that the revenues are $135 million in 2030?
11 MS. LIZ CARRIERE: I see that, yes.
12 MR. BOB PETERS: And that's Manitoba
13 Hydro allocating an amount based on, at that point in
14 time, the export revenues?
15 MS. LIZ CARRIERE: Yes.
16 MR. BOB PETERS: And if we do the same
17 for Keeyask, we would find on page 98, I believe, of
18 Board counsel's book of documents, we'd find $349
19 million on account of export revenue?
20 THE CHAIRPERSON: Is it export revenue,
21 or a mix of export and domestic?
22 MS. LIZ CARRIERE: Keeyask is -- in
23 2030, both partnerships are -- are -- the price is
24 based on the export sales.
25

1 CONTINUED BY MR. BOB PETERS:
2 MR. BOB PETERS: And the Chairman's
3 point is that in the early years, certainly on the
4 WPLP, it's now blended to be weighted seventy (70)
5 domestic, thirty (30) export for the first ten (10)
6 years?
7 MS. LIZ CARRIERE: That's right.
8 MR. BOB PETERS: And if we -- if we
9 look at this -- if we combine the export revenues on
10 the Wuskwatim page and the Keevask page, we come up
11 with about $484 million, and you'd accept that, subject
12 to check?
13 MS. LIZ CARRIERE: Subject to check,
14 yes. MR. BOB PETERS: But we'd have to then
15 subtract the water rental fees on account of Wuskwatim
16 and the water rental fees on account of Keevask, as
17 well, correct, to get to a net number?
18 MS. LIZ CARRIERE: That's correct.
19 MR. BOB PETERS: So my number that I
20 put down was $458 million of export revenues allocated
21 to Keevask and Wuskwatim in 2030.
22 Will you accept that, subject to check?
23 MS. LIZ CARRIERE: Subject to check,
24 yeah.
25 MR. BOB PETERS: And if we go way back

1 into Volume III and look at IFF14 on page 24 of Volume
2 III of Board counsel's book of documents, we see in
3 2030 that Manitoba Hydro forecasts $927 million of
4 export revenues. And I didn't highlight that on -- on
5 the sheet, but we see that about four (4) lines from
6 the top under the 2030 year?
7 MS. LIZ CARRIERE: I'm sorry, can you
8 say that again?
9 MR. BOB PETERS: Sure. Under the 2030
10 year --
11 MS. LIZ CARRIERE: M-hm.
12 MR. BOB PETERS: -- and we go over to
13 the extraprovincial row, we see that it's $927 million
14 of gross export revenues?
15 MS. LIZ CARRIERE: Yes.
16 MR. BOB PETERS: And if we, likewise,
17 subtract the water rentals and the fuel and power
18 purchases which are shown as expenses in the lines
19 below, I total those at 436 million that I'd ask you to
20 accept subject to check, and you'll do that?
21 MS. LIZ CARRIERE: Subject to check.
22 MR. BOB PETERS: And so I get a net
23 export revenue of about $491 million in 2030. Will you
24 accept that, as well?
25 MS. LIZ CARRIERE: Subject to check.

1 MR. BOB PETERS: And the reason that
2 I'm doing this, Ms. Carriere, is Manitoba Hydro, you've
3 accepted, has allocated $458 million net export revenue
4 to the combined Wuskwatim and Keeyask partnerships,
5 correct?
6 MS. LIZ CARRIERE: That's correct.
7 MR. BOB PETERS: And that 458 million
8 net is out of $491 million total net for that year?
9 MS. LIZ CARRIERE: No. I would say
10 that the 491 includes 67 percent of the net revenue
11 from Wuskwatim and 80 -- 97 1/2 -- 97 percent of the
12 Keeyask revenue -- net revenue.
13 MR. BOB PETERS: Is it double-counted?
14 MS. LIZ CARRIERE: No, that's our
15 proportionate ownership of -- reflects the -- the --
16 our proportionate ownership of -- of each of those
17 partnerships.
18 MR. BOB PETERS: All right. So
19 included in the $491 million gro -- net number, that
20 includes all of Manitoba Hydro's share of the export
21 revenues?
22 MS. LIZ CARRIERE: That's Manitoba
23 Hydro's net export revenue, yes.
24 MR. BOB PETERS: And then, when
25 Manitoba Hydro affords revenue or assigns revenue or

1 allocates revenue to the partnerships of $458, is that
2 Manitoba Hydro's revenue that they're also allocating
3 to the partnership?
4 MS. LIZ CARRIERE: Well, that's the
5 value that they've deemed. And actually, I'm going to
6 correct my last statement because all of the 458 from
7 the partnerships is included in Manitoba Hydro's
8 revenues, water rental, and fuel and power lines. We
9 are backing out the -- the partnership's shares through
10 non-controlling interest.
11 Now, you remember where -- when we
12 describe how we consolidate the partnerships with
13 Manitoba Hydro's consolidated income statement we add
14 100 percent of each of the partnership's revenues to
15 our revenue line. So technically, it includes 100
16 percent of the -- the revenue if you're looking at the
17 -- the line items.
18 And then, when you get to the bottom --
19 bottom of Manitoba Hydro's consolidated statements,
20 we're backing out the -- the non-Manitoba Hydro
21 interests, so the -- the Keeyask partners and the NCN
22 partner's share of those revenues and costs.
23 MR. BOB PETERS: That amounts to $10
24 million in 2030?
25 MS. LIZ CARRIERE: Where am I looking?

On the screen --

MR. BOB PETERS: The screen in front of you, please.

MS. LIZ CARRIERE: Yes.

MR. BOB PETERS: Yes, that the non-controlling interest is $10 million for both?

MS. LIZ CARRIERE: $10 million, yeah.

(BRIEF PAUSE)

MR. BOB PETERS: Ms. Carriere, if we -- if we follow that logic that you're using, and you've now put all of the revenues, the export revenues from Wuskwatim and Keeyask, into the Manitoba Hydro number as shown on -- on the IFF, correct?

MS. LIZ CARRIERE: Yes.

MR. BOB PETERS: What about the export revenue that was to come from Manitoba Hydro's other generating stations, the Limestones and the like?

MS. LIZ CARRIERE: Well, that would be in the nine hundred and twenty-seven (927).

MR. BOB PETERS: But that's on a gross basis, and we've -- we've reduced that to a net of four ninety-one (491) by backing out the water rentals and the fuel and power purchases.

1 MS. LIZ CARRIERE: Right. So all the
2 other generating stations are included in the four
3 hundred and ninety-one (491).
4 MR. BOB PETERS: And the water --
5 DR. DAVID SWATEK: Mr. Peters, just a
6 quick reminder that the water rentals are not
7 attributed to exports on Manitoba Hydro's -- from
8 Manitoba Hydro's system. Like, Manitoba Hydro makes --
9 produces electricity and pays the water rentals.
10 That water rentals is for electricity to
11 supply to exports and also to domestic customers. So
12 to -- to do a net calculation like that, what you're
13 doing I don't think is correct.
14 It's often done -- the engineers will
15 often do it when they're looking at -- calculating what
16 they call flow-related revenue, determining the amount
17 of revenues that vary depending on flow conditions.
18 But that's -- that's by no means an attribution of
19 water rentals to an export category or a domestic
20 category.
21 MR. BOB PETERS: And perhaps, Ms.
22 Carriere, the way that we can leave that discussion is
23 that 100 percent then of the revenues attributed
24 through to the partnerships is being reflected by
25 Manitoba Hydro in the water rental and the fuel and

1 power purchase lines?
2 MS. LIZ CARRIERE: I'm sorry. Can you
3 repeat that?
4 MR. BOB PETERS: Yes. Would it be
5 correct that 100 percent of the revenue allocated to
6 the two (2) partnerships would be recorded by Manitoba
7 Hydro then through the water rental and the fuel and
8 power purchase lines on the IFF?
9 MS. LIZ CARRIERE: I'm sorry, I'm not
10 understanding the question.
11 THE CHAIRPERSON: Let me try it this
12 way. So 100 percent of the revenues from the
13 partnership show up in your extraprovincial revenues.
14 So it would follow that 100 percent of the water
15 rentals would also show up there.
16 MS. LIZ CARRIERE: That's correct.
17
18 (BRIEF PAUSE)
19
20 MR. BOB PETERS: One (1) of the
21 documents that Manitoba Hydro provided was Appendix
22 11.50. And I don't have the -- well, it's dated May
23 15th. I'm not sure. That might be the date it was
24 provided, or it was provided last -- the week before
25 the hearing started in any event.

1 But this, Ms. Carriere, was a summary of
2 what Manitoba Hydro has done with respect to the WPLP
3 arrangement?
4 MS. LIZ CARRIERE: Yes. And this is
5 the -- the highlights of this document I walked through
6 in -- in the direct presentation.
7 MR. BOB PETERS: And so let's -- let's
8 turn to -- you call them highlights on page 2 of 5.
9 And as we look at this schedule, I had understood your
10 answer previously that this schedule became effective
11 April 1st, 2014?
12 MS. LIZ CARRIERE: That's correct.
13 MR. BOB PETERS: And so the IFF -- the
14 IFF that we have looked at back on Volume III of Board
15 counsel's book of documents, page 23 -- I'm going to
16 ask Ms. Villegas to -- thank you.
17 When we look at the 2015 year and we
18 scroll up to see the non-controlling interest lines, is
19 the new agreement 100 percent reflected in IFF14?
20 MS. LIZ CARRIERE: No, the -- it is
21 from 2015/'16 and on. However, in the 2014/'15 it
22 still reflects the original agreement.
23 MR. BOB PETERS: And if we look at the
24 -- back to eleven point five zero (11.50), we see that
25 for the year ending March 31 of 2015, the far right-

1 hand column, there's an impact to net income.
2 And is that for the year ending March
3 31, 2015, Ms. Carriere?
4 MS. LIZ CARRIERE: That's correct.
5 MR. BOB PETERS: So that impact hasn't
6 been carried through to -- through the IFF that we have
7 before us?
8 MS. LIZ CARRIERE: No, at the time the
9 IFF was prepared we were still a ways for -- away from
10 completing negotiations with NCN and there was
11 uncertainty as to when it would be completed. So there
12 was an assumption made not to include it in the first
13 year.
14
15 (BRIEF PAUSE)
16
17 MR. BOB PETERS: To accomplish the
18 inclusion, Ms. Carriere, Manitoba Hydro had to backdate
19 the agreement?
20 MS. LIZ CARRIERE: Well, the original
21 intent when we started negotiating it was to complete
22 it and have it -- have the effects beginning in -- in
23 2014 -- April 1st, 2014, so that even though for -- you
24 know, for various reasons it took longer to negotiate
25 the agreement.

1 You know, we -- we had already committed
2 to -- to some of the provisions in -- starting in Apr -
3 - at April 1st.
4 MR. BOB PETERS: Mr. Rainkie, I don't
5 know if I'm walking on thin ice with you on this one,
6 but when we look at the 2015 total impact to MH14 net
7 income of $16 million, that adjustment, as I understand
8 it, wasn't made in IFF14, correct?
9 MR. DARREN RAINKIE: That's correct.
10 MR. BOB PETERS: And when the Board
11 sees Manitoba Hydro's financial statements for the year
12 ending March 31 of 2015, it will show the non-
13 controlling interest item adjusted downward by that $16
14 million?
15 MR. DARREN RAINKIE: Sorry, the non-
16 controlling item was thirteen (13) of the sixteen (16),
17 but yes, for that particular line item on our income
18 statement. Sorry, Mr. Peters, I think --
19 MR. BOB PETERS: I'm sorry.
20 MR. DARREN RAINKIE: -- I lost you
21 there for a second. There are some impacts to finance
22 expense, depreciation, amortization, capital -- sorry,
23 no, and non-controlling interest, so.
24 MR. BOB PETERS: I apologize. I was
25 con -- attributing it all to non-controlling interest

1 and you've correctly pointed out that there will be
2 different adjustments along the way and one (1) of them
3 will be a non-controlling interest of $13 million?
4 MR. DARREN RAINKIE: And that would be
5 one (1) of the reasons why our net income was
6 unfavourable compared to IFF14.
7 MR. BOB PETERS: Thank you, Mr.
8 Rainkie.
9 MR. DARREN RAINKIE: Slowly Mr. Peters
10 is getting the whole income statement out. If we go --
11 if we -- if we go another half day I think I've
12 violated the laws, so.
13 MR. BOB PETERS: Just to maybe conclude
14 in the minutes I have left, on page -- if we go back to
15 Appendix 11.50, Ms. Carriere, in a chart on page 4 of 5
16 you summarized, in your words, the highlights of the
17 agreement, correct?
18 MS. LIZ CARRIERE: Correct.
19 MR. BOB PETERS: And if you can explain
20 to the Board briefly under the -- the TPC financing
21 agreement, which was one (1) of the agreements that was
22 renegotiated, the provision is that the maximum -- the
23 maximum equity loans has now been -- has been capped,
24 and there'll be a $22 million cash investment from TPC,
25 and the balance of the equity loan will be funded by

1 Manitoba Hydro's loan?
2 MS. LIZ CARRIERE: That's right. Now
3 that the project is complete, we know essentially what
4 the capital costs are, so 22 million of -- of that is -
5 - it has been invested by TPC as of March 31st, 2015.
6 And the balance 88 million was loaned, and that's the
7 principal amount of the -- their loan.
8 MR. BOB PETERS: Turning to the -- the
9 next item, the intention was to have an 85:15 debt-
10 equity structure for the first ten (10) years, correct?
11 MS. LIZ CARRIERE: That's correct.
12 MR. BOB PETERS: And then it was going
13 to go to 75:25 thereafter as indicated on the chart?
14 MS. LIZ CARRIERE: Correct.
15 MR. BOB PETERS: And if the debt-equity
16 ratio was slipping because of the losses that the
17 Corporation -- the partnership was running, there would
18 be cash calls on the -- on the partners?
19 MS. LIZ CARRIERE: That was the
20 original arrangement, yes.
21 MR. BOB PETERS: And so now there will
22 be no cash calls, and that -- does that mean that the
23 equity will be eroded?
24 MS. LIZ CARRIERE: Yes.
25 MR. BOB PETERS: Is there a floor on

1 the equity?
2 MS. LIZ CARRIERE: Well, it's not that
3 there will be no cash calls, but it will be at the
4 discretion of the board to determine whether or not
5 they're necessary.
6 MR. BOB PETERS: Mr. Rainkie, are you
7 still on the board?
8 MR. DARREN RAINKIE: Yes, sir, I am.
9 MR. BOB PETERS: Can you just tell this
10 Board, without anything in specific, what factors are -
11 - are generally considered before making a cash call to
12 improve the debt-equity structure?
13 MR. DARREN RAINKIE: Well, sir, we have
14 yet to have a board meeting where we -- we look at
15 this, but we would certainly look at the financial
16 outlook, how things are looking at that point in time,
17 and -- and make decisions. I don't -- there's no hard
18 and fast criteria, sir. It's not a formula driven.
19 It's a judgment-driven thing. But obviously, what
20 we're trying to do in -- in that is that we -- we don't
21 want to loan any more funds to NCN for this purpose.
22 It certainly isn't going to serve anybody's interests
23 to build up the loan -- their loans any -- any farther
24 than they already have.
25 So -- so if there are any cash calls,

1 they'll be funded by Manitoba Hydro. And what will
2 happen, though, is that, if there are cash calls funded
3 by Manitoba Hydro, it will dilute NCN's 33 percent
4 ownership interest.
5 MR. BOB PETERS: Back on page 82 of
6 Board counsel's book of documents, the panel will see -
7 - in Volume IV, please, sorry.
8
9 (BRIEF PAUSE)
10
11 MR. BOB PETERS: If we can go to page
12 82 of Volume IV, we'll look in the bottom right-hand
13 corner, and the way the -- the net income and -- or the
14 losses are accruing, the equity is expected to get down
15 to 5 percent in -- in the later years, Mr. Rainkie?
16 MR. DARREN RAINKIE: That's on the --
17 on the debt ratio side. You can see the 95 percent.
18 MR. BOB PETERS: And I was just
19 assuming the other component, the 5 percent was going
20 to be the equity side.
21 MR. DARREN RAINKIE: That's a fair
22 assumption.
23 MR. BOB PETERS: And -- and you're
24 telling this panel that it'll be up the board of
25 directors to determine whether or not the partnership

1 debt level rises to that -- to that amount?
2 MR. DARREN RAINKIE: Yes, sir. As we -
3 - as we continue to look at the financial outlook,
4 we'll make those determinations.
5
6 (BRIEF PAUSE)
7
8 MR. BOB PETERS: Would the Board
9 understand you correctly in your third-last answer, Mr.
10 Rainkie, that NCN's equity ownership would still remain
11 at 33 percent at these levels?
12 MS. LIZ CARRIERE: We are assuming in
13 this, for forecasting purposes, that the -- the debt-
14 equity ratio has -- will be maintained at ninety-five
15 (95). So there are some operating cash calls, which we
16 have assumed that NCN has not contributed capital for.
17 So in this scenario, their 30 percent -- 33 percent
18 ownership interest is diluted down to about 30 percent.
19 MR. BOB PETERS: And that's to get down
20 to the 5 percent equity level?
21 MS. LIZ CARRIERE: That's to maintain 5
22 percent equity level.
23 MR. BOB PETERS: And what happens in --
24 in years where it drops below that, if there's no -- if
25 there is a cash call, it'll further dilute their owner

1 -- their interest?
2 MS. LIZ CARRIERE: That's already
3 factored in here, so I'm not -- I can't recall which
4 year. But, say, for example, in 2019, the debt-equity
5 ratio without a cash call, you know, goes to 96
6 percent. Then there would be a cash call on the
7 partners. Manitoba Hydro would contribute the capital
8 for both partners. And as a result, NCN's ownership
9 interest would be -- the proportionate amount of inner
10 -- NCN ownership interest would be reduced in that
11 year.
12 MR. BOB PETERS: A point that I didn't
13 fully understand until your presentation, Ms. Carriere,
14 is that the equity loan interest rate premiums shown on
15 page 4 of 5 of Appendix 11.50, looking where the cursor
16 is in terms of the equity loan interest rate premiums,
17 the premium has been waived from here on out?
18 MS. LIZ CARRIERE: That's -- that's
19 correct.
20 MR. BOB PETERS: What was --
21 MS. LIZ CARRIERE: They're now paying
22 Manitoba Hydro's cost of debt.
23 MR. BOB PETERS: And what was the
24 premium designed to recover?
25 MS. LIZ CARRIERE: It was designed to

1 reflect the risk that Hydro was taking in loaning them
2 the money.
3 MR. BOB PETERS: Is the provincial debt
4 guarantee fee included in the interest rate being paid
5 by the First Nation partner?
6 MS. LIZ CARRIERE: Yes.
7
8 (BRIEF PAUSE)
9
10 MR. BOB PETERS: And you've already
11 indicated that the marketing premium was -- was waived
12 until the equity loans have been repaid. I find that
13 on page -- actually, page 5 of 5 of this exhibit?
14 MS. LIZ CARRIERE: That's correct.
15 MR. BOB PETERS: The 3 percent
16 marketing premium was designed to compensate Manitoba
17 Hydro for having to go out and market the power?
18 MS. LIZ CARRIERE: That's correct.
19 MR. BOB PETERS: And then it -- are the
20 equity loans ever expected to be fully repaid?
21 MS. LIZ CARRIERE: Yes. We're
22 currently projecting the equity loans to be paid within
23 thirty (30) -- thirty (30) to thirty-five (35) years.
24 MR. BOB PETERS: At that point in time,
25 the market risk premium increases to 36 percent?

1 MS. LIZ CARRIERE: Correct.
2 MR. BOB PETERS: Why so much?
3 MS. LIZ CARRIERE: That was the
4 tradeoff between providing cashflows to NCN earlier.
5 And because we're expecting that as I had mentioned in
6 -- in my direct presentation, that characteristically
7 for a hydro generating station, you expect that later
8 in the project life, it becomes more and more economic
9 -- economically beneficial.
10 So in order to be fair to Manitoba Hydro
11 and the ratepayers, we negotiated taking -- it's
12 essentially shifting some of the cashflow from the
13 back-end to the early years when it's not profitable.
14 MR. BOB PETERS: On page 92 of Board
15 counsel's Volume IV book of documents, there's a chart.
16 It shows spill energy revenue adjustment. In your non-
17 engineering way, Ms. Carriere, which is not a negative,
18 you explained to the panel in your opening comments
19 that this was seen as a onetime payment.
20 Would that be correct?
21 MS. LIZ CARRIERE: No, I wouldn't
22 characterize it as a onetime payment. We had not
23 anticipated it at the time the original deal was
24 negotiated.
25 We only expect to -- to adjust the

1 revenue in times when there are extremely high water
2 flows on the Nelson River, and higher than what we have
3 anticipated.
4 MR. BOB PETERS: Does that suggest that
5 if at any time Manitoba Hydro has to spill water past
6 Wuskwatim, that there's a payment going to be due to
7 the partnership?
8 MS. LIZ CARRIERE: No. The original
9 2006 agreement fully recognized that -- that Wuskwatim
10 would not always operate at its peak capacity due to
11 water flow levels. This is only compensating for --
12 and that there would be benefit to -- across the rest
13 of the system.
14 So in other words, you know, for
15 example, Long Spruce and Limestone are being operated
16 at full capacity, but Wuskwatim has had to be held back
17 to allow that because on a -- from a system economic
18 basis, it makes more sense to -- to operate those units
19 at a -- at a higher level.
20 So that is not what we are compensating
21 for. We are compensating for -- we expected a certain
22 amount of that, but what we're -- what -- how we're
23 operating the system now, we didn't quite expect to be
24 holding Wuskwatim back as much.
25 MR. BOB PETERS: Last line of

1 questioning, I promise. Back to Appendix 11.5, page 2
2 of 5. If we look at the 2015 and 2016 year and the
3 impact on Manitoba Hydro's net income, there's a $16
4 million loss in each of those two (2) years, correct?
5
6 (BRIEF PAUSE)
7
8 MS. LIZ CARRIERE: Sorry. It's a
9 reduction of -- of -- yes. It increases -- that's
10 right. It increases the loss for Manitoba Hydro. Or,
11 sorry --
12 MR. BOB PETERS: I think what --
13 MS. LIZ CARRIERE: -- reduces net
14 income.
15 MR. BOB PETERS: Right. I'll -- I'll
16 agree with you there.
17 MS. LIZ CARRIERE: I'm getting my
18 partnership and Hydro mixed up here.
19 MR. BOB PETERS: So it reduces the net
20 income in -- for the year ending 2015, it reduces the
21 net income for the year ending 2016, each by $16
22 million.
23 MS. LIZ CARRIERE: Correct.
24 MR. BOB PETERS: And I believe one (1)
25 of the panel members had asked whether or not this

1 First Nation agreement had any impact on the revenue
2 requirement in the test years. Was that a question
3 that somebody on the panel answered?
4 MS. LIZ CARRIERE: Yes. I believe I
5 did.
6 MR. BOB PETERS: Would you not agree
7 with me that this arrangement is reducing net income by
8 $16 million in each of the two (2) test years?
9 MS. LIZ CARRIERE: It isn't reducing
10 net income, but I believe the question was -- or
11 whether or not the question was, my response was that,
12 yes, it's reducing net income, but we're not -- we're
13 not projecting any -- any adjustment to the 3.95 rate
14 increases we've asked for.
15 MR. BOB PETERS: All right. Thank you
16 very much.
17 Mr. Chairman, I'd like to thank Mr.
18 Page, Mr. Schulz, Ms. Bauerlein, Ms. Carriere, and Mr.
19 Rainkie for their answers to my questions. Those
20 conclude them, and I appreciate their assistance and
21 also putting up with some of my humour. Thank you very
22 much.
23 THE CHAIRPERSON: I wonder if there's
24 any other business to attend to? There isn't? So I --
25 with that, I think we are done for the day. So I'd

1 like to wish you a good evening, and we'll see each
2 other again tomorrow morning, some of us anyways, nine
3 o'clock tomorrow morning.
4 MR. BOB PETERS: I'll just indicate,
5 Mr. Chairman, that we can expect Mr. Williams to be on
6 the microphone at the start tomorrow. And I think he's
7 passing the baton to M. Hacault. And depending on the
8 time commitments -- the time commitments from other
9 counsel have been provided, they're -- they're not as
10 lengthy as those two (2) Intervenors -- it may be that
11 Mr. Gange slips in between them. I don't know.
12 But if the Board has an appetite to sit
13 a little later Thursday night, and without holding out
14 any hope, there may be a prospect of an earlier
15 adjournment date on Friday. But that's something we
16 can work through tomorrow morning.
17 THE CHAIRPERSON: Thank you. With
18 that, have a great evening, everyone.
19
20 (PANEL RETIRES)
21
22 --- Upon adjourning at 4:39 p.m.
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1 Certified correct,
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6 Bob Keelaghan, Mr.
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