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 4, 2015

Pages 2243 to 2523

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 (np))

10 Jared Wheeler (np))

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12 William Gange)GAC

13 Peter Miller)

14 David Cordingley)

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16 Antoine Hacault)MIPUG

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22 Kris Saxberg (np))

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25

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8 SANDY BAUERLEIN, Previously Sworn

9 LIZ CARRIERE, Previously Sworn

10 MANNY SCHULZ, Previously Sworn

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1 --- Upon commencing at 9:02 a.m.

2

3 THE CHAIRPERSON: Good morning. I

4 believe that we can start today's proceedings. I'll

5 turn the microphone over to you, Ms. Fernandes.

6 MS. ODETTE FERNANDES: Thank you, Mr.

7 Chairman, and good morning, Board members. Manitoba

8 Hydro has some documents to file this morning.

9 The first one is a response to an

10 undertaking taken at transcript page 1,937, and it was

11 for Manitoba Hydro to provide tables comparing the

12 interest rate forecasts and a comparison of the

13 exchange rate forecasts between fall of 2014, January

14 2015, and the spring of 2015. And that would be marked

15 as Manitoba Hydro Exhibit number 58.

16

17 --- EXHIBIT NO. MH-58: Response to undertaking;

18 tables comparing interest

19 rate forecasts and exchange

20 rate forecasts for fall of

21 2014, January 2015, and

22 spring of 2015

23

24 MS. ODETTE FERNANDES: The next

25 response is to Undertaking number 12 with respect to

1 comparing the sales to the deliveries to determine
2 whether or not Manitoba Hydro financially has settled
3 any of its con -- contractual obligations during the
4 months of October and November of 2014 when the 500kV
5 transmission line was taken out. And that would be
6 Hydro Exhibit Number 59.
7
8 --- EXHIBIT NO. MH-59: Response to Undertaking 12
9
10 MS. ODETTE FERNANDES: The next one is
11 a response to Manitoba Hydro Undertaking number 13, and
12 that was for Manitoba Hydro to determine whether it
13 sold power during the 500 kV outage last October with
14 energy that was purchased. And that would be Manitoba
15 Hydro Exhibit number 60.
16
17 --- EXHIBIT NO. MH-60: Response to Undertaking 13
18
19 MS. ODETTE FERNANDES: We also have a
20 response to Manitoba Hydro Undertaking number 14, which
21 was to provide updated supply and demand tables
22 consistent with the Power Resource Plan and with the
23 assumptions in IFF14 related to thermal generation.
24 And that would be marked as Manitoba Hydro Exhibit
25 number 61.

1 --- EXHIBIT NO. MH-61: Response to Undertaking 14

2

3 MS. ODETTE FERNANDES: And finally, we

4 have a response to Manitoba Hydro Undertaking number

5 23. And that was for us to provide a project

6 description and the budget amount that's included in

7 CEF14, specifically related to the Bipole I and II

8 anchor replacement. And that would be marked as

9 Manitoba Hydro Exhibit number 62.

10

11 --- EXHIBIT NO. MH-62: Response to Undertaking 23

12

13 MS. ODETTE FERNANDES: And that's all

14 we have today.

15

16 (BRIEF PAUSE)

17

18 THE CHAIRPERSON: Thank you, Ms.

19 Fernandes.

20 I'll turn the microphone over to you,

21 Mr. Williams. Good morning.

22

23 MANITOBA HYDRO PANEL 4 - FINANCE RESUMED:

24 DARREN RAINKIE, Previously Sworn

25 SANDY BAUERLEIN, Previously Sworn

1 LIZ CARRIERE, Previously Sworn
2 MANNY SCHULZ, Previously Sworn
3 IAN PAGE, Previously Affirmed
4
5 MR. BYRON WILLIAMS: Good morning,
6 members of the panel. I was just looking around the
7 room and -- and reflecting upon Mr. Page's sartorial
8 splendour yesterday, and then looking to my left at M.
9 Hacault. And -- and I don't want to be gender-biased,
10 but I -- I think that we may want to have for the next
11 regulatory proceeding some sort of competition open to
12 both genders in terms of most colourful.
13 Now, Mr. Bel, first day of the hearing,
14 put in a spectacular appearance himself, and Mr. Peters
15 is doing not so bad today either, I've got to say.
16 That's all I have to say.
17 We do have two (2) exhibits. We -- our
18 client felt that Mr. Peters and Mr. Hombach had killed
19 enough trees in this hearing, so ours are a little more
20 modest numerically.
21 One (1) is an excerpt actually from the
22 record, Coalition/Manitoba Hydro-II-54(a), which I'm --
23 we're advised by Mr. Simonsen should be marked as
24 Coalition Exhibit 21.
25

1 --- EXHIBIT NO. COALITION-21:
2 Excerpt from
3 Coalition/Manitoba Hydro-
4 II-54(a)
5
6 MR. BYRON WILLIAMS: And also a small
7 ex -- excerpt from the -- the proceeding, the NFAT
8 proceeding into the Wuskwatim generation and
9 transmission projects which we're advised should be
10 marked as Coalition 22.
11
12 --- EXHIBIT NO. COALITION-22:
13 Excerpt from NFAT
14 proceeding into Wuskwatim
15 generation and transmission
16 projects
17
18 CROSS-EXAMINATION BY MR. BYRON WILLIAMS:
19 MR. BYRON WILLIAMS: And to the Hydro
20 panel, I probably will start with your names, but if I
21 misdirect my questions, you'll be free for someone else
22 to -- to chip in.
23 Mr. -- Mr. Page, I'll start with you.
24 And I know you're a careful witness, but being that the
25 date is June 4th, 2015, can I get you to agree that it

is spring?

MR. IAN PAGE: Yes.

MR. BYRON WILLIAMS: And one of the rights of passage in the Manitoba Hydro planning cycle is the publication of the spring out -- outlook. Is that fair?

MR. IAN PAGE: Yes, but as I explained yesterday we've changed the -- the process so that the -- in the spring there's a -- the economic assumptions that will be used in the planning to start the -- the planing cycle are issued in the spring, but the actual economic outlook document that we used to issue in the spring is now going to be issued in the fall to coincide with the publication of the -- the -- with the assumptions that are used in the IFF.

MR. BYRON WILLIAMS: And I was following that discussion. Just so I know, sir, when did that change take place?

MR. IAN PAGE: This year is the first year that we've made that change.

MR. BYRON WILLIAMS: So, sir, there is a spring economic outlook prepared, and you cite at least excerpts from it in your response to Manitoba Hydro Exhibit 58?

MR. IAN PAGE: That's -- that's the

1 bulk of it. In my presentation, I also made reference
2 to forecasts of GDP and population growth, and -- and -
3 - try to think what other factors -- disposable income.
4 I think those are it.
5 MR. BYRON WILLIAMS: Just so I'm aware,
6 sir, on the record of this proceeding to your knowledge
7 there's not such a document as the Manitoba Hydro
8 spring economic outlook?
9 MR. IAN PAGE: No. The only one was --
10 would be the one that was filed in the -- in the
11 filing, the 2014 economic outlook document.
12 MR. BYRON WILLIAMS: And is there such
13 a document now as the spring eco -- economic outlook
14 for 2015?
15 MR. IAN PAGE: No. Essential -- the
16 Exhibit 58 that you received this morning is the
17 interest -- interest rates and exchange rate forecast
18 that are -- that are included in that. The other
19 variables that we forecast are -- are -- I'm trying to
20 think exactly the format that they were submitted in
21 but they were approved in a -- in a similar sort of
22 just lose table format, and then -- and then are passed
23 onto the various groups that are using them for -- for
24 the preparation of load forecast, and so forth.
25 MR. BYRON WILLIAMS: And, sir, in terms

1 of the analysis that went into the table format spring
2 outlook, when was that prepared?
3
4 (BRIEF PAUSE)
5
6 MR. IAN PAGE: The various forecasts
7 are available at slightly different times, but
8 generally they're all of March or April vintage.
9
10 (BRIEF PAUSE)
11
12 MR. BYRON WILLIAMS: And we may come
13 back to this document later, but if we just turn to
14 page 2 of 2 of Exhibit 58 for one second and, sir, if I
15 -- if I was to draw your attention to the 2015/'16
16 year, the -- the top table, looking at the long-term
17 rate for -- set out in the spring EO -- and we'll just
18 wait till Diana pulls it up.
19 You'll see the figure of 4 percent, sir?
20 MR. IAN PAGE: Yes, I do.
21 MR. BYRON WILLIAMS: And is that 4
22 percent inclusive of a 1 percent debt guarantee fee?
23 MR. IAN PAGE: Yes. These -- these
24 tables are all inclusive of the guarantee fee. It's --
25 it's always an important point when -- when Mr. Schulz

is talking that when he's talking the numbers his -- his numbers are always before the guarantee fee, but when we're doing the forecast we're always just add -- adding the two (2) in together.

MR. BYRON WILLIAMS: So if I was talking in Mr. Schulz's world, I would -- I would stroke out the four (4) and put in a three (3)?

MR. IAN PAGE: That would be correct.

MR. BYRON WILLIAMS: Your world, I -- I add on the extra 1 percent?

MR. IAN PAGE: Yes.

MR. BYRON WILLIAMS: And just to go to the page 1 of 2 of Exhibit 58, and you've made this point, sir, but just so I can confirm it, and directing your attention to the 2015/'16 year, you see the short -- forecast short-term rate is 1.7 percent?

MR. IAN PAGE: Yes, I see that.

MR. BYRON WILLIAMS: And one (1) -- taking away the debt guarantee fee, you're now looking at a .7 percent?

MR. IAN PAGE: That's -- that's correct.

(BRIEF PAUSE)

1 MR. BYRON WILLIAMS: This may go to Mr.
2 Rainkie or Ms. -- someone over on the -- on the far
3 side of the table, anyways. Just turning to -- and --
4 and I'll just advise Hydro and the Board we, of course,
5 were filing -- following Mr. Peters's discussion. From
6 time to time, we may trip over his feet, but we are
7 trying to avoid it to the extent possible.
8 Mr. Rainkie, though, going to our
9 favourite subject, being the Bipole III project, we
10 expect that to be coming online in 2018/'19, agreed,
11 sir?
12 MR. DARREN RAINKIE: That's correct,
13 sir.
14 MR. BYRON WILLIAMS: And as compared to
15 the estimates provided in the NFAT, we're expecting it
16 to be -- cost roughly 1.3 billion more than was pro --
17 the PUB was advised in the course of the NFAT, agreed?
18 MR. DARREN RAINKIE: Agreed.
19 MR. BYRON WILLIAMS: And coming in at a
20 cost in the range of 4.65 billion, we can expect Bipole
21 III to have a substantial impact on the expected costs
22 of the Corporation in 2018/'19, and for many years
23 after, agreed?
24 MR. DARREN RAINKIE: Yes, the carrying
25 costs on that large of a project will be significant.

1 MR. BYRON WILLIAMS: In the hundreds of
2 millions annually, sir?
3 MR. DARREN RAINKIE: That's correct.
4 MR. BYRON WILLIAMS: And without asking
5 you to elaborate, I'll ask you to agree that from
6 Manitoba Hydro's perspective, Bipole III makes an
7 important contribution to system reliability and
8 diversity.
9 MR. DARREN RAINKIE: Yes, thinking back
10 to the presentation yesterday, sir.
11 MR. BYRON WILLIAMS: And you are aware,
12 sir, that in PUB Order 43/'13, the PUB directed that
13 1.5 percent of the specific rate increase for that year
14 be set aside in a deferral account to off -- offset the
15 anticipated rate impact of Bipole III, agreed?
16 MR. DARREN RAINKIE: Yes, sir.
17 MR. BYRON WILLIAMS: Similarly, in
18 Order 49/'14, the PUB directed that a .75 percent be
19 set aside in a deferral account to off -- offset the
20 anticipated rate increase when Bipole III came online?
21 MR. DARREN RAINKIE: That's correct.
22 MR. BYRON WILLIAMS: And, sir, it would
23 be accurate to say that Bipole III was not providing
24 any reliability or diversity benefits to consumers in
25 2013/'14, agreed?

1 MR. DARREN RAINKIE: Yes, given that
2 it's not in service yet.
3 MR. BYRON WILLIAMS: And it's not
4 providing reliability benefits to consumers in 2014/'15
5 either, agreed, sir?
6 MR. DARREN RAINKIE: Same response,
7 sir.
8 MR. BYRON WILLIAMS: And the same
9 conclusion would apply in terms of reliability benefits
10 for the '15/'16 year, agreed?
11 MR. DARREN RAINKIE: Yes, agreed.
12 MR. BYRON WILLIAMS: Without commenting
13 on the merits of the policy, we can agree that today,
14 Manitoba consumers have in their rates costs for a
15 project that they are not currently benefiting from,
16 agreed?
17
18 (BRIEF PAUSE)
19
20 MR. DARREN RAINKIE: Sir, are you
21 suggesting that the Public Utilities Board was
22 misguided in providing those rate increases?
23 MR. BYRON WILLIAMS: Mr. Rainkie, do
24 you recall my -- my -- the premise to my question,
25 which is, Without commenting on the -- on the merits of

1 the decision, I'm asking you to comment on the factual
2 assertion that today, Manitoba consumers have in their
3 rates costs for a project that they are not currently
4 benefiting from.
5
6 (BRIEF PAUSE)
7
8 MR. DARREN RAINKIE: A portion of the
9 revenue requirement, it's included in rates, is being
10 set aside for Bipole III. Yes, sir, based on a policy
11 decision, and I would submit, a good policy decision.
12 MR. BYRON WILLIAMS: And just so I'm
13 clear, you are accepting the factual premise of my
14 question, sir?
15 MR. DARREN RAINKIE: Yes, I was, in
16 terms of, I think, some form of a strict rate base rate
17 of return type of a perspective, which, of course, we
18 haven't had in Manitoba in terms of setting rates.
19 MR. BYRON WILLIAMS: We may get into
20 that discussion later, Mr. Rainkie. And would you also
21 agree that for Manitobans who choose to leave the
22 province prior to 2018/'19, that imbedded in their
23 rates today will be costs for a project that they may
24 never benefit from?
25 MR. DARREN RAINKIE: Yes, personally.

1 But I -- I think at seven (7) cents a kilowatt hour,
2 that all the customers of Manitoba have benefited from
3 the service that Manitoba Hydro provides for a long
4 time.
5 MR. BYRON WILLIAMS: Were you accepting
6 the premise of my question, sir?
7 MR. DARREN RAINKIE: I was accepting
8 the premise of your question and elaborating, sir,
9 because I don't accept that I don't have the ability to
10 elaborate if I -- if I feel that it's necessary to
11 provide the proper perspective to the Board.
12 MR. BYRON WILLIAMS: And -- and that's
13 fine. I just wanted to make sure there was a 'yes'
14 there.
15 MR. DARREN RAINKIE: And I would note,
16 Mr. Williams, that there's a small migration in and out
17 of customers, but for the large part, the people that
18 are here have been here in Manitoba for a long time and
19 continue to live here, so. I think per -- once again,
20 perspective on -- on each question is important.
21 MR. BYRON WILLIAMS: Yes. And can we
22 also agree that apart from those who voluntarily leave
23 the province, there might also those who involuntarily
24 leave this world, including seniors?
25 And again, for them, they may have in

1 their rates today rates for a service that they may
2 never benefit from, agreed?
3 MR. DARREN RAINKIE: Yes, but once
4 again, I think the setting of rates looks at the
5 overall public interest, it doesn't look at each
6 individual, necessarily.
7 MR. BYRON WILLIAMS: Mr. Rainkie, just
8 in terms of the -- I just want to ask you for -- a
9 couple questions about the time pattern that led to the
10 inclusion of the budget adjustment for Bipole III.
11 And are we on common ground -- or would
12 you agree that Mr. Hacault and Mr. Elba -- Elder
13 established on -- on Monday that the Corporation knew
14 by April of 2014 that it would require synchronous
15 condensers?
16 And if you need a transcript reference,
17 it's page 1,531.
18 MR. DARREN RAINKIE: What I recall is
19 Mr. Elder trying to provide perspective on a six and a
20 half (6 1/2) -- sorry, a $4.6 billion project, one (1)
21 of the largest infrastructure projects in North
22 America, talking about going through bids that are five
23 thousand (5,000) pages long. That's what I recall,
24 sir.
25 MR. BYRON WILLIAMS: I'm just referring

1 you to page 1,531. And I'm not actually sure where on
2 the page. Perhap -- you -- you could scroll. I may
3 have the mistaken reference. I'll -- I'll bring that
4 back up on -- oh, there we do it, right at the bottom.
5 Mr. Hacault, you see, suggesting that
6 April -- in April, that they knew that technology was
7 going to be synchronous condensers, do you see that,
8 sir, and Mr. Elder agreeing?
9 Would that be fair?
10 MR. DARREN RAINKIE: He says, "Voltage
11 source converter." And I'm not sure what that term
12 means, sir. I'm not a -- I'm not an engineer. I -- I
13 think he indicated that when the bids first came in,
14 they understood that, but that there was a process -- a
15 very long process of going through all the bids and
16 trying to understand what they meant.
17 MR. BYRON WILLIAMS: Okay. And that
18 was in April that they received those bids, sir?
19 MR. DARREN RAINKIE: Subject to check,
20 sir, I'll -- I'll accept that. And we can --
21 MR. BYRON WILLIAMS: Okay.
22 MR. DARREN RAINKIE: -- go to the next
23 question.
24 MR. BYRON WILLIAMS: And so in -- in
25 September 2014, Hydro announced the negative 1.3

1 billion deviation in the budget, agreed, sir?
2 MR. DARREN RAINKIE: In September,
3 Manitoba Hydro announced its estimate of the -- of the
4 budget based on a -- a substantial portion of the bids
5 being in.
6 MR. BYRON WILLIAMS: And CEF14 was
7 then, of course, adjusted to include this significant
8 adverse development, agreed?
9 MR. DARREN RAINKIE: Yes. It was
10 adjustment -- adjusted to include a better estimate of
11 what we expect the project to cost.
12 MR. BYRON WILLIAMS: And of course,
13 it's necessary and important to recognize significant
14 events that may affect the budget on a timely basis.
15 You'd agree with that, sir?
16 MR. DARREN RAINKIE: Yes, once the
17 appropriate due diligence has been undertaken and we
18 understand the -- all the -- all the contracts, sir.
19 If I think back to some of the Information Requests,
20 there are dozens of contracts involved in this project.
21 So, yes, once we are confident in the overall number,
22 it's -- it's -- was released.
23 MR. BYRON WILLIAMS: Ms. Carriere, I --
24 I take it you're the Wuskwatim expert on the -- on the
25 file? Would that be you?

1 MS. LIZ CARRIERE: Well, I'm one (1) of
2 them.
3 MR. BYRON WILLIAMS: And again, we will
4 have to go over a little ground you've covered before,
5 but I'll -- I'll try and keep it light.
6 You're aware that there was an NFAT
7 proceeding into the -- into Wuskwatim, agreed, into the
8 need for and alternatives to?
9 MS. LIZ CARRIERE: Yes, conducted by
10 the CEC, yeah.
11 MR. BYRON WILLIAMS: And perhaps it was
12 jointly conducted between the CEC and the Public
13 Utilities Board.
14 Would that be your recollection?
15 MS. LIZ CARRIERE: Yes. There were two
16 (2) commissioners.
17 MR. BYRON WILLIAMS: And if we look at
18 the prospects for the Wuskwatim generating station
19 today as compared to at the time of the NFAT, one (1)
20 significant change was that capital costs were
21 considerably higher than expected at the time of the
22 NFAT, agreed?
23 MS. LIZ CARRIERE: Yes, that's correct.
24 MR. BYRON WILLIAMS: And while we were
25 expecting, at -- back -- in -- back in the time of the

1 NFAT, Wuskwatim to come in at about 1 billion, it ends
2 -- it's -- it's ending up costing close to 1.78
3 billion.
4 Would that be fair?
5 MS. LIZ CARRIERE: I believe the 1
6 billion is correct, subject to check, but yes.
7 MR. BYRON WILLIAMS: And if you need a
8 reference, PUB-I-17(c) revised.
9 And another significant change from the
10 NFAT related to Wuskwatim is that export revenues are
11 significantly lower than forecast at the time of the
12 NFAT, agreed?
13 MS. LIZ CARRIERE: Agreed.
14 MR. BYRON WILLIAMS: And you went over
15 in some detail with My Friend Mr. Peters -- and I -- I
16 don't think we need to go there, but the -- the ten
17 (10) year outlook for the Wuskwatim Limited
18 Partnership.
19 You remember that yesterday?
20 MS. LIZ CARRIERE: Yes, I do.
21 MR. BYRON WILLIAMS: And it would be
22 fair to say that the combined effect of cost overruns
23 and export revenue underruns is that the Wuskwatim
24 Limited Partnership is forecast to be in the red beyond
25 2019/'20, agreed?

1 MS. LIZ CARRIERE: Agreed.
2 MR. BYRON WILLIAMS: And it's within
3 that spirit -- I'll let Mr. Rainkie...
4
5 (BRIEF PAUSE)
6
7 MS. LIZ CARRIERE: Sorry, Mr. Williams.
8 MR. BYRON WILLIAMS: And it was
9 recognizing that adverse financial reality, but in the
10 hopes of adhering to the original spirit and intent of
11 the Wuskwatim original PDA that Manitoba Hydro entered
12 into the second supplementary agreement to the PDA in
13 April of 2015, agreed?
14 MS. LIZ CARRIERE: Agreed.
15 MR. BYRON WILLIAMS: It was driven by
16 the acute under-performance of Wuskwatim and the
17 adverse implications that -- that it -- that had for
18 the -- the Nisichawayasihk Cree Nation, agreed?
19 MS. LIZ CARRIERE: Yes. The
20 distributions or the cashflow from the project were
21 considerably less than what they had anticipated back
22 in 2006.
23 MR. BYRON WILLIAMS: And in addition,
24 there was the risk of calls in terms of capital as
25 well, agreed?

1 MS. LIZ CARRIERE: Yes, there was, but
2 there was provisions for -- for funding those
3 previously.
4 MR. BYRON WILLIAMS: Now, again, you
5 went through this in some detail with Mr. Peters, so I
6 -- I want to stay at a high level. But the revisions
7 flowing from PDA Supplement number 2 are expected to
8 lead to an annual adverse impact of $15 million to
9 ratepayers out well into the 2030s, agreed?
10 MS. LIZ CARRIERE: A reduction to net
11 income, agreed, but it did not change the rates that we
12 were seeking.
13 MR. BYRON WILLIAMS: You don't consider
14 a reduction in net income an adverse implication for
15 ratepayers?
16 MS. LIZ CARRIERE: Well, under cost of
17 service we have the ability to smooth those over a
18 period of time. So I believe the intent was to smooth
19 those over time, and to a period when the -- the
20 partnership is -- is performing at more of the expected
21 level.
22 MR. BYRON WILLIAMS: In essence, PDA
23 Supplement 2 advances certain benefits to the -- to the
24 -- the NCN as compared to the original PDA. Would that
25 be fair?

1 MS. LIZ CARRIERE: That's fair.
2 MR. BYRON WILLIAMS: And going to your
3 recent comments for Hydro and its ratepayers, and as a
4 result of PDA Supplement 2, their benefits or hoped for
5 benefits are deferred until later, agreed?
6 MS. LIZ CARRIERE: I would say that --
7 that, I mean in terms of economics of the partnership
8 perhaps, but over -- since the CEC load has grown more
9 than anticipated and what was planned to be an export -
10 - a merchant plant, is now being used for -- to serve
11 domestic purposes.
12 So in terms of providing service to
13 customers, I -- I believe that is a benefit, and
14 they're -- I mean, that -- that cust -- current
15 customers are required to pay for.
16 MR. BYRON WILLIAMS: And my question
17 may have been imprecise, and so let me frame it a
18 little more carefully. Comparing the original PDA to
19 PDA Supplement 2, the effect of PDA Supplement 2 was to
20 advance benefits to the NCN, and to defer to some
21 future date benefits to the -- to Hydro and its
22 ratepayers, agreed?
23 MS. LIZ CARRIERE: Yes. The -- the
24 benefits for the project are intended to be over the
25 long life of that asset.

1 MR. BYRON WILLIAMS: And you'll agree
2 with me, Ms. Carriere, that the further one goes out in
3 time the more uncertainty there is in terms of the
4 magnitude and timing of any such benefits, agreed?
5 MS. LIZ CARRIERE: No, I wouldn't agree
6 with that. Wuskwatim will be generating energy for a
7 long period of time, and we know that now that it's
8 built the costs are essentially fixed. So we are
9 expecting that there -- as previously generating
10 stations, that there will be significant benefits over
11 the life of that asset.
12 MR. BYRON WILLIAMS: And without
13 meaning to be argumentative, those long-term
14 expectations are built upon a world where we don't know
15 what's going to happen with distributed generation, the
16 development of solar power, or those things. That
17 there are great uncertainties farther out, agreed?
18 MS. LIZ CARRIERE: Yes, I could --
19 could agree anything can happen.
20 MR. BYRON WILLIAMS: Would you agree
21 that as compared to the original PDA, under PDA
22 Supplement 2 a certain amount of risk has been
23 transferred from the NCN to Manitoba Hydro and its
24 ratepayers?
25 MS. LIZ CARRIERE: Yes, and I -- I

1 believe that that was always understood. It's always
2 been termed as a quasi-commercial deal, recognizing
3 that NCN or any First Nation isn't as able to tolerate
4 the volatility in earnings that -- that Hydro
5 generating stations usually occur.
6 So -- however, over time we firmly
7 believe that -- that the assets -- the -- the
8 generating station will provide benefits. But from
9 year to year they're -- the communities just cannot
10 tolerate that volatility. So it has always been the
11 intent to try and smooth those earnings for the returns
12 for -- for the First Nation.
13 MR. BYRON WILLIAMS: And, Ms. Carriere,
14 and if you're not able to comment upon this that's
15 fair. But you'll be aware that in the original NFAT my
16 clients, the Consumers' Association, albeit with
17 certain reservations was supportive of the -- the
18 arrangement between Manitoba Hydro and the NCN.
19 Are you aware of that?
20 MS. LIZ CARRIERE: I can't recall. I'm
21 sorry.
22 MR. BYRON WILLIAMS: Okay. In terms of
23 the transfer of risk from the PDA to PDA Supplement 2
24 it would be fair to say that Hydro ratepayers had no
25 voice in that decision to transfer risk, agreed?

1 (BRIEF PAUSE)

2

3 MS. LIZ CARRIERE: Well, in terms of --
4 there -- there was the CEC proceeding and there's an
5 opportunity to express concerns there. However,
6 building a generating station in the north in the
7 vicinity of these First Nations, it's not -- it's part
8 of the business model. It's part of being neighbours
9 that we are not going to build a plant without their
10 participation. So this was -- this was the vision for
11 this type of arrangement was to have participation and
12 common interests in terms of making sure that the
13 project succeeds over the life of the asset.

14

15 (BRIEF PAUSE)

16

17 MR. BYRON WILLIAMS: And, Ms. -- did --
18 and, Ms. Carriere, the -- and this can go to you or Mr.
19 Rainkie. Perhaps if we can pull up Coalition-22. Yes,
20 which is the excerpt from the -- the joint panel on the
21 NFAT Wusk -- for Wuskwatim generation transmission
22 projects. And direct your attention to the second page
23 marked in the bottom page 36. And -- perfect. Right
24 there. Thank you. Ms. -- Mr. Rainkie, quite properly
25 Ms. Carriere has spoken about the relationship that --

1 that Manitoba Hydro was attempting to forge with the
2 NCN.
3 And it would be fair to say that the --
4 the model adopted in terms of the partnership
5 arrangement was a novel one (1) for Manitoba Hydro,
6 agreed?
7 MR. DARREN RAINKIE: Yes, it was a
8 change in the business model from building electric
9 generating stations and then compensating for damages
10 after the fact. In many cases many years after the
11 fact. A change of a business model of -- to having
12 participation with First Nations in the development and
13 -- and siting and -- and all the environmental aspects
14 of the generating stations.
15 I think the term, sir, is one (1) of
16 social licence. I think that you would be familiar
17 with that term given your title. You -- you can't --
18 that's not the business model you can use anymore, nor
19 do we want to. We want to have a business model where
20 there are participation with First Nations and where
21 there are benefits to First Nations.
22 We're not -- the other side of this --
23 NCN is on the other side of this. They're not IBM.
24 We're not trying to negotiate them into bankruptcy.
25 We're trying to have a project which is adjacent to

1 their lands, or on their lands. We're trying to -- to
2 make them a partner in this for the -- for the
3 betterment of everyone involved.
4 MR. BYRON WILLIAMS: Yes, and you'll
5 recall of course, Mr. Rainkie, that my client was
6 generally supportive of this arrangement way back then,
7 agreed?
8 MR. DARREN RAINKIE: You know, sir,
9 I'll take -- I'll take your word on it. I was
10 preparing gas applications back in 2004, so --
11 MR. BYRON WILLIAMS: You can --
12 MR. DARREN RAINKIE: -- Ms. Carriere
13 might have a better knowledge of that than me, but I --
14 I see no reason why you would disagree with that change
15 in business model, yeah.
16 MR. BYRON WILLIAMS: But I'll direct
17 your attention to a concern raised by my client. And
18 you'll see here on page 36 a -- a concern by my client
19 that there was not an assessment of business risks
20 associated with the partnership agreement.
21 And then just to direct your attention
22 to a bit further down in the paragraph, the last three
23 (3) or four (4) lines:
24 "A recommendation by our consultants
25 at the time that Hydro undertake a

1 full business risk assessment related
2 to the risk associated with the
3 partnership, including the mitigr --
4 gation strategy."
5 So you see that recommendation, sir?
6 MR. DARREN RAINKIE: I see that on the
7 paper, sir. Once again, I wasn't involved in this
8 hearing at all, so I -- I can do no more than just
9 confirm that that's what it says.
10 MR. BYRON WILLIAMS: Okay. Well, let's
11 turn to page 38 for a moment. And again, please scroll
12 down to the bottom of the page, to the right side. And
13 again, Mr. Rainkie, recognizing that you were doing gas
14 applications, but also that you're the repository or
15 the -- the spokesperson for the Corporation, you'll see
16 the Clean Environment Commission commenting about the
17 absence of a review of the business risks associated
18 with the partnership as well, agreed?
19
20 (BRIEF PAUSE)
21
22 MR. IAN PAGE: Maybe I can step in
23 here, Mr. -- as I was -- I was --
24 MR. BYRON WILLIAMS: Always, Mr. Page.
25 MR. IAN PAGE: -- was involved in the

1 negotiation of the original agree -- agreement and was
2 involved in that hearing. And I -- I think there was a
3 disagreement between Manitoba Hydro and -- and this --
4 this conclusion, because we had taken -- undertaken
5 what we thought was extensive business risk of the --
6 of the Wuskwatim project and the partnership
7 arrangements.
8 As we'll -- I'm sure we'll get to later,
9 our ability to forecast is -- is -- has limitations.
10 And -- and when we did the -- we looked at the -- the
11 range of possible outcomes we did high export price, we
12 did low export price and -- and so forth. And -- and
13 what wouldn't have been captured by any other different
14 process than what we'd done was the fact that nobody at
15 the time foresaw natural gas prices going as low as --
16 as they did and -- and the corresponding export prices.
17 So if there is a failing in anything we
18 did, it was our inability, along with everybody else in
19 the market at the time, to -- to foresee that low range
20 and that protracted low range that we -- that we found
21 ourselves in. So tha -- that's -- and -- and as a
22 result of that, that's why Ms. Carriere has been
23 involved in those -- in those updates to -- and -- and
24 renegotiations to the agreement subsequent to that.
25 MR. BYRON WILLIAMS: And I -- I don't

1 mean to get hung up on this for much longer, but, Mr.
2 Page, you'll understand from your participation in the
3 hearing that my client was articulating a concern that
4 you had not provided an assessment of business risks
5 associated with the partnership arrangement itself,
6 agreed?
7 MR. IAN PAGE: I agree there was
8 discussion on the -- on the form and content of the
9 risk analysis. And looking back, we probably didn't
10 formalize the risk analysis in a -- in a way that was
11 easy -- that was -- that formed part of the
12 presentation, but we -- when we -- when we -- from the
13 very first day we started negotiations with NCN, one
14 (1) of the -- the first principles that we had from the
15 person who is in -- sort of leading up the
16 negotiations, who's no longer with us was -- that he
17 did not want to see a situation where things went bad
18 and people in NCN were having to -- having to do
19 without, because they took money that was to be used
20 for schooling, or housing, and so forth, and used it to
21 -- to cover Hydro losses.
22 So that was -- that risk mitigation was
23 -- was there for -- the principle was there from day
24 one. MR. BYRON WILLIAMS: Okay. Thank you.
25 Ms. Carriere, you had a lengthy

1 discussion you'll recall with Mr. Peters about various
2 as -- aspects of PDA Supplement 2. You'll remember
3 that?
4 MS. LIZ CARRIERE: Yes.
5 MR. BYRON WILLIAMS: One (1) question
6 I'm not sure you -- you got to were the implications,
7 if any, to the partnership agreement of a drought. And
8 I -- so I -- or -- so I guess my question to you is:
9 In the event of a drought, is the -- is there a
10 guarantee of a certain notional amount of generation,
11 or do the revenues decline accordingly?
12 MS. LIZ CARRIERE: Under low water flow
13 conditions, the revenues would deteriorate. However,
14 there is protections in place so that they do get
15 cashflow to -- to the -- to the First Nation. But it's
16 a dividend loan, and to be repaid from future
17 distributions.
18 So in terms of -- you know, the
19 principle at the time was that this happens. We have
20 low water flows, but they would have to take a bit of
21 that risk. So the dividend loan was a compromise
22 between providing cashflow to the -- to the community,
23 but yet not -- not putting that entirely -- that risk
24 entirely on Manitoba ratepayers. And that's why it's -
25 - it's a repayable loan.

1 In addition to that, it's my
2 understanding, and this is my non-engineering, is that
3 the water flow levels on the Burntwood River are not as
4 variable as the rest of the system.
5 MR. BYRON WILLIAMS: Okay. Thank you.
6 Mr. Rainkie, I -- I rarely give you an opportunity --
7 invite an opportunity from you to -- to make a more
8 extended commentary. So I'm -- I'm going to offer it
9 with the request that you keep it tight if you can,
10 sir.
11 But I'm going to ask a couple of lead-up
12 questions, and then I'm -- my client is quite
13 interested in your response. So, Mr. Rainkie, Manitoba
14 Hydro is -- is seeking to build a new relationship with
15 First Nations on the Nelson River, whether through the
16 Wuskwatim PDA or the -- the Keeyask joint -- the JKDA,
17 agreed?
18 MR. DARREN RAINKIE: Agreed. I mean,
19 one (1) of our core focuses, as we've talked about in
20 our Corporate Strategic Plan, is to strengthen
21 Aboriginal relations in general --
22 MR. BYRON WILLIAMS: Okay.
23 MR. DARREN RAINKIE: -- through any
24 agreement or interaction.
25 MR. BYRON WILLIAMS: And again, I'll

1 give you the chance to really comment in a moment, but
2 in terms of those agree -- agreements, I'll suggest to
3 you there are at least three (3) key elements.
4 One (1) is the hopes of having projects
5 that are: 1) more environmentally friendly, 2) the hope
6 of having projects that deliver economic stimulation
7 through job training and job participation, and 3) the
8 development of a revenue stream going into the future
9 flowing from the projects.
10 Would you accept that generally, sir?
11 MR. DARREN RAINKIE: Yes, sir. I think
12 that's a good summary.
13
14 (BRIEF PAUSE)
15
16 MR. BYRON WILLIAMS: Now I have the
17 tactical advantage, Mr. Rainkie. Your papers are --
18 are not right in front of you.
19 MR. DARREN RAINKIE: You're making me
20 go left-handed now, Mr. Williams.
21 MR. BYRON WILLIAMS: Hopefully I have
22 sunshine coming too, sir, in your eyes. Sir -- I said,
23 Hopefully I have sunshine. And again, without asking
24 you to elaborate, after the Wuskwatim project, the
25 Corporation undertook at least a partial examination of

1 the results in terms of training through the Deloitte
2 analysis.
3 Do you recall that, sir?
4 MR. DARREN RAINKIE: Yes, I recall
5 that, sir.
6 MR. BYRON WILLIAMS: Now, looking
7 forward, it's not clear whether or not Conawapa will be
8 built, agreed?
9 MR. DARREN RAINKIE: That's right.
10 MR. BYRON WILLIAMS: In the event that
11 Conawapa is built, one would expect it would be by
12 virtue of a -- a joint development -- I -- let -- let
13 me strike that -- some sort of relationship with --
14 with the -- with First Nations?
15 MR. DARREN RAINKIE: Yes. The First
16 Nations in the vicinity of the project. Yes, sir.
17 MR. BYRON WILLIAMS: And, Mr. Rainkie,
18 at a high level, can you -- you articulate what process
19 Manitoba Hydro has in place to evaluate whether these
20 projects are achieving their -- their social agenda?
21 MR. DARREN RAINKIE: Well, sir, I'd --
22 I would indicate that first of all, that's not my
23 specific area of -- of expertise, but I think if I
24 think back to the NFAT hearing, there was a whole panel
25 on societal benefits, and a plethora of different

1 indicators that Manitoba Hydro uses to look at the --
2 the social benefits. We have a -- a part of our -- one
3 (1) of our departments in the Company that goes through
4 and captures those types of impacts. Mr. -- Mr. Page
5 may have better information on the specifics.
6 But we -- we obviously measure the
7 impacts on the -- on the projects based on expectations
8 going in, and we make adjustments as we go along as we
9 understand our lessons learned from any type of a
10 project, sir.
11 MR. BYRON WILLIAMS: And -- and I won't
12 belabour this, but to your knowledge, is -- apart from
13 the Deloitte report, is there any other independent
14 evaluation of the social and -- and community
15 development objectives of these projects?
16 MR. DARREN RAINKIE: You know, sir, I'd
17 -- I'd have to check on that. I wouldn't want to say
18 yes or no just on the presumption. I -- I would want
19 to check on that, if there were any other independent
20 reports that are going on.
21 MR. IAN PAGE: You may recall that the
22 -- at -- at the NFAT hearing, that there was that
23 report prepared by Dr. Shaffer on -- on the -- the
24 various different aspects of the -- of the social
25 benefits of -- of the projects, and so -- so that --

1 that is part -- part of the planning.
2 And on a -- on a -- and when we get into
3 specific projects, there'll be -- we'll -- we'll have
4 many specific objectives. Like with -- with Wuskwatim,
5 we had very specific training objectives. There was a
6 -- we -- there -- we jointly built a -- a training
7 facility in order to -- in order to -- to -- for that
8 skills development in order so that we could maximize
9 the -- the partici -- participation rate of the First
10 Nations people in the construction.
11 So we do have various specific
12 objectives. And -- and also one (1) of the limitations
13 we -- we'd -- we'd have in -- in our partnership
14 agreements is things like no per capita payments. So
15 when we have the profits in the partnerships, you know,
16 it's -- it's intended to stay for the community -- for
17 the community development, and not just be just
18 distributed to everybody to -- for various -- for their
19 own personal use.
20 MR. BYRON WILLIAMS: Okay. Thank you.
21 And just before we leave this, Mr. Rainkie, I'm not
22 asking for an undertaking, but my understanding is that
23 if there are any independent evaluations apart from
24 Deloitte in terms of outcomes, you'll report back
25 whether -- if any come to your attention, agreed?

1 MR. DARREN RAINKIE: That's a fair way
2 to leave it, Mr. Williams.
3 MR. BYRON WILLIAMS: Ms. Bauerlein,
4 probably to you, and I just want to go to Figure --
5 Appendix 5.5 of the application, Figure 5.51, which I
6 believe appears on page 1 of 21.
7
8 (BRIEF PAUSE)
9
10 MR. BYRON WILLIAMS: Perfect. Thank
11 you. And, Ms. Bauerlein, drawing your attention to the
12 -- the third line, you'll see a -- a reference to
13 electric OM&A, excluding accounting changes.
14 Do you see that?
15 MS. SANDY BAUERLEIN: Yes, I do.
16 MR. BYRON WILLIAMS: And again, without
17 elab -- seeking a great elaboration, it's -- it's from
18 this baseline, from this line, that the Corporation
19 draws the conclusion that in the -- in the two (2) test
20 years and the year beyond the test year, its growth in
21 OM&A, excluding accounting changes, will be in the
22 range of 1 percent, agreed?
23 MS. SANDY BAUERLEIN: I would agree.
24 MR. BYRON WILLIAMS: Now, Ms.
25 Bauerlein, I want to get a sense of what a 2 percent

1 growth in inflation -- or, excuse me, in OM&A absent
2 accounting changes would be. I've done the math, and I
3 can take it -- take you through the math, but just
4 mathematically, if I use 2013/'14 for a baseline, if I
5 -- if I wanted to inflate that by 2 percent, I would
6 merely multiply point zero-two (.02) times the three
7 hundred and eighty-nine five million five hundred and
8 sixty-two thousand(sic), agreed?
9 And then I'd add -- if -- if I wanted to
10 get a sense of what the 2 percent growth would be?
11 MS. SANDY BAUERLEIN: Correct. You
12 would add -- yes, 2 percent to that. Yes.
13 MR. BYRON WILLIAMS: And assuming that
14 that figure was seven million, seven hundred and
15 ninety-one thousand (7,791,000), I would add that to
16 the -- the baseline of three eighty-nine, five-six-two
17 (389,562) and you'll accept, subject to check, get a
18 total of three hundred and ninety-seven million, three
19 hundred and fifty-two thousand (397,352,000), agreed?
20 MS. SANDY BAUERLEIN: Yes, subject to
21 check.
22 MR. BYRON WILLIAMS: And that would be
23 about 5.455 million more than the forecast for '14/'15
24 of three hundred and ninety-one million, eight hundred
25 and ninety-seven thousand (391,897,000), agreed?

1 MS. SANDY BAUERLEIN: Subject to check
2 your calculations, Mr. Williams.
3 MR. BYRON WILLIAMS: And, Ms.
4 Bauerlein, are you developing some confidence in my
5 calculations?
6 MS. SANDY BAUERLEIN: Not entirely
7 sure.
8 MR. BYRON WILLIAMS: I think I hear
9 whispering from the back confirming it, Ms. Bauerlein.
10 So the reason I ask is because I -- I can either go
11 through my calculations for the next two (2) lines, or
12 get you to accept them subject to check.
13 What would you prefer?
14 MS. SANDY BAUERLEIN: We -- we can do
15 subject to check.
16 MR. BYRON WILLIAMS: And so, Ms.
17 Bauerlein, using that same approach for the '15/'16
18 year, I'll suggest to you that if it was escalated at
19 .02 percent, we'd get a total of about four hundred and
20 five million, three hundred thousand (405,300,000),
21 agreed, subject to check?
22 MS. SANDY BAUERLEIN: Again, subject to
23 check.
24 MR. BYRON WILLIAMS: And subject to
25 check, that would be about 9.229 million more than the

1 -- the figure set out in your forecast, agreed, subject
2 to check?
3 MS. SANDY BAUERLEIN: Subject to check.
4 MR. BYRON WILLIAMS: And similarly, for
5 the last year of the forecast being '16/'17, if we
6 escalated it going from the 2013/'14 baseline by 0.02
7 percent, you'll agree, subject to check, we'd get about
8 four hundred and thirteen thousand (413,000) -- four
9 (4) -- four hundred and thirteen million, four hundred
10 and six thousand (413,406,000) subject to check?
11 MS. SANDY BAUERLEIN: Again, subject to
12 check.
13 MR. BYRON WILLIAMS: Roughly 13 million
14 more than the 400 million set out in your 2016/'17
15 forecast, agreed?
16 MS. SANDY BAUERLEIN: Again, subject to
17 check.
18 MR. BYRON WILLIAMS: So differ -- costs
19 -- cost-wise, Ms. Bauerlein, we -- we've gone from a
20 difference of about 5.4 million in the '14/'15 forecast
21 up to about 13 million in the '16/'17 forecast, agreed?
22
23 Being the difference between the point
24 zero-one (.01) -- or be -- between the 1 percent
25 escalation and the 2 percent escalation?

1 MS. SANDY BAUERLEIN: Say that again,
2 Mr. Williams?
3 MR. BYRON WILLIAMS: Yes. To back up,
4 if we looked at the difference between a 1 percent
5 growth as represented in your forecast and a 2 percent
6 OM&A growth as calculated for the '14/'15 year, it was
7 about 5.4 million.
8 You recall that?
9 MS. SANDY BAUERLEIN: Yes, for the
10 '13/'14 year.
11 MR. BYRON WILLIAMS: Moving to '14/'15,
12 yes.
13 MS. SANDY BAUERLEIN: Correct.
14 MR. BYRON WILLIAMS: And for the
15 2016/'17 year, we calculated around a $13 million
16 difference, agreed?
17 MS. SANDY BAUERLEIN: Correct.
18 MR. BYRON WILLIAMS: So for the -- the
19 test years and the year beyond, that's a range of
20 between 5 million and 13 million.
21 You'll agree, Ms. Bauerlein?
22 MS. SANDY BAUERLEIN: Yes, subject to
23 check.
24 MR. BYRON WILLIAMS: And as a rule of
25 thumb, can -- can one assume that a 1 percent rate

1 increase is in the range of $14 million?
2 MS. SANDY BAUERLEIN: Yes, it's
3 approximately around there, yes.
4 MR. BYRON WILLIAMS: So in the -- in
5 the test years and moving out to the forecast year of
6 '16/'17, the OM&A savings are in the range of 1/2
7 percent a year to 1 percent a year in terms of -- as --
8 as compared to the rate increase?
9 MS. SANDY BAUERLEIN: You could use
10 that analogy.
11 MR. DARREN RAINKIE: Mr. Williams, can
12 I just clarify for a second? So you've been going
13 through the difference between limiting increases in
14 O&A to 1 percent versus 2 percent. That's the
15 calculations I think you've been just going through
16 with Ms. Bauerlein.
17 But let's just make sure that we're --
18 we're clear, without Manitoba Hydro doing its cost
19 containment efforts, wages and salaries would be going
20 up at 3 to 4 percent, probably closer to the 4 percent.
21 So while I don't disagree with the calculations you
22 just went through in terms of limiting operating costs
23 to increases to 1 -- the difference between 1 and 2
24 percent, if your conclusion is the differential having
25 done nothing would have been that, then that would be a

1 wrong conclusion.
2 In Mr. Peters's book of documents, page
3 223, I don't know if -- I don't think we need to go
4 there right now, we quantified the -- the difference
5 between the increase in salaries and wages that would
6 normally happen and what our cost containment efforts
7 are, and that's approaching $30 million by the end of
8 2016/'17, which is approximately a -- a 2 percent rate
9 increase.
10 So -- thanks, Diana. You're -- you're
11 great. This is great, having this technology here. So
12 just looking at the 2016/'17 column and going all the
13 way down to the bottom, the cumulative annual savings
14 are approximately $30 million. So I just wanted to
15 make sure -- I -- I wasn't quite sure exactly what your
16 question is, but I wouldn't want to leave the
17 impression that our cost containment efforts have only
18 constrained potential increases by 1 percent when I
19 think the quantum is 2 percent.
20 MR. BYRON WILLIAMS: And just to go
21 back to -- to the previous -- and, Diana, you're
22 amazing. So we have confirmed, though, my calculations
23 in terms, subject to check, of growing at 1 percent
24 versus 2 percent, agreed?
25 MR. DARREN RAINKIE: Yes, but you use

1 the word 'cost savings', and that's where I was unsure
2 about the impression we were leaving with the Board.
3 MR. BYRON WILLIAMS: Fair enough.
4 MR. DARREN RAINKIE: Sorry, Mr.
5 Williams, I didn't catch that last...
6 MR. BYRON WILLIAMS: I said fair
7 enough, Mr. Rainkie.
8 MR. DARREN RAINKIE: Okay. Thank you.
9 MR. BYRON WILLIAMS: And that might be
10 a rare comment from me. Ms. Carriere, just quickly,
11 Appendix 11.5, page 2 of 5, if we could turn there?
12 Sorry, Diana, eleven point five (11.5). Eleven point
13 fifty (11.50), I apologize.
14
15 (BRIEF PAUSE)
16
17 MR. BYRON WILLIAMS: And it's actually,
18 I apologize, page 1 of 2.
19
20 (BRIEF PAUSE)
21
22 MR. BYRON WILLIAMS: Page 1 of --
23 eleven point five-zero (11.50), page 1 of 5. My
24 apologies. And maybe this isn't to you, Ms. Carriere,
25 but has -- on that -- just scroll up to the second

1 paragraph. Scroll down. Thank you. There's a
2 discussion of the impact of the -- the PDA-2 on
3 projected domestic revenues.
4 Do you see that? MS. LIZ CARRIERE: I
5 see that.
6 MR. BYRON WILLIAMS: Has Manitoba Hydro
7 done a calculation of the impact of the agreement on
8 the -- the debt-equity ratio in 2023/'24?
9
10 (BRIEF PAUSE)
11
12 MS. LIZ CARRIERE: Can you -- can you
13 repeat that?
14 MR. BYRON WILLIAMS: You've done here
15 just a discussion of the implications of the PDA-2 on
16 projected domestic revenues, agreed?
17 MS. LIZ CARRIERE: Agreed.
18 MR. BYRON WILLIAMS: Have you done a
19 calculation of its impact upon debt-equity?
20
21 (BRIEF PAUSE)
22
23 MS. LIZ CARRIERE: We're just going to
24 check.
25 MR. BYRON WILLIAMS: Okay. We'll come

1 back to that. Just -- Mr. Rainkie, this may go to you
2 or Ms. Bauerlein, and it's a short snapper, I hope.
3 If we could turn for a moment to the
4 response to PUB/Manitoba Hydro-II-14(a) to (c), page 2
5 of 3. So it's Second Round number 14, the response of
6 Hydro to the PUB, and the second page. And if you
7 could stay here for just one (1) second.
8 Mr. Rainkie, this table presents
9 sustaining capital expenditures by asset type as well
10 as by total for each year out to 2024, agreed? Ms.
11 Bauerlein...?
12 MS. SANDY BAUERLEIN: Yes, agreed.
13 MR. BYRON WILLIAMS: In essence, it
14 captures ten (10) years of expenditures, agreed?
15 MS. SANDY BAUERLEIN: Agreed.
16 MR. BYRON WILLIAMS: And just to scroll
17 down to the bottom to the total line, I don't wish to
18 discuss the merits of any particular expenditure, Ms.
19 Bauerlein. That was the subject of panel 2.
20 But if I look at the sustaining capital
21 total, can we -- would you agree that, of the ten (10)
22 years listed in the response, the highest expenditure
23 year is the 2016/'17 year at a projected $609 million,
24 agreed?
25 MS. SANDY BAUERLEIN: Agreed.

1 MR. BYRON WILLIAMS: And that the
2 second highest year at a -- is the '15/'16 year at a
3 forecast of 577 million?
4 Would that be fair?
5 MS. SANDY BAUERLEIN: Agreed. And as
6 discussed I believe in the planning and operations
7 panel, those increases were primarily to address
8 certain capacity issues specifically that we are having
9 on both the distribution and transmission area that
10 required immediate attention.
11 MR. BYRON WILLIAMS: Thank you. Mr.
12 Schulz or Mr. Page -- I'm -- I think it's Mr. Schulz,
13 but we'll see. Mr. Schulz, these have to be exciting
14 times for a gentleman who makes his living obsessing
15 about finance expense and debt management strategies.
16 MR. MANNY SCHULZ: It's an interesting
17 time for me, sir.
18 MR. BYRON WILLIAMS: And you had some
19 discussion with My Learned Friend, Mr. Peters, over the
20 last couple of days about interest rates and their
21 effect on the revenue requirement, agreed?
22 MR. MANNY SCHULZ: Agreed.
23 MR. BYRON WILLIAMS: And we'll come to
24 that in a few moments, but for right now, I want to
25 take a high-level look at some of the events related to

1 the interest rate cut of January 2015.
2 Okay, Mr. Pa -- or Mr. Schulz?
3 MR. MANNY SCHULZ: That would be okay,
4 Mr. Williams.
5 MR. BYRON WILLIAMS: Starting with the
6 oil price decline, you'd agree that oil production is a
7 major source of wealth for Canada, sir?
8 MR. MANNY SCHULZ: Agreed.
9 MR. BYRON WILLIAMS: And focusing on
10 oil, and starting from a peak in June of 2014, there
11 was a significant decline in the price of oil out to
12 January of 2015, agreed?
13 MR. IAN PAGE: I -- I cover -- did
14 cover that in my presentation on Tuesday, Mr. Williams,
15 but I don't have -- I'm not sure I have exactly the
16 dates you're looking at, but I have April 2014 of about
17 a hundred dollars ($100) a barrel, October '14 eighty
18 (80) to ninety dollars ($90) a barrel, January '15
19 about forty-four dollars ($44) a barrel, and as of
20 right now we're in the fifty (50) to sixty dollar ($60)
21 range a barrel.
22 So, yes, there's been an enormous swing
23 in the -- in -- in the price of oil.
24 MR. BYRON WILLIAMS: A precipitous
25 decline, agreed?

1 MR. IAN PAGE: That's probably a fair
2 term, yeah.
3 MR. BYRON WILLIAMS: And, indeed, one
4 (1) of the -- the major oil price declines of the past
5 three (3) decades, agreed?
6 MR. IAN PAGE: Yes.
7 MR. BYRON WILLIAMS: And generally a
8 sharp drop in oil prices tends to be good news for
9 economies that import or use a lot of oil, but bad news
10 for economies that are oil export reliant, agreed?
11 MR. IAN PAGE: Yes, that's true. And
12 Manitoba -- or Manitoba -- Canada is a net exporter of
13 oil, so there -- there was a detrimental effect. And
14 as I mentioned on -- on Tuesday, the Bank of Canada's
15 estimate is that GDP growth for Canada would be about
16 zero for the first half of the year.
17 MR. BYRON WILLIAMS: And whereas the
18 sharp decline has a negative impact on net oil
19 exporters, generally one would expect it to have a net
20 positive effect on net oil importers, agreed?
21 MR. IAN PAGE: Yes, that's correct.
22 MR. BYRON WILLIAMS: And leaving aside
23 any dramatic political changes in Alberta, the sharp
24 drop in oil prices drove provinces such as Alberta into
25 significant pre -- projected budget deficits, and --

1 and caused the federal government to delay filing its
2 budget, agreed?
3 MR. IAN PAGE: I don't think I'd be in
4 a position really to fairly comment on those.
5 MR. BYRON WILLIAMS: No worries. You
6 would be able to comment though, sir, that during this
7 same general time frame -- I'm using June to January --
8 June '14 to January 2015, you can use April if you wish
9 -- we saw a major appreciation or growth in the US
10 dollar relative to other major currencies?
11 MR. IAN PAGE: Yes, we did. And
12 certainly wouldn't want to attribute any of that to --
13 or -- or all of that to any one event as there's a
14 myriad of things happening.
15 MR. BYRON WILLIAMS: And you said, "a
16 myriad of things happening." Would it be fair to
17 suggest that among those factors contributing to the
18 relative appreciation in the US dollar was market
19 uncertainty in the face of a sharp oil price decline, a
20 general perception that the US economy was
21 strengthening, and market expectations that US interest
22 rates would be going up?
23 MR. IAN PAGE: Certainly oil had a --
24 had a beneficial effect to the US economy because it's
25 -- as I believe it's still a net importer, so a drop in

1 the oil price has a beneficial effect to the US
2 economy. As to the other factors, I think I would want
3 to just sort of limit it more to just uncertainty.
4 Anytime there seems to be global
5 uncertainty, as we're seeing a lot of in Europe right
6 now, there's always that sort of a flight to security.
7 And the US dollar always seems to be the beneficiary of
8 that.
9 MR. BYRON WILLIAMS: Okay. And -- and
10 I did follow your -- your evidence from earlier this
11 week. But we -- you would agree that on -- we had the
12 cut in the overnight lending rate by 0.25 percent on
13 January 1st, 2015, agreed?
14 MR. IAN PAGE: Yes. Yes, from 1
15 percent to point -- to .75 percent.
16 MR. BYRON WILLIAMS: And that was the
17 first time the overnight rate had changed since
18 September of 2010, agreed, sir?
19 MR. IAN PAGE: I believe that's
20 correct.
21 MR. BYRON WILLIAMS: It was a bit of a
22 shock?
23 MR. IAN PAGE: Some people thought it
24 was a shock. Other people -- afterwards a lot of
25 people, oh yes, we're -- we're -- yeah, were saying

1 that they had projected it, but it was -- I don't think
2 it was entirely unexpected, yeah, given the -- the
3 severity of the changes that were happening in the
4 economy.
5 MR. BYRON WILLIAMS: It wasn't
6 predicted by any of the forecasters that you relied
7 upon in preparing your fall 2014 forecast, agreed?
8 MR. IAN PAGE: I -- I would agree with
9 that. And -- and certainly if any of them had sort of
10 factored in an estimate of a price cut, I -- I don't
11 think they were all focussed on January 21st if -- to
12 be -- to get very specific.
13 MR. DARREN RAINKIE: Mr. Williams, the
14 day after that occurred I had lunch with the vice
15 president from CIBC which is the lead on the debt
16 syndicate that provides debt to Manitoba so it's a man
17 who makes his living in the markets. And he was very
18 surprised.
19 MR. BYRON WILLIAMS: Thank you as -- as
20 always, Mr. Rainkie. Now, Mr. Page, just in terms of
21 the roots of that cut in the overnight lending rate by
22 the Bank of Canada it was specifically attributed by
23 the Bank of Canada to the recent sharp drop in oil
24 prices and the assumption that that would be negative
25 for growth and underlying inflation in Canada, agreed?

1 MR. IAN PAGE: The reason that they
2 gave was that the sharp price in oil was definitely
3 going to have a very large shock to the Canadian
4 economy. They thought that in the end it might prove
5 to be ben -- beneficial and -- and I think if you were
6 a manufacturer in Ontario you'd see it's beneficial
7 right now. But it would take some time for that to --
8 to factor through. And because they know that a change
9 in the Bank of Canada rate takes an -- anywhere from
10 six (6) to eight (8) quarters to fully flow through
11 into the ben -- into the changing and to the economy
12 they thought it was prudent to act sooner rather than
13 later.
14 MR. BYRON WILLIAMS: And the
15 intersection of the sharp decline in oil prices and the
16 unexpected drop in the Bank of Canada overhead -- or
17 overnight rate has led to a revision in the interest
18 cost projections that -- of the -- of Manitoba Hydro,
19 agreed?
20 MR. IAN PAGE: Yes, it has. And we've
21 -- and we filed those this morning as Exhibit 58.
22 MR. BYRON WILLIAMS: And would it be
23 fair to say that apart from the sharp drop in oil
24 prices and the revision in expectations in terms of
25 interest rates there's also been changes in terms of

1 the Corporation's expectations in terms of the exchange
2 rate, agreed?
3 MR. IAN PAGE: The exchange rate? Or
4 the --
5 MR. BYRON WILLIAMS: The Canada US
6 exchange rate, sir.
7 MR. IAN PAGE: The median US dollar
8 exchange rate has changed dramatically in the last
9 year. Our longer term forecast is for a lot of that
10 change sort of to work its way out and eventually get
11 close to what we had. And the other change that we're
12 -- that we've experienced over that period has been a
13 continued drop in the -- in the price of natural gas
14 which has a direct effect on our export prices.
15 MR. BYRON WILLIAMS: Just on the
16 exchange rate one (1) of the -- you're -- basically you
17 were, in the fall, projecting a Canadian to US dollar
18 exchange rate of a dollar tw -- twelve ($1.12), agreed,
19 sir?
20 MR. IAN PAGE: In the fall of 2014?
21 MR. BYRON WILLIAMS: Excuse me. Yes,
22 let me rephrase that. In the fall of 2014, you were
23 expecting a exchange rate of Canadian to US dollars of
24 a dollar ten ($1.10)?
25 MR. IAN PAGE: A dollar ten ($1.10),

1 not a dollar twelve ($1.12).
2 MR. BYRON WILLIAMS: And in ter --
3 looking out now in your spring outlook you're looking
4 at an exchange rate of Canadian to US dollars of a
5 dollar twenty-seven ($1.27), agreed?
6 MR. IAN PAGE: An -- an average for
7 '15/'16, yes.
8 MR. BYRON WILLIAMS: And no doubt you
9 will attribute the relative decline of the Canadian
10 dollar to a myriad of factors, sir?
11 MR. IAN PAGE: Absolutely.
12 MR. BYRON WILLIAMS: That seems to be
13 our word of the morning.
14 Would you agree that in part it's a
15 reflection of the perceptions of the likely direction
16 of interest rates in the US and Canada?
17 MR. IAN PAGE: I -- I don't think I'd
18 want to simplify that much. We've seen a -- the huge
19 price in -- in oil, and not just oil but natural gas
20 and various other commodities. Canada is a -- is a
21 commodity-driven economy and so there has been a huge
22 number of -- of changes in -- in com -- various
23 commodity prices that have had a -- a change in the --
24 in the -- may have given rise to changes in the
25 economic expectations for -- for Canada's growth

1 prospects. Interest rates are one (1) of the tools
2 that's -- that's -- that the bank -- its primary tool
3 that it uses to -- to look at inflation, to control
4 inflation with its band.
5 Interest rates, the -- the overnight
6 rate has come down. Our longer-term interest rate
7 forecasts, we've seen some movement in the -- in the
8 near term that Mr. Schulz has been able to take
9 advantage of. But our -- the forecast several years
10 out for long-term interest rates is actually slightly
11 higher than what we were using last fall.
12 So I -- I don't -- I -- yeah, I
13 certainly wouldn't want to try to put that into a
14 simple answer.
15 MR. BYRON WILLIAMS: No. Of course,
16 sir. We were talking about weakening of the Canadian
17 dollar against the American dollar, agreed?
18 MR. IAN PAGE: Yes. And --
19 MR. BYRON WILLIAMS: Okay.
20 MR. IAN PAGE: -- and I said, there's -
21 - as I said, there's -- all of those factors go into
22 that. And -- and as I -- again, as I said Tuesday,
23 exchange rate is probably the most volatile economic
24 variable that we'll ever look at because it's -- it's
25 that distillation of the entire economic prospects of

1 the Canadian economy versus the US economy.
2 Sort of take that differential, so a
3 small change in one flows through into a change in the
4 other. And then added on top of that you've also got
5 all the emotional component that goes along with
6 exchange rate setting and foreign exchange purchasing.
7 So it -- it's -- it's a -- it's --
8 exchange rates have high degree of fluc -- fluctuation.
9 They're very difficult to -- to forecast. And it's --
10 and it's always difficult to attribute any changes to
11 any one (1) -- one (1) factor. And -- and that's why
12 we're -- we're so happy to be the beneficiary of Mr.
13 Schulz's exposure management program.
14 MR. BYRON WILLIAMS: And just to finish
15 that thought, in terms of the gap in exchange rates,
16 you -- one (1) of the key factors you've articulated is
17 the relative strengths, or perceptions of the relative
18 strengths, of the Canadian and US economies in a lower
19 oil price environment, agreed?
20 MR. IAN PAGE: I'd agree. That's one
21 (1) of the factors, yes.
22 MR. BYRON WILLIAMS: Just before the
23 break, perhaps we can turn to slide 26 of the
24 presentation of the finance panel from Tuesday.
25

1 (BRIEF PAUSE)

2

3 MR. BYRON WILLIAMS: The first question
4 may -- can either go to Schulz -- Mr. Schulz or to Mr.
5 Page, but back in the fall, Manitoba Hydro was
6 projecting, leaving aside the debt guarantee fee, a
7 forecast for long -- long-term bonds for 2015/'16 of
8 4.1 percent, agreed?
9 MR. IAN PAGE: I'm not seeing four
10 point one (4.1) on here.
11 MR. BYRON WILLIAMS: Well, that's
12 because you've got your debt guarantee fee there, sir,
13 on top of it.
14 MR. IAN PAGE: Oh. Sorry. Yes. After
15 adjusting for that, yes.
16 MR. BYRON WILLIAMS: And the four point
17 one (4.1) was based on your expectation of 3.3 percent
18 in terms of ten (10) year and Canada thirty (30) year
19 bonds plus a 0.8 percent spread, agreed, sir?
20 MR. IAN PAGE: Subject to check, yes.
21 MR. BYRON WILLIAMS: And when we look
22 to the second bullet of slide 26 of the -- the Manitoba
23 Hydro PowerPoint, we see that Mr. Schulz is feeling
24 very proud because he got $300 million in terms of
25 fixed-rate debt at 2.898 percent.

1 You're feeling proud, Mr. Schulz?
2 MR. MANNY SCHULZ: I'm not feeling
3 proud. I'm feeling that I've done my job on behalf of
4 ratepayers.
5 MR. BYRON WILLIAMS: But a hundred and
6 twenty (120) basis points lower than the forecast, sir?
7 MR. MANNY SCHULZ: Significant
8 reduction, again beneficial to ratepayers. If we're
9 looking at what we are today, as I indicated in to the
10 panel, right now, today, the all-in on the thirty (30)
11 year bond, and it's risen again from yesterday another
12 six (6) basis points, so it would be about three and a
13 quarter (3 1/4). So we caught the low part of the
14 trough, and the interest rates are moving up again.
15 MR. BYRON WILLIAMS: Mr. Schulz, we
16 could -- we could delve into that perhaps a bit later.
17 Have -- have you read the -- the forecasts of the RBC
18 in terms of long-term bonds for 2015/'16 from June of
19 this year?
20 MR. MANNY SCHULZ: I have not read that
21 document.
22 MR. BYRON WILLIAMS: Okay. Have you
23 read the forecasts of the National Bank for May/June
24 for the -- for the next year?
25 Have you read that document, sir?

1 MR. MANNY SCHULZ: Do you have a
2 document to --
3 MR. BYRON WILLIAMS: I'm just asking
4 you if you have. I'm happy to share them with you, but
5 we can do that perhaps over the break.
6 MR. MANNY SCHULZ: Mr. Williams, I'm
7 familiar generally with forecasters having forecast
8 interest rates to go up and down. I can't speak to
9 this, you know, specifically to forecasters 'X', 'Y',
10 and 'Z'. I mean, I may have read them, but --
11 MR. BYRON WILLIAMS: Okay.
12 MR. MANNY SCHULZ: -- generally, you
13 would see that forecasters have been indicating that
14 rates have been going down. If you would have -- you
15 know, low rates during the Jul -- January period. If
16 you were to ask them now, you would probably see them
17 to be up higher than what they had if you had canvassed
18 them in January, in part, because they're seeing the --
19 the marketplace movements that we're seeing right now.
20 MR. BYRON WILLIAMS: And -- and, sir,
21 the reason I'm -- I'm taking issue with you on that is
22 I'm asking whether you're basing that on a -- a review
23 of -- of May/June forecasts from -- from organizations
24 such as RBC, National Bank, et cetera?
25 MR. MANNY SCHULZ: I'm basing that on

1 what I see in the marketplace as well as my
2 conversations with our dealers that we have in the
3 financial markets and capital markets. It's the same
4 person, for instance, that Mr. Rainkie had just spoken
5 with last week. For instance, I spoke to people from
6 CIBC. I've also spoken with people -- the other
7 bankers. And so that would be the -- the significant
8 basis for my -- my conclusion on this.
9 I haven't read to the same degree that
10 perhaps Mr. Page would in terms of the economic
11 outlooks.
12 MR. BYRON WILLIAMS: Now, Mr. -- Mr.
13 Schulz, so you had that extremely successful debt issue
14 effective April 16th, 2015, agreed?
15 MR. MANNY SCHULZ: Indeed.
16 MR. BYRON WILLIAMS: Since January
17 21st, 2015, have there been any other long-term debt
18 issues by the Corporation?
19
20 (BRIEF PAUSE)
21
22 MR. MANNY SCHULZ: The intersection of
23 regulatory conversation and real work. So this
24 morning, the Province of Manitoba has undertaken a ten
25 (10) year piece of financing of which Manitoba Hydro

1 will take a piece. We're still negotiating and -- and
2 discussing how much we will take and what the final
3 rates will be.
4 So yes, we have undertaken, you know,
5 this morning, another piece of debt.
6 MR. BYRON WILLIAMS: And that's the
7 only one since January 21st of 2015, sir? My question
8 was...
9
10 (BRIEF PAUSE)
11
12 MR. MANNY SCHULZ: So the last piece of
13 financing that we've undertaken prior to today was
14 April 16, 2015.
15 MR. BYRON WILLIAMS: Okay. And my
16 question was, I'm sure, imprecise, and I apologize for
17 that.
18 Between January 21st, 2015, and April
19 26th, 2015, has the Corporation undertaken any other
20 long-term debt financing, sir?
21 MR. MANNY SCHULZ: Yes, we have. And
22 the description of them is in the PUB book of documents
23 Volume IV, Tab 2, pages 16 and 17. And in there,
24 you'll see a description of some of the issues that we
25 would have taken in Q4 as well as in the -- the Q1 here

1 in April.
2 MR. BYRON WILLIAMS: Super. That's
3 very helpful, sir.
4 MR. MANNY SCHULZ: And here they are,
5 in fact. So there's -- in January 14 of 2015, we
6 executed on debt series FR3, it was a $175 million deal
7 with a -- a 2041 maturity. And you can see the all-in
8 rate that's highlighted. Scrolling down the page, on
9 page 17 of this document, thank you very much, you'll
10 see debt series GK, which was the inaugural tranche of
11 our Manitoba new thirty (30) year bond.
12 And then we followed that up, as I've
13 indicated on the -- the slide previously, on April 16th
14 with GK-2, a reopening of that bond with the same
15 maturity in 2046 for that all-in yield of 2.898
16 percent. And now, as we've indicated just moments ago.
17 MR. BYRON WILLIAMS: And -- and thank
18 you for -- for that, sir. And those would compare to a
19 forecast of 4.1 percent --
20 MR. IAN PAGE: They --
21 MR. BYRON WILLIAMS: -- leaving aside
22 the debt guarantee fee?
23 MR. IAN PAGE: They would have compared
24 to a forecast of 4.1 percent that last fall, but in --
25 as that January update, the forecast rate would have

1 been 3 percent, and -- and the current economic outlook
2 again with -- for that would be 3 percent.
3 MR. BYRON WILLIAMS: And the rate
4 application is based upon that fall application,
5 agreed?
6 MR. IAN PAGE: Yes.
7 MR. BYRON WILLIAMS: Mr. Chair, this is
8 probably a good time to -- to stand down.
9 THE CHAIRPERSON: Okay. Let's take ten
10 (10) minutes. Thank you.
11
12 --- Upon recessing at 10:28 a.m.
13 --- Upon resuming at 10:45 a.m.
14
15 THE CHAIRPERSON: Everybody is in
16 position, I believe, to resume the proceedings. So,
17 Mr. Williams, over to you.
18
19 CONTINUED BY MR. BYRON WILLIAMS:
20 MR. BYRON WILLIAMS: Yes. And, Mr.
21 Schulz, I'll -- I'll be coming back to you soon but
22 just before I -- I forget, you -- you had fresh, hot-
23 off-the-press news about the -- the issue from this
24 morning.
25 Were you able to share the interest rate

1 at -- at which that issue was received?
2 MR. MANNY SCHULZ: Yes. It was a ten
3 (10) year deal, and the all-in before the 1 percent
4 provincial debt guarantee fee was 2.5485 percent.
5 MR. BYRON WILLIAMS: A hundred and
6 fifty (150) basis points lower than the fall outlook,
7 sir?
8 MR. IAN PAGE: You have to remember,
9 the fall outlook is a blending of ten (10) and thirty
10 (30) year, so we -- we expect the ten (10) year rate
11 would be lower -- would be lower than that number, and
12 the thirty (30) year number typically would be higher
13 than that number. So that -- that's a blended rate.
14 MR. BYRON WILLIAMS: And I accept that,
15 sir, but the -- the -- it was about a hundred and fifty
16 (150) basis points?
17 MR. IAN PAGE: Your arithmetic is
18 correct, yes.
19 MR. BYRON WILLIAMS: That was
20 charitable, Mr. Page. Just a couple questions, I
21 think, for -- and it may be for you, Ms. Carriere, but
22 you'll redirect me if I'm incorrect.
23 Just go into the objective of the
24 integrated finance -- financial forecast. Would it be
25 fair to say that, at a high level, it's an effort from

1 the planning perspective to take an integrated and
2 prospective look at a number of factors that may
3 ultimately affect rates?
4 MS. LIZ CARRIERE: Rates and the
5 financial performance of the Company, yes.
6 MR. BYRON WILLIAMS: Thank you for that
7 precision. And some of the factors that we might look
8 at would include, for example, expected water flow and
9 anticipated Manitoba demand, agreed?
10 MS. LIZ CARRIERE: Yes. We have
11 sensitivities to those assumptions in our forecast,
12 yes.
13 MR. BYRON WILLIAMS: Others we might
14 look at would include expected export prices, and
15 anticipated export volumes, just as examples, agreed?
16 MS. LIZ CARRIERE: Agreed, yes.
17 MR. BYRON WILLIAMS: In essence, if
18 there are unknowns that might affect the rates and the
19 financials we're trying forecast them, agreed?
20 MS. LIZ CARRIERE: Can you say that
21 again please?
22 MR. BYRON WILLIAMS: In essence if
23 there are un -- unknowns that might affect the rates
24 and the financials we try to forecast them to the best
25 of our ability.

1 MS. LIZ CARRIERE: Well, if they're
2 unknown they're unknown. But we are -- the purpose of
3 a sensitivity is to see the range of variability, that
4 net income and -- occurs with net income. But, you
5 know, water flows and interest and -- and export prices
6 seem to have the greatest magnitude of effect.
7 MR. BYRON WILLIAMS: Okay. Thank you.
8 I wonder if I can turn to Coalition Exhibit 21, being
9 the excerpt from Second Round inter -- In --
10 Information Request 54.
11 And would that go to you, Mr. Page or
12 Mr. Schulz?
13 MR. IAN PAGE: I'll start with it.
14 MR. BYRON WILLIAMS: Okay. And
15 actually it -- it might -- if we can go to the second
16 page of that, first of all.
17 And we see the -- if we -- just at a
18 high level this is a -- an aggregation of the
19 Corporation's short-term debt, floating rate long-term
20 debt, fixed rate long-term debt, and total debt for
21 certain fiscal years, agreed?
22 MR. MANNY SCHULZ: I agree.
23 MR. BYRON WILLIAMS: And if we went
24 down to the -- the 2015 year, the year ended March
25 31st, 2015, Mr. Schulz, you'll agree that the total

1 debt is in the range of $12.2 billion, agreed, sir?
2 MR. MANNY SCHULZ: That's what's shown
3 here, yes.
4 MR. BYRON WILLIAMS: And that would be
5 comprised, as shown here, of a -- a mixed of fixed rate
6 debt at about 10.3 billion and floating rate long-term
7 debt at the range of 1.8 billion, and then a -- a
8 modest amount of short-term debt, agreed?
9 MR. MANNY SCHULZ: That was the
10 forecast, yes.
11 MR. BYRON WILLIAMS: And just similarly
12 when we're looking at the 2016/'17 year we see a total
13 debt expected of 17.2 billion comprised of about 14.8
14 billion of -- of fixed rate long-term debt and about
15 2.3 billion of floating rate, agreed?
16 MR. MANNY SCHULZ: Agreed.
17 MR. BYRON WILLIAMS: And it's not on
18 this table, but my source is the IFF, Appendix 3.3.
19 The Corporation expects to borrow roughly $2.4 billion
20 in long-term borrowing in '15/'16.
21 Will you accept that, sir, subject to
22 review?
23 MR. MANNY SCHULZ: I believe that's
24 indicated in our debt management strategy as well.
25 MR. BYRON WILLIAMS: And would it be

1 fair to say that in 2016/'17, you expect to borrow
2 roughly 3.2 billion, agreed?
3 MR. MANNY SCHULZ: Again, that's in the
4 debt management strategy. We generally agree.
5 MR. BYRON WILLIAMS: And at the same
6 time, in fairness, you also will be re -- retiring
7 certain amounts of debt in each year?
8 MR. MANNY SCHULZ: That also is
9 correct. And actuals will vary from forecast in
10 accordance with, for instance, what happens today.
11 When you hit a market opportunity you have to strike on
12 it. If you -- you just can't wait for the forecast
13 time to occur or in accordance with what the Chairman
14 and I spoke about -- about the opportunity to go pre-
15 funding. So in that case we would accelerate our
16 funding in order to take advantage of beneficial
17 opportunities.
18 MR. BYRON WILLIAMS: And if I could ask
19 Diana just to go back to the PowerPoint presentation of
20 Manitoba Hydro from Tuesday of this week. And, Mr.
21 Simonsen, can you remind me what exhibit number that
22 is? Being Exhibit 52 slide 4.
23
24 (BRIEF PAUSE)
25

1 MR. BYRON WILLIAMS: Sir, slide 4
2 presents the different -- different drivers of -- of
3 costs going out from 2015 to 2024, agreed?
4 MR. MANNY SCHULZ: Yes.
5 MR. BYRON WILLIAMS: And finance
6 expense is depicted in the legend as being red?
7 MR. MANNY SCHULZ: I agree.
8 MR. BYRON WILLIAMS: And for the
9 purposes of this discussion, it's big red in the sense
10 that it's assuming an increasing proportion of the --
11 the expenditures going out -- out to 2024, agreed?
12 MR. MANNY SCHULZ: Certainly takes a
13 bigger chunk of it, from my perspective. I like cash,
14 and I would always have it as coloured green, but I see
15 it as being red.
16
17 (BRIEF PAUSE)
18
19 MR. BYRON WILLIAMS: Diana, if we can
20 go back now to Coalition Exhibit 21, and the first
21 page?
22
23 (BRIEF PAUSE)
24
25 MR. BYRON WILLIAMS: That's perfect.

1 And, Mr. Page, you'll agree that this is
2 excerpt from the response of the Corporation to a
3 Second Round Information Request, being II-54(a) of the
4 Coalition, agreed?
5 MR. IAN PAGE: Yes, I'd agree with
6 that.
7 MR. BYRON WILLIAMS: And at the highest
8 -- at the top level, the -- the first table that
9 appears on this page, what we're looking at just from a
10 broad strokes is a -- a look at the Corporation's
11 ninety (90) day T-bill forecast as presented in their
12 spring economic outlook dating back to fiscal year
13 2005/'06, agreed?
14 MR. IAN PAGE: Agreed.
15 MR. BYRON WILLIAMS: And if I could
16 direct your attention under the 2006/'07 year -- just
17 right there is perfect, Diana -- to the actual line,
18 you'll see the actual average -- or you'll agree with
19 me that the actual average T-bill rate for the '06/'07
20 fiscal period was 4.16 percent.
21 Agreed, sir?
22 MR. IAN PAGE: Agreed.
23 MR. BYRON WILLIAMS: And what this top
24 table does, sir, is look at the corporate forecasts for
25 each particular year in -- in terms of the ninety (90)

1 day T-bill, and then compares them to the actuals,
2 agreed?
3 MR. IAN PAGE: Agreed.
4 MR. BYRON WILLIAMS: And so if we go up
5 to the left-hand side of the table, under "Fiscal
6 year," the top year you -- you'll see is the 2006
7 fiscal year, sir. Is that correct?
8 MR. IAN PAGE: Yes.
9 MR. BYRON WILLIAMS: And to the right
10 of that Figure 2 -- 206, you'll see the -- the forecast
11 average T-bill rate for the '06/'07 year, agreed?
12 MR. IAN PAGE: I'd agree with that,
13 yes.
14 MR. BYRON WILLIAMS: And you'll agree,
15 if we followed along that top line, being the fiscal
16 year 2006, out to '14/'15, you would see the
17 Corporation's forecast for nine (9) years into the
18 future, agreed?
19 MR. IAN PAGE: Agreed.
20 MR. BYRON WILLIAMS: Likewise, if we
21 went down one (1) line, you would see the forecasts
22 from the fiscal year 2007 from the spring outlook going
23 eight (8) years into the future.
24 MR. IAN PAGE: Yes, and then each
25 subsequent line is one (1) -- one (1) year shorter

1 forecast.
2 MR. BYRON WILLIAMS: Thank you. So
3 going back to the '06 fiscal year and all the rate --
4 way out to the 2013/'14 outlook, you can see you were
5 expecting average T-bill rates to be 4.5 percent, sir?
6 And, Diana, if you can scroll just --
7 no, right there. But if you can move the arrow under -
8 - at the top of the top table, follow along to -- to --
9 and then down to 2013/'14, and then down one (1) line?
10 You'll see, Mr. Page, you were looking
11 at a -- average T-bill rates to 4.5 percent based upon
12 the 2006 spring economic outlook?
13 MR. IAN PAGE: Yes, I see that. I was
14 initially puzzled when you said, "average". I -- I
15 thought you meant average for the line, but --
16 MR. BYRON WILLIAMS: Oh, okay.
17 MR. IAN PAGE: -- I -- I'm clear as to
18 what you're --
19 MR. BYRON WILLIAMS: Okay.
20 MR. IAN PAGE: -- talking about now.
21 MR. BYRON WILLIAMS: And, Diana, if you
22 will scroll down, straight down from the 2013/'14 to
23 the actuals, right there, you'll see the actual for
24 that year, sir, was 0.94 percent?
25 MR. IAN PAGE: Yes, I see that.

1 MR. BYRON WILLIAMS: So the variance
2 would be about three hundred and fifty-six (356) basis
3 points.
4 Would that be fair?
5 MR. IAN PAGE: That would be what you'd
6 see there, yes.
7 MR. BYRON WILLIAMS: And, Diana, scroll
8 down two (2) more lines. Now, Mr. Page, and I
9 appreciate your assistance, this is the second half of
10 the Hydro table and -- and it looks at variance at
11 certain points out -- in the outlook, agreed?
12 MR. IAN PAGE: I -- I'd agree with what
13 you're trying to do, yes.
14 MR. BYRON WILLIAMS: So the -- the
15 calculation that we just performed we see reflected --
16 the variance on the 2006 line, eight (8) years out is
17 3.56 percent.
18 That's that calculation?
19 MR. IAN PAGE: Yes.
20
21 (BRIEF PAUSE)
22
23 MR. BYRON WILLIAMS: And, Diana, if you
24 can now go back up to the top table again. Stop at the
25 2007 line, and out to your right to 2014/'15.

1 Now, Mr. Page, this is from the 2007
2 spring economic outlook of the Corporation, and it was
3 forecasting T-bill -- the ninety (90) day T-bill to be
4 at 4.25 percent, agreed?
5 MR. IAN PAGE: Agreed.
6 MR. BYRON WILLIAMS: And if you flow
7 down to the actuals, you'll see -- Diana, go down seven
8 (7) lines, thank you -- you'll see it was 0.89 percent.
9 Is that right, sir?
10 MR. IAN PAGE: That's correct.
11 MR. BYRON WILLIAMS: And you'll accept
12 that that would be about a three hundred and thirty-six
13 (336) basis point variance, agreed, being four (4)
14 point --
15 MR. IAN PAGE: Yes.
16 MR. BYRON WILLIAMS: -- two five (25)
17 minus zero point eight-nine (0.89)?
18 MR. IAN PAGE: Yes. I -- I always
19 found the table hard to follow because the columns in
20 the bottom don't -- don't line up with the columns in
21 the top, but --
22 MR. BYRON WILLIAMS: Well, but just to
23 make sense of those columns, sir, when we get -- we'll
24 see that -- if we go to the variance part of the table
25 now, and you'll see the 2007, Diana, on the left-hand

1 side. And if we follow that eight (8) years out, so
2 follow it to the right.
3 Mr. Page, you'll see there the -- the
4 variance that we just calculated?
5 MR. IAN PAGE: Yes, I see that.
6 MR. BYRON WILLIAMS: Okay. Thank you,
7 and I appreciate your patience. Now, Mr. Page, let's
8 go down to the bottom -- to the bottom table, Diana,
9 which is the variance table. And if we could perhaps,
10 Diana, go to the first year?
11 And, Mr. Page, you'll agree with me that
12 what are presented here are the variances from the
13 results of nine (9) years of forecasts looking out one
14 (1) year --
15 MR. IAN PAGE: Yes --
16 MR. BYRON WILLIAMS: -- agreed?
17 MR. IAN PAGE: -- agreed.
18 MR. BYRON WILLIAMS: And -- and so
19 we'll see -- and if we -- if we went down to the bottom
20 under 'average variance,' Diana?
21 Mr. Page, you'll see that the average
22 variance was 0.39 percent, sir, agreed?
23 MR. IAN PAGE: I -- I see it. We had a
24 lot of difficulty with the calculation because when
25 you're looking at percentages of percentage changes --

1 or percentage changes of percentages is that more
2 appropriate, or is it more appropriate to look at the
3 absolutes. And it's -- it's -- couldn't really come up
4 with one consensus on what the -- the right way, if
5 there is a right way, to look at this is.
6 One of the things I would typically do,
7 and if you're doing some -- any sort of statistical
8 analysis is look to see if there's any outliers. So
9 2008, nobody foresaw what was happen -- that big
10 economic downturn, so I would toss that out as an
11 outlier for a start. And then you'd see that average
12 would come -- come significantly lower.
13 The other thing you're going to see as
14 you go across here is that all the forecasts before
15 2008 were sig -- substantially higher than all the ones
16 after 2008. And you'll also see that the forecast
17 accuracy det -- deteriorates with time, and you'll also
18 notice that as you go out past more than one (1), two
19 (2), or three (3) years your -- the sample size you're
20 looking at is -- is dropping off dramatically, so the -
21 - the analys -- variance analysis becomes less and less
22 useful as you go further out.
23 So those are the observations I would
24 make on the table.
25 MR. BYRON WILLIAMS: Okay, and -- and I

1 appreciate those observations. Let's just work our way
2 through them because I think it's important. Certainly
3 our client --
4 MR. IAN PAGE: Sure. We'll go through
5 them.
6 MR. BYRON WILLIAMS: -- does with the
7 Board. So for the -- the first year here, we have an
8 average variance of thirty-nine (39) basis points, sir?
9 MR. IAN PAGE: Yes. And like I said,
10 if you tossed out that one point five-six (1.56), I
11 haven't done the calculation, but you'd see it was
12 substantially lower.
13 MR. BYRON WILLIAMS: And that's
14 compared against an average forecast of two point zero
15 one-one (2.011), or two hundred and one (201) basis
16 points, sir?
17 MR. IAN PAGE: Yes.
18 MR. BYRON WILLIAMS: And the variance
19 average for -- forecast, accepting your calculations,
20 is -- is 19 percent, agreed?
21 MR. IAN PAGE: I'd agree with that with
22 the proviso, like I said, when we're looking at this,
23 we couldn't quite get our heads around, does it make
24 sense to look at that percent as a percentage change or
25 as an absolute?

1 MR. BYRON WILLIAMS: Okay. And --
2 MR. IAN PAGE: So there -- there's the
3 two (2) different ways you could -- you could look at
4 it.
5 MR. BYRON WILLIAMS: And certainly we
6 have presented the --
7 MR. IAN PAGE: Yes, yes.
8 MR. BYRON WILLIAMS: -- average -- both
9 -- both in the sense that we've look at -- you can see
10 the variance in basis points, and then you can also see
11 a com -- a percentage comparison.
12 MR. IAN PAGE: Yeah, but that -- that
13 variance line at the bottom's in percent as opposed to
14 absolutes.
15 MR. BYRON WILLIAMS: Okay. And so if
16 we move one (1) column over, sir, we'll see the same
17 type of calculation. So, Diana, if you could move
18 under the two (2) year. And we'll see the same type of
19 calculation for the eight (8) years for which there
20 were two (2) years worth of forecasts, agreed?
21 MR. IAN PAGE: Agreed. And, as I'd
22 mentioned before, you see the -- the forecast before
23 2009, the downturn wasn't seen. So you've got two (2)
24 very large what I would consider outliers. And again,
25 if you take those out, that variance comes way down.

1 So it's -- the -- I'm sure we've covered
2 this ground before, but the forecasters always sort of
3 for -- presume sort of gradual movement back to a -- to
4 a normal sort of state, to a mean. And when you have a
5 big disruption like you had in -- in 2009, that's going
6 to -- that sort of big disruptive change would never
7 have been forecast.
8 And that's going to be a problem in any
9 -- any of this type of analysis, anything that crosses
10 over that point. So I would -- I would use a high
11 degree of caution when doing this analysis.
12 MR. BYRON WILLIAMS: Okay. And -- and
13 I thank you for that. Just going down the two (2)
14 years, we see the average variance is a hundred and
15 fifty (150) basis points two (2) years out, sir?
16 MR. IAN PAGE: With the provisos that
17 I'd says, yes, that's mathematically what it is.
18 MR. BYRON WILLIAMS: And that's based
19 upon an average forecast of two hundred and seventy-
20 nine (279) basis points?
21 MR. IAN PAGE: Yes.
22 MR. BYRON WILLIAMS: And the percentage
23 is a -- compar -- dividing the two (2) is a 54 percent
24 in terms of the variance versus the average forecast?
25 MR. IAN PAGE: Yes.

1 MR. BYRON WILLIAMS: And, sir, just for
2 illustrative purposes, we can move out to -- Diana,
3 perhaps under the fourth year -- you'll see again a
4 similar calculation four (4) years out, sir, with the
5 average base -- going down, Diana, to average variance,
6 thank you -- three hundred and thirty-two (332) basis
7 points, sir?
8 MR. IAN PAGE: Yes.
9 MR. BYRON WILLIAMS: Again, it's an
10 average forecast of four hundred and eleven (411) --
11 MR. IAN PAGE: Yes.
12 MR. BYRON WILLIAMS: -- basis points.
13 MR. IAN PAGE: And again, the
14 percentage would be 81 percent, yes.
15 MR. BYRON WILLIAMS: And I didn't hear
16 you. That was 81 percent, sir?
17 MR. IAN PAGE: Yes.
18 MR. BYRON WILLIAMS: Okay. And, Mr.
19 Page, just for the Board's information -- and, Diana, I
20 don't think we need to -- to turn there -- but there
21 also is a sister Information Request to this, which I
22 believe is Coalition First Round 107.
23 Is that your understanding, sir?
24 I can -- if -- if -- Ms. Fernandes, I'll
25 just give a copy to your witness. I'm not actually

1 meaning to refer to it. I just -- I thought this would
2 be easier, Mr. Page. That's just -- and --
3 MR. IAN PAGE: Okay. Yes.
4 MR. BYRON WILLIAMS: -- and, sir, it
5 presents slightly different results because I think it
6 excludes one (1) of the years, being 2008.
7 Is that your understanding?
8
9 (BRIEF PAUSE)
10
11 MR. IAN PAGE: Yes, this is correct.
12 MR. BYRON WILLIAMS: And so if one was
13 concerned about your -- your comment about that perhaps
14 you were wondering whether 2008 should be in or out,
15 one does have the benefit of comparing those two (2) --
16 two (2) documents as well, sir.
17 MR. IAN PAGE: Well, it's not just
18 2008. It's any forecast that was forecasting beyond
19 2008. So any forecast that was prepared in 2006 or
20 2007 would be -- wouldn't have forecast the events of
21 2009. So -- so I would want to discount all of those.
22 I also, if I recall, this was the spring
23 outlook one, not -- this is not what was actually used
24 in the preparation of the IFF.
25 MR. BYRON WILLIAMS: Now, sir, in -- in

1 terms of that comment, you'll agree with me that the
2 Corporation has consistently prepared spring outlooks,
3 agreed?
4 MR. IAN PAGE: I would agree with you,
5 yes.
6 MR. BYRON WILLIAMS: And it wouldn't
7 always be the case, going back to 2007/2008, that fall
8 outlooks that were different from the spring outlooks
9 you -- were prepared?
10 MR. IAN PAGE: We -- for quite a number
11 of years, we've been having -- we have a look at it in
12 the summer and then more recently in the fall as to if
13 -- if there's a need to update, because we will -- we
14 understand that this -- this Board wants to have the
15 most current information available. And we will -- so
16 we try to incorporate that in the IFF.
17 The fall updates, I -- I'm trying to
18 remember. It's five (5), six (6) years or so probably
19 we've been doing that and incorporating it in the IFF.
20 It's a bit of a challenge for Ms. Carriere to
21 incorporate that, because it is quite last minute
22 information for her to -- to incorporate. So we -- we
23 don't want to just -- if it's a -- like, a tenth of a
24 percent change on one (1) -- on one (1) year, we
25 wouldn't -- that's not the sort of thing we would do.

1 So if we see it as a material change, then we would
2 provide that information to Ms. Carriere for her
3 forecast.
4 MR. BYRON WILLIAMS: Now, Mr. Page,
5 just on the point, though, you'll agree if one wanted
6 to go back nine (9) years in time, it would be
7 appropriate to look at the spring forecasts which have
8 been consistently prepared going back nine (9) years?
9 MR. IAN PAGE: There's a -- a greater
10 sample size of spring ones, so the -- the -- there
11 would be some merit in loo -- in looking at that.
12 MR. BYRON WILLIAMS: And -- and --
13 MR. IAN PAGE: But that doesn't
14 necessarily represent, again, what's in the IFF. But
15 it's -- for the purpose of car -- comparing the
16 forecasts, that's probably fair.
17 MR. BYRON WILLIAMS: And you'll also
18 agree, sir, that methodologically, your approach for
19 the spring forecast and the fall forecast would be the
20 same?
21 MR. IAN PAGE: Yes, they're the same,
22 and -- and we have discussed the forecast methodology
23 before. I was just noticing in the -- the last federal
24 budget that they use the same methodology, and they've
25 cited they have been using it since 1994. We looked

1 through all the sources that we've used, and I think
2 there's about 90 percent overlap in the -- in the
3 sources that we use and the federal government uses.
4 So it's -- it's sort of a -- a well-utilized method.
5 MR. BYRON WILLIAMS: And just, Diana,
6 if you could turn to page 33 for a second of the
7 PowerPoint presentation of the Corporation from -- from
8 this Tuesday? Page 33, please.
9 There, sir, you'll see a comparison
10 between the spring 2014 and fall 2014 forecasts that
11 are almost -- very, very close in -- in terms of their
12 direction and path, agreed, sir?
13 MR. IAN PAGE: I -- I'd agree. They're
14 both very similar.
15 MR. BYRON WILLIAMS: Now, I -- I wonder
16 if I could ask Diana to turn up Coal -- First Round
17 Information Request Coalition-I-108 please, page 5 of
18 5. First Round 108, page 5 of 5.
19 Now, Mr. Page, you'll agree that these
20 are the Corporation's forecasts for the ten (10) year
21 plus long-term bonds, agreed, sir?
22 MR. IAN PAGE: Agreed.
23 MR. BYRON WILLIAMS: And thank goodness
24 we don't have to go through a description of both --
25 both of these documents, but you'll agree that the

1 presentation and the analysis is consistent between the
2 one (1) we just reviewed, being Coalition-II-54, and
3 this one (1), agreed?
4 MR. IAN PAGE: Yes, the -- the same --
5 same approach. The difference is that we're looking
6 here -- we're looking at the long-term debt, whereas
7 the other was the -- the short-term debt.
8 MR. BYRON WILLIAMS: And just to -- to
9 cut to the chase on -- on this one, if we can scroll
10 down to the variance part? Thank you, Diana. We'll
11 see a -- a thirty-five (35) basis point average
12 variance in the first year, and a almost one hundred
13 (100) basis points average variance in the second year,
14 sir.
15 Would that be correct?
16 MR. IAN PAGE: That would be correct.
17 So I -- the same observation I would make on the short-
18 term debt. Forecast accuracy tends to be higher in the
19 shorter term.
20 MR. BYRON WILLIAMS: And on both,
21 you'll agree that there's a sharp demarcation between
22 the first year and the second year, sir? If we went
23 back to Coal -- Exhibit 21, you'll -- you'd -- there's
24 -- one's going from a -- a 19 percent variance, average
25 variance to a -- a 54 percent.

1 You'll agree, sir?
2 MR. IAN PAGE: I -- I would agree and -
3 - and I -- and -- and I -- I think I would note that
4 that's probably even been more pronounced since --
5 since the -- the economic downturn, when the -- the
6 large question of how fast that economic recovery is
7 going to happen. It just seems to be persistently
8 wrong in terms of how -- how fast that recovery's been.
9 So the observation you're making here is
10 probably magnified if we're looking in post-2009.
11 MR. BYRON WILLIAMS: And if -- if --
12 Diana, if we could go back to Coalition Exhibit 21 just
13 for a second, page -- the first page. Yes. Thank you.
14 Rate -- oh, scroll -- perfect.
15 And I'll suggest to you that we see a --
16 a sharp break between the first year and the second
17 year in terms of the variance, Mr. Page, and then a
18 similar sharp break between the second and the third
19 year.
20 Would that be fair, based upon the
21 information presented here?
22 MR. IAN PAGE: Yes, and -- and there's
23 -- I don't have the actual reference. I've got this
24 wonderful graph from the -- from the spring federal
25 budget that shows -- that shows this effect and their -

1 - their forecast going back to 2011, '12, '13, '14, and
2 '15, and -- and there's -- and it's just a -- a series
3 of -- of lines up -- upward ticking and each -- and
4 then -- then the subsequent line ticks up again a year
5 later and so forth.
6 So it's -- it's -- I -- I guess what
7 we're seeing is -- is the -- the prevalent views have -
8 - have consistently been -- been wrong on -- on this,
9 because of lack of, I guess, of understanding of all of
10 the other factors that -- that have -- that have come
11 into play into -- into delaying that recovery.
12 MR. BYRON WILLIAMS: And without in any
13 way being -- and I appreciate your -- your insight.
14 And your point is it's -- it's been
15 particularly acute since '09?
16 MR. IAN PAGE: Yes.
17 MR. BYRON WILLIAMS: Okay. And if we
18 just staying on the T-bill page, which is currently
19 before us, if we look at the more than forty (40) data
20 points that are presented here under variance, would it
21 be fair to say that only one (1) of them was -- is --
22 is a negative in that the -- the forecast was below the
23 actuals?
24 Would that be fair, sir?
25 MR. IAN PAGE: It would be fair. The

1 last ten (10), fifteen (15) years, we've seen a -- a
2 low interest environment that seems to have taken a lot
3 longer than -- than I would have expected for the
4 forecasters to sort of get their heads around. And --
5 and the forecasts have typically, if you look -- look
6 back at the graphs, the forecast are a reversion to
7 about a ten (10) year mean -- a ten (10) year mean.
8 And that ten (10) mean in 2006 would have had numbers
9 back to '96, when the interest rates were a lot higher.
10 So there -- there's a -- a long
11 lingering effect in that -- in that forecasting
12 methodology. I -- what I would suggest is different
13 now in -- in -- is that, you know, recently, we saw
14 that paper last -- was it last September, by the Bank
15 of Canada that -- that is -- is essentially addressing
16 this and saying, Maybe we've got it wrong. There's a -
17 - a new normal in terms of what that neutral rate is,
18 and it's about 1 to 2 percent lower.
19 And subsequent to that, we've saw our
20 forecast -- in the long-term forecast take a -- a big
21 step downwards. So I think that that's -- that's sort
22 of a correction that's been a bit -- bit overdue. If -
23 - this table suggests that it's been long overdue. And
24 so I think that's -- that change has happened. So that
25 would give me more confidence in -- in the longer term

1 forecast now than what we -- what we would have seen
2 maybe a year or two (2) ago.
3 The other thing that we're seeing is
4 that with -- as -- as the interest rates gets lower and
5 lower, there does tend to be more upside risks than --
6 than downside risks, simply because the -- the tools to
7 -- to -- the banks have to work with become less and
8 less effective. You know, as -- as the interest rates
9 get lower, there's not a lot of people who would make a
10 huge -- a big difference in -- in it.
11 An investment decision rate of going
12 from a 1 percent to a .3 -- 7 -- or .75 percent
13 probably wouldn't make a huge difference in a lot of
14 people's investment decisions, but going from 5 percent
15 to 3 percent might. So the -- the rates -- as -- as
16 the rates app -- approach zero, the -- the ability of
17 those tools to work becomes less and less, so then they
18 -- they start to getting into other -- other tools.
19 So -- so a continued dropping of the
20 rates seems to be less and less likely than it is that
21 the rates can have -- than -- than that -- than is for
22 a scope for, say, the rates to go back up.
23 MR. BYRON WILLIAMS: Yet -- yet we had
24 the first drop in the overhead overnight rate in five
25 (5) years in January, agreed, sir?

1 MR. IAN PAGE: Agreed, and if -- you
2 were asking earlier if we'd looked at some of these
3 bank forecasts, and -- and if you look to PUB-MH-75(c),
4 you'll see the series of attachments that, while
5 they're not the full documents, they're the -- the
6 tables that various forecasters use.
7 And you'll see every single one of those
8 was pricing at a -- a further .2 -- .25 percent drop in
9 the overnight rates for this -- this quarter, and that
10 hasn't -- and this quarter ends soon, and that hasn't
11 happened yet. So even in the short term, as -- as Mr.
12 Rainkie said, you know, the -- you know, the one (1)
13 bank, they -- they didn't see that quarter percent
14 change coming. Now it's happened, if -- if you go to
15 page 6 -- 6, 7, 8, 9 -- 6 to -- to 13. If we go
16 through each one of those pages, we'll -- we'll see
17 that -- that they're all forecasting a .5 percent
18 overnight rate.
19 So while they hadn't foreseen the -- the
20 quarter percent, as soon as it happens, they say, Well,
21 okay, that's it now. Then the banks start moving,
22 they're going to keep going. And it -- and so even in
23 the short term, the forecasters, you know, they -- they
24 don't necessarily get it right.
25 So if we were to do the forecast using

1 this information, we would say that the -- a forecast
2 of point five (.5), the actual would be point seven
3 five (.75), and -- and so we would have -- we would
4 have a forecast that would be too low rather than too
5 high, as -- as you've been pointing out we've been
6 tended to be.
7 MR. BYRON WILLIAMS: Thank you. If we
8 could go back to Coalition-21 just for a second? So
9 you'll agree with me that more than forty (40) of these
10 variances are positive in that the forecast amount was
11 higher than the actuals, agreed?
12 MR. IAN PAGE: Again, with the provisos
13 that I've given, particularly in terms of the lower
14 samples sizes as you go farther out. And -- and then I
15 guess probably even more important than -- than
16 haggling over the -- the precision of -- of this table
17 and the appropriateness of different calculations, is
18 to remember that there's a flip side to this.
19 That if you do -- did a forecast of
20 export prices, that you'd see a very, very similar
21 outlook, that the forecast price -- fore -- forecast
22 export price was -- was perpetually too high, as well.
23 So -- and that -- that -- and that's -- that's not
24 something that we want to overlook in this, and that's
25 -- if you look back to PUB -- the response to PUB-

1 10(b), we -- we did incorporate that.
2 And -- and when you look at the -- the
3 full picture with both sides of the equation that, yeah
4 -- yes, the interest rate forecasts have -- have been
5 too high, export price forecasts have also been too
6 high. You put the two (2) together, and we're
7 essentially back to where we were in the fall IFF.
8 The twenty (20) year forecast, I think I
9 -- I think we're out by one (1) -- one (1) point on the
10 debt ratio by the time you incorporate the two (2)
11 factors. And -- and in the short term, there's
12 actually a net detrimental effect to Manitoba Hydro of
13 about $6 million in the -- with the lower interest
14 rates but the lower export revenues. So -- so keep in
15 mind the full picture when we're talking about interest
16 rate forecast accur -- accuracy.
17 MR. BYRON WILLIAMS: Thank you, sir.
18 And -- and if we could just go to Coalition First Round
19 108 for one (1) last minute?
20
21 (BRIEF PAUSE)
22
23 MR. BYRON WILLIAMS: And if you -- Mr.
24 Page, the similar analysis here would suggest that
25 you're only going to -- going to see two (2) of -- two

1 (2) situations where the actual amount was higher than
2 the forecast.
3 Would you agree with that, sir?
4 MR. IAN PAGE: I'll agree with it
5 again, yes.
6 MR. BYRON WILLIAMS: Okay.
7
8 (BRIEF PAUSE)
9
10 MR. BYRON WILLIAMS: I wonder if we
11 could go to page 31 of the PowerPoint?
12
13 (BRIEF PAUSE)
14
15 MR. BYRON WILLIAMS: And noting the
16 time, Mr. Page, and I have a fair bit more to go -- go
17 through. So I'm going to try and shortcut something
18 and we'll see how -- whether Ms. Fernandes is agreeable
19 or not. But these are the -- some of the financial
20 institutions upon -- or these are the -- without asking
21 you to elaborate, I'll ask you to confirm that these
22 are the financial institutes on which the Corporation
23 relies in preparing its consensus forecast.
24 MR. IAN PAGE: That's correct.
25 MR. BYRON WILLIAMS: And you'll agree

1 with me that notwithstanding the able ele -- efforts of
2 the PUB in First Round Information Request-I-75, there
3 would be more recent reports from a number of these
4 financial institutions, agreed?
5 MR. IAN PAGE: Agreed.
6 MR. BYRON WILLIAMS: Hot off the press
7 was a fascinating report from the Royal Bank from just
8 a couple of days ago?
9 MR. IAN PAGE: I haven't seen that one
10 (1), but I'll take your word for it.
11 MR. BYRON WILLIAMS: I wonder if by way
12 of undertaking the Corporation would consider filing
13 the most recent updates of the financial institutions
14 who contribute to the consensus forecast? And I'll
15 indicate, Mr. Page, I've got most of them. But I...
16 MR. IAN PAGE: I could certainly offer
17 you the ones from that -- April and May that we used in
18 the current outlook.
19 MR. BYRON WILLIAMS: Well, I'm going to
20 -- I would ask for the ones from June as well.
21 MR. IAN PAGE: Ill -- I'll see if we
22 have them, but I'm sure we do. As Ms. Ferman --
23 Fernandes just reminded me sometimes we have -- some of
24 these documents are public -- publicly available.
25 Others we have to get permi -- permission from the

1 publishers before we can release them.
2 MR. BYRON WILLIAMS: So I would ask for
3 an undertaking in terms of the ones which are publicly
4 available for the June and May updates from the
5 consensus forecast.
6 MR. IAN PAGE: We -- we can do that.
7
8 --- UNDERTAKING NO. 39: Manitoba Hydro to provide
9 the most recent updates of
10 the financial institutions
11 who contribute to the
12 consensus forecast
13
14 MR. BYRON WILLIAMS: Mr. Chair, I'm
15 just seeking some direction from the panel. I had
16 indicated half a day so my plan will be to -- I'm -- go
17 through my half day. I'm pulling some cross out and if
18 -- if at the end of the day there's time available I
19 would ask at least the Board to consider whether I
20 could come back on at that point in time?
21 THE CHAIRPERSON: Yes, that's fine.
22 Thank you.
23
24 (BRIEF PAUSE)
25

1 CONTINUED BY MR. BYRON WILLIAMS:
2 MR. BYRON WILLIAMS: Mr. Schulz, on or
3 about slide 28 of the -- of the Hydro PowerPoint you
4 provide some excerpts from -- some advice from Moody's
5 investor service.
6 Is that correct, sir?
7 MR. MANNY SCHULZ: No. It wasn't
8 advice. It was a comment.
9 MR. BYRON WILLIAMS: So you provide a
10 comment from Moody's investor service, sir?
11 MR. MANNY SCHULZ: Correct.
12 MR. BYRON WILLIAMS: Okay. Would it be
13 fair that -- to suggest that in the Moody's commentary
14 that the Corporation has been receiving of late there
15 also would be commentary suggesting that Hydro would be
16 able to prudently manage its debt and mitigate such
17 risks by seeking rate increases and curtailing capital
18 spending?
19 Do you recall commentary to that effect
20 from Moody's, sir?
21 MR. MANNY SCHULZ: The excerpt that you
22 would be citing would be from the Moody's report on the
23 Manitoba Hydroelectric board which we could call up if
24 you would like. Because I think the fuller excerpt may
25 be beneficial to you.

1 MR. BYRON WILLIAMS: Diana -- I'm not
2 sure who it will be beneficial to, Mr. Schulz, but
3 let's go there, sir.
4 MR. MANNY SCHULZ: Well, Mr. Williams,
5 you know, given the harmonization of our musical
6 interests, I'm hoping that you won't have reason to
7 clash with me.
8 MR. BYRON WILLIAMS: Let's -- Diana, if
9 I could ask you to pull up Appendix 3.8. And sadly,
10 I'm not sure the pages are numbered. But towards the
11 end of the document there's a -- a credit opinion from
12 Moody's Investment Service regarding the Manitoba
13 Hydroelectric board dated 06/2014. Thank you. And
14 scroll down a -- a couple more pages. Again, they're
15 not numbered. Keep scrolling, please. Okay. Whoa.
16 And if you'll scroll down one (1) more page, please.
17 Keep scrolling, please, just to above 'liquidity
18 profile'.
19 And, Mr. Schulz, what I'm suggesting to
20 you, recognizing it's not advice, but a commentary is
21 that the commentary -- and directing your attention to
22 the last sentence, just above liquidity profile is --
23 certainly the commentary of -- of Moody's suggested a
24 two (2) fold approach of seeking rate increases and
25 curtailing capital spending, agreed?

1 MR. MANNY SCHULZ: Out of context, Mr.
2 Williams, I think the first sentence is also important.
3 But before we get there I did want to -- since you
4 highlighted that last sentence, again, not to comment
5 other than what we're doing well, for the ratepayers
6 they did make the comment that we are prudently
7 managing the debts. So that's something that's very
8 important and I thank you for bringing that forward.
9 On the first sentence of that paragraph
10 when they're talking about the risks they're talking
11 about in case of unexpected events such as low water
12 levels, cost overruns, and construction delays given
13 the nature of the hydroelectric plant's long
14 construction cycle prior to the start of the operations
15 and cashflow. So that's the risk that they're
16 referring to, Mr. Williams.
17 MR. BYRON WILLIAMS: Yes, and -- and
18 indeed, sir, this -- we can -- I can refer you there if
19 you wish, but certainly Moody's made a similar
20 commentary back in September of 2013, almost this exact
21 same -- same language, talking about seeking rate
22 increases, but also curtailing capital spending.
23 Do you recall that, sir?
24 MR. MANNY SCHULZ: In order to -- yes,
25 so it was very similar to a phraseology that was used

1 in the previous rating report.
2 MR. BYRON WILLIAMS: I'd like to pull
3 up Coalition Exhibit 18, which is selected results.
4 It's titled "Selected Results." And, Ms. Bauerlein, do
5 I give that to you or Mr. Rainkie? This -- this is a
6 comparison of IFF11 point -- 11-2 versus IFF14.
7
8 (BRIEF PAUSE)
9
10 MR. BYRON WILLIAMS: Ms. Carriere...?
11 MS. LIZ CARRIERE: I believe it would
12 be me, yes.
13 MR. BYRON WILLIAMS: Yeah. And Mr.
14 Rainkie and I had a bit of this discussion, I can't
15 even remember when, perhaps last week, but IFF11-2, in
16 terms of the 2013/'14 GRA was the IFF that was relied
17 upon by Manitoba Hydro in terms of making its
18 recommendation to its board in terms of the rate
19 increase, agreed?
20 MS. LIZ CARRIERE: Agreed.
21 MR. BYRON WILLIAMS: And it also formed
22 the basis of the original rate application which
23 Manitoba Hydro filed with the Public Utilities Board in
24 June of 2012, agreed?
25 MS. LIZ CARRIERE: Yes, it did.

1 MR. BYRON WILLIAMS: And IFF12 was
2 filed later in the proceeding in response to a -- a
3 pre-ask of the Manitoba Industrial Power Users Group,
4 being Pre-ask number 12.
5 You'll accept that subject to check?
6 MS. LIZ CARRIERE: Subject to check.
7 MR. BYRON WILLIAMS: So while Manitoba
8 Hydro may agree or disagree with whether we -- we
9 should use IFF11-2 or IFF12, you'll agree with me that
10 IFF11-2 was an important part of Hydro's deliberations
11 leading up to the rate application, and indeed formed
12 the basis of the original rate application, agreed?
13 MS. LIZ CARRIERE: It did form the
14 basis of the original application.
15 MR. BYRON WILLIAMS: Now, the
16 information presented in Coalition Exhibit 18 from IFF
17 -- sorry, the information provided in Coalition 18,
18 Manitoba Hydro's been in possession of this information
19 for -- for a week or two (2), Ms. Carriere?
20 MS. LIZ CARRIERE: Can you repeat that,
21 please?
22 MR. BYRON WILLIAMS: This is not the
23 first time Manitoba Hydro has seen this document. It
24 was provided to Manitoba Hydro a couple of -- well,
25 over -- a week or two (2) weeks ago, agreed?

1 MS. LIZ CARRIERE: Sort of.
2 MR. BYRON WILLIAMS: Okay. Okay.
3 MS. LIZ CARRIERE: It was -- I believe
4 it was left on our chairs. I'm not sure that we had --
5 MR. BYRON WILLIAMS: You might want to
6 consult with your legal counsel about that.
7
8 (BRIEF PAUSE)
9
10 MS. LIZ CARRIERE: I would have to
11 check on that.
12 MR. BYRON WILLIAMS: Okay.
13 MS. LIZ CARRIERE: I may not have seen
14 it --
15 MR. BYRON WILLIAMS: Okay.
16 MS. LIZ CARRIERE: -- last week.
17 MR. BYRON WILLIAMS: You've had an op -
18 - Hydro's had an opportunity to review it for its
19 accuracy?
20 MS. ODETTE FERNANDES: Yes. Sorry, Mr.
21 Williams. Just if I could clarify. I think it was
22 presented while the planning and ops panel was up, so
23 it might have taken a bit of time to make its way to
24 Ms. Carriere because we assumed it was going to be for
25 the first panel.

1 MR. BYRON WILLIAMS: And -- and my
2 point, Ms. Fernandes, was that it was actually provided
3 to Hydro legal counsel prior to being provided to the -
4 - the planning council, the planning --
5 MS. ODETTE FERNANDES: Yes, it was,
6 yeah.
7 MR. BYRON WILLIAMS: Okay. Ms.
8 Carriere, going back to my point, generally, does
9 Manitoba Hydro accept that -- that the -- the
10 information presented is a reasonable reflection of the
11 record in this hearing?
12 MS. LIZ CARRIERE: I believe so, yeah.
13 MR. BYRON WILLIAMS: And in the event
14 that Manitoba Hydro identifies a booboo on our part,
15 you'll -- you'll get back to us and you'll bring that
16 to our attention so that we don't leave anything
17 incorrect on the record?
18 MS. LIZ CARRIERE: Correct.
19 MR. BYRON WILLIAMS: And I'll just note
20 for the panel that because Mr. Peters has gone through
21 some of these issues and Mr. Hacault will go through
22 some, I'll be focusing on some selected tables.
23 Ms. Carriere, I would like you to -- to
24 refer to the table presented in the -- numbered 1 in
25 the top right-hand corner titled "Summary Comparison of

1 MH11-2 and MH14."
2 Do you have that?
3 MS. LIZ CARRIERE: I have that.
4 MR. BYRON WILLIAMS: And just let's
5 start just to -- in general -- general terms, this is a
6 cumulative comparison of IFF11-2 versus IFF14, which is
7 divided into four (4) distinct periods, I'll suggest to
8 you, going across the top: 2013/'14, 2016 to '17, '22
9 to '20 -- up to '22, '23/'24, and up to '26/'27.
10 Do you see that, Ms. Carriere?
11 MS. LIZ CARRIERE: I see that.
12 MR. BYRON WILLIAMS: In essence, it's a
13 -- it's a -- it captures the cumulative impact of -- of
14 different items, but it segments -- segments them into
15 different time frames.
16 You'll accept that?
17 MS. LIZ CARRIERE: I accept that.
18 MR. BYRON WILLIAMS: And so that's what
19 we were doing across the top. And you'll see on the
20 left-hand side the various items that are being looked
21 at including cumulative rate increases, domestic reven
22 -- revenue, net export revenue, and net income.
23 Those are just some examples that you
24 see on the left-hand side, Ms. Carriere?
25 MS. LIZ CARRIERE: Yes.

1 MR. BYRON WILLIAMS: And let's just
2 start right at the first line, the cumulative rate
3 increase, and directing your attention which is the
4 first line but under 2016/'17. And, Diana, if you want
5 to follow along with the arrow, that would be very
6 helpful.
7 You see, Ms. Carriere, that out to
8 2016/'17, the cumulative rate increase is roughly the
9 same, being between MH11-2 and MH14, agreed?
10 MS. LIZ CARRIERE: Yes. The number is
11 the same.
12 MR. BYRON WILLIAMS: If we move out to
13 the right-hand side, out to 2026/'27, we see by about
14 that -- by that time that the cumulative rate increase
15 calculated is 61.9 percent for Hyd -- MH11-2.
16 Do you see that -- agreed?
17 MS. LIZ CARRIERE: I see that.
18 MR. BYRON WILLIAMS: And for MH14
19 you'll see that it's 76.8 percent?
20 MS. LIZ CARRIERE: I see that.
21 MR. BYRON WILLIAMS: Suggesting that --
22 leaving aside domestic revenue and just focussing on
23 cumulative rate increases out to '26/'27, we see faster
24 growth portrayed in MH14, agreed?
25 MS. LIZ CARRIERE: Can you tell me what

1 year the cumulation started in?
2 MR. BYRON WILLIAMS: If you go to the
3 note, it's cumulative values include 2011/'12 and
4 onwards.
5 Do you see that, Ms. Carriere?
6
7 (BRIEF PAUSE)
8
9 MS. LIZ CARRIERE: So you're taking
10 actual -- for '11/'12 actual rate increases
11 implemented?
12 MR. BYRON WILLIAMS: As you'll see
13 footnote 2, I'll suggest to you, the values for
14 2011/'12 to 2013/'14 are based on actual results.
15 Do you see that, Ms. Carriere?
16 MS. LIZ CARRIERE: Yes.
17 MR. BYRON WILLIAMS: Okay. So, Ms.
18 Carriere, just going back to the cumulative rate
19 increases, we see a relatively faster growth portrayed
20 in the MH14 out to 2026/'27, you'll agree?
21 MS. LIZ CARRIERE: Yes, I can see that.
22 MR. BYRON WILLIAMS: Let's go down one
23 (1) line, though, Ms. Carriere, and you'll see that
24 cumulative domestic revenue out to '26/'27 is very
25 close, being about $29 billion for MH11-2, and about

1 $29 billion for MH14.
2 Would that be fair?
3 MS. LIZ CARRIERE: Yes.
4 MR. BYRON WILLIAMS: And if we seek to
5 make sense of the difference between higher rate
6 increases under MH14 versus pretty analogous cumulative
7 domestic revenue, one (1) factor that we would look to
8 is that there have been lower -- there were lower
9 domestic sales forecast in MH14 due to higher DSM
10 savings incorporated?
11 That would be one (1) factor, Ms. --
12 MS. LIZ CARRIERE: That would be one
13 (1) factor.
14 MR. BYRON WILLIAMS: And it would be an
15 important one?
16 MS. LIZ CARRIERE: Yes.
17 MR. BYRON WILLIAMS: Let's go down to
18 the cumulative export revenue line, and we -- we see,
19 Ms. Carriere, that the -- focussing on the 2013/'14
20 year, that up to that point in time, the cumulative
21 export revenue under MH14 is somewhat higher than it is
22 for MH11-2.
23 Do you see that?
24 MS. LIZ CARRIERE: Did you say higher?
25 MR. BYRON WILLIAMS: I am suggesting

1 that the cumulative export revenue for MH14, being
2 1.155 billion, is somewhat higher than the cumulative
3 export revenue for MH11-2, being 1.1 billion, agreed?
4 MS. LIZ CARRIERE: Oh, '13/'14, I see
5 that, yes.
6 MR. BYRON WILLIAMS: Okay. I
7 apologize if my question was imprecise. And even out
8 to the 2016/'17 year in terms of cumulative export
9 revenue, we see that the results for the MH11-2 versus
10 MH14 are relative -- relatively analogous.
11 Do you see that? Both being in the
12 range of $2.4 billion, Ms. Carriere.
13 MS. LIZ CARRIERE: That's correct.
14 MR. BYRON WILLIAMS: And it's -- when
15 we get out to MH2023/'24, that we begin to see a bit of
16 a crossover with the forecast for MH11-2 being somewhat
17 more optimistic than they are for MH14, agreed?
18 MS. LIZ CARRIERE: Agreed.
19 MR. BYRON WILLIAMS: And just because
20 time is tight, Ms. Carriere, I want to focus you on the
21 cumulative financial line, which is -- which is about
22 the fifth line down. And, Diana, thank you.
23 And, Ms. Carriere, if we look at the
24 2013/'14 comparing MH11-2 at two (2) -- 2.4 billion, or
25 2.384 billion, we see that the cumulative financial

1 expense and depreciation for MH14 is somewhat higher at
2 2.429 billion, agreed?
3 MS. LIZ CARRIERE: Agreed.
4 MR. BYRON WILLIAMS: If we move out to
5 2016/'17 on this same line, again, we see the
6 cumulative financial and depreciation expense for MH14
7 being higher, correct?
8 MS. LIZ CARRIERE: Correct.
9 MR. BYRON WILLIAMS: And out to
10 2023/'24, this is where we see the significant gap
11 between MH11-2, being at 15.4 billion in -- in
12 cumulative finance and -- and depreciation expense
13 versus the 16.89 billion for MH14.
14 Would that be fair?
15 MS. LIZ CARRIERE: Yes.
16 MR. BYRON WILLIAMS: Ms. Carriere,
17 again recognizing that time is tight, if we can turn to
18 page 3 marked in the top right-hand corner?
19 And you'll see that this is a comparison
20 of MH11-2 versus the actual financial results for the
21 time period of 2011/'12 through 2013/'14, agreed?
22 MS. LIZ CARRIERE: Yes.
23 MR. BYRON WILLIAMS: And just -- I want
24 to focus you for a brief second on the left-hand side
25 of that table to the very bottom line. You'll see that

1 at that point in time, the forecast for the equity of
2 the Corporation was 25 percent in 2011/'12, 24 percent
3 in 2012/'13, and 18 percent in 2013/'14.
4 Do you see that?
5 MS. LIZ CARRIERE: Yes, I see that.
6 MR. BYRON WILLIAMS: And if we move
7 just right along to the right, Diana, to the actuals,
8 I'll suggest to you, Ms. Carriere, that the actual
9 results in terms of equity are actually a bit more
10 favourable than the forecast, with the most notable
11 year being the 2013/'14 year, where equity is at 24
12 percent as compared to 18 percent in the 11-2 forecast.
13 Would that be fair?
14 MS. LIZ CARRIERE: Yes, I see that.
15 MR. IAN PAGE: Mr. Williams, you
16 skipped over one (1) of the larger differences on that
17 forecast is that the -- if you look at the water rental
18 line, you'll see that there was much greater export
19 revenues in those years -- or export volumes in those
20 years than there -- than was forecast. And -- and that
21 is -- that's a -- certainly a major part of the
22 difference.
23 MR. BYRON WILLIAMS: And we're going to
24 come to that, Mr. Page, but time is -- time is tight.
25 So, you know, interject with what you feel is

1 appropriate.
2 MS. LIZ CARRIERE: Mr. Williams, in
3 2013/'14, MH11-2, there was -- it was assumed that IFRS
4 would be implemented in that year.
5 MR. BYRON WILLIAMS: And that's a -- a
6 big difference. And -- and certainly, if we were to
7 look at the OM&A costs for the two (2) periods in time,
8 one (1) of the big differences would be that IFRS had a
9 later implementation than was anticipated in MH11-2.
10 Would that be fair, Ms. Carriere?
11 MS. LIZ CARRIERE: That, and in
12 addition, I believe in 11-2, we assumed that IFRS would
13 be the full imple -- implementation and that we would
14 not have rate-regulated -- regulatory deferral
15 accounts.
16 MR. BYRON WILLIAMS: Such as for DSM?
17 Is that one (1) of the ones that you're referring to,
18 Ms. Carriere?
19 MS. LIZ CARRIERE: Yes.
20 MR. BYRON WILLIAMS: Yes. We're on the
21 same page.
22 Ms. Carriere, we're -- I want to,
23 recognizing the time, move out to page 8, which I'll
24 suggest to you is a comparison of MH11-2 versus MH14,
25 the financial results for 2014/'15 to 2016/'17.

1 Do you see that, Ms. Carriere? That's
2 page 8 in the top right-hand corner.
3 MS. LIZ CARRIERE: Yes, I see that.
4 MR. BYRON WILLIAMS: And again, given
5 time, we'll -- I just want to direct your attention to
6 the net -- the -- the net income line and the
7 cumulative total for 11-2 is about -- moving to the
8 right-hand of this is about 345 million.
9 Ms. Carriere, do you see that?
10 MS. LIZ CARRIERE: Yes, I see that.
11 MR. BYRON WILLIAMS: And, Diana, if you
12 can move along all the way to the right under "Net
13 income"? Now we see what's portrayed in MH14, the
14 cumulative net income out to 2617 (sic) and we see that
15 is 277 million, roughly, agreed?
16 MS. LIZ CARRIERE: Yes, I see that.
17 MR. BYRON WILLIAMS: And so that's one
18 (1) of the very notable differences between the two (2)
19 IFFs out to this point in time, you'll agree with me?
20 MS. LIZ CARRIERE: Yes.
21 MR. BYRON WILLIAMS: Now, I want -- I
22 wonder if we can turn to slide 10 -- or page 10, top
23 right-hand corner?
24 And again, this is looking, Ms.
25 Carriere, you'll agree with me, with the cumulative

1 domestic revenue out to 2016/'17, agreed?
2 MS. LIZ CARRIERE: Yes.
3 MR. BYRON WILLIAMS: And going to the
4 domestic revenue line, you'll see again a -- a figure
5 for MH11-2 of about $4.578 billion, agreed?
6 MS. LIZ CARRIERE: Yes, I see that.
7 MR. BYRON WILLIAMS: And moving to the
8 right, that's relatively comparable to the results for
9 MH14, being 4.526 billion, agreed --
10 MS. LIZ CARRIERE: Yeah.
11 MR. BYRON WILLIAMS: -- as forecast?
12 Now, just moving up to the domestic volume line for a
13 second, you'll see that the -- I'll suggest to you that
14 the primary explanation for the $50 million difference
15 is a -- a lower domestic volume in that the gigawatt
16 hours sold -- projected to be sold in MH14 are somewhat
17 lower than they were projected to be sold in MH11-2.
18 Would that be fair?
19 MS. LIZ CARRIERE: Yes, that looks
20 correct.
21 MR. BYRON WILLIAMS: If we could turn
22 to --
23 MS. LIZ CARRIERE: Mr. Williams, can
24 you tell us whether these are -- are weather normalized
25 or not?

1 MR. BYRON WILLIAMS: Ms. Carriere, I'd
2 have to confer -- I -- I couldn't tell you that right
3 off -- offhand, and I can't see the -- the -- I can't
4 see that in the notes.
5 So I'll certainly leave it open to you,
6 if you have a -- a sense that they're not weather
7 normalized, to come back to us. I suspect that's
8 unlikely for Mr. Harper, but that could be the case.
9 Ms. Carriere, if we could go to -- and
10 I'll probably spend a...
11
12 (BRIEF PAUSE)
13
14 MR. BYRON WILLIAMS: Ms. Carriere, if
15 we can go to page 14 marked in the top right-hand
16 corner? Do you have that, Ms. Carriere? I know I'm
17 flip -- making you flip through a lot of pages quickly.
18 MS. LIZ CARRIERE: Yes, I have that.
19 MR. BYRON WILLIAMS: And this is an
20 examination of -- from 2014/'15 to 2016/'17, the
21 capital spending and assets placed in service comparing
22 MH11-2 versus MH14 in terms of the forecasts, agreed?
23 MS. LIZ CARRIERE: Agreed.
24 MR. BYRON WILLIAMS: And you'll see,
25 for example, focussing on the 2014 year, that the

capital spending for 11-2 is forecast to be considerably less than what is currently forecast for IFF14, agreed?

MS. LIZ CARRIERE: Agreed.

MR. BYRON WILLIAMS: And as we move along to the right, you'll agree with me that that same pattern holds true for capital spending for each of those particular years in that the forecast for IFF11-2 is lower than the capital spending forecast for IFF14, agreed?

(BRIEF PAUSE)

MR. BYRON WILLIAMS: Was that a yes?

MS. SANDY BAUERLEIN: Yes. However, I would want to note again to the Board, as discussed in the planning and operations panel, there was additional capital investment from IFF11-2 to MH14. I think we had quantified the difference in -- from IFF12 or CEF12 as being, over the twenty (20) year period, $3 billion.

But in each year, we were placing additional investment in to address again the infrastructure issues, as well as the capacity constraints, which is why you'll see higher capital spending and higher levels of assets placed in service.

1 MR. DARREN RAINKIE: And, Mr. Williams,
2 sorry, just to -- for clarity of the record, also you
3 have to be careful when we're going back three (3)
4 forecasts of the assumption of the timing of in-
5 service. Particularly, going back to our earlier
6 discussion this morning about assets coming into
7 service, you were focussed on some big assets that were
8 coming into service a couple years from now.
9 But of course, the Riel station came
10 into service and the Pointe du Bois spillway came into
11 service in 2014, which is probably 8 or $900 million in
12 those timeframes. So you have to be careful that you
13 just don't interpret this as increased spending. It
14 may be the shifting of in-service dates of large
15 projects.
16 MR. BYRON WILLIAMS: So your evidence
17 is, Mr. Rainkie, that Riel was not in IFF11-2?
18 MR. DARREN RAINKIE: Well, I'm not sure
19 that it wasn't in IFF11-2, but depending on what the
20 assumption was of the in-service date in IFF11-2,
21 spending can be in one (1) of the years, or another, so
22 it's not just changes in spending levels, but it's also
23 changes in the assumptions of in-service dates,
24 particularly of large projects like Riel and Pointe du
25 Bois, the two (2) that come to mind. But there --

1 there might be others as well, sir.
2 MR. BYRON WILLIAMS: I have your point.
3 Again, recognizing the time, if we can turn to page 15
4 in the top right-hand corner?
5 And, Ms. Bauerlein or Ms. Carriere, this
6 -- this breaks down the difference in the capital
7 spending forecast between MH11-2 versus MH14 into major
8 generation and transmission sustaining capital and
9 total, agreed?
10 MS. LIZ CARRIERE: Yes, agreed.
11 MR. BYRON WILLIAMS: And again, if we -
12 - we work along the major GNT line, we'll see -- you'll
13 accept, subject to check, that the -- the capital
14 spending forecasts in MH14 are -- are higher in -- in
15 each year as compared to MH11-2, correct?
16
17 (BRIEF PAUSE)
18
19 MS. LIZ CARRIERE: Ms. Bauerlein and I
20 were just discussing your note 3 below, that it doesn't
21 include the overhead adjustment. So the -- these
22 numbers aren't quite comparable.
23 MR. BYRON WILLIAMS: Do you have
24 numbers that -- that you think are -- well, let me back
25 up.

1 When you say, Not quite comparable, are
2 you suggesting that there's a -- a -- that there's an
3 inaccuracy here?
4 MS. LIZ CARRIERE: Well, the -- you
5 can't make the comparison, for example, in '14/15 of
6 three eighty-seven (387) to five seventy-one (571)
7 without adding -- or without the overhead adjustment in
8 the -- for the three eighty-seven (387).
9 MR. BYRON WILLIAMS: Would you be
10 prepared by way of undertaking, if it's not already on
11 the record, to make that adjustment?
12 Is that in PUB -- oh, I can hear the
13 whispers, sorry.
14 MS. LIZ CARRIERE: PUB-39 has the
15 correct numbers.
16 MR. BYRON WILLIAMS: Is that from the
17 first round or the second?
18 MS. LIZ CARRIERE: Round 2.
19 MR. BYRON WILLIAMS: Okay. We'll --
20 we'll come back to that.
21
22 (BRIEF PAUSE)
23
24 MR. BYRON WILLIAMS: Just recognizing
25 the time, perhaps we can go to slide 20, or page 20 in

1 the top right-hand corner.
2
3 (BRIEF PAUSE)
4
5 MR. BYRON WILLIAMS: Ms. Carriere, this
6 is a comparison of the DSM savings in Manitoba Hydro
7 11-2 versus Manitoba Hydro 14.
8 Do you see that?
9 MS. LIZ CARRIERE: Yes, I see that.
10 MR. BYRON WILLIAMS: And just heading
11 right down to the cumulative total and recognizing that
12 My Friend Mr. Gange is doing a cross-examination this
13 afternoon, you'll see that -- that there's a
14 significant increase in the projected DSM savings in
15 MH14 as compared to MH11-2.
16 Would that be fair?
17 MS. LIZ CARRIERE: Yes. We can see the
18 increase.
19 MR. BYRON WILLIAMS: And perhaps just
20 recognizing the -- the tightness in time, if we can go
21 to last page 21, one (1) page over, and maybe this will
22 please Mr. Page.
23 What we're looking at here is a
24 comparison of the forecast of export revenues in MH11-2
25 versus MH14, agreed?

1 MS. LIZ CARRIERE: Yes, I can see that.
2 MR. BYRON WILLIAMS: And jumping to the
3 chase, going down, for 11-2, the export revenue column
4 to the cumulative total, you'll agree that it's
5 portrayed as $4.964 billion, agreed?
6 MS. LIZ CARRIERE: Agreed.
7 MR. BYRON WILLIAMS: If we move across
8 to the right, we'll see a relatively comparable figure
9 under MH14 export revenue of $4.957 billion, agreed?
10 MS. LIZ CARRIERE: Yes.
11 MR. BYRON WILLIAMS: So the totals are
12 the same, but if we move just one (1) to the right for
13 the expert uni -- export unit revenue projected for
14 MH14, you'll see that is seventy-seven dollars and
15 seventy-one cents ($77.71) per megawatt hour, correct?
16 MS. LIZ CARRIERE: Yes.
17 MR. BYRON WILLIAMS: And if we move
18 back to MH11-2, you'll agree that the forecast back in
19 that point in time was that the expert unit -- export
20 unit revenue would be considerably higher at ninety-two
21 point (92.) -- ninety-two dollars and thirty-six cents
22 ($92.36) per megawatt hour, agreed?
23 MS. LIZ CARRIERE: Agreed.
24 MR. BYRON WILLIAMS: And so move over,
25 if we could, Diana, to the export volume under MH11-2.

1 You'll see that, Ms. Carriere, that's at
2 fifty-three point (53.) -- or 53,743 gigawatt hours,
3 correct?
4 MS. LIZ CARRIERE: Correct.
5 MR. BYRON WILLIAMS: Considerably less
6 than forecast in exp -- in MH14, correct?
7 MS. LIZ CARRIERE: Correct.
8 MR. BYRON WILLIAMS: So while the --
9 the total revenues are very comparable in terms of
10 export revenues for this particular time, the forecast
11 for MH14 is based upon a considerably lower per unit
12 revenue expectation, and a substantially higher export
13 volume expectation.
14 Would that be fair?
15
16 (BRIEF PAUSE)
17
18 MS. LIZ CARRIERE: Yes, that's fair.
19 MR. BYRON WILLIAMS: Okay. Mr. Chair,
20 I have left quite a few questions on the table, but I -
21 - I think what I would recommend to the panel is
22 allowing my colleagues to proceed, and -- and I -- I
23 can review my notes and see if I -- I have a few more
24 that -- that -- if there's time permitting at the end
25 of the day, and if it's the Board's pleasure, I'll --

1 I'll ask a few more.
2 THE CHAIRPERSON: With that, I think we
3 can take our lunch break. So we'll see each other
4 again at a quarter to 1:00. Thank you.
5
6 --- Upon recessing at 12:01 p.m.
7 --- Upon resuming at 12:48 p.m.
8
9 THE CHAIRPERSON: Good afternoon. I
10 believe that we're ready to resume today's proceedings.
11 Any -- no, I don't think there's any administrative
12 matters to attend to, so I'll turn the microphone over
13 to you, M. Hacault.
14
15 CROSS-EXAMINATION BY MR. ANTOINE HACAULT:
16 MR. ANTOINE HACAULT: Thank you. Good
17 afternoon, everybody on the finance panel. As I had
18 said for the planning and operations panel, if my
19 questions aren't clear, just let me know and I'll try
20 and rephrase them if you don't understand my questions.
21 And if you think I'm getting into any
22 kind of confidential information or things that need to
23 be filed in confidence, let me know also.
24 And I have one (1) small matter. We had
25 distributed last night two (2) PDFs, one entitled

1 "Comparison of MH14 with MH13," and another document
2 entitled "Table 1: Manitoba Hydro Financial Targets,
3 1986 to 2010/'11." And my understanding is that we're
4 going to give that exhibit number MIPUG 10-3.
5
6 --- EXHIBIT NO. MIPUG-10-3:
7 Document entitled
8 "Comparison of MH14 with
9 MH13," and, "Table 1:
10 Manitoba Hydro Financial
11 Targets, 1986 to 2010/'11"
12
13 CONTINUED BY MR. ANTOINE HACAULT:
14 MR. ANTOINE HACAULT: In a very general
15 way, what I intend to cover with this panel to a large
16 extent mirrors the subject matters that have been put
17 in the Manitoba Exhibit 52, which is the slide deck.
18 I'll have some additional smaller questions, but I'd
19 like to start with slide 11, please.
20 Now, as I understand the gist of what's
21 being presented by the panel is that, once we get over
22 the bulge of big capital spending that we see here --
23 it's almost like a little mountain -- we get a lot of
24 expenses that hit the Corporation's books, and we need
25 to deal with those.

1 Is it really that big bulge in it
2 hitting the book that's driving a lot of what we need
3 to talk about, Ms. Carriere?
4 MS. LIZ CARRIERE: Well, yes.
5 Following the in-service of Bipole III and Keeyask,
6 ongoing DSM expenditures as well as sustaining capital
7 expenditures, that increases our carrying cost.
8 MR. ANTOINE HACAULT: Yes. So I -- the
9 approach of Manitoba Hydro was to try and deal with all
10 of these big bulge challenges by keeping it within a
11 three point nine-five (3.95) rate increase, correct?
12
13 (BRIEF PAUSE)
14
15 MS. LIZ CARRIERE: Well, yes, we looked
16 at several rate alternatives, and that was the one (1)
17 that we decided best balanced sensitivity to our
18 customers as well as maintaining our own financial
19 health.
20 MR. ANTOINE HACAULT: So the focus of
21 the Corporation has been to work or try to work within
22 that 3.95 percent increase budget, correct?
23 MS. LIZ CARRIERE: No, I don't think we
24 plan our operations according to the rate increase that
25 we've been projecting. The rate increases -- is what

1 falls out of what we need to do to maintain the same
2 level of service to customers.
3 MR. ANTOINE HACAULT: Let me probe that
4 a little bit more. You, as a corporation, didn't
5 advance a 4.5 percent increase budget for the next
6 several years to handle this bulge, correct?
7 MS. LIZ CARRIERE: I think we've
8 discussed that if -- if we could have -- if we wished
9 to maintain a stronger financial position, the rates
10 would have been in the range of 5 to 6 percent for the
11 test years.
12 MR. ANTOINE HACAULT: But the box of
13 sand, so to speak, that the Corporation has asked us to
14 play in is a 3.95 percent increase, correct?
15 MS. LIZ CARRIERE: That's correct.
16 MR. ANTOINE HACAULT: Okay. Now, in
17 NFAT -- and Mr. Rainkie, I think, will be able to
18 answer this one -- we also had, in addition to this big
19 bulge, this mountain that we see here on slide 41,
20 another one, which was called Conawapa.
21 It was a $10.3 billion capital expense
22 that was coming in and would be in service sometime in
23 2030 depending on the model that ran, correct?
24 MS. LIZ CARRIERE: Based on the
25 scenarios that were submitted in the April to May of

1 2014 time frame which included DSM Level 2, that's
2 correct.
3 MR. ANTOINE HACAULT: Okay. And the
4 Corporation advanced bo -- both in evidence and its
5 financial analysis that it could handle this second
6 mountain that was coming through, the Conawapa
7 mountain, with a -- a three point nine-five (3.95) rate
8 increase, correct?
9 MS. LIZ CARRIERE: Yes, I believe that
10 scenario, that the Preferred Development Plan, the
11 projected rate increases to 2032 were 3.95 percent.
12
13 (BRIEF PAUSE)
14
15 MR. ANTOINE HACAULT: And when we were
16 going through the NFAT and taking Conawapa out of the
17 picture, the -- there was talk about loading the
18 Keeyask-only option with some sunk costs because some
19 of it would not be deemed useful, correct?
20 MS. LIZ CARRIERE: For planning
21 purposes, in -- in that kind of a scenario. In the
22 scenarios where Conawapa was removed for consistency's
23 sake, we did make an assumption regarding the cost
24 spent to date on Conawapa.
25 MR. ANTOINE HACAULT: And part of

1 IFF14, if my memory serves me correctly, we are
2 assuming -- was it in 2016/'17 that we're going to be
3 putting on the books some $13 million per year on the
4 basis that Conawapa is not in the picture at all,
5 correct?
6 MS. LIZ CARRIERE: That's what was
7 assumed for planning purposes --
8 MR. ANTOINE HACAULT: Okay.
9 MS. LIZ CARRIERE: -- for the forecast.
10
11 (BRIEF PAUSE)
12
13 MR. ANTOINE HACAULT: To be clear
14 though, as I understand the Corporation's position, the
15 Conawapa option is not assumed to be off the table for
16 planning purposes.
17 MS. LIZ CARRIERE: That's correct. It
18 remains a viable option in terms of new resource, yes.
19 MR. ANTOINE HACAULT: It's only when
20 we're doing the financial calculations to come with the
21 three point nine five (3.95), and the effects of that
22 particular rate increase that the Corporation, for that
23 purpose, is assuming that Conawapa is not in the plans,
24 correct?
25 MS. LIZ CARRIERE: That's correct.

1 (BRIEF PAUSE)

2

3 MR. ANTOINE HACAULT: Now -- I'm sorry,

4 yes?

5 MR. DARREN RAINKIE: Well, I think we -

6 - we just have to be careful. I'm just trying to

7 interpret your question. Cost can't necessarily sit on

8 the books forever, so at some point, Manitoba Hydro may

9 make a firm decision to permanently defer Conawapa. In

10 that case, we've got two (2) options.

11 We assess the costs on an ongoing basis

12 and may have to write off large chunks of it over time,

13 or we could smooth that once again by putting that into

14 a rate-regulated asset and amortizing it over a period

15 of time, as we've assumed in IFF14, which probably

16 would be a more rational way of going about it for both

17 book purposes and rate-setting purposes.

18 So I just wouldn't want to leave the

19 impression that costs can sit on your books forever.

20 They can't, you know, that we're still looking at the

21 business case for Conawapa, and decisions may or may

22 not be made based on how the world unfolds in the next

23 number of years. So I just wanted the Board to

24 understand that aspect of it.

25 MR. ANTOINE HACAULT: Understood, Mr.

1 Rainkie, and you did testify to that in the NFAT
2 proceedings to try and explain how that might work if
3 ever a decision was made to just stop Conawapa totally,
4 correct?
5 MR. DARREN RAINKIE: Yes. I think
6 there was a number of Information Requests that asked
7 us if those costs could stay on our books forever, and
8 of course we said, No, there has to be some treatment.
9 And either they get reviewed in terms of
10 future benefit every year from an annual financial
11 statement perspective, or if that -- if it comes that
12 we ask -- that -- or decide that the -- the project is
13 permanently deferred, we may come to the Board and ask
14 for treatment as a regulatory asset and amortization
15 over a period of time, if that treatment is available
16 to us after the International Accounting Standards
17 board finishes its deliberations on this matter.
18 MR. ANTOINE HACAULT: Thank you. My --
19 my point was just to explain that there appeared to be
20 some difference in how we were treating it for planning
21 purposes. Just a suspension, correct? And for
22 financial purposes, we treat it as if it has actually
23 stopped, and is no longer an option.
24 That's why we put the $13 million hit on
25 our financials?

1 MR. DARREN RAINKIE: Yes. We -- we
2 assumed in the financials that there would be a
3 suspension of it, I think, at the end of most of the --
4 or the -- the fall of 2016, and then assumed that we
5 would amortize it as a rate-regulated asset for thirty
6 (30) years thereafter.
7 MR. ANTOINE HACAULT: Now, could we go
8 to Exhibit 10-3? There's a table there.
9
10 (BRIEF PAUSE)
11
12 MR. ANTOINE HACAULT: I've got it in a
13 different order. It -- it appears that -- there we go.
14 Okay. So this document takes some information from
15 Manitoba Hydro IFF14 and CEF14 and compares it with the
16 -- a scenario for 2013.
17 And I'm -- am I right in understanding
18 that there was a difference in those forecasts, because
19 the big items like Conawapa and the Pointe du Bois
20 project were being taken out, so we had about $11.6
21 billion of major capital in 2013 forecasts, which were
22 not in this updated version put in front of this Board?
23
24 (BRIEF PAUSE)
25

1 MS. SANDY BAUERLEIN: That is correct.
2 MR. ANTOINE HACAULT: Okay. And when I
3 was talking about the second big bulge, if we see
4 further in this small summary that I've prepared, we
5 had, in addition to the Keevask and Bipole III big
6 bulge, we had a $6 billion hit of capital expenditures
7 in the first ten (10) years, correct?
8 We had looked at this slide, we'd see
9 capital spending going up by another $6 billion in the
10 ten (10) years?
11 MS. SANDY BAUERLEIN: In CEF13?
12 MR. ANTOINE HACAULT: Correct.
13 MS. SANDY BAUERLEIN: Correct.
14 MR. ANTOINE HACAULT: And in the last
15 ten (10) years, we had -- didn't have Keevask and
16 Bipole III, but we nonetheless had another $5.6 billion
17 rejected capital spending on these major projects,
18 correct?
19 MS. SANDY BAUERLEIN: Correct, just
20 subject to check the numbers. I haven't verified those
21 --
22 MR. ANTOINE HACAULT: Yes.
23 MS. SANDY BAUERLEIN: -- with the CEF13
24 figures.
25 MR. ANTOINE HACAULT: I appreciate

1 that, and thank you for that clarification. If there's
2 numbers that need to be modified somewhat, we can
3 refile that table as Hydro deems necessary to put its
4 view of the numbers on it.
5 But in -- now that we've come to the
6 Board -- what might have been if we had just taken
7 those two (2) projects off the 2013 information, we
8 might have thought we were starting with 11 billion and
9 some of reduced capital spending, correct?
10
11 (BRIEF PAUSE)
12
13 MS. SANDY BAUERLEIN: In CEF13 though,
14 we did add additional dollars for sustaining capital as
15 well.
16 MR. ANTOINE HACAULT: Understood. Over
17 2012, and Mr. Williams went through some of that, so I
18 don't intend to go through it, but I'm just looking at
19 the snapshot of the information we had at the NFAT, and
20 now there's a couple things that have happened in a
21 year. Those savings that we thought we might have of
22 $11.6 billion have been reduced by about $4.4 billion
23 over the twenty (20) year IFF, correct?
24 MS. SANDY BAUERLEIN: I don't know if
25 I'd categorize them as savings. It was a decision to

1 not proceed with those investments.
2 MR. ANTOINE HACAULT: A difference in
3 capital spending might be a -- a better description of
4 it? Thank you.
5 Do you agree?
6 MS. SANDY BAUERLEIN: I would agree.
7 MR. ANTOINE HACAULT: So the panels of
8 Manitoba Hydro have explained that for sustaining
9 capital, in the last year, there's a total of about $2
10 billion that's going to be spent over the next twenty
11 (20) years, which was not in the CEF2013, correct?
12 MS. SANDY BAUERLEIN: Correct. We have
13 added an additional $2 billion of investment in CEF14
14 over CEF13.
15 MR. ANTOINE HACAULT: And we can see
16 also for Bipole III, as a result of the revised
17 estimate, there's about $1.3 billion hit there where
18 the bulge gets bigger, correct?
19 MS. SANDY BAUERLEIN: That is correct.
20 MR. ANTOINE HACAULT: And for DSM,
21 finally -- sorry, it's only -- I shouldn't say, "only,"
22 but it's half a billion dollars in DSM where we're
23 increasing that bulge, correct?
24 MS. SANDY BAUERLEIN: Yes. We're
25 increasing the investment in DSM to align with the

1 recommendations from the NFAT.
2 MR. ANTOINE HACAULT: And finally,
3 Keeyask in the first ten (10) years, which is a -- a
4 new estimate for that project, correct?
5 MS. SANDY BAUERLEIN: Correct.
6 MR. ANTOINE HACAULT: Now, I'll go back
7 to Bipole III. Mr. Williams brought up a slide where
8 Mr. Elder -- or the transcript where Mr. Elder agreed
9 with me that he was aware of the change in technology
10 which would have to increase the value of Bipole III as
11 of April 2014.
12 My question is: What was the exact date
13 on which the responses were required for those requests
14 for proposals that relate to this particular choice of
15 technology?
16
17 (BRIEF PAUSE)
18
19 MR. DARREN RAINKIE: Mr. Hacault, we'd
20 need Mr. Elder for the exact date. We could undertake
21 to provide that.
22 MR. ANTOINE HACAULT: Yes. So could I
23 have an undertaking of the Corporation to advise of the
24 date on which Manitoba Hydro received the three (3)
25 proposals related to the Bipole III, and specifically

1 as it relates to the change of technology that we
2 talked about? I think it's referred to as LLC instead
3 of the open valve.
4 Do I have that undertaking, sir?
5 MR. DARREN RAINKIE: That's the exact
6 date that we received the bids back from the
7 proponents, sir. Is that -- is that what you're
8 asking?
9 MR. ANTOINE HACAULT: Yes. He -- he
10 guessed it was sometime in April, I don't -- and wasn't
11 too sure, as I recall the transcript, whether it was in
12 March or in April. And if it was in March, whatever
13 the date in March is. If it's in April, that's what
14 I'm looking for.
15 So I'm referencing page -- I think it's
16 1,531 of the transcript, lines 14 to 24, if somebody
17 needs to have more detail as to what Mr. Elder was
18 responding and the type of information that we were
19 looking for.
20 Is that satisfactory, sir?
21 MR. DARREN RAINKIE: We'll undertake to
22 do that, sir.
23
24 --- UNDERTAKING NO. 40: Manitoba Hydro to provide
25 dates that the three (3)

1 bids were submitted
2
3 MR. ANTOINE HACAULT: Okay. Now, my
4 question is: On big projects like these major capital
5 projects, does the Corporation have any internal
6 reports of the ongoing status of big projects such as
7 Keeyask and Bipole III?
8 MR. DARREN RAINKIE: Yes, there would
9 be vari -- various levels of reports. I mean, there's
10 reports to department managers, there's reports to
11 division managers, reports to the executive, reports to
12 the board. What I -- I think we have to be careful of
13 in this one is the sheer volume of material that -- and
14 the sheer number of contracts that are coming in for
15 the group that's evaluating all of these.
16 So there is bits and pieces of
17 information and analysis that are -- that's happening
18 over several months, culminating in a -- in a re-
19 estimate of a -- a $4.6 billion project, sir. So that
20 -- that's -- that's the only thing as -- I'm not sure
21 all of us in the room can imagine what the folks have
22 to go through that are looking through this large of a
23 project. These are some of the largest infrastructure
24 projects in North America, so we just have to keep that
25 in mind.

1 MR. ANTOINE HACAULT: But, sir, I'm
2 thinking -- and I -- I just -- I don't know, but if I
3 was running a $4.6 billion project or a $3.2 billion
4 project, and I was sitting as a manner -- somebody on
5 an executive or somebody that'd need to have a high-
6 level understanding of what's happening on that
7 project, I'm -- at least based on the smaller projects
8 I've been lur -- working on, management would like at
9 least monthly reports as to where things are at and
10 whether we're on budget or not.
11 Is there that kind of a -- I'm going to
12 say a fifteen (15) to twenty (20) page report that's
13 provided to upper management on the status of projects,
14 the major capital ones?
15 MR. DARREN RAINKIE: Well, sure.
16 There's capital expenditure reporting on projects that
17 are being built, but I'm talking about the re-estimate
18 of this project and the process that's necessary to go
19 through to re-estimate a project that is yet to be
20 started construction.
21 MR. ANTOINE HACAULT: Am I
22 understanding in your response, sir, that upper
23 management has no mechanism in place to know during the
24 course of a project whether or not a significant
25 assumption in the cost of the project is changing all

1 of a sudden?

2

3 (BRIEF PAUSE)

4

5 MR. DARREN RAINKIE: Well, sir, and

6 this would have been probably a better discussion to

7 have with -- with Mr. Elder, because he was living it

8 every day. But I -- what I'm trying to impart to you

9 is the sheer magnitude of these projects and the

10 technical requirements of those in trying to go through

11 the material such as a five thousand (5,000) page bid -

12 - bid. I think Mr. Elder indicated in his testimony,

13 trying to first understand what you've got, trying to

14 understand if the bid actually meets the technical

15 specifications, what the alternatives are.

16 As an accountant, I don't think I can

17 even begin to describe that -- that process, sir. So

18 it wasn't like they got a five (5) -- a series of five

19 thousand (5,000) page bids on Monday and, you know,

20 they would have known exactly what they were dealing

21 with on Tuesday and would have informed somebody, sir.

22 It was a -- a process over a period of months, I think

23 he indicated, between April and September of 2014.

24 MR. ANTOINE HACAULT: But, sir, I don't

25 know if I didn't state my question correctly. I didn't

1 hear an answer to my question. My question was with
2 respect to the executive level at Manitoba Hydro.
3 Are you suggesting that the executive
4 level does not receive a report with respect to whether
5 a project is going to face a significant difference in
6 a budget?
7 MR. DARREN RAINKIE: Sir, we receive
8 reports once the individuals that are responsible for
9 these projects have a chance to go through and
10 determine if the bids that they have even meet the
11 technical specifications and what the ramifications
12 are. That's when we get information, sir. But if
13 you're expecting that those types of bids would come in
14 on Monday and somebody would know exactly what the
15 outcome was on the project on Friday, I think we're
16 expecting a bit much.
17 I'm not saying there isn't those
18 processes, but I think one has to understand the
19 magnitude and the size of this -- this project and what
20 -- and the technical nature of it. So, I mean, Mr.
21 Elder -- the reason we had the planning and operations
22 panel, I think, was that Mr. Elder could go through
23 that blow by blow if you want.
24 MR. ANTOINE HACAULT: Well, I'll take
25 it in small chunks. We've seen a -- a capital project

1 justification sheet with the LLC technology that came
2 in around $4.2 billion.
3 Do you recall that?
4
5 (BRIEF PAUSE)
6
7 MR. DARREN RAINKIE: Is that the CPJ
8 that was never approved in the end, sir? Is that -- is
9 that --
10 MR. ANTOINE HACAULT: Yes, that's the
11 one --
12 MR. DARREN RAINKIE: I think we had
13 various -- I mean, we went through this with Mr. Warden
14 last time extensively on the record. In the last GRA,
15 we went through all those gyrations.
16 MR. ANTOINE HACAULT: And the one that
17 was not approved, and that's my point, is the one that
18 did have the LLC technology.
19 And that brought the number up to $4.2
20 billion at that time, correct?
21 MR. DARREN RAINKIE: That was the
22 internal evaluation. Subsequent to that, there was an
23 external evaluation with a consultant that resulted in
24 the $3.3 billion estimate, sir. And there obviously
25 was a difference of opinion about the technology that

1 would be used. Mr. Elder addressed that, I think, a
2 few days ago on the stand.
3 MR. ANTOINE HACAULT: Yes, and that's
4 exactly my point. The lower estimate excluded the LLC
5 option, and went to a different type of technology,
6 correct?
7 MR. DARREN RAINKIE: Yes. My
8 accounting understanding of that technical engineering
9 matter is that the consultant felt that an alternate
10 technology could be used, and once we received the bids
11 back and went through the analysis, the contractors, or
12 whatever you want to call them, indicated that they
13 would not be using that technology for the reasons Mr.
14 Elder -- Mr. Elder explained.
15 MR. ANTOINE HACAULT: And now instead
16 of four point two (4.2) for the LLC technology, people
17 were telling you that it was going to go up,
18 cumulatively with everything else, up to 4.6 billion,
19 correct?
20 MR. DARREN RAINKIE: Yes. The synchro
21 -- synchronous condenser technology was one (1) of a
22 number of factors, sir, that resulted in the increase
23 in the -- in the budget, so we shouldn't leave the
24 impression that it was the only one.
25 MR. ANTOINE HACAULT: But it was a

1 significant amount, and that was previously identified
2 in the CPJ that was not approved by the executive,
3 correct?
4 MR. DARREN RAINKIE: Yes. And as I
5 indicated just a few minutes ago, subsequent to that,
6 there was an independent consultant that looked at and
7 had advised us of a different technology, and it did
8 not work out that way.
9 MR. ANTOINE HACAULT: Could you
10 undertake, sir, to look at your records and determine
11 the first date on which executive was advised that LLC
12 was a technology that would had -- have to be used for
13 Bipole III?
14
15 (BRIEF PAUSE)
16
17 MS. ODETTE FERNANDES: Mr. Hacault,
18 maybe I'll take that under advisement, and we can maybe
19 discuss offline exactly what you're looking for?
20 MR. ANTOINE HACAULT: My request is
21 pretty clear. It's executive related, so anybody on
22 the executive, when's the first date they knew that the
23 technology was going to have to be LLC as in the
24 unapproved CPJ?
25

(BRIEF PAUSE)

MS. ODETTE FERNANDES: We'll undertake to look at that, Mr. Hacault.

--- UNDERTAKING NO. 41: Manitoba Hydro to look at their records to determine the first date on which executive was advised that LLC was a technology that would have to be used for Bipole III

CONTINUED BY MR. ANTOINE HACAULT:

MR. ANTOINE HACAULT: Thank you. I'd like to move to slide 15 of Manitoba Hydro Exhibit 52.

(BRIEF PAUSE)

MR. ANTOINE HACAULT: Now, remind me again, it could be anybody on the panel, what the left-hand numbers are meant to designate where it starts with -- from zero going up to three (3) -- thirty-five hundred (3,500)?

MS. LIZ CARRIERE: Those are the

1 capital expenditures in millions of dollars.
2 MR. ANTOINE HACAULT: Okay. So does
3 that level also apply to the black line which shows
4 cashflow from operations?
5 MS. LIZ CARRIERE: They're using the
6 same access, yes.
7 MR. ANTOINE HACAULT: Okay. So that --
8 this again gives us another picture of this big bulge
9 and how we get hit by it, correct?
10 MS. LIZ CARRIERE: Yes.
11 MR. ANTOINE HACAULT: And we see that
12 when Bipole III starts to come into service, that
13 cashflow from operations is going to be a little bit
14 south of $500 million, correct?
15 MS. LIZ CARRIERE: When Bipole III
16 comes into service, the cash is already spent. It's
17 the finance expense that is causing that to decrease.
18 MR. ANTOINE HACAULT: Thank you for
19 that clarification, but we're a little bit -- and I
20 didn't ask my question correctly.
21 Between the years 2015 and 2018 we see
22 that cashflow from operations is over $500 million per
23 year, correct?
24 MS. LIZ CARRIERE: Well, it's over $500
25 million, but it's fairly flat even with the 3.95

1 percent rate increases.
2 MR. ANTOINE HACAULT: And -- and thank
3 you, that's my point. It stays pretty flat until this
4 big bulge of capital hits the books and that starts to
5 hit the books in 2019 where we see the cashflow go down
6 a little bit under the $500 million mark, correct?
7 MS. LIZ CARRIERE: Correct.
8 MR. ANTOINE HACAULT: And that poses a
9 challenge until 2022 to 2023 before the cashflow starts
10 to go up, correct?
11
12 (BRIEF PAUSE)
13
14 MS. LIZ CARRIERE: It looks to me like
15 it goes up in 2021.
16
17 (BRIEF PAUSE)
18
19 MR. ANTOINE HACAULT: So -- and then we
20 see that -- from a cashflow perspective, as of 2024,
21 we're at levels beyond what we're going to experience
22 in the next couple years, correct?
23 MS. LIZ CARRIERE: Yes.
24 MR. ANTOINE HACAULT: So cashflow is
25 really starting to be a really good king in those

1 latter years after 2024. And I see Mr. Schulz smiling
2 and being really happy. Correct, Mr. Schulz?
3 MR. MANNY SCHULZ: My bias is that cash
4 is always king. My daughter tells me I should be
5 gender-neutral and call it cash is royalty. But
6 certainly after 2024 you'll see the cashflow from
7 operations exceeds our investing activities and it
8 provides the opportunity to do debt retirement and
9 other good things.
10 MR. ANTOINE HACAULT: So --
11 MR. DARREN RAINKIE: Mr. Hacault, we
12 just have to remember this includes the cumulative
13 effect of 3.95 per -- percent rate increases for, I
14 think, seventeen (17) or eighteen (18) years. I -- I
15 had a slide in my deck that showed what would happen to
16 cashflow without the rate increases and by 2024 the
17 cashflow would be below zero. It would negative, so
18 it's always important that these -- these show the cum
19 -- the cumulative effects of the -- of 3.95 percent
20 rate increases.
21 So let's not get quite to the promised
22 land yet, Mr. -- Mr. Hacault.
23 MR. ANTOINE HACAULT: But your promised
24 land, if it wasn't what you thought to be a reasonable
25 projection as far as a corporation, you wouldn't be

1 putting it in front of this Board, would you?
2 You wouldn't be putting an unreasonable
3 position in front of this Board, would you?
4 MR. DARREN RAINKIE: No, sir, I
5 wouldn't. But as I've chatted about several times, and
6 the Board's probably tired of hearing me say it, is
7 that that line is very sensitive in the next number of
8 years.
9 And we keep jumping to the latter part
10 of the forecast and saying, Well, you know, let's do
11 the happy dance. But we need to make it through the
12 next ten (10) years first before we -- before we get
13 too excited. And there's a lot more risk in the -- in
14 the next ten (10) years than there is -- you know,
15 those numbers may be even lower.
16 So you're seeing in this chart the
17 effects of the 3.95 percent rate increases for the next
18 eighteen (18) years. You're also seeing the -- the
19 Keeyask export revenues come in between '19, '20, and
20 '21. But if you draw this chart without the rate
21 increases, that black line drops very, very quickly.
22 And that's the only point I want to make.
23 MR. ANTOINE HACAULT: Thank you, sir.
24 But I was just trying to focus initially on the big
25 bulge problem because I think that's what we're --

1 we're talking about, right?
2 And we see it go down a bit here, not --
3 it doesn't go down to zero, but we've got a little
4 problem that shows up in the cashflow, correct?
5 MR. DARREN RAINKIE: No, not correct,
6 sir. There is more than a little problem without the
7 rate increases that we're forecasting. That's my
8 point. So even the cumulative effects of 3.95 percent
9 rate increases in the next number of years are -- are
10 fairly significant.
11 If you don't accept that point, I can
12 bring up a slide from my presentation that would show
13 you the effect of no rate increases.
14 MR. RICHARD BEL: Could we see that?
15 Could we see that slide? It's this one?
16 MR. MANNY SCHULZ: If you move to slide
17 17, I believe you'd see the --
18 MR. DARREN RAINKIE: Oh, maybe it's in
19 this presentation as well.
20
21 CONTINUED BY MR. ANTOINE HACAULT:
22 MR. ANTOINE HACAULT: Yes. And I
23 haven't gone through that yet, but let's look at the
24 other metrics. But if -- you would agree, sir, that
25 giving no increases is an entirely unreasonable

1 position to take.
2 You would never expect consumers or this
3 Board to hold this Corporation for a twenty (20) year
4 time period at no increases?
5 MR. DARREN RAINKIE: We certainly have
6 failed in putting the material together if that
7 occurred, sir. But the -- the difficult part for me is
8 that, even with 2 percent rate increases assumed during
9 that period -- and I think we provided that chart
10 somewhere in Tab 2 of the application -- it still is a
11 fair -- a fair dip.
12 The -- the problem is the -- the
13 assumption, the myth of 2 percent rate increases does
14 not help this financial situation in terms of the big
15 bulge, as you call it.
16 MR. ANTOINE HACAULT: Yeah. And we've
17 created another $4.4 billion of big bulge in IFF14,
18 which is the expense side that eventually hits the
19 books, correct?
20 MR. DARREN RAINKIE: I'm not sure what
21 you mean, 'created'. We have updated our estimates of
22 what we believe are the reasonable expenditures to meet
23 growth requirements and sustaining capital
24 requirements.
25 MR. ANTOINE HACAULT: And some of them

1 are just speculative, I would suggest to you, sir.
2 For example, DSM, you don't even know
3 whether the Corporation is going to be handling that
4 and incurring that expense, correct?
5 MR. DARREN RAINKIE: Who are you
6 assuming is going to pay for that, sir? Is the
7 Government of Manitoba going to pay for that, or do you
8 believe that if there is a new DSM entity, will that be
9 charged to Manitoba Hydro through its ratepayers?
10 Like, I -- I'm not sure where the money
11 is falling from the sky in this equation, sir. I mean
12 --
13 MR. ANTOINE HACAULT: Do you --
14 MR. DARREN RAINKIE: -- and to keep in
15 -- in mind that the DSM expenditures increase is not as
16 significant, of course, as the expenditures on some of
17 the other larger capital projects.
18 MR. ANTOINE HACAULT: Okay. I'd like
19 to move to slide 10. This is the other metric that
20 people have been talking about. We've gone through the
21 cashflow metric, seen what that does.
22 Now, my understanding is that the
23 Corporation has designed its application and projected
24 rate increases in IFF14 so that the debt-equity ratio
25 doesn't go materially under 90:10, or 10 percent,

1 correct?

2 MS. LIZ CARRIERE: That's correct.

3 MR. ANTOINE HACAULT: And there was

4 some discussion by Mr. Page who had a lot of good

5 historical knowledge with respect to what was happening

6 in prior years. And we've put as part of MIPUG-10-13

7 at page 3 a historical table which was filed in the

8 2010/'11 and 2011/'12 GRA.

9 Mr. Page, you probably haven't had a

10 chance to look at this, but if there's any inaccuracies

11 in that table could you let us know?

12 MR. IAN PAGE: I -- I don't see any and

13 I think this helps correct my -- my -- the discussion

14 we had yesterday on what the debt -- historical debt-

15 equity ratio was. And -- and it wasn't quite as bad as

16 I had remembered it, but it's at 4 percent equity as

17 opposed to 2 percent.

18 MR. ANTOINE HACAULT: And do you have a

19 recollection of about when we had hit what I'll call

20 the Limestone bulge in capital expenses?

21 MR. IAN PAGE: Well, Limestone first

22 came into service in 1990, and there was -- so the

23 capital expenditures would have peaked in the late '80s

24 and early '90s. So there was sub -- substantial

25 capital expenditures on Limestone even after that first

1 unit went into service. It actually went on for a
2 number of years afterwards because there was -- there
3 were some issues related to Limestone, so.
4 MR. ANTOINE HACAULT: And I'll have to
5 confess that one (1) of the -- my first rate hearings,
6 and it was sitting on your side of the table with Mr.
7 Nugent was acting on behalf of Manitoba Hydro when all
8 of the Limestone issues were being discussed.
9 You maybe don't remember that?
10 MR. IAN PAGE: I don't remember the
11 hearing part, but I do remember us having divers
12 looking through the river, looking for missing nose
13 cones.
14 MR. ANTOINE HACAULT: So that Limestone
15 was a presi -- pretty significant project, was it not,
16 in the context of a Hydro investment at that time?
17 MR. IAN PAGE: It -- it was and -- and
18 maybe just to put it in context at the time that
19 Limestone was in -- just going into service the other
20 plants on the Nelson were not that old either. So we'd
21 gone through a bit of a tumultuous period with -- with
22 the in-service dates -- the in-service of those
23 projects, Long Spruce and -- and Kettle. Not -- not
24 Kettle -- what's -- what's the other big one (1)?
25 Yeah, I guess it was Long -- Long Spruce

1 and Kettle. And there had been a series of rate
2 increases and, you know, into the 15, 16 percent range
3 in order to -- to accom -- to avoid the bulge that
4 we're -- that we're in now because we didn't have the
5 financial strength that we do now. And I think that's
6 an important historical sort of thing to keep in mind
7 when we're looking at this with -- with Keevask because
8 the big difference between now and then is that we --
9 we are starting from a -- a position of -- of good
10 financial strength going into the construction of --
11 and -- and in-service of Keevask.
12 When we did this before with -- with
13 Kettle and Long Spruce and then with Limestone we were
14 not financially very strong. So any cost increases had
15 to get passed through immediately as rate increases.
16 So it just -- so -- so that -- that in -- change in
17 financial position between then and now is -- is very
18 important to keep track and the -- and the schedule
19 you've got on the screen right now shows that long and
20 -- and tortuous path we went through in order to
21 finally to pull -- pull our financial strength up from
22 -- from virtually on the brink to -- to a point where
23 we -- where we have -- have the -- the luxury of having
24 -- of offering the rate stability that we -- we do now.
25 MR. ANTOINE HACAULT: Now, we've heard

1 I think a number of a -- time that our legacy assets,
2 and that would include Limestone, Kettle, and Long
3 Spruce have served us well.
4 Is that correct?
5 MR. IAN PAGE: I -- I would agree with
6 that.
7 MR. ANTOINE HACAULT: And we were able
8 to weather that storm as a group of ratepayers in
9 Manitoba Hydro by having equity levels in or about the
10 95 to 5 percent, correct?
11 MR. IAN PAGE: I wouldn't say we were
12 able to weather them. We were able to get by. And
13 when I first started here there was -- it -- it was --
14 at Manitoba Hydro there was -- there was an area of
15 great -- great concern, the weak financial strength
16 that we have.
17 And you saw -- and you see by the nature
18 of the -- of the targets that are on the screen we had
19 -- there are -- we had a mixture of very, very short-
20 term targets than longer term, and it was like let's
21 just -- we've got some immediate risks. What's -- how
22 can we -- how quickly can we get to a position where we
23 can deal with those risks. And then once we -- once
24 we've got that sort of in hand, then we can -- then we
25 can start looking forward at some longer terms.

1 So you see then we started switching to
2 eighty-five (85) and seventy-five (75) national
3 targets. And you'll notice that there -- you know,
4 there are things like ten (10) years from that date.
5 So it -- it was -- there were -- it was not a
6 comfortable time in terms of our financial position, so
7 I wouldn't say that we comfortably weathered it at all.
8 MR. ANTOINE HACAULT: So but today what
9 you're saying is that this Board should have some
10 comfort in the fact that we aren't starting from a 95:5
11 position, and we're starting from a much better
12 position than we were when we faced the same challenges
13 back in the late '80s, correct?
14 MR. IAN PAGE: Yes. And in order to
15 maintain that financial position, that's why we have
16 the 3.95 percent rate increases there. And they're --
17 they're spread out, and we're -- we're able to absorb a
18 bit of a drop in the equity ratio in -- in those years
19 because we're in a strong starting position.
20 If we -- if we were starting from a 95:5
21 position we wouldn't be able to say, Well let's have
22 some three point nine-fives (3.95) and let the debt-
23 equity ratio slip because we just wouldn't have that
24 room. So it's important to recognize that we have that
25 financial strength now, and to be careful we don't

1 squander that.
2 MR. ANTOINE HACAULT: Now, I don't
3 think we need to bring it up, but for Wuskwatim when
4 we've looked at the financial projections, just for
5 that partnership, we're going to be staying at 95:5 --
6 and for the court reporter that's nine five (95), full,
7 colon five (5) -- for some time in the project,
8 correct?
9 MR. DARREN RAINKIE: Yes, Mr. Hacault.
10 MR. ANTOINE HACAULT: And I listened
11 with a lot of interest to what --
12 MR. DARREN RAINKIE: Sorry, sir, but I
13 -- I would add that partnership is just a -- is a
14 corporate entity so that NCN can have an investment in
15 the generating station because you can't own shares in
16 Manitoba Hydro, so that entity is not a rating -- a
17 rated entity. There is no worry about -- Manitoba
18 Hydro is providing all the financing to that entity, so
19 it's -- I don't want to call it a shell -- corporate
20 shell. It sounds like it's a bad thing.
21 But it's a -- it's a limited partnership
22 structure so that NCN can participate in -- in that
23 project. It's not something that would be rated by a
24 credit rating agency. So we -- we're not worried that
25 that goes to 95:5. What we're worried about is

1 Manitoba Hydro and it's contribution to the rating of
2 the province --
3 MR. ANTOINE HACAULT: Okay.
4 MR. DARREN RAINKIE: -- or detraction.
5 MR. ANTOINE HACAULT: Perhaps we can
6 just put up PUB-20-4 at page 82 to -- for the record so
7 that we know what we're looking at.
8
9 (BRIEF PAUSE)
10
11 MR. ANTOINE HACAULT: So this was mini
12 -- minimum filing requirement number 8, and it's a
13 corporate overview.
14 And we see that in 2015 the financial
15 ratio with respect to debt equity is at 89 percent,
16 correct?
17 MR. DARREN RAINKIE: That's correct.
18 MR. ANTOINE HACAULT: And by 2018 it
19 further deteriorates to 95:5, correct?
20 MR. DARREN RAINKIE: That's correct.
21 MR. ANTOINE HACAULT: And if we go to
22 2024, which is also on that slide which is a kind of
23 ten (10) year outlook, we start to see some correction
24 back up to 93:7, correct?
25 MR. DARREN RAINKIE: That is correct.

1 MR. ANTOINE HACAULT: Okay. And I
2 listened with interest as to how innovative Manitoba
3 Hydro was in dealing with the fact that this project
4 would not be generating any profits in the near future.
5 It occurred to me it was really good thinking, a really
6 good approach by the Corporation, and a really good
7 analysis of how to find solutions to big bulge
8 problems.
9 Do you agree that you were able to find
10 a good solution to this big bulge problem?
11 MR. DARREN RAINKIE: Yes, I think it's
12 a -- a reasonable solution, or we wouldn't have
13 proposed it and implemented it.
14 MR. ANTOINE HACAULT: In fact, I think
15 you're being too humble. I think it was very
16 innovative, and you found a way to take the big value
17 of the project in the future and distributed it up
18 front to this First Nation, who, as a ratepayer and as
19 a Manitoban, was entitled to think that they shouldn't
20 have to wait many decades before seeing any benefits
21 from this project.
22 Do you agree, sir?
23 MR. DARREN RAINKIE: Yes, given the
24 level of cashflow that was involved for the First
25 Nation, we were able to -- to do that. I think we're

1 doing the same thing on the -- on the larger scale of
2 Manitoba Hydro in total. As I keep saying, our cost of
3 service -- price for power in Manitoba that the Public
4 Utilities Board regulates is going up 100 percent in
5 the next ten (10) years.
6 We're asking for rates over that ten
7 (10) year period of time that will accumulate to about
8 42 percent. We're taking some risk in doing that on
9 behalf of the customers that something will happen
10 negative in the -- in that, as Mr. Manny Schulz calls
11 it, the vulnerable period of time in the next ten (10)
12 years, and that -- and that all of our ratios will
13 drop.
14 But we've -- it's a calculated risk,
15 there's no doubt. But I think it is also an innovative
16 solution, if you like. I -- I know it's not a popular
17 one. I know it's something that nobody wants to see,
18 but as I said yesterday, I think it's -- it's time that
19 Manitobans made a smaller -- a small investment in the
20 power system that's done them well for decades.
21 MR. ANTOINE HACAULT: And the other
22 thing that struck me with respect to Wuskwatim, sir, is
23 that Manitoba Hydro showed incredible confidence in the
24 future of Wuskwatim and the ability of Wuskwatim to
25 generate income.

1 Is that correct?
2 MR. DARREN RAINKIE: Yes, the -- the
3 nature of the large generating stations are such -- the
4 economic life cycle of a generating station is it's
5 very high capital cost up front, very low operating
6 costs. So the nature of it is that you are likely to
7 mai -- to lose money at the front end and to make money
8 after that point in time.
9 But having said that, when you look at
10 our financial outlook, we're vulnerable in the next ten
11 (10) years. There's no way around it. We can get cute
12 with talking about Wuskwatim, but the projections are
13 still there, sir.
14 MR. ANTOINE HACAULT: And I know you've
15 been talking about a 100 percent increase in expenses
16 and 43 percent going on to ratepayers, but that in part
17 is because of Mr. Cormie's good work, correct? He has
18 found good export contracts to fill in some of that
19 hole which helps pay some of those expenses.
20 Isn't that the corporate line?
21 MR. DARREN RAINKIE: Well, yes, he's
22 done his best job in terms of filling it in, but the
23 fact of the matter is, there's $900 million worth of
24 projected losses between, I think, the fourth year and
25 the tenth year of the forecast. So it's filling in a

1 crack, but it's not filling in that void, sir.
2 MR. ANTOINE HACAULT: Now, I haven't
3 been privy to the confidential sharing of the contracts
4 that Mr. Cormie was able to negotiate and the prices,
5 but you're not suggesting that the Corporation is
6 giving away its power and is not getting good rates on
7 its export prices for dependable power, are you, sir?
8 MR. DARREN RAINKIE: No, sir, I'm not
9 suggesting that at all. But as you said, the bulge,
10 when you look at the bulge, you look at Bipole III and
11 Keeyask, about $11 billion worth of capital
12 expenditures alone. The carrying costs on that is
13 probably around $1 billion a year after they're both in
14 service.
15 So while Mr. Cormie has done admirable
16 efforts in terms of selling power at good prices, it
17 doesn't cover the differential, sir.
18 MR. ANTOINE HACAULT: And that's one
19 (1) of the reasons why this Corporation, as explained,
20 has decided to only put weight on export prices later
21 on in the Wuskwatim Power Limited Partnership
22 calculations, correct?
23 MS. LIZ CARRIERE: I didn't understand
24 the question.
25 MR. ANTOINE HACAULT: Mr. Cormie

1 suggested that export prices didn't fill that hole
2 totally. We've got a lot more revenue coming in as
3 soon as Wuskwatim comes in, but there's only a part of
4 that which is dependable, and there's a big part that's
5 opportunity.
6 And that price is low, and that's why we
7 had to renegotiate the Wuskwatim deal, at least one (1)
8 of the reasons why we had to renegotiate that deal,
9 because nobody anticipated those export prices for
10 opportunity to be that low, correct?
11 MS. LIZ CARRIERE: That's right.
12 MR. ANTOINE HACAULT: Okay. Now, I've
13 covered cash. We've seen a little dip in the cash
14 line. I've covered the debt-equity and how we dealt
15 with that back in Limestone. I'd like to move on to
16 interest coverage, if we could, and that was at slide
17 12 of Manitoba Hydro Exhibit 52.
18 Now, again in 2015/'16, and even in
19 2017/'18, we're above the metric of one (1), correct?
20 MS. LIZ CARRIERE: Yes, that's correct.
21 MR. ANTOINE HACAULT: And you're going
22 to get tired of hearing of the big bulge. When we hit
23 Bipole III and then subsequently Keeyask, that's when
24 we see the metric be of concern, as has been explained
25 on a number of times by Mr. Rainkie and others on this

1 panel, correct?
2 MS. LIZ CARRIERE: Yes. As the finance
3 expense goes up, net income drops, we see a reduction
4 in the interest coverage ratio.
5 MR. ANTOINE HACAULT: Now, if we could
6 go to slide 9, and we've got that bullet in the middle
7 of that slide of Exhibit 52. And under "Interest
8 coverage ratio," full colon, there's a dash. And I'll
9 just read the sentence for the record:
10 "The ability of net income
11 there's these additional words] or
12 cashflow to pay for debt
13 obligations."
14 Do you see that in your slide, Ms.
15 Carriere?
16 MS. LIZ CARRIERE: Yeah. What I'm
17 referencing there is there's -- Manitoba Hydro uses a
18 grossed in -- gross interest coverage ratio, but --
19 which is a net income ratio. But if you take net
20 income and you add back the depreciation and
21 amortization, and -- that's what we call an EBITDA
22 interest coverage ratio, and it represents more of a
23 cashflow-type -- type measure.
24 So that would -- that would be what I'm
25 referring to there. That measures -- it's a close --

1 closer measure to the amount of cashflow you have to
2 cover your -- your interest payments.
3 MR. ANTOINE HACAULT: And if we flip
4 back to Tab -- or slide 16, I think, from this -- and
5 if we go -- or sorry, it was still that -- that page.
6 If we go to the underlying data in IFF14, 2022 appears
7 to be the worst year. Maybe we can check in IFF14.
8
9 (BRIEF PAUSE)
10
11 MR. ANTOINE HACAULT: Could we go to
12 Appendix 3.3?
13
14 (BRIEF PAUSE)
15
16 MR. ANTOINE HACAULT: What part in that
17 document would we have to look at to be able to figure
18 out what the interest coverage ratio or cashflow ratio
19 is?
20 Or is there somewhere else where you
21 could direct me?
22 MS. LIZ CARRIERE: Well, Appendix 3.4
23 is the electric operations which -- a -- a projected
24 operating statement with the financial ratios. 2022,
25 the interest coverage is zero point eight-five (0.85)

1 which is the lowest point in the ten (10) year period.
2 MR. ANTOINE HACAULT: Okay. And now,
3 could you help me? How do I figure out that second
4 ratio that you talked about, the cashflow one, which
5 takes out depreciation?
6 MS. LIZ CARRIERE: You add it back.
7 MR. ANTOINE HACAULT: Okay. So what
8 numbers do I take from this table? Do I take the --
9 now, going down the line of 2022, the finance expense
10 of 1.326 billion?
11 Is that one (1) number that's important
12 to...
13 MS. LIZ CARRIERE: Well, you can't just
14 take that number there. You would have -- you have to
15 add back the interest capitalized during construction
16 as well, because it looks at the -- the actual interest
17 payments, not just the accrued -- or the interest that
18 hits the income statement.
19 MR. ANTOINE HACAULT: But in 2022, if
20 I've understood correctly, we have Bipole III hits the
21 books and Wuskwatim that hits the books.
22 Is there anything significant that we
23 need to add, then, to this one point three-two-six
24 (1.326) number?
25

1 (BRIEF PAUSE)

2

3 MS. LIZ CARRIERE: In -- yeah, actually

4 in 2022, there's interest capitalized in that year is

5 only about 12 million.

6 MR. ANTOINE HACAULT: Okay.

7 MS. LIZ CARRIERE: Because Keevask is

8 fully in service by that time.

9 MR. ANTOINE HACAULT: So what we would

10 have to do is we start with one point three-two-six

11 (1.326)? We add 12 million to that, so that's one

12 point three-three-eight (1.338).

13 Am I right so far?

14 MS. LIZ CARRIERE: M-hm.

15 MR. ANTOINE HACAULT: Yes?

16 MS. LIZ CARRIERE: Correct.

17 MR. ANTOINE HACAULT: And then I think

18 you said we have to add to that number depreciation and

19 amortization, correct?

20 MS. LIZ CARRIERE: That's correct.

21 MR. ANTOINE HACAULT: So we would add

22 to one point three-three-eight (1.338) the 667 million,

23 correct?

24 MS. LIZ CARRIERE: If you hold a

25 moment, we actually have that calculated.

1 (BRIEF PAUSE)

2

3 MS. LIZ CARRIERE: The EBITDA interest
4 coverage in 2022 is one point three-four (1.34).
5 MR. ANTOINE HACAULT: Okay. So that
6 puts the point eight-five (.85) coverage ratio in
7 perspective, because Mr. Manny Schulz, who likes cash,
8 although I know we want to use it for sustaining
9 capital, we've got a one point three-four (1.34)
10 coverage in the worst year under this IFF, correct?
11 MS. LIZ CARRIERE: That's correct.
12 MR. DARREN RAINKIE: Mr. Hacault, the
13 reason we have that calculation is we were looking at -
14 - one (1) of the recommendations from KPMG is to look
15 at changing our interest coverage calculation to just
16 that, an EBITDA calculation. The average in the
17 Canadian utility industry of an EBITDA calculation is
18 about one point eight (1.8).
19 And I would think that your members
20 would probably be looking at -- I shouldn't speak for
21 them, but would be probably looking at interest
22 coverage of two and a half (2 1/2) to three (3) times
23 to be able to borrow debt, so certainly even at that
24 one point three five (1.35) interest -- EBITDA interest
25 coverage is not stellar.

1 So we -- once again, you can't mix and
2 match definitions of ratios and just compare them. You
3 have to tread very carefully. The reason we want them
4 -- we're looking at moving at a -- to an EBITDA type of
5 calculation is it's more consistent with how the credit
6 rating agencies calculate, and how other comparable
7 electric utilities calculate.
8 EBIT is a lesser known, or lesser used
9 measure, I suppose, but you have to recalibrate for
10 that, and then you also have to look at what the
11 expectations are of the capital markets in terms of
12 that -- that type of a calculation.
13 MR. ANTOINE HACAULT: Have you
14 finished, sir? I just didn't want to interrupt you.
15 MR. DARREN RAINKIE: Yes, sir.
16 MR. ANTOINE HACAULT: So is it fair to
17 say, at least from that metric, although it -- I think
18 you said it wasn't stellar, that the world isn't
19 falling upon us where we aren't going to be able to
20 make our interest payments?
21 MS. LIZ CARRIERE: In that one (1)
22 year, and that's --
23 MR. ANTOINE HACAULT: The worst year in
24 that --
25 MS. LIZ CARRIERE: -- eight (8) years

1 out, but should we experience any low water flows,
2 because this is calculated based on average of all
3 revenues, that quickly would go south.
4 MR. ANTOINE HACAULT: And I agree with
5 you totally. There's negative and positives, and we
6 won't know those until we get closer to that year,
7 correct?
8
9 (BRIEF PAUSE)
10
11
12 MR. DARREN RAINKIE: Well, that's
13 correct, sir, but if you look at the column cumulative
14 percent rate increase, by that point -- to get to that,
15 we're assuming 31 percent rate increases by that point.
16 So once again, that's a calculation assuming that the
17 Board, over time, approves all the rate increases as
18 proposed. If that -- those numbers drop rapidly if
19 that doesn't happen.
20 So we have to always remember when
21 you're looking at the IFF, you're looking at a forecast
22 assuming the 3.95 percent rate increases are proposed
23 as -- or, sorry, are approved as -- as proposed.
24 MR. ANTOINE HACAULT: Mr. Rainkie, you
25 referenced our clients. Would you think if the PUB is

1 supposed to be a proxy for competition, that our
2 clients would always only answer and look at the
3 revenue side?
4 MR. DARREN RAINKIE: No, sir. As I
5 went through with Mr. Will -- Williams today, our cost
6 containment measures were of the order of 2 percent
7 rate increase, 30 -- $30 million, sir. So we're
8 certainly looking at -- at the cost side, as well.
9 My -- my observation is just what type
10 of interest coverage is usually out there in industry,
11 and -- and I -- I think it's more in the order of two
12 (2) to three (3) times interest coverage.
13 MR. ANTOINE HACAULT: Would it surprise
14 you, sir, that our clients expect a rigorous review of
15 the expense side?
16 MR. DARREN RAINKIE: No, that wouldn't
17 surprise me at all.
18 MR. ANTOINE HACAULT: Okay. Now,
19 there's another metric that's been used by Manitoba
20 Hydro, and it's the capital coverage ratio. And that's
21 on slide 14 of Exhibit 52.
22
23 (BRIEF PAUSE)
24
25 MR. ANTOINE HACAULT: Again, I would

1 suggest to you that this slide shows that Manitoba
2 Hydro has a challenge, basically, until it gets over
3 the Keeyask hump in 2022, correct?
4 MR. DARREN RAINKIE: And again, I would
5 suggest to you that there are two (2) challenges there.
6 One is getting over the hump of the capital
7 expenditures and the other one is what rate increases
8 we obtained during that period. This includes the rate
9 increases again, sir, and the pictures -- we have
10 charts throughout the material that show what happens
11 if we get a zero percent rate increase, what happens --
12 or what happens if we get no rate increases, what
13 happens if we get 2 percent rate increases.
14 So I think the Board has my point. I
15 think I'll just stop making that point, sir, but -- but
16 maybe we should have drawn in some other lines on this
17 just to -- to -- so I didn't have to keep making that
18 point, but there's -- there's the revenue side and
19 there's the expense side, sir, and we have to make sure
20 we understand that.
21 MR. ANTOINE HACAULT: Yeah. That's --
22 thank you for mentioning the expense side for once.
23 But that's where we started with was Manitoba Hydro
24 assuming $13 million of expense when it's still
25 planning to go and look at Conawapa options, correct?

1 That's on the expense side, correct?
2 MR. DARREN RAINKIE: Sir, are you
3 talking about the amortization of Conawapa assumed in
4 the forecast?
5 MR. ANTOINE HACAULT: Yes, it -- it
6 shows as an expense and reduces your net income,
7 correct?
8 MR. DARREN RAINKIE: Yes, that's $13
9 million out of somewhere between a billion and a half
10 and a $3 billion revenue requirement, sir. The other
11 part of that, of course, if finance expense on -- on
12 the -- if we con -- if we continue to accumulate the --
13 that -- that's the other part of the equation I think
14 we're forgetting. If we write off Conawapa or begin to
15 write off Conawapa there's also the finance expense on
16 the -- on the cumulative expenditures, so.
17 In this forecast, by 2016 there's four
18 (4) -- $397 million worth of -- of construction work in
19 progress. So if you take $400 million and times that
20 by an interest rate of 5 or 6 percent, you're looking
21 at $22 million worth of finance expense that's being
22 accumulated a year -- each year and growing on that
23 $397 million balance.
24 So if we begin to write that off that
25 finance expense will also come into our revenue

1 requirement. And I think that's the other part you
2 were missing in terms of looking at the 3.74 percent.
3 One (1) of the calculations that we did in the NFAT is
4 that there's another part to this.
5 Conawapa was so far out in the -- in the
6 forecast that it really doesn't impact the near-term
7 rate increases. That's why you're not seeing a
8 deviation from the 3.95 percent. There's actually more
9 pressure under a Keeyask and no Conawapa scenario than
10 there is under a Conawapa scenario, because Conawapa
11 continues to shield a bunch of interest during
12 construction that's being capitalized to the account.
13 At some point that has to come back into our -- our
14 income statement, or else that $400 million will just
15 start to -- to grow over time.
16 So we -- we have to be careful about all
17 these factors, sir.
18 MR. ANTOINE HACAULT: I'm not too sure
19 why you're bringing up that discussion, sir, because I
20 -- as I understood, this Corporation is going full
21 steam with trying to see if it can make a business case
22 for Conawapa. And now you're talking as if it has no
23 interest in doing that and should immediately write off
24 all the costs.
25 MR. DARREN RAINKIE: No, sir. Well

first of all, you brought it up, just to be clear. And I just made sure that the discussion was clear in terms of the financial impacts of either having Conawapa on the books and growing, or starting to expense the costs and what would happen to the finance costs.

We are looking at the business case for Conawapa, but at this point we're unsure about which direction it's going to go. I think that's clear.

MR. ANTOINE HACAULT: And in looking at the capital coverage ratio, and that's why I brought you to the first table, you've included DSM in there as far as a capital cost, correct?

MS. LIZ CARRIERE: No, that's not correct. DSM is included as a major new generation and transmission project.

MR. ANTOINE HACAULT: Sorry, I didn't use the right terminology. I said capital cost.

It's not a capital cost?

MS. LIZ CARRIERE: DSM is recorded as a capital cost, yes.

MR. ANTOINE HACAULT: Okay.

MS. LIZ CARRIERE: But it's not included in the capital coverage ratio.

MR. ANTOINE HACAULT: Okay. This is only sustaining capital is what you're...

1 MS. LIZ CARRIERE: That's correct.
2 MR. ANTOINE HACAULT: Okay. Which
3 includes base stuff and some smaller stuff, correct?
4 MS. LIZ CARRIERE: It includes what we
5 call base capital expenditures and projects under $50
6 million -- or over 50 million, but not including the
7 major new generation and transmission.
8
9 (BRIEF PAUSE)
10
11 MR. ANTOINE HACAULT: Now, Mr. Williams
12 brought you, Mr. Schulz, to the Moody sentence that you
13 loved that talked in part about Manitoba Hydro's
14 challenges. And -- and perhaps we could go back to
15 that report. I don't know if you still have it, Diana.
16
17 (BRIEF PAUSE)
18
19 MR. ANTOINE HACAULT: So it was under
20 the heading -- there we go -- Financial Targets to be
21 Challenged by Higher Capex.
22 Do you see that, Mr. Schulz?
23 MR. MANNY SCHULZ: I do.
24 MR. ANTOINE HACAULT: Now, when did you
25 meet with the Moody's people to provide them the

1 information that led to these comments?
2 MR. MANNY SCHULZ: This report was
3 dated November 6, 2014. By my recollection, we met
4 with Moody's when they came to Winnipeg in -- I'd give
5 you the specific date if I were to check my records,
6 but it would be in the May to June of 2014 time frame.
7 If you need the specific date, I could get that for
8 you.
9 MR. ANTOINE HACAULT: No, that's okay.
10 Now, is there a process, if Moody's puts a comment
11 which is not accurate, where Manitoba Hydro has the
12 opportunity to correct the comment?
13 MR. MANNY SCHULZ: Yes.
14 MR. ANTOINE HACAULT: Okay. So that in
15 the first paragraph under the heading, it explains that
16 Manitoba Hydro targets certain financial met -- metrics
17 such as an interest coverage ratio greater than one
18 point two (1.2), an equity capitalization ratio greater
19 than 25 percent.
20 And the comment is that both targets are
21 not expected to be met for an extended period of time
22 due to large generation and transmission projects
23 underway such as Keeyask and Bipole III. And they make
24 a comment on the capital expenditures.
25 What IFF would have been shown to

1 Moody's?
2 MR. MANNY SCHULZ: That would have been
3 IFF13 and the CEF13.
4 MR. ANTOINE HACAULT: And have they
5 been updated with the IFF14 and CEF14?
6 MR. MANNY SCHULZ: We have not yet
7 explicitly at Manitoba Hydro met with Moody's to
8 provide that to them, but I can let you know that it's
9 been my experience that Moody's, even when we meet with
10 them, they -- they follow the -- the -- they probably
11 would read Board orders.
12 They as part of their analytics would be
13 looking at the most recent information. So when we do
14 meet with them, and I expect that to be relatively
15 soon, that they will have already read the IFF14 and
16 the CEF14. But at the time when they wrote this, just
17 by virtue of the time lines, it was IFF13.
18 MR. ANTOINE HACAULT: Okay. In the
19 past, there were slides that were provided as to what
20 information was given to Moody's. And my question to
21 you is with respect to the comment that Manitoba Hydro
22 believed it was capable of prudently managing debt and
23 mitigating such risks -- which talks about the risk in
24 the earlier sentence -- by seeking rate increases and
25 curtailing capital spending.

1 My question to you is: What information
2 was provided to Moody's as to how much curtailment of
3 capital spending could occur and when that curtailment
4 could occur?
5 MR. MANNY SCHULZ: Well, I was present
6 at those meetings, and what we did provide them was our
7 IFF that had the 3.95 percent rate increases in there
8 as part of the IFF. We did not speak to the specifics
9 around capital spending. You should keep in mind this
10 is an independent report. We don't write it for them.
11 The review that we may have would just
12 be for typographical error -- errors, dyslexic
13 transposition things, or errors where they may be
14 providing inadvertent confidential information. So
15 it's just their normal process. It's been my
16 experience that it is exceedingly difficult to get them
17 to change any editorial comments. The -- the -- they
18 are pretty steadfast in that.
19 MR. ANTOINE HACAULT: Okay. But --
20 MR. MANNY SCHULZ: So they come to
21 their own commentaries and conclusions.
22 MR. ANTOINE HACAULT: Okay. But do you
23 understand my question, Mr. Schulz? This document and
24 comment seems to be representing to anybody reading it
25 that Manitoba Hydro, in the context of CEF13, is in a

1 position to curtail capital spending when there's risk
2 of unexpected events such as low water levels, cost
3 overruns, and construction delays.
4 Why would you leave that representation
5 in a public document that the Corporation is able to do
6 that based on CEF13 and give all the readers the
7 impression that Manitoba Hydro can do that, if, in
8 fact, the position at this hearing is that it can't?
9
10 (BRIEF PAUSE)
11
12 MR. MANNY SCHULZ: You know, their
13 position is they look at it from a cashflow
14 perspective, and so they would see management actions
15 that would potentially be undertaken. They would see
16 rate increases that might be brought in, in cases of
17 drought or other circumstances. Those are the -- some
18 of the risks that they spoke to. They would also see
19 by way of their -- perhaps by their analytics and
20 having conversations with the broad array of other
21 utilities and other business operations to say that
22 perhaps there's an opportunity to curtail discretionary
23 spending or capital.
24 We did not have any engineers present at
25 the meetings. We didn't get into the measure of how

1 much they could curtail or what the implications would
2 be around safety and reliability. We didn't get into
3 measurements of that. They certainly know our -- our
4 desire to maintain safe, reliable, and economic
5 service. They understand that, and that's something
6 that will be maintained.
7 This is just a comment from them, and we
8 took it as such to be just general to the point that A)
9 they believe that we prudently manage the debt, which I
10 agree with, and secondly, that should there be these
11 circumstances such as a drought, such as the drought --
12 the -- the circumstances that they describe that there
13 are management actions that are potentially available.
14 They didn't quantify them. They were just sort of
15 saying that as a generality. And again, that's --
16 that's their -- that's their view and -- and that's why
17 they would have published that.
18 MR. ANTOINE HACAULT: Okay. Did you or
19 anybody from the Corporation take time to write to
20 Moody's to say that their view that the Corporation had
21 discretion to curtail capital suspending -- capital
22 spending, rather, in the event of cost overruns or
23 construction delays was inaccurate, and was a
24 misrepresentation, and should be corrected?
25 MR. MANNY SCHULZ: We did not do that.

1 But on the other hand, if -- if you're looking at this
2 from a management perspective, when you're faced with
3 circumstances such as they -- we even had -- I wasn't
4 here at Manitoba during the '03/'04 drought, but
5 management actions need to be taken, and that would
6 include the -- the broad array of things, and we would
7 take a serious and hard look at what things could be
8 potentially deferred.
9 And maybe that's where you're getting
10 confused. As opposed to curtailing and saying you're
11 not doing it, you would just perhaps defer it until
12 such time as you had sufficient cashflow. So again, I
13 mean, getting into parsing between sus -- you know,
14 curtailing versus deferring. I mean, it's their
15 report, not ours. And my experience is that they tend
16 not to take too kindly to this editorial overview,
17 because it's their report.
18 MR. ANTOINE HACAULT: Do you really
19 think that Moody's would intentionally put a
20 misrepresentation in a public report, sir?
21 MR. MANNY SCHULZ: I don't view it as a
22 -- a misrepresentation. That's their view.
23
24 (BRIEF PAUSE)
25

1 MR. ANTOINE HACAULT: Now, would you
2 agree, sir, if we go back to credit rating generally,
3 that low interest rates and long-term export contracts
4 are generally seen as a good thing for credit rating
5 agencies?
6 MR. MANNY SCHULZ: I'll break that
7 answer into two (2) pieces, the latter part first.
8 About the -- the contracts, they do see that
9 positively. In fact, I think I cited that in the --
10 the slide.
11 I think it was one (1) of the slides in
12 the finance panel direct from the Province of Manitoba
13 to -- Moody's to the Province of Manitoba, where they
14 indicated that that was a positive to have those fixed
15 long-term contracts. They see that as providing some
16 price certainty, and some cashflow certainty, so they
17 would see that as positive, as do we.
18 With respect to the interest rate
19 environment, there's a double-edged sword to that, and
20 I -- I think Mr. Page has sort of inferred to that,
21 too. I mean, yes, it's great to be able to secure low-
22 interest rate financing. And, you know, I'll be the
23 first one to throw up my hands and do all I can to do
24 what I can to get those low interest rates. You've
25 heard me speak to that even as recently as today.

1 But the flip side to that is, it's often
2 associated with an economic malaise. Like, why do we
3 have low interest rates? Is because the economy -- you
4 know, the extreme monetary policy responses that you're
5 seeing is in response to the economy. And if the
6 economy is doing poorly, you have interest rates that
7 are doing poorly.
8 So they don't look at interest rates in
9 isolation. They kind of want to see the economy moving
10 forward to the benefit of the entities with the rating
11 and the cash that they get. So that is the finesse
12 there, but certainly they like the fixed-rate contracts
13 that Mr. Cormie and his good people are -- are seeking
14 to endeavour to get for us.
15 MR. ANTOINE HACAULT: And when you're
16 talking about interest rates, if we go to slide 32...
17
18 (BRIEF PAUSE)
19
20 MR. ANTOINE HACAULT: And what we see
21 visually on this graph was -- is what Mr. Williams, I'm
22 suggesting, was trying to just depict by way of
23 numbers, suggesting that the actual rates, often in the
24 last ten (10) years or so, have been less -- less than
25 the assumed normalization, which we see as a straight

1 line at the top of the graph.
2 Do you agree with that, Mr. Page?
3 MR. IAN PAGE: I would agree that
4 that's what been -- was discussed. And I, you know, I
5 -- I can't quite get to his motives, but I -- I won't
6 speak to that.
7 MR. ANTOINE HACAULT: The -- and -- and
8 the odd thing, and I think you said that -- and I've
9 been warning my kids. It's like, You better watch out,
10 the interest rates might go up.
11 For some reason that the experts don't
12 seem to be adequately explaining, interest rates are
13 staying at below what everybody is thinking over the
14 last couple of years, and that's great for Manitoba
15 Hydro, correct?
16 MR. MANNY SCHULZ: Well, I'll start
17 with this, and I -- I suspect that Mr. Page will chime
18 in, too. So the low interest rate environment is great
19 for treasury in terms of sourcing and accessing the
20 cash, and -- and so on. That's wonderful.
21 It's indicative of a -- of a poor
22 economic situation more globally, and that would
23 generally not be to our advantage. For instance, when
24 you're looking at our response to 10(b) that shows the
25 export revenues also going down in tandem, so we're

1 seeing a connection.
2 The interest rate forecasters and the
3 challenges that they've had, you know, I -- look, I
4 think what Mr. Williams brought forth today was a
5 painstaking exercise in demonstrating that forecasters
6 don't have perfect insight. I mean, we just simply
7 don't. And they don't -- they didn't -- they didn't
8 forecast the downturn. They didn't forecast the -- the
9 recent movement by the Bank of Canada. They're
10 struggling with Greece, and so on.
11 They're challenged with that. We are,
12 too. But you can see here in the forecast, the
13 interest rates are in -- you know, generally expected
14 to rise up alongside a recovery in the economy. And
15 we're hoping for a recovery as well, so we can get our
16 export revenues in place.
17 Ideally, we'd like to have these things
18 built with low interest rates, have that interest rate
19 sustainable forever, and then have the economy boom
20 back into perfect shape. And then we get the revenues
21 that come in in high volumes.
22 So, you know, it's a challenge, and I --
23 I feel for the econ -- the economists out there. But
24 it's -- it's a difficult position they're in, but
25 they're generally biassed on having the economic

1 recovery come in sooner as opposed to later. And it's
2 been shown that the economic malaise has been longer
3 than expected.
4 MR. ANTOINE HACAULT: So -- and I'll
5 let you continue, Mr. Page -- is that a warning to us
6 and to the Board to be very careful about forecasts on
7 interest rates?
8 MR. MANNY SCHULZ: You know, I don't
9 know. I -- I don't want to put it as warnings and
10 threats and things like that. I would be careful about
11 that. But I just -- it's just having an understanding
12 that, much like weather and all -- you know, the
13 economy and the financial markets are complicated.
14 There's so many moving parts that it's
15 not a simple thing. And it's a recognition that it's -
16 - that we have to take management actions to make sure
17 we're mitigate against that. We've talked about that,
18 and I won't go into detail about it, about what we're
19 doing on debt management, about fixing our rates as
20 opposed to leaving them volatile to floating rate -- we
21 can take those steps, but interest rates move. I mean,
22 export pricing move. There's so many different
23 variables. That's part of the challenges that we face
24 at Manitoba Hydro, for sure.
25 MR. ANTOINE HACAULT: Can you give us

1 an estimate of how long these experts have been saying
2 that rates will climb soon?
3
4 (BRIEF PAUSE)
5
6 MR. MANNY SCHULZ: You know, I've been
7 treasurer since 2008, and in my general experience, it
8 has been -- since the economic downturn, that that
9 that's really when I stepped into the seat. And it was
10 a bit of a seismic shift there, so seeing some of the
11 numbers before that was a bit of a shock and all that.
12 But I jumped into the chair when we suddenly had the
13 low interest rates. But my experience to this time is
14 that they seem to generally expect that the recovery
15 would be sooner, and it seems that it's just taking
16 longer and longer.
17 Like, the low interest rates we've just
18 secured now, years after 2008, it -- it is surprising
19 when you take the longer view back at this to say, Wow,
20 you know, like -- you know, in July, I think it was
21 2012, we hit a low point. And I thought that was the
22 lowest it could ever go.
23 And here we are, lower again, where in
24 Germany the bund being at negative rates. Like, it is
25 surprising how low these things can go. It can't go

1 too much lower, and Mr. Page talked about the asymmetry
2 of the risk. It's likely to move more up than down.
3 But they've been generally forecasting a
4 recovery, and it's just kind of, I think, maybe the
5 optimism of economists. I -- I don't know. I'm not an
6 economist. Perhaps Mr. Page can elaborate.
7 MR. IAN PAGE: Prior to the downturn,
8 there was -- there was -- we also did see a -- a
9 tendency with the forecasters to assume interest rates
10 to go -- to go up. And -- and we'd discussed that with
11 Mr. Williams earlier.
12 And -- and there was -- a lot of that
13 was sort of a -- a reversion to a long-term mean, and
14 that long-term mean, you know, wasn't -- wasn't
15 reflective of the fact that just globally, we've seen a
16 -- a shift to a lower interest environment than we have
17 seen in past years. The central banks around the world
18 have been very aggressive on -- on getting inflation
19 down and -- and in hand to hand with that, interest
20 rates have come down.
21 I actually just came across -- I just
22 looked up something from when I was talking about, you
23 know, in the late -- late '70s, early '80s, at that --
24 at the time, partly due to the weak capital structure,
25 but also the high interest rates, interest expense was

1 over 50 percent of Manitoba Hydro's expenditures at
2 that time.
3 So we're -- we've moved a long way from
4 that. So -- and again, that's a combination of rates
5 and -- so -- but the interest rates, you know, all of
6 us who are of a certain age will remember that interest
7 rates were quite high at one time, and there's been a
8 steady decline in interest rates.
9 When Limestone was being built, we were
10 getting debt in around the 9, 10 percent range, and
11 it's -- and it's continued to come down from that. But
12 the forecasters, they -- they do tend to sort of look
13 at it -- give a lot of weight to history. And -- and
14 we're moving ahead of -- of where -- of where the
15 historical patterns have been.
16 So it's -- it's been a number of years
17 that we've seen that pattern. It's been -- certainly
18 been exaggerated since 2009, that -- that assumption of
19 a -- of a recovery. And -- and we did see an initial
20 bit of a bounce back in -- in GDP and employment in --
21 in North America.
22 But then all of the other uncertainty
23 that's happened around the world has -- has kept that
24 interest -- kept those interest rates down as -- as
25 banks try to address other concerns within their

1 various economies.
2 MR. ANTOINE HACAULT: So if we look at
3 this chart, there is a difference of nearly 2 percent
4 between what's being reported as 2013 rates and the
5 ongoing ones as of, I don't know, somewhere in 2020,
6 somewhere around there.
7 Is that about right?
8 MR. IAN PAGE: That -- that's correct.
9 And -- and we -- and we've -- subsequent to this, there
10 was the -- the two (2) updates that went with the one
11 we talked about that was done -- used for PUB-10(b),
12 which only had one (1) long-term source, but it had a
13 further -- it also had that sharp increase in between
14 the short and the long-term rates, and then these --
15 the spring economic outlook that we filed this morning,
16 Exhibit 58.
17 You -- again, you'll see long-term rates
18 in 2015 of 4 percent and rising to six point three-five
19 (6.35) by 2021. So again, there's that over a 2
20 percent shift. And that's -- again, that assumption
21 that we're going to -- the economies are going -- are
22 going to pick up. And -- and there's a lot of
23 assumption in that.
24 There's assumptions on oil price
25 recovery, natural gas, LNG exports happening. There's

1 all sort of -- Europe getting its house in order. A
2 lot of things have to happen in order for these things
3 to -- so any one (1) of those assumptions goes awry and
4 -- and this could go -- it could go higher or it could
5 go lower.
6 MR. ANTOINE HACAULT: So would it be
7 fair to summarize what was said here, that since what,
8 about 2009 or 2010, so for the last five (5) or six (6)
9 years, people have been wrong that interest rates are
10 going up soon?
11 MR. MANNY SCHULZ: I don't like putting
12 it terms like 'wrong' and 'error' in it. I -- they
13 just have been overly optimistic, has been my sense of
14 it. What keeps me up at night as treasurer when I'm
15 looking at the interest rates is I think of this -- and
16 -- and Ms. Stephen and I had a conversation with this,
17 I think it is like a slingshot in the interest rates,
18 is what my risk is.
19 It's like monetary policy pulling back
20 the -- the low interest rates, forcing us back. But
21 whatever happens when you let go of that monetary
22 policy release? That's been the challenge for the fed
23 reserve in terms of the normalcy. And when you let go
24 of that, how much tension has been brought into the
25 economy and how quickly does that release?

1 And when that happens, if it does, then,
2 you know, it can happen very fast. So I'm concerned
3 about the complacency, about the low interest rate
4 environment thinking that's going to be here forever
5 and a day. And so that's why you're seeing us in
6 treasury taking -- undertaking serious and earnest
7 efforts to lock down rates and do everything that we
8 can during our bulge period, as you call it, to make
9 sure we're there.
10 But forecasters, like I said, I -- I
11 feel for them, but they could just as equally be wrong
12 on the other side, that when it comes, it can come
13 quickly, and one ought to be prepared for that, so
14 that's the risk that the treasury in me feels when I
15 look at the interest rates.
16 MR. ANTOINE HACAULT: Okay. And the
17 second --
18 MR. IAN PAGE: Mr. Hacault, you also
19 have to remember --
20 MR. ANTOINE HACAULT: Sorry.
21 MR. IAN PAGE: -- interest rates are --
22 are one (1) of those tools that banks use to respond to
23 -- to things that are happening. And to look at the
24 other side of this, you know, I've got a chart here on
25 -- from the International Monetary Foundation (sic) on

1 GDP forecasts. And the -- the 2011 forecast was that
2 in 2013, GDP globally was going to be about 4 3/4
3 percent. The next year, the forecast dropped to 4 1/4
4 percent. The year after that, the forecast dropped to
5 three and a half (3 1/2). And then actual turned out
6 about three and a quarter (3 1/4).
7 So that -- that graph, you could change
8 -- change the labels, call it an interest rate
9 forecast, and it would look exactly the same as that
10 GDP forecast. So it's -- it's not that everybody is
11 out forecasting interest rates in isolation, they're
12 forecasting interest rates that will result from all of
13 the other things that happen in the economy, so.
14 If -- if you -- if you miss one (1)
15 assumption on one (1) part of it, then -- then that --
16 there'll be a trickle through, and you'll see that if -
17 - you'll see that translate on the interest rate
18 forecast, the exchange rate forecast, and so forth.
19 MR. ANTOINE HACAULT: I've got two (2)
20 questions, and I hope we can get done quickly before we
21 take the break. The first one, I think, is a pretty
22 mathematical thing. It's put in Appendix 3.6 at page
23 1. Each change in a percentage of interest is worth
24 about $43 million.
25 Does that sound about right?

1 MS. LIZ CARRIERE: So that is the
2 impact for two (2) years of interest rates that are
3 higher -- 1 percent higher or lower than what we've
4 projected or what Mr. Page has projected in the fall
5 outlook.
6 MR. ANTOINE HACAULT: Okay. So that
7 the impact, to understand that table -- and thank you
8 for clarifying that. I hadn't got the relationship
9 between 2016/'17. This is a two (2) year impact based
10 on current borrowings.
11 The 43 million, if we look at minus 1
12 percent interest, it will...
13 MS. LIZ CARRIERE: Well, there is --
14 there is not as much impact on existing borrowings,
15 because it's, you know, roughly 80 to 85 percent of it
16 is fixed. It will impact floating when those are
17 repriced, but it applies to new borrowings.
18 MR. ANTOINE HACAULT: Okay. So if we
19 look at what I've been calling the 'big bulge', which
20 is slide 15 of Exhibit 52, and we see that with respect
21 to the new major generation and transmission, we're
22 going to be incurring most of that by 2020, a -- a lot
23 of uncertainty about what impact the interest rates are
24 going to have, at least with respect to those projects,
25 is going to be crystallized by 2019, I would suggest.

1 MS. LIZ CARRIERE: That's fair, yes.
2 MR. ANTOINE HACAULT: And given all
3 this discussion about the uncertainty, are we
4 cautioning the Board, because it go either way, to be
5 pretty careful about what we're assuming for interest
6 rates, because it could go up or it could go down,
7 correct?
8 MS. LIZ CARRIERE: That's correct.
9 MR. ANTOINE HACAULT: Thank you. I
10 think that -- that would be an appropriate time for a
11 break, if it suits the Board.
12 THE CHAIRPERSON: Yes, it does. Let's
13 break and return at quarter to 3:00. Thank you.
14
15 --- Upon recessing at 2:33 p.m.
16 --- Upon resuming at 2:47 p.m.
17
18 CONTINUED BY MR. ANTOINE HACAULT:
19 MR. ANTOINE HACAULT: Sorry about that,
20 Mr. Peters. Before I get into discussing the expense
21 side, the OM&A and accounting changes, I'd like to ask
22 whether Manitoba Hydro is prepared to undertake to file
23 with the Board this -- I'm going to say new coverage
24 ratio that was discussed which was the cash versus
25 expense -- or -- or, sorry, finance expense?

1 MS. LIZ CARRIERE: For MH14 for the --
2 MR. ANTOINE HACAULT: Yes.
3 MS. LIZ CARRIERE: -- ten (10) years?
4 Sure. We can do that. Manitoba Hydro will undertake
5 to file the EBITDA interest coverage ratio.
6
7
8 --- UNDERTAKING NO. 42: Manitoba Hydro to file the
9 EBITDA interest coverage
10 ratio
11
12 CONTINUED BY MR. ANTOINE HACAULT:
13 MR. ANTOINE HACAULT: Now, for this
14 next discussion, I think it would be useful to go to
15 page 10 of 21 and Appendix 5.5. If you could do that,
16 please?
17 Now, first, this table is straight time
18 EFTs by business unit, and there's another table that
19 talks about overtime EFTs by business unit, correct? I
20 don't know who's going to be answering this. Ms.
21 Bauerlein, maybe?
22 MS. SANDY BAUERLEIN: That would be
23 correct. There is one (1) table for straight time and
24 one (1) for overtime EFTs by business unit.
25 MR. ANTOINE HACAULT: Okay. And we've

1 been talking and that was in -- you don't need to go
2 there, Diana, but at slide 39 and in other
3 presentations that there are going to be about three
4 hundred and thirty (330) operational positions over a
5 three (3) year forecast period.
6 So that's from 2013/'14 up to 2016/'17.
7 Is that correct?
8 MS. SANDY BAUERLEIN: The three hundred
9 and thirty-one (331) position reduction takes place
10 from 2000 through -- April of 2014 through to March of
11 2017.
12 MR. ANTOINE HACAULT: Thank you. Now,
13 Diana, if you can go to the bottom of that slide, and I
14 just want to have an idea of -- of what's happening.
15 And I picked one (1) group here at the bottom called
16 'customer care and energy conservation'.
17 Do you see that, Ms. Bauerlein?
18 MS. SANDY BAUERLEIN: Yes, I see that.
19 MR. ANTOINE HACAULT: And first I'd
20 like to know with respect to the three (3) categories
21 above that designation which costs are capitalized and
22 which costs are expensed. For example, we see a title
23 on the left-hand side, Capital Construction. And then
24 we've got ninety-one (91) positions as being actual for
25 2012/'13.

1 Are the EFTs with respect to that
2 category capitalized or expensed?
3 MS. SANDY BAUERLEIN: EFTs charged to
4 capital construction would be -- those would be the
5 EFTs whose costs are therefore capitalized. Those that
6 are charged to operations and maintenance and
7 governance and support services would be expensed with
8 a qualifier that some of the costs associated with
9 governance, support, and services EFTs may get
10 capitalized.
11 Some of their costs may get capitalized
12 through overhead. But with the changes in the
13 overhead, less and less of those costs are being
14 capitalized.
15 MR. ANTOINE HACAULT: And that's an
16 accounting change that you've talked about, correct?
17 MS. SANDY BAUERLEIN: Correct.
18 MR. ANTOINE HACAULT: Okay. Now, I'll
19 focus on customer service and distribution and how all
20 that has changed from 2012 to 2013. So in 2000 -- for
21 the year ending March -- what is it -- 31, 2013, we
22 have seven hundred and ninety-one (791) positions in
23 operate -- operations and maintenance which would have
24 been expensed, correct?
25 MS. SANDY BAUERLEIN: Yes, those costs

1 would have been expensed.
2 MR. ANTOINE HACAULT: And we see that
3 the following year, there seems to be kind of a
4 reorganization in the sense that nearly a hundred (100)
5 positions are no longer operations and maintenance.
6 The exact number is seven ninety-one (791) minus six
7 ninety-five (695).
8 Do you see that?
9 MS. SANDY BAUERLEIN: This isn't a -- a
10 reflection of a reorganization. This would be a refrec
11 -- reflection of deployment of the resource. So in
12 this case, there would be a reduction in staff charging
13 to operations and maintenance functions. It would be
14 redirected elsewhere.
15 MR. ANTOINE HACAULT: And that's how we
16 -- if we go down the line and we do all the
17 calculations, we come to there being a number of
18 positions that are cut out of operations which is, in
19 this graph, operations and maintenance, governance,
20 support, and services, correct?
21 MS. SANDY BAUERLEIN: Probably really
22 wasn't very clear there. So in starting in the
23 2014/'15 year to 2016/'17, we have a cut of operational
24 positions. Those positions that are being eliminated,
25 for one, wouldn't have the skill set to -- to be

1 redeployed, necessarily, so those are actual reductions
2 of positions.
3 In some cases in some of the earlier
4 years there may be some redeployment of staff, but
5 starting in 2014/'15 through to '16/'17, it is an
6 elimination of those positions.
7 MR. ANTOINE HACAULT: Okay. So that if
8 we look at this chart to try and better understand your
9 answer, in customer service and distribution we start
10 with a total capital, construction, operations and
11 maintenance, government and -- governance and support
12 services of one thousand, six hundred and fifty-four
13 (1,654) EFTs, correct?
14 MS. SANDY BAUERLEIN: Yes.
15 MR. ANTOINE HACAULT: And it's forecast
16 that in 2016/'17 for customer service and distribution,
17 the total of all categories will remain at one
18 thousand, six hundred and fifty-four (1,654) EFTs,
19 correct?
20
21 (BRIEF PAUSE)
22
23 MS. SANDY BAUERLEIN: Correct.
24 However, I would like to pull up from my slides... It
25 was slide 41 from the presentation.

1 (BRIEF PAUSE)

2

3 MS. SANDY BAUERLEIN: Actually, I'm --

4 I'm not sure if I want slide 41. I think I actually

5 want the total one, so just bear with me for a moment.

6

7 (BRIEF PAUSE)

8

9 MS. SANDY BAUERLEIN: I'll take the

10 slide page 3 of Appendix 5.5.

11

12 (BRIEF PAUSE)

13

14 MS. SANDY BAUERLEIN: So you will note

15 that even though there's one thousand six hundred and

16 fifty-four (1,654) EFTs for the customer service and

17 distribution business unit, there will be a reduction

18 of forty-six (46) operational positions in '14/'15, a

19 further nineteen (19) in '15/'16, and a further

20 thirteen (13) in '16/'17.

21 MR. ANTOINE HACAULT: Now, if we can

22 understand what's happening and -- and where those

23 positions are being moved, because we saw in customer

24 service and distribution we started with sixteen fifty-

25 four (1,654) and we end with sixteen fifty-four

1 (1,654), correct?
2 So to better understand what the
3 Corporation is doing, we have to see within that
4 customer service and distribution unit what's
5 happening. So could we go back to page 10.
6
7 (BRIEF PAUSE)
8
9 MR. ANTOINE HACAULT: So you've just
10 explained to us, and thank you for doing that, that
11 there are going to be operational positions cut in that
12 customer service and distribution area, correct?
13 MS. SANDY BAUERLEIN: Correct.
14 MR. ANTOINE HACAULT: And you've
15 identified --
16 MS. SANDY BAUERLEIN: And in doing so
17 then we are reducing our operating EFTs, which is then
18 thereby reducing our operations and maintenance
19 expenditures.
20 MR. ANTOINE HACAULT: And the operating
21 EFTs, am I correct, I don't I got an answer from you on
22 this, includes both the operations and maintenance
23 line, and the governance support and services line,
24 correct?
25 MS. SANDY BAUERLEIN: Correct.

1 MR. ANTOINE HACAULT: So we see the
2 total number of employees being the same when we
3 compare 2013/'14 to 2016/'17.
4 Are you with me so far?
5 MS. SANDY BAUERLEIN: Yes. However, I
6 think it's important for the Board to know you can't
7 really look at one (1) area in isolation. You need to
8 look in total. People apply and move around within the
9 Corporation on a continual basis. We're managing this
10 at the Company level to ensure that our operating costs
11 are limited to the 1 percent growth.
12 MR. ANTOINE HACAULT: Okay. There may
13 be other examples I can go through. Unfortunately,
14 I've got limited time to do it. And I thought this
15 might help the Board understand, at least with respect
16 to that particular area, how it worked.
17 Are you willing to at least go through
18 this example with me, please?
19 MS. SANDY BAUERLEIN: I can try and
20 work with you. However, I do want to note that there
21 may be things where I want to pull it back at the
22 Company level.
23 MR. ANTOINE HACAULT: Sure. That's
24 fair. So that with respect to customer service and
25 distribution, we see that capital construction EFTs has

1 moved from 2012/2013 from six hundred and eighty (680)
2 employees to seven hundred and sixty-nine (769)
3 employees, correct?
4 MS. SANDY BAUERLEIN: Correct.
5 However, this is an EFT, not an employee calc -- it's
6 not a position or an employee. It's an EFT, so it's
7 hours.
8 MR. ANTOINE HACAULT: But when you talk
9 about saving positions, you're actually -- so if we
10 look at the actual numbers, and I had calculated them,
11 you're quite correct. I believe there's only two
12 hundred and ninety-two (292) EFTs that are cut here.
13 And you translate that to three hundred
14 and thirty (330) odd employees -- or positions,
15 correct?
16 MS. SANDY BAUERLEIN: Correct. Three
17 hundred and thirty-one (331) positions with an
18 approximate savings of approximately $35 million once
19 you achieve the full savings at the end of the three
20 (3) year period.
21 MR. ANTOINE HACAULT: Yeah, and I want
22 to explore that part a little bit further. With
23 respect to customer service and distribution, as an
24 example, there's going to be a number of EFTs, the
25 difference between seven sixty-nine (769) and six

1 eighty (680), that are going to be capitalized.
2 But the Corporation is still incurring
3 those costs and sending the cheques to the employees,
4 correct?
5 MS. SANDY BAUERLEIN: There is a cash
6 requirement to pay the employee, yes. But in terms of
7 a -- a charge to OM&A, which is part of revenue
8 requirement, those costs would not be part of OM&A
9 until the asset which they are constructing is placed
10 in service.
11 MR. ANTOINE HACAULT: Okay. And that's
12 -- thank you. That's important to understand. The
13 total number of employees for customer service and
14 distribution remains at one thousand, six hundred and
15 fifty-four (1,654). Manitoba Hydro will be sending
16 paycheques for each of those EFTs, whether it's part of
17 a position or a full position.
18 They don't have to wait to get paid
19 until the project gets built, correct?
20 MS. SANDY BAUERLEIN: Correct.
21 MR. ANTOINE HACAULT: So when we're
22 talking about savings -- and thank you for explaining
23 that point -- an annual savings with respect to that
24 many operational positions, at least in this unit, from
25 a cashflow perspective, there isn't any savings,

1 correct?

2 MS. SANDY BAUERLEIN: I don't agree

3 with that. As an operating position, if you cut the

4 position, those -- that payroll cost is being expensed.

5 If you eliminate that position, then those costs are no

6 longer being incurred. Those are operational position

7 cuts. They are not costs of positions which would be

8 charging to a capital project.

9 MR. ANTOINE HACAULT: And you and I are

10 in agreement with respect to the limited portion under

11 customer service and distribution where you've got a

12 heading, "Operations and Maintenance," there are cut

13 positions.

14 We're in agreement with that, correct?

15 MS. SANDY BAUERLEIN: I believe so.

16 MR. ANTOINE HACAULT: Where you appear

17 to disagree is that when we increase within that same

18 business unit the EFTs for capital construction, you

19 disagree that that's an expense because it gets

20 capitalized, correct?

21 MS. SANDY BAUERLEIN: I was referring

22 to your comment. I was understanding you to imply that

23 it wasn't a cost savings. In my $36 million, that's a

24 cost savings, an operating cost savings to the

25 Corporation, reducing -- thereby reducing revenue

1 requirement.
2 MR. ANTOINE HACAULT: Okay. But with
3 respect to cashflow, if we've got a total of one
4 thousand, six hundred and fifty-four (1,654) employees
5 at the start and at the end, and assuming that you're
6 paying them the same amount, even though there's a new
7 capital construction position, there would be actually
8 no cash savings to the Corporation?
9 MS. SANDY BAUERLEIN: There's no cash
10 saving to the Corporation. However, those staff are
11 working on projects which we, as a Corporation, deem to
12 be necessary for the investment and reinvestment in our
13 infrastructure.
14 MR. ANTOINE HACAULT: Thank you. And
15 that brings me to another couple of questions. With
16 respect to the approximately ninety (90) additional
17 positions in capital construction under the business
18 unit called the customer service and distribution, how
19 many of those ninety (90) positions are term positions?
20 MS. SANDY BAUERLEIN: I believe we
21 already have an undertaking to look at the number of
22 term positions in our capital program.
23 MR. ANTOINE HACAULT: Could I have an
24 undertaking to provide it specifically with respect to
25 this business unit?

1 (BRIEF PAUSE)

2

3 MS. ODETTE FERNANDES: Mr. Hacault,
4 I'll take that one (1) under advisement, because I
5 think the other undertaking as well was under
6 advisement, because we need to see what we can do in
7 terms of what we can provide.
8 MR. ANTOINE HACAULT: Thank you. And
9 while you're making the inquiries, would you be able as
10 a corporation to let me know, with respect to customer
11 service and distribution business unit, how many of the
12 capital construction employees are working on the three
13 (3) biggest projects of this Corporation? I guess it
14 would be Keeyask, Bipole III, and you pick the next
15 one.
16 MS. SANDY BAUERLEIN: Are you asking
17 for the customer service and distribution business unit
18 only?
19 MR. ANTOINE HACAULT: Yes. So I -- I'm
20 assuming it's less work. Otherwise, I would have asked
21 for the whole thing. If you can break it down
22 according to the business categories, that would be
23 great.
24 MS. SANDY BAUERLEIN: For customer
25 service and distribution, we could advise as to what

1 projects are being charged for capital construction
2 that make up that capital construction EFT.
3 MR. ANTOINE HACAULT: So can we mark
4 that as an undertaking? It can be taken under
5 advisement. I'm looking at Odette, if --
6 MS. ODETTE FERNANDES: Yeah, that's
7 fine.
8 MS. SANDY BAUERLEIN: That could be an
9 undertaking.
10 MR. ANTOINE HACAULT: Could you repeat
11 it in your words so I don't screw it up?
12 MS. SANDY BAUERLEIN: To provide an
13 analysis of the capital construction EFTs and what
14 projects they're charging to in terms of, are any of
15 the projects major new generation or transmission
16 projects?
17 MR. ANTOINE HACAULT: And that's for
18 all business units? Can you do that?
19 MS. SANDY BAUERLEIN: For all business
20 units? Yes, we could do that.
21 MR. ANTOINE HACAULT: Thank you.
22
23 --- UNDERTAKING NO. 43: Manitoba Hydro to provide
24 an analysis of capital
25 construction EFTs and what

1 projects they're charging
2 to in terms of major new
3 generation or transmission
4 projects for all business
5 units
6
7 CONTINUED BY MR. ANTOINE HACAULT:
8 MR. ANTOINE HACAULT: Thank you. Now,
9 as I understood the evidence, the Corporation was the
10 view -- of the view that for major capital construction
11 projects for a certain part of its EFTs, there wouldn't
12 be an EFT created if it was expected that the job would
13 only last a couple of years because of concerns of
14 costs of training those people.
15 Did I understand that correctly?
16 MS. SANDY BAUERLEIN: Not quite
17 following your question.
18 MR. ANTOINE HACAULT: I'll maybe try to
19 give a little bit of a background. We've got a couple
20 major projects, at least from our client's perspective.
21 When you get out of that big bulge, if there's a whole
22 bunch of term employees that are working on Bipole III,
23 Keeyask, and a couple other major projects, if they're
24 all term and the -- the Corporation has planned and
25 prioritized properly, you're going to see a big drop

1 when those employees are no longer required.
2 So I'm trying to get a sense of --
3 that's why I was asking questions about how many
4 employees are term, and how employees are still going
5 to stick around after this big bulge of construction.
6 MS. SANDY BAUERLEIN: Just one (1)
7 point I do want to emphasize is that though we are
8 under major development, a lot of our -- the labour
9 force for some of these projects is really external
10 labour. So there -- there -- yes, there is some
11 internal labour, but it's not to the extent of the --
12 you know, the project having this huge bulge of
13 workforce to address it, and must -- much of the labour
14 force for those projects is external contractors with
15 various craft trade skills.
16 MR. ANTOINE HACAULT: And just perhaps
17 we -- explain it a bit better if we go to the very
18 bottom of the slide where we have the totals. Under
19 "Capital construction," from 2012/'13, we start at one
20 thousand, nine hundred and forty-two (1,942) EFTs, and
21 we bump that up by over four hundred (400) EFTs by
22 2016/2017.
23 Do you see that?
24 MS. SANDY BAUERLEIN: Correct, and that
25 would be to address sustaining capital, as well as

1 major new generation and transmission projects.
2
3 (BRIEF PAUSE)
4
5 MR. ANTOINE HACAULT: I believe it was
6 --
7 MS. SANDY BAUERLEIN: I didn't want to
8 leave the Board with the impression that there was --
9 because again, there are literally, you know, several
10 thousand workers, that those were all internal workers.
11 Many of them on these projects are external.
12 MR. ANTOINE HACAULT: Okay. And I
13 don't remember whether the Corporation was able to do
14 this. Was the Corporation able to bring this graph out
15 to 2022 after the two (2) projects are finished? When
16 I say, "Two (2) projects," Bipole III and Keeyask.
17
18 (BRIEF PAUSE)
19
20 MS. SANDY BAUERLEIN: No, we are unable
21 to do that. What this reflects is this is based on
22 looking at hours, hours where people are going to be
23 redeployed. Past the '16/'17 fiscal year, while we
24 have plans, we may not have broken out, in terms of a
25 specific project, how much of that project would be --

1 the work would be done by external versus internal. We
2 have a plan. We have a project.
3 But the actual breakdown of the who,
4 what labour, what -- from what business unit will that
5 labour be from, will that labour be internal/external,
6 those plans for those out years have not been refined
7 to that level of detail.
8 MR. ANTOINE HACAULT: So are you
9 telling this Board that after we hit this big bulge,
10 construction has been completed, that we can't tell
11 this Board whether we're going to go back to levels of
12 2013, around nineteen hundred (1,900) EFTs for capital
13 construction? MS. SANDY BAUERLEIN: Manitoba Hydro
14 has committed to a limited -- to a 1 percent increase
15 in our OM&A costs right through to '21/'22. So we will
16 take whatever steps is necessary to do that. And we've
17 talked extensively that well, we have the three hundred
18 and thirty-one (331) positions and we have identified
19 where those position reductions will occur. We are
20 still looking at a further six hundred (600) position
21 reductions.
22 And we understand that, you know, as
23 those projects come to the end we will need to manage
24 where those staff are going, whether or not they -- are
25 opportunities for them to find positions elsewhere in

1 the Corporation, whether or not they will need to
2 leave. So we do have -- we are committed to ensuring
3 that we will maintain those operating costs at that low
4 level which again, I -- I believe Mr. Rainkie has
5 emphasized is a bit of a -- a stretch target for us as
6 it will be something that we will -- we will be
7 aggressively pursuing to ensure that we can achieve
8 that.
9 We also have to recognize we are going
10 to have a situation where we do have some staff. We
11 also recognize, though, that we have a -- an aging
12 infrastructure and capacity issues that we'll be
13 addressing. So we will be managing sort of dynamically
14 the workforce and -- and where that workforce needs to
15 -- to be redeployed or where it needs to go in terms of
16 being able to manage all those objectives.
17 MR. ANTOINE HACAULT: Thank you. But I
18 maybe didn't make my question clear. I don't think
19 you've addressed the question which I asked was has
20 Manitoba Hydro -- or can Manitoba Hydro tell us today
21 after the big bulge of capital construction is finished
22 what are we going to see as total EFTs under capital
23 construction.
24 Can you give me that answer today?
25

1 (BRIEF PAUSE)

2

3 MS. SANDY BAUERLEIN: I can't give you
4 an exact number. I will tell you that those projects
5 will be over, therefore there will be the requirement
6 for those EFTs on those projects. So I would expect
7 our capital construction EFTs to be less. By exactly
8 how much at this point out seven (7), eight (8) years
9 from now I'm not exactly sure what our capital
10 construction EFT exact number would be for those years.
11 MR. ANTOINE HACAULT: Am I to take your
12 understand -- your answer that the Corporation has done
13 -- not done that analysis to be able to tell us today
14 what the reduction will be, whether it's five hundred
15 (500), six hundred (600), a thousand construction
16 employees?
17 You don't know how many people will no
18 longer be required under that category once the big
19 projects are finished?
20 MS. SANDY BAUERLEIN: We will be
21 continually assessing that based on the requirements of
22 some of our sustaining capital as well as our -- it's
23 very difficult right now. Because again, this -- this
24 graph depicts -- or this chart depicts exactly where
25 the people are coming from, what -- this is actually

1 driven by department. So we know what department, what
2 division, what business unit, where they're working.
3 To say that I'm going to know where in
4 '21/'22 an individual in one (1) area may be working,
5 whether they'll be on a capital construction project or
6 they'll be working operations and maintenance or
7 whether they will have retired or have switched jobs,
8 it's difficult for me to be able to provide a -- a
9 schedule at this level of detail. However, I can tell
10 you that we will expect to see a reduction in our
11 capital construction EFTs as a result. And two, we
12 will ensure that we are ensuring that our operations
13 and maintenance costs remain at the 1 percent. And to
14 do that we will be managing our operating EFTs.
15 MR. ANTOINE HACAULT: I still don't
16 think you've answered my question, but I'll move on. I
17 -- I can't -- I don't know why it's so difficult to
18 agree that the analysis hasn't been done. I -- I think
19 that's what you're saying, that you're going to look at
20 it in the future, but you haven't done it now.
21 Isn't that fair?
22 MS. SANDY BAUERLEIN: I think it would
23 be very difficult now to again predict where an
24 individual would be working seven (7), eight (8) years
25 from now. We have detailed plans for the next three

1 (3) years. We have plans, but again not at the same
2 level of detail, out for the next number of years, for
3 the next ten (10) years. But as typical with any type
4 of a planning or forecasting process the further you go
5 out in that the less detail or information that you
6 have. You know you're going to do work. Do you know
7 exactly whether you're going to use an internal or
8 external resource? Do you know what department that
9 resource will come from? Seven (7) years from now, no.
10 As -- each year as we progress to those
11 years we will be able to provide the Board with that --
12 more levels of detail as we refine our -- our plans.
13 MR. ANTOINE HACAULT: So what you're
14 telling this Board is that is we get an answer on the
15 current makeup and we see that there's four hundred
16 (400) EFTs working on Bipole III and Keeyask, we can't
17 automatically assume when those -- that big bulge gets
18 finished, that we're going to see four hundred (400)
19 less employees in the capital construction segment of
20 the Corporation.
21 Is that what you're telling us?
22 MS. SANDY BAUERLEIN: I am saying that
23 there will be a reduction. How much that reduction
24 will be will also be dependent on where we have other
25 sustaining capital projects where those resources may

1 be deployed to. There will be a reduction. Whether it
2 will be exactly four-hundred (400) EFTs -- because
3 again, this four hundred (400) represents an increase
4 in EFTs for both sustaining and major new generation.
5 So it's not just an increase for just
6 major new generation, but you would see a corresp --
7 you would see a decrease when the projects are over.
8 I'm just not able to quantify for you what that exact
9 number would be at this point in time.
10 MR. ANTOINE HACAULT: Thank you. I'll
11 move on. Next, I'll deal with the vacancy issue under
12 OM&A. And as I understand the evidence is that the
13 Corporation has set a new target for four (4) -- 4.5
14 positions -- percent of its positions and that there's
15 an undertaking to advise what actually occurred in this
16 past year.
17 Is that correct?
18 MS. SANDY BAUERLEIN: That is correct.
19 MR. ANTOINE HACAULT: Okay. Now...
20
21 (BRIEF PAUSE)
22
23 MR. ANTOINE HACAULT: If the actual --
24 and sorry, I -- if it doesn't come to four point five
25 (4.5), what is this Board supposed to do with that?

1 (BRIEF PAUSE)

2

3 MS. SANDY BAUERLEIN: Again, the -- the
4 3.95 percent aren't really -- again, we've mentioned
5 several times, we don't take a rate base rate-of-return
6 approach. So we're not looking for whether or not the
7 -- the costs in one (1) specific year are up and down.
8 We're taking a longer term view. And under our -- our
9 cost of service methodology we can do that.
10 So whether or not we're exactly 4.5
11 percent vacancy factor or we're four point nine (4.9)
12 or four point one (4.1), the fact is we still need the
13 3.95 percent rate increases for all the reasons we've
14 discussed over the last number of -- of days.

15

16 (BRIEF PAUSE)

17

18 MR. ANTOINE HACAULT: Now, in the
19 rebuttal you deal with Mr. Bowman's evidence with
20 respect to what his view is of the adjustments to be
21 made with respect to vacancy calculations. The first
22 assumption that Mr. Bowman had made was that there
23 would be an average salary of seventy-seven thousand
24 one hundred and sixty-six dollars ($77,166) for all the
25 EF -- or the positions that are being discussed in that

1 vacancy area.
2 Are you in a position with respect to
3 the vacancies to give us a better number as to what the
4 average salary should be?
5
6 (BRIEF PAUSE)
7
8 MS. SANDY BAUERLEIN: We have an IR.
9 I'm just confirming which IR number.
10
11 (BRIEF PAUSE)
12
13 MR. ANTOINE HACAULT: Diana, while
14 she's looking up -- that up, could you bring up
15 PUB/MIPUG-12, please, second page?
16 MS. SANDY BAUERLEIN: I believe it's
17 Coalition-I-48 has the average salary per EFT by
18 business unit.
19 MR. ANTOINE HACAULT: Okay. But, you
20 see, my question's a bit different. You have vacant
21 positions, and those positions would have their own
22 salary grids, wouldn't they?
23 MS. SANDY BAUERLEIN: Yes, and each
24 person within that position would have a potentially
25 different salary within that range.

1 MR. ANTOINE HACAULT: And that's why
2 I'm asking you because Mr. Bowman has used the numbers
3 at the bottom of this table. He's used seventy-seven
4 thousand, one hundred and sixty-eight (77,168) as an
5 average salary for the vacant positions.
6 Is Manitoba Hydro agreeing that that's
7 an appropriate salary that reflects the salary base of
8 the vacant positions?
9 MS. SANDY BAUERLEIN: As an average,
10 yes. Again, each position would be different, but you
11 don't know in advance what position will be necessarily
12 vacant, and you don't know the individual. So to use
13 an average would be appropriate.
14 MR. ANTOINE HACAULT: Okay. So if Mr.
15 Bowman has used the averages shown on Coalition
16 Manitoba Hydro Round One 48, that would be accepted at
17 -- by Manitoba Hydro as an appropriate number to use,
18 correct?
19 MS. SANDY BAUERLEIN: You could use
20 that number as an average calculation, yes.
21 MR. ANTOINE HACAULT: Okay. And now if
22 we flip back to -- and you may be able to say this
23 without flipping back to the document, but what kind of
24 increase should we do to those salaries to reflect the
25 benefits portion for the total cost?

1 MS. SANDY BAUERLEIN: Benefits are
2 roughly 30 to 35 percent of -- on top of a salary.
3 MR. ANTOINE HACAULT: So what should we
4 use for the calculation?
5 MS. SANDY BAUERLEIN: We could use 35
6 percent.
7 MR. ANTOINE HACAULT: Okay. So that
8 the calculation by Mr. Bowman in PUB/MIPUG-12 could use
9 the average salaries shown here grossed up by 35
10 percent in row A of his calculation?
11 MS. SANDY BAUERLEIN: He could.
12 MR. ANTOINE HACAULT: Okay. Now, what
13 would be the proper assumption? We've just looked at a
14 ratio between staff in the capital projects and other
15 operational staff.
16 Is there a ratio that we should be using
17 to understand with respect to the vacant positions or
18 to know how many of those positions would be expensed
19 as opposed to capitalized?
20 MS. SANDY BAUERLEIN: I'd have to think
21 about that. I'd have to consider what Mr. Bowman --
22 which I don't agree with Mr. Bowman's calculation -- is
23 trying to do. So I'd have to think about what would be
24 appropriate. But I don't agree with Mr. Bowman's
25 calculation, so --

1 MR. ANTOINE HACAULT: Maybe the --
2 MS. SANDY BAUERLEIN: -- again for the
3 reasons I stated yesterday with -- with Mr. Peters.
4 MR. ANTOINE HACAULT: There may be a
5 difference of view, and that can be debated between the
6 witnesses, but I at least want to get the numbers right
7 so we're not debating about the -- the numbers.
8 We've looked at your projections in
9 Appendix 5.5 with respect to the makeup -- that's at
10 page 10 of 21 -- the makeup of staff. If you could
11 turn there, please, Diana? Thank you. The very bottom
12 of that page.
13 Would an appropriate approach to
14 determining how much would be allocated to operations
15 and how much would be allocated to capital take the
16 projections of Manitoba Hydro in that regard for each
17 of the financial years?
18 MS. SANDY BAUERLEIN: So you're saying
19 you would take a proration of the -- for example, the
20 twenty-one ninety three (2,193) over the sixty-four
21 seventy-five (6,475) in the 2014/'15 year?
22 MR. ANTOINE HACAULT: Well, I'm
23 suggesting that's an approach that could be taken. Do
24 you have a -- a different suggestion?
25 This is based on Manitoba Hydro's

1 calculations, so I'm asking you whether or not using
2 Hydro's calculations as to the proportion would be
3 appropriate?
4
5 (BRIEF PAUSE)
6
7 MS. SANDY BAUERLEIN: I -- I'm not
8 really fully understanding what -- I don't agree with
9 Mr. Bowman's analogy. I'm not sure what he's doing,
10 but, I mean, if you wanted to use that approach, you --
11 you could.
12 MR. ANTOINE HACAULT: Okay. Thank you.
13 The next area which I'd like to cover is the impact of
14 accounting changes.
15
16 (BRIEF PAUSE)
17
18 MR. ANTOINE HACAULT: Oh, sorry, before
19 I move to that -- the total accounting changes, we've
20 seen a lot of EFT changes. Over the last couple of
21 years, would people actually be changing positions just
22 like -- as opposed to having the same job description
23 and logging time?
24 MS. SANDY BAUERLEIN: People change
25 positions frequently. I wouldn't -- I -- I don't know

about frequently, but there's a lot of turno -- change -- job opportunities continually. And as well, though, even within a job, people could be doing different work functions even while they stay within the same position, depending on the priorities and requirements of that particular area for that particular point in time. So it's -- it's a bit of both.

MR. ANTOINE HACAULT: Okay. So with these new capital projects, has the Corporation noticed any change in where people are working more on the capital projects, and as a result of that, getting into a different pay scale?

(BRIEF PAUSE)

MS. SANDY BAUERLEIN: I can't really comment on that. They may be applying on different positions. Whether or not those positions are in different pay scales -- many peo -- people apply for different positions simply for a change in experience versus actually a -- a promotion in terms of a pay grade. So I -- I couldn't tell you what that -- that mix is.

And again, many people are just, given the size of our corporation, there's a lot of

1 opportunities to work in various areas of the Company,
2 you know, as evidenced even by -- by this panel here.
3 We've worked in a multitude of areas. I didn't
4 necessarily work in a different area because I was
5 getting a promotional opportunity. It was an
6 opportunity for a new experience.
7 MR. ANTOINE HACAULT: Let me try to
8 better explain why I'm asking the question. We've seen
9 that there's about four hundred (400) new EFTs working
10 into construction, and I -- I would like to have a
11 sense as to whether those EFTs working on new
12 construction are cash different -- indifferent to the
13 Company rather, or whether or not -- and I see -- I saw
14 this in -- in WRHA, for example.
15 They created new endeavours, and a lot
16 of my buddies who were managers in the hospital went
17 into WRHA and got a pay increase. So that doing the
18 same functions, but because of the -- the new
19 organization and the new capital projects resulted in
20 increased salaries for the same people just to deal
21 with those projects.
22 And I'm wanting to have an idea as to
23 whether or not with the creation of all these
24 capitalized positions, whether all these capitalized
25 positions are at the same salary as the operational

1 positions which were left.
2 MS. SANDY BAUERLEIN: We have an
3 extensive HR review of every position in terms of
4 evaluating that position and what pay category it would
5 fall into. It's a valuation of the work. So if an
6 engineer -- if they require an engineer and they
7 require a -- an engineer IV position, it would be --
8 have to be that the work is appropriate to be deemed as
9 an engineer IV. You could have an area in system
10 operations where the work, as Dr. Swatek worked in --
11 in system planning. Again, they may not be doing
12 capital work, but the nature of their work warrants
13 that they be at a engineer IV pay grade.
14 So it's not a situation where we said,
15 Oh, because you're working on the capital construction
16 major projects, you get a pay grade. The work would be
17 valued equivalent whether you were doing engineering
18 work of equivalent for the Bipole project, or you were
19 doing engineering work in our system planning
20 department as part of our overall reliability. So --
21 so there -- there isn't -- you didn't get more just
22 because you went to work on the major capital projects.
23 MR. ANTOINE HACAULT: I -- I didn't
24 think that that would be the case. My question was
25 different, and I'll try and rephrase it again.

1 Is the composition of the construction
2 positions -- we've got a -- four (4) new -- four
3 hundred (400) new EFT positions, approximately --
4 different -- those are all costs that are being
5 capitalized -- than the operational positions, which
6 you're cancelling?
7
8 (BRIEF PAUSE)
9
10 MS. SANDY BAUERLEIN: The -- I'm not
11 sure I'm still following your question, Mr. Hacault,
12 but the nature of the positions would be what the work
13 required. So we would require engineering and planning
14 positions. The positions that would be reduced through
15 our operational efficiencies would be those positions
16 that, as that position was vacated, we felt we could
17 take, because we were changing work processes or
18 implementing new technologies, we could eliminate that
19 position.
20 The -- the -- so they're -- they're not
21 really comparable. We weren't trying to say -- the --
22 the projects need what the projects need to be able to
23 -- they're complex projects, a lot of engineering
24 requirements. So it wasn't that we would ensure that
25 by adding an engineer, we took out an engineer. The

1 exercise was to ensure that we have projects with the
2 staff with the skill sets required to -- to execute
3 those projects, and that we looked at where in the
4 Corporation we could achieve the cost savings. And the
5 cost savings we achieve are three hundred and thirty-
6 one (331) positions with an annual savings of -- of
7 about $35 million per year.
8 MR. ANTOINE HACAULT: And -- and I'll
9 take one (1) stab at this, and I'll move it again --
10 move on. So you think that three hundred and thirty
11 (330) positions will have a certain dollar you --
12 dollar value effect on the operation side. And now
13 we've seen you're adding about four hundred (400)
14 positions on the construction side.
15 What's the number for those positions?
16 Is it a hundred and twenty (120), because they're all
17 engineers? Is it a hundred and thirty thousand dollars
18 ($130,000) per emp -- employee? What's the new number
19 for the construction?
20 If we've got a lot of engineers, there
21 is it a higher number than a hundred thousand, or is it
22 the same?
23 MS. SANDY BAUERLEIN: Well, that number
24 would be built into the cost of those projects. But
25 again, I want to emphasize that that increase in EFTs,

1 not positions, on the capital side is more than just
2 the major. It would be your staff working on
3 sustaining capital as well.
4 It would be built into the cost of those
5 projects. It would be the costs of the labour, the
6 materials associated with those staff working on those
7 projects. And the staff working on the projects are
8 those staff that have the skill set required to do that
9 work.
10 MR. ANTOINE HACAULT: So after three
11 (3) attempts, as -- I've come to the conclusion that
12 you aren't able to give me a number as to the value of
13 the salaries of the EFTs, the four hundred (400) new
14 positions -- or EFTs that are being added to
15 construction. You don't know whether that's a hundred
16 thousand dollar ($100,000) EFTs, a hundred and thirty
17 thousand dollar ($130,000) EFTs, you have no idea.
18 Is that correct?
19 MS. SANDY BAUERLEIN: There are lots of
20 EFTs, Mr. Hacault, and -- and lots of positions
21 charging. I don't readily have a number for you. I --
22 I'm not -- we manage the projects and the costs of
23 those projects and the skills required for that, and
24 those employees are paid for the skill that they bring
25 to that project.

1 MR. ANTOINE HACAULT: Thank you.
2 I'll move on. You did your best to answer. That's all
3 I can expect.
4 Impact of accounting changes, slide 51
5 of Exhibit 52. Now, we've seen Mr. Peters go through
6 all the GAAP accounting changes, and Mr. Rainkie
7 referenced that those changes were approved in some
8 previous orders by a previous Board, with a different
9 composition.
10 And this slide, as I understand it, is
11 an IFRS change slide, correct?
12
13 (BRIEF PAUSE)
14
15 MS. SANDY BAUERLEIN: It also includes
16 the impacts of the 2014 depreciation study, as well as
17 IFRS changes.
18 MR. ANTOINE HACAULT: Thank you for
19 that clarification. So as to just make it clear,
20 there's already been a number of accounting changes
21 that have flowed through rates that have been
22 discussed, but these are new ones that the Corporation
23 whiches -- wishes to stack on the previous accounting
24 changes, correct?
25 MS. SANDY BAUERLEIN: These are the

1 prospective accounting changes.
2 MR. ANTOINE HACAULT: Now, the first
3 line, and you've said there was a change in service
4 lives in a depreciation study, correct?
5 MS. SANDY BAUERLEIN: Correct. We show
6 a reduction in depreciation expense as a result of the
7 impacts of the 2014 depreciation study and the reduced
8 depreciation rates.
9 MR. ANTOINE HACAULT: And I'll suggest
10 to you that those lives were either extended or
11 reduced, as the appropriate case was, to properly try
12 and match the exprec -- depreciation expense to what
13 was happening to the assets, correct?
14 MS. SANDY BAUERLEIN: Correct.
15 MR. ANTOINE HACAULT: And we haven't
16 had that discussion yet, but what had happened in the
17 past is that depreciation -- you may disagree with this
18 categorization -- was a little bit too aggressive, and
19 that's why we had to make these adjustments, so that we
20 had a better reflection of matching of the depreciation
21 to the life of the asset, correct?
22 MS. SANDY BAUERLEIN: You are correct,
23 I would not agree with your characterization. I'm
24 trying to remember the words you used, but --
25 MR. ANTOINE HACAULT: I used -- it was

1 too aggressive.
2 MS. SANDY BAUERLEIN: Too aggressive.
3 It reflects the information that we know at that point
4 in time and our best estimates, and we do a
5 depreciation study approximately every five (5) years
6 and review those assumptions.
7 And again, as my colleagues on the
8 planning and operations panel have indicated, you know,
9 we -- we've come up with some -- some different asset
10 management strategies over the last number of years.
11 And we've managed to extend some of the service lives
12 on those assets, and we reflect those revised
13 assumptions in our depreciation study.
14 MR. ANTOINE HACAULT: And might I
15 suggest to you if the conclusion was that we didn't get
16 it right the last time and we had to shorten the lives,
17 we might have seen a positive number here. But we did
18 our best in 2014 to make sure that we were adjusting
19 the depreciation to do it correctly.
20 Do you agree?
21 MS. SANDY BAUERLEIN: Every study, we
22 adjust our depreciation. I wouldn't characterize it as
23 to do it correctly. We're adjusting again for the
24 information and the facts that we have at that time.
25 MR. ANTOINE HACAULT: And some people

1 might view the need to do a -- a reduction in
2 depreciation as indicating that, in prior years, you
3 were paying too much depreciation.
4 Do you agree that would be a view
5 somebody could have?
6 MS. SANDY BAUERLEIN: Just one (1)
7 moment.
8
9 (BRIEF PAUSE)
10
11 MS. SANDY BAUERLEIN: I'm just
12 wondering, Mr. Hacault, if these discussions would be
13 better suited to the depreciation panel, which I am a
14 member of, but I would appreciate having all of my
15 colleagues here for that discussion.
16 MR. ANTOINE HACAULT: I certainly
17 didn't intend to get into ELG and ASL. That's way over
18 my head, and that debate can occur between Mr. Bowman,
19 Ms. Lee, and Mr. Kennedy.
20 But I thought that you might have some
21 general information or knowledge with respect to these
22 issues, given your position, Ms. Bauerlein.
23 MS. SANDY BAUERLEIN: I do. However,
24 Mr. Kennedy was also involved extensively in our
25 depreciation study. And I'm just not sure where your

1 questioning is going, and -- and I'm just not sure if
2 it -- this might be better addressed with -- with Mr.
3 Kennedy here as well.
4 MR. ANTOINE HACAULT: I can defer those
5 questions to when you've got the full panel. I -- it's
6 just that it was part of your presentation and part of
7 Mr. Rainkie's eloquent presentation that gets repeated
8 on a number of occasions is that we have to look at all
9 of this.
10 And so I was trying to get a sense of
11 all of these changes and -- and how they fit together,
12 and whether, in and of itself, the change in service
13 life made sense. Does it make sense to do it in and of
14 itself?
15 MS. SANDY BAUERLEIN: I think we'll
16 defer that discussion, because you -- then you're
17 getting into the discussion, the merits of the actual
18 depreciation study. And again, Mr. Kennedy was
19 extensively involved with myself on this study. And I
20 would prefer to address the questions, if we're going
21 into that level of detail on the merits of the -- the
22 study and the extension of the lives, with Mr. Kennedy
23 present.
24 MR. ANTOINE HACAULT: Well, let me put
25 the question in a simpler way. Did the Corporation

1 accept the change in service life study and the
2 consequences of that study as shown on slide 51 of
3 Exhibit 52?
4 MS. SANDY BAUERLEIN: Yes. The study
5 and the discussions with the -- the depreci -- in -- in
6 determining the rates for our depreciation study, there
7 was much discussion with the -- I did discuss with many
8 of the fellow -- gentlemen that were here on the
9 operate -- planning and operations panel. Extensive
10 discussions throughout the Corporation with -- with
11 many of the operational staff.
12 As well, the depreciation study and the
13 impacts of that depreciation study, as Mr. Kennedy
14 indicated, have been presented to our board, as well.
15 MR. ANTOINE HACAULT: And this may be
16 stating the obvious but nobody in this hearing, whether
17 it's the Intervenors or the Corporation, is challenging
18 this particular change, correct?
19 MR. DARREN RAINKIE: Mr. Hacault, I
20 think we'll have to hear from the experts that you're
21 bringing in. And joint experts don't think there's a
22 big challenge on -- on the service life side. There
23 was some Information Requests throughout the process
24 but I'm not sure that's a question of Manitoba Hydro.
25 I'm sure your -- your experts will tell us in due

1 course next week if they agree or not.
2 MR. ANTOINE HACAULT: Fair enough. At
3 least I wasn't aware, and if -- now that you're saying
4 you're not aware, well, then at least we're on the same
5 page. Now, there's another major item here:
6 elimination of provision for asset removal.
7 Do you see that, Ms. Bauerlein?
8 MS. SANDY BAUERLEIN: Yes, I do.
9 MR. ANTOINE HACAULT: Remind us again
10 what that means by using, for example, the Pointe du
11 Bois generating station.
12 Why would we have had a number for asset
13 removal, and how does it relate to a facility like
14 Pointe du Bois?
15 MS. SANDY BAUERLEIN: Mr. Hacault,
16 sorry, I -- I think we're starting to go deeper into
17 this whole depreciation study, so I -- I think we'd be
18 better if you would maybe ask those questions of the
19 depreciation panel when they appear before the Board
20 next week.
21 MR. ANTOINE HACAULT: I don't see that
22 as a depreciation item. I think, in fact, we had
23 evidence from Ms. Bauerlein saying that it stood and
24 had its own merits individually from a regulatory
25 aspect. Not at all looking at a depreciation question.

1 (BRIEF PAUSE)

2

3 MS. SANDY BAUERLEIN: Mr. Hacault, I'm
4 definitely no expert in depreciation at all, but I'm
5 advised it's really all tied together. So we'd prefer
6 if these questions be deferred to the depreciation
7 panel.
8 MR. ANTOINE HACAULT: I'll move on.
9 But I don't see it on any depreciation tables
10 otherwise, but if that's your advice, Ms. Fernandes
11 (sic), I guess we'll deal with it that way. As long as
12 I have a chance to ask all of my questions.
13 MS. SANDY BAUERLEIN: That's the
14 intent. Thank you, Mr. Hacault.

15

16 (BRIEF PAUSE)

17

18 MR. ANTOINE HACAULT: Now --
19 THE CHAIRPERSON: Me. Hacault, it's
20 about -- about an hour and a half we've been going. I
21 think maybe we should take a five (5) minute break, and
22 allow you to collect your --
23 MR. ANTOINE HACAULT: Thank you. That
24 would allow me to reorganize my notes. I don't think I
25 have much more --

1 THE CHAIRPERSON: Okay.
2 MR. ANTOINE HACAULT: -- because I
3 would have spent about fifteen (15) minutes or so on
4 this depreciation issue just covering general things,
5 but I didn't think some of these subjects were
6 depreciation. I didn't intend to get into that debate,
7 so that would be useful.
8 THE CHAIRPERSON: Let's stand down for
9 a few minutes, say five (5) minutes. Thank you.
10
11 --- Upon recessing at 3:54 p.m.
12 --- Upon resuming at 4:03 p.m.
13
14 THE CHAIRPERSON: I believe that we're
15 ready to resume the proceedings so I'll turn the
16 microphone over to you, Me. Hacault.
17
18 CONTINUED BY MR. ANTOINE HACAULT:
19 MR. ANTOINE HACAULT: Thank you.
20 Diana, could you please bring PUB-20-3, the Exhibit 20-
21 3 at page 172? Mr. Peters had gone through some of
22 this table which is part of PUB/MH-I-73(a) as in
23 'apple'.
24 And it breaks up the changes as a result
25 of accounting in two (2) groups correctly -- correct?

1 (BRIEF PAUSE)

2

3 MS. SANDY BAUERLEIN: Correct. For
4 OM&A it breaks it between changes under Canadian GAAP
5 versus changes that we're proposing under IFRS.
6 MR. ANTOINE HACAULT: And when the
7 Board was looking at these changes initially it was
8 looking at different projected impacts I'll suggest to
9 you. So let's just take a look at 2014 as an example.
10 Manitoba Hydro is now reporting that the total
11 accounting changes for 2014 under CGAAP is $91 million.
12 Do you see that?
13 MS. SANDY BAUERLEIN: I do.
14 MR. ANTOINE HACAULT: Okay. Now, hold
15 that number for a bit and let's go to page 177 of that
16 same book of documents. Under 2014 what Hydro was
17 estimating would be the total changes was 72 million.
18 Do you see that?
19 MS. SANDY BAUERLEIN: I do.
20 MR. ANTOINE HACAULT: Okay. And if we
21 move on to 2021, still on page 177, we see that
22 Manitoba Hydro was advising this Board that the total
23 impact to ratepayers would remain pretty static. It
24 would go up to $77 million.
25 Do you see that?

1 MS. SANDY BAUERLEIN: I do.
2 MR. ANTOINE HACAULT: Okay. Now, let's
3 flip back to the different story, I would suggest,
4 that's being portrayed to this Board in this rate
5 application.
6 In 2022, the total CGAAP changes are not
7 77 million anymore, are they? They've moved up.
8 MS. SANDY BAUERLEIN: No, I see them.
9 I see them as 99 million.
10 MR. ANTOINE HACAULT: So I know when we
11 talk about changes, we have to find like twelve
12 thousand (12,000) or -- twelve thousand (12,000), see
13 there I'm making mistakes, 12 million, or 13 million,
14 or 14 million.
15 The Board wouldn't have been aware when
16 it approved these rate changes back in 2012 that in
17 fact there would be an additional percentage in that
18 particular year if you take that $12 million difference
19 impact on ratepayers, would it?
20
21 (BRIEF PAUSE)
22
23 MS. SANDY BAUERLEIN: The estimates
24 that we had prepared at the last rate application were
25 based on a couple of -- of significant factors. The

1 mos -- the most significant being the overhead
2 capitalization percentage. And as I went through
3 yesterday, that capitalization -- so while the overhead
4 costs have remained relatively stable, the allocation
5 to capital, again, has shifted, so -- which is again
6 resulting in higher costs now being expensed.
7 The second factor would the the change
8 in our discount rate, again, which Manitoba Hydro,
9 similar to interest rate changes, would have been
10 unable to predict. And we've had significant
11 fluctuations in our discount rate, which have resulted
12 in an increase in costs in our pension and other
13 benefit costs.
14 MR. DARREN RAINKIE: Of course, their
15 finance expense would be reduced for the other side of
16 that, so there's a put and a take here again to
17 consider. Yes, lower interest rates will result in
18 higher pension costs, a higher pension valuation and
19 therefore higher costs.
20 But, of course, we've reduced the
21 interest rate forecast since then, so there would be an
22 offset on that side as well. So interest rates have
23 good and bad impacts to them, sir.
24 MR. ANTOINE HACAULT: But I thought
25 your point, sir, was to look at the accounting changes

1 as a whole. Now you feel that we shouldn't even look
2 at accounting changes as a whole.
3 We have to look at the application as a
4 whole and if there's a further negative impact on
5 ratepayers of $12,000 of total changes, but we can't
6 look at that?
7 MR. DARREN RAINKIE: Well, sir, you
8 asked the -- the impact on customers and I was just
9 taking it to that plane. In terms of what the
10 interplay, the -- the biggest differential for that
11 change is a lower discount rate, which increases the
12 val -- the -- a lower discount rate means that the
13 present value of the pension obligation is higher, so
14 the pension costs will be higher. But in terms of
15 total rates to customers, of course there are now lower
16 interest rates in IFF14 than IFF12, so it's trying to
17 provide a broader perspective.
18 Also we have -- there are O&A changes
19 that you're starting to go through, but then there are
20 depr -- depreciation reductions. So to get to the
21 customer and back -- so you've got to look at all the
22 changes to -- to get that far, sir. I just wanted to
23 make that clear.
24 MR. ANTOINE HACAULT: Thank you,
25 sir. And the point you're making, I guess, is -- now,

1 unfortunately, the Corporation is not capitalizing as
2 much of these costs, so we've got to flow it through
3 the customers based on rates each and every year
4 instead of putting it into a big capital project and
5 spreading it out over a number of years when the
6 projects become more economical?
7 MR. DARREN RAINKIE: No, sir, I was
8 talking about the primary -- primary increase in that
9 line that you noted was -- with Ms. Bauerlein, is the
10 change in the pension and other benefits line in
11 2013/'14, which came after the year end 2013/'14. That
12 number, I think, went from ten (10) up to twenty-five
13 (25). That's the primary difference.
14 That as a result of lower interest
15 rates, because we use interest rates that are
16 prevailing in the marketplace to do the pension
17 valuation. So if we -- if we want to talk about the
18 overall, how does -- how do those types of changes
19 affect customers, of course, there's been a reduction
20 in our interest rate forecasts since IFF12 that kind of
21 goes along with that.
22 So I was trying to be a -- have a clear
23 answer in terms of the overall impact, not leave the
24 impression that that's -- that that phenomena of low
25 interest rates only has one (1) side to it.

1 MR. ANTOINE HACAULT: Yeah. And I was
2 waiting for somebody to come up and say, Hacault, your
3 math is so bad. But nobody from the panel is telling
4 me just like, you know, What's -- the difference
5 between seventy-seven (77) and ninety-nine (99) is
6 certainly not twelve (12), and where did I go to
7 school? But nobody volunteered that. It's 22 million,
8 isn't it?
9 THE CHAIRPERSON: I'll ask the
10 question. Where's the 12 million? I couldn't find it.
11
12 CONTINUED BY MR. ANTOINE HACAULT:
13 MR. ANTOINE HACAULT: Well, what we did
14 is we were looking 2022 total CGAAP changes. The
15 number was 99 million. Diana has put the cursor there.
16 And then we flipped to page 177 and we looked at the
17 total CGAAP changes. You have to scroll more to the
18 right, 2022. A little bit more.
19 Sorry, it was seventy-eight (78), so it
20 was $21 million and not twelve (12). Mr. Hacault's
21 math was terribly bad, but when it's bad, it doesn't
22 get corrected unless I notice it. So I apologize for
23 that math error.
24 We're actually talking some $21 million
25 difference between what this Board was shown as the

1 impact in 2022 and what this Board is now being shown
2 as 99 million instead of 78 million, correct?
3 MS. SANDY BAUERLEIN: I would want to
4 note, though, if I look at this, Mr. Hacault, the
5 overhead capitalized impact under CGAAP for 2022 is $66
6 million. If I look back to our last rate application,
7 for 2022, it was only 68 million doll -- it was $68
8 million. So again, most of the change is not a result
9 of the overhead impact. I was actually looking at the
10 IFRS line, I think, before.
11 It's actually -- as Mr. Rainkie has
12 indicated, it's due to the change in the discount rate
13 would be the primary factor for the overall difference
14 under CGAAP between the last rate application and the
15 current rate application, which, as Mr. Rainkie
16 indicated, would also have a corresponding offset in
17 finance expense, thereby minimizing the overall impact
18 to customers.
19 MR. ANTOINE HACAULT: Okay. Do you
20 need more time to explain or -- that's it? Okay.
21 Thanks.
22 Now, with respect to the projections, is
23 there any certainty that it won't go higher than the 99
24 million which is shown for 2022, which is about when
25 the big bulge hits us? And that's -- I'm -- I'm

1 talking just CGAAP changes.
2
3 (BRIEF PAUSE)
4
5 MR. ANTOINE HACAULT: Can you give any
6 assurance to the Board that when we come back here in a
7 couple of years, it won't be higher than that?
8 MS. SANDY BAUERLEIN: Those changes are
9 based on a level of capitalization of approximately 45
10 percent. Many of the construction projects -- Bipole,
11 Keeyask -- they're now underway. Again, that internal
12 labour has been hired, because again most of them
13 aren't the workforce that actually is pouring the
14 concrete. They're the workforce doing the engineering.
15 So as a result of that, we would not
16 expect that our level of capitalization would
17 significantly change, even though the overall capital
18 expenditures go higher. Those expenditures are really
19 for the material, equipment, and -- and the contractors
20 that are actually constructing those facilities.
21 So the -- the 45 percent, I would assume
22 would be a -- a -- fairly representative of what our
23 capitalization levels will remain at, even though the
24 costs for the overall construction do increase in the
25 latter years.

1 MR. ANTOINE HACAULT: So just to put
2 this in real terms, if I'm explaining to somebody on
3 the street, as of 2022, how much has their rates --
4 have their rates gone up if we did a one (1) time
5 increase to be able to -- to pay this in 2022?
6 MR. DARREN RAINKIE: Well, Mr. Hacault,
7 that goes back to my other point that I'd have to --
8 I'd have to say, Well, how much have -- has interest
9 rates gone down since we produced IFF12? And while I
10 haven't done any calculation, if you ask me would I
11 prefer the tradeoff of lower interest rates on, you
12 know, $11 billion worth of capital projects, or would I
13 prefer that the pension valuation go down a bit and the
14 accounting changes be a little bit lower, I think I'd
15 take the -- the bet on the $11 billion of capital
16 expenditures.
17 I -- I -- you know, I -- I have to
18 explain these items to our board, as well, and audit
19 committee. And every time the interest rates continue
20 to fall, of course, the pension valuation of the
21 obligation goes up, and it looks like we have a bigger
22 pension deficit, and people are concerned about that,
23 of course, as they should be.
24 But in the time when we're making these
25 major capital expenditures, I think I'd still prefer to

1 have lower interest rates, even if that means
2 temporarily the pension deficit looks bigger. I think
3 eventually, the economy will go back to -- revert to
4 mean, and -- and hopefully the pension valuation will
5 come back in line with a low -- with a higher discount
6 rate. But during this intense capital construction, I
7 think I'd take that side of the bet.
8 MR. ANTOINE HACAULT: Thank you for
9 your views, sir. Now, as I understand it, the
10 Corporation has asked -- oh, sorry.
11 THE CHAIRPERSON: Just a question,
12 please. I just want to make sure here, because we're
13 talking about a change in the discount rate, and it's
14 labelled under CGAAP changes. So is that an
15 appropriate header for that?
16 MR. DARREN RAINKIE: Yes, sir. The --
17 the provisions under IFRS are similar to those under
18 CGAAP, that the discount rate that we use for financial
19 reporting purposes is a high grade quality bond. I
20 think I --
21 THE CHAIRPERSON: No, I was simply
22 questioning a bit the -- because you -- what you're
23 describing would be independent of -- you know, the
24 fact that the discount rate changes is independent of
25 CGAAP, it would impact the pension valuations

1 independent of CGAAP changes -- it's labelled as CGAAP
2 changes here.
3 MR. DARREN RAINKIE: I think that's, if
4 I'm understanding your question, sir, just a function
5 of when it happened. It happened under Canadian
6 generally accepted accounting principles. We're not
7 switching to IFRS until '15/'16, so.
8
9 CONTINUED BY MR. ANTOINE HACAULT:
10 MR. ANTOINE HACAULT: And what the
11 Corporation is asking this Board to approve, if we look
12 at 2022 when the big bulge happens, if we compare rate
13 regulation way of presenting things, and a total of
14 accounting changes way of representing things, when the
15 big bulge happens, we have to find, in 2022, $158
16 million is the best guess of this Company.
17 Total OM&A changes, CGAAP, and IFRS
18 under 2022 is 158 million, correct?
19 MR. DARREN RAINKIE: Sir, your question
20 is limited only to O&A, because if you take
21 depreciation expense into consideration, there's
22 actually a reduction to revenue requirements. Scroll
23 down to the bottom of the page.
24 MR. ANTOINE HACAULT: But I wasn't
25 allowed to talk about depreciation.

1 MR. DARREN RAINKIE: Well, I'm -- I'm
2 not talking about the details of depreciation. I'm
3 just trying to inform --
4 MR. ANTOINE HACAULT: I wasn't either.
5 MR. DARREN RAINKIE: -- the Board in
6 terms of the larger picture, which is your question.
7 Your question is: What is the impact on customers?
8 And I'm trying to answer that question, sir.
9 MR. ANTOINE HACAULT: But you do agree
10 with me with respect to total OM&A changes, just from
11 an accounting perspective, we're looking at 158
12 million, and that's about 10 percent in and of itself
13 if we hit that -- at -- at right after the big bulge,
14 and we're asking to pick that up at that time.
15 MR. DARREN RAINKIE: Well, no, sir.
16 The -- the 90 -- $91 million is already in our revenue
17 requirement, and there's a larger offset, so actually,
18 a $22 million decrease at the bottom is a -- probably
19 be at about a 1 percent decrease at that point in 2022
20 on an overall basis.
21 Is -- if that's your question, is that -
22 - are you asking me the impact to customers overall, or
23 are you asking me what the impact is to O&A? Those are
24 two (2) different things.
25 MR. ANTOINE HACAULT: Okay. And I'll

1 venture a little bit into depreciation because you've
2 brought me there. A hun -- if we look down to --
3 MS. ODETTE FERNANDES: Oh, I'm -- Mr.
4 Hacault, I'm sorry. Mr. Rainkie didn't bring you
5 there. He just said that when you look at the entire
6 chart if you go to the bottom there's an actual
7 decrease in revenue requirement for 2022. He did not
8 discuss any specifics with respect to depreciation.
9
10 CONTINUED BY MR. ANTOINE HACAULT:
11 MR. ANTOINE HACAULT: Okay. Well, and
12 part of that number to get to twenty (20) -- that
13 negative number if you go up is only the changes in the
14 service lives for 2010 and 2014. And I thought we
15 agreed that that wasn't an accounting change. That was
16 a change that was made to reflect the proper
17 depreciation because there needed to be an adjustment.
18 Didn't we have agreement on that? So
19 the subtotal for depreciation study changes, which is
20 not an accounting change, is well over a hundred
21 million dollars?
22 MR. DARREN RAINKIE: Sir, these are all
23 accounting estimate changes to -- that's what
24 depreciation changes are. Depreciation is an estimate
25 so they're all depreciation estimate and -- and policy

1 changes, including the depreciation study.
2 MR. ANTOINE HACAULT: Are you
3 suggesting that the extension of service lives was
4 driven by a CGAAP requirement and not by a regulatory
5 requirement to match lives properly?
6 MR. DARREN RAINKIE: Sir, the estimate
7 of service lives is driven by an accounting requirement
8 to base depreciation on the best estimate of the
9 remaining service life of an asset. Up till now in the
10 last twenty (20) or more years of regulation we have
11 accepted depreciation for financial reporting purposes
12 and for rate pur -- rate setting purposes as being one
13 (1) and the same.
14 MR. ANTOINE HACAULT: And if we look at
15 the 2022 number for subtotal depreciation study changes
16 at a credit of $111 million, it's slight lower than the
17 last year, that was part of what everybody has been
18 referring to as a 'rate regulation approach', correct?
19
20 (BRIEF PAUSE)
21
22 MR. DARREN RAINKIE: Sir, I -- I'm not
23 sure I understand what your question is.
24 MR. ANTOINE HACAULT: I'm suggesting to
25 you, sir, that the subtotal depreciation study changes

1 under the 2022 line for a total credit of $111 million
2 would have been done irrespective of what was happening
3 with CGAAP or IFRS. So we had been doing this already.
4 It was what was being done and what has worked well in
5 this jurisdiction for a number of decades as you
6 indicated.
7 Do you agree or disagree?
8 MR. DARREN RAINKIE: I disagree, sir,
9 because we do depreciation studies for accounting
10 purposes for financial reporting purposes. And we have
11 used the same depreciation for rate setting purposes in
12 this jurisdiction.
13 MR. ANTOINE HACAULT: Let's break it
14 down into small pieces. For the last decades we would
15 have continued to do an extension or reduction of
16 service life the same way.
17 That hasn't changed has it, sir?
18 MR. DARREN RAINKIE: Yes, as I think I
19 just said.
20 MS. SANDY BAUERLEIN: A depreciation
21 study is a change in estimate and this reflects changes
22 in accounting policy and estimates over this period of
23 time. I -- I'm not sure if -- so this is accounting
24 policy changes and changes in estimates from the 2009
25 fiscal year go forward. So a depreciation study

1 reflects a change in estimate.
2 MR. ANTOINE HACAULT: Okay.
3 MS. SANDY BAUERLEIN: Which is again a
4 -- an accounting -- a financial requirement -- a
5 financial reporting requirement.
6 MR. ANTOINE HACAULT: And that's what -
7 - these studies would have been done the -- have been
8 done the same way for the last couple decades.
9 Isn't that correct? Looking at the
10 adjustments that need to be made to the lives of assets
11 has been done for the last couple decades in this
12 jurisdiction, correct?
13 MR. DARREN RAINKIE: Yes. We do a
14 depreciation study approximately every five (5) years
15 to satisfy both the requirements of financial reporting
16 and rate setting.
17 MR. ANTOINE HACAULT: And to put a
18 specific example to that, one (1) of the lives that was
19 extended was the generating plant lives that went up to
20 a hundred and twenty-five (125) years.
21 And that was based on the experience --
22 that was what was being done -- adjustments like that
23 were being done for decades, and it wasn't required
24 under some specific new standard to do that.
25 Isn't that correct?

1 MR. DARREN RAINKIE: Well, nor was the
2 -- on the overhead capitalized side, sir, we -- it's an
3 estimate, too. Depreciation's an estimate and so is
4 over -- overhead capitalized. So you take the best
5 information you have at the time and revise your
6 estimates. That's why we call it a change in
7 accounting estimate.
8 MR. ANTOINE HACAULT: But we are agreed
9 that for the last decades this is what we would do on a
10 regular basis.
11 It's not something new that we're asking
12 this Board to do, correct?
13
14 (BRIEF PAUSE)
15
16 MR. DARREN RAINKIE: Yeah. As
17 indicated, we do depreciation studies every five (5)
18 years historically.
19 MR. ANTOINE HACAULT: Okay. Thank you.
20 MR. DARREN RAINKIE: This -- this table
21 is designed to show all of the accounting estimate and
22 policy changes that are both going back a number of
23 years and going forward on a prospective basis.
24 MR. ANTOINE HACAULT: Thank you for
25 trying to answer that question, sir. With respect to

1 the position of the Corporation that we have to manage
2 within the 3.95 percent evel -- even annual increases,
3 can you say for example, if we found $50 million, which
4 we could postpone after the big bulge, how much impact
5 that might have firstly on income?
6 MR. DARREN RAINKIE: Sir, are you
7 asking if we threw out a particular number in a -- in a
8 particular year, if one could back calculate a
9 different number than three point nine five (3.95)? Is
10 -- is that what your question is?
11 MR. ANTOINE HACAULT: No, no. I just
12 want to have a sense because we had a discussion in the
13 -- the planning and operations people, you know, that
14 there had been six (6) capital project justification
15 sheets for Bipole III. All of them proceeded on a
16 2,000 megawatt project, and all of a sudden, from our
17 client's perspective, out of the blue, we decide to
18 spend another $50 million to upgrade it to 23 -- 2,300
19 megawatts.
20 And I'm trying to get a sense with
21 respect to that discretionary disc -- decision that the
22 Corporation made what the financial impact of doing
23 that is for the next ten (10) years when it fully knows
24 we're going to hit a big bulge in 2019, 2020, in that
25 area?

1 MS. LIZ CARRIERE: Mr. Hacault, if you
2 look at Appendix 3.6, the table of sensitivities, yeah,
3 the -- it shows a sensitivity where we have either $50
4 million up or down in every year starting in '15/'16.
5 And that has an impact over ten (10) years of about 200
6 million.
7 You can see in the -- as of 2016/'17,
8 two (2) years of that. So $100 million has a $7
9 million impact for two (2) years on net income.
10 MR. ANTOINE HACAULT: Okay. So that
11 this discretionary decision made by Manitoba Hydro
12 which was inconsistent with six (6) previous project
13 justifications is going to cost ratepayers
14 approximately $7 million in two (2) years -- or three
15 (3) years after it's put into service?
16 MS. LIZ CARRIERE: I'm not sure what
17 you're referring to.
18 MR. ANTOINE HACAULT: We've agreed that
19 there was a discretionary additional spending to
20 upgrade from 2,000 megawatts to 2,300 megawatts of $50
21 million, agreed?
22 MS. LIZ CARRIERE: On what?
23 MR. ANTOINE HACAULT: On Bipole III.
24 MS. SANDY BAUERLEIN: Ms. Carriere
25 wasn't in attendance for the planning and operations

1 panel, and I believe that's where that discussion took
2 place.
3 MR. ANTOINE HACAULT: Yes, but you were
4 and Mr. Rainkie were there, so this panel presumably
5 could agree that there was a discretionary decision to
6 spend another $50 million on Bipole III?
7 MS. SANDY BAUERLEIN: I would not have
8 characterized it as a discretionary decision. It was a
9 business decision based on the economics, based on
10 looking at the requirements. And I believe Mr. Elder
11 addressed that in the planning and operations panel.
12 MR. DARREN RAINKIE: Mr. Hacault,
13 perhaps with this table, before this table comes down,
14 so as Ms. Carriere's indicated, this sensitivity was
15 spending an extra $15 million on capital a year for ten
16 (10) years. And if you look at the far right column,
17 that would cha -- that -- so an extra 50 million for
18 ten (10) years is -- would change the 395 percent rate
19 increases up by .26 percent. So if we just had one (1)
20 $50 million change and we divide it by ten (10), I
21 think you might be looking at that differential as the
22 difference between 3.92 percent rate increases and the
23 3.95 percent rate increases in terms of you wanted to -
24 - I think your original question was a quantification
25 for your clients.

1 So given that we're asking for 42
2 percent in the nex -- or forecasting a request of 42
3 percent rate increases with 100 percent cost of service
4 in the next ten (10) years, I -- I don't think that
5 point zero three (.03) basis points a year is a -- is a
6 material amount.
7 MR. ANTOINE HACAULT: But you've made
8 one (1) $50 million decision. We're adding $100
9 million in each year, so that adding $100 million in
10 each year, accumulatively across that time period is
11 about point five (.5) of a percent then, correct?
12 Because we're capital up by 50 million.
13 If we spend capital up by 100 million,
14 don't we just double the rate increase? So that's 1/2
15 a percent.
16 MR. DARREN RAINKIE: Okay. Sir, are
17 you -- we have to slow down here, I think. I was
18 interpolating ten (10) years of 50 million and dividing
19 the impact by ten (10) and saying that that would be a
20 point zero-three (.03) difference in the 3.95 percent
21 rate increase. It's just using some rough math, and
22 the rough -- back of the napkin math, as we say, sir.
23 MR. ANTOINE HACAULT: Yeah, and we --
24 MR. DARREN RAINKIE: And suddenly we're
25 at $100 million a year for ten (10) years. Those are

1 two (2) different things.
2 MR. ANTOINE HACAULT: Yeah. I -- I
3 agree they're two (2) different things, and I started
4 with that and I'll finish with that. We're proposing
5 to add sustaining capital to the tune of $100 million a
6 year for the first couple years, leading to the bulge,
7 correct? That's on MIPUG-10-3.
8
9 (BRIEF PAUSE)
10
11 MR. ANTOINE HACAULT: Quite frankly,
12 that was a -- my numbers, I think, come from CEF12, not
13 CEF13.
14 MR. DARREN RAINKIE: Let's -- let's
15 just -- I'll accept that and let's -- let's move on to
16 the -- the point of the --
17 MR. ANTOINE HACAULT: Yeah --
18 MR. DARREN RAINKIE: -- question, sir.
19 MR. ANTOINE HACAULT: -- so for a total
20 of $2 billion. I know it's not exactly $100 million a
21 year, but that's where notionally, I picked it up.
22 So at $100 million a year, I know it's
23 back of the napkin, but you said $50 million a year is
24 a .26 percent, correct?
25 MR. DARREN RAINKIE: For ten (10)

1 years, sir. That was a ten (10) calculation. We
2 haven't ran this calculation out twenty (20) years, so
3 I'd have to -- to think whether we can simply double it
4 or not.
5 MR. IAN PAGE: Mr. Hacault, the -- the
6 numbers on the screen are -- are quite different than
7 100 million a year. They're -- you know, I would -- I
8 would interpret that as 40 million a year for ten (10)
9 years, and then 160 million a year after that, and
10 that's going to give you quite a different effect.
11 That 40 million a year would be similar to what's his
12 number that -- that Ms. Carriere had given you.
13 And -- and like, to -- I think just
14 about everything I've said -- I've said in this -- in
15 this hearing, is that you have to look at both sides of
16 this. Again, if -- if you defer capital expenditures,
17 what's the implication for that? And so that all --
18 has to also be recognized. So we -- we -- again, like
19 just about everything on -- in our application, you
20 can't look at it in isolation. You have to look at
21 what -- what the implications are of every decision
22 that we make, and that's one (1) of the -- the
23 challenges of managing -- managing a utility is always
24 having to look at -- at all of the implications and
25 looking at both sides.

1 MR. ANTOINE HACAULT: Thank you, and I
2 think the Corporation has said that they're going to do
3 more analysis and try to better understand that, and
4 try to better understand how they can prioritize and
5 pace.
6 Isn't that correct?
7 MR. IAN PAGE: I -- I wasn't here at
8 the time a statement was that -- like that was made. I
9 wasn't here.
10 MR. ANTOINE HACAULT: But isn't that
11 correct, Mr. Rainkie or Ms. Bauerlein?
12 MR. DARREN RAINKIE: Well, one (1) of
13 our key principles in Manitoba Hydro is continuous
14 improvements, so, yes, we will -- will -- we always
15 strive -- every person on every one of our panels will
16 strive to do a better job with the information that we
17 have.
18 I might also add, sir, that -- in terms
19 of providing the fuller perspective, there is quite a
20 deterioration in net income between the IFF14 and IFF13
21 forecast, and Manitoba Hydro is going to do its best to
22 maintain the 3.95 percent.
23 So you can always do one-off
24 calculations, and -- on any particular sensitivity, but
25 once again, if -- if -- the notion as well, you could

1 have lower rate increases if you just take one (1)
2 variable and calculate it, that's looking at things in
3 isolation of the -- all the moving parts, as Mr. Page
4 just indicated.
5 MR. ANTOINE HACAULT: And, sir, that's
6 exactly the point. When you heard the member Canexus
7 presenting, he said he wouldn't have the discretion of
8 passing it on to his customers, and getting approved
9 increases of 3.95 percent. He would have to cut costs,
10 and have to defer spending.
11 Has Hydro, and I've asked you this in
12 the opening statement and you weren't sure, actually
13 run a model, say, for example, at 3 percent as to what
14 it would have to cut -- cut -- how it would have to
15 pace and prioritize to do that so that customers don't
16 get hit with 4 percent, and then have to make decisions
17 as to whether or not it's going to be a plant in
18 another country that's going to be doing chlorates?
19
20 (BRIEF PAUSE)
21
22 MR. DARREN RAINKIE: Sir, we have -- we
23 have an undertaking to provide that, and it's going to
24 be quite sensitive. The level of capital is going to
25 be quite sensitive, but no disrespect to your clients,

1 but we have an essential service to maintain here.
2 So there is no other choice for us,
3 other than to keep the system reliable. We are not a
4 for-profit organization. We can't decide just to shut
5 a plant because it's not profitable, and move off, and
6 five (5) years later when the market comes back, re-
7 establish a plant. We're not -- we're not a big box
8 store or anything like that.
9 I'm not trying to be disrespectful to
10 your clients, but the information that we have at the
11 Corporation in terms of our spending to keep safe and
12 reliable service is -- is what you see in the forecasts
13 before you. I can -- I can crank out a thousand
14 different scenarios that would give lower rate
15 increases, or higher rate increases, for that matter.
16 This is our best estimate of what we
17 need to spend, and I think -- you know, I think it's --
18 it's -- as we go through this in -- in finer detail
19 over the years, it's probably towards the more minimum
20 end of the range, not the -- not the -- the top end of
21 the range that -- that the folks that take care of the
22 assets would indicate we need to invest. So I don't
23 know. I -- I guess we look at it differently.
24 We look at it, as I said yesterday, as a
25 -- upping the investment so that everyone, including

1 your clients, can have a safe, reliable power system
2 for the future. We are in a -- in a good position.
3 Let's not squander it.
4 MR. ANTOINE HACAULT: So -- but is it
5 fair to suggest, sir, that in weighing that, the
6 Corporation should be weighing whether or not in doing
7 so it's going to drive away a $60 million revenue base
8 which pays more than its exports at its present time.
9 MR. DARREN RAINKIE: Well, sir,
10 Manitoba Hydro always wants to be part of the solution
11 in terms of industry in this province. And I would
12 suggest to you that we have. I suggest to you that our
13 actions, the system that we've built, the way we've
14 brought about gradually increasing our rates has
15 contributed to a very favourable situation and is the
16 very reason that some of these industries are in
17 Manitoba as one (1) of the representatives of your
18 client indicated. They came here for the cheap power.
19 So I think we've -- we've done our side
20 of the equation. We're simply indicating what we need
21 to do to keep -- keep the -- the power flowing. If
22 your client doesn't have the power then they won't be
23 here either. So, you know, we -- we can't be flippant
24 about the reliability side of this.
25 MR. ANTOINE HACAULT: I wasn't

1 intending to be flippant, but thank you very much, sir,
2 for your comments and your insight and thank you very
3 much to the panel for having done its best to answer my
4 questions. And thank you very much to the Board for
5 its patience also. Those are all my questions.
6 THE CHAIRPERSON: Merci, Me. Hacault.
7 I do have some questions that -- that Me. Hacault did
8 not pursue. And this is in relation to the mechanis --
9 the mechanisms that are in place to oversee the
10 evolution of the major capital projects that you're
11 undertaking. And I -- and I think I would be seeking
12 some assurance that -- that there would be adequate
13 controls in place to ensure that, A) the project comes
14 in under budget; and B) it comes in on time. And I
15 guess you indicated there's a multitude of reports and
16 so on, but at the end of the day, you know, we need to
17 have some assurance that the oversight is adequate to -
18 - to the scale and the magnitude of those projects.
19 And so could you address that please?
20 MR. DARREN RAINKIE: Sure. It's a
21 shame that we didn't have Mr. Barrett (phonetic) here
22 who recently re -- recently retired from Manitoba
23 Hydro. He was an ex-BC-Hydro employee and had various
24 other employment. He has instituted a real control
25 budget structure. I think we went through a lot of

1 this at -- at NFAT, the various lessons learned from
2 the Wuskwatim project and the various controls that
3 we've put in place from those lessons and from other
4 best practices across the -- across the industry.
5 You know, we -- they've -- they've
6 changed contracting practices in terms of qualifying
7 contractors. They've looked at different -- different
8 aspects of contracting, design build, those -- those
9 types of things. Mr. Barrett was instrumental in
10 making a lot of changes in terms of the project
11 services departments that work within -- there's --
12 there's an actual mini-finance department, if you like,
13 that works within the major capital projects business
14 unit. It's both a -- a finance area and a -- and an
15 administrative area.
16 So we've -- we've -- I probably can't do
17 justice to it on the fly here, but -- sir, but we have
18 significantly bolstered our internal structure. We've
19 dedicated a vice president to -- to these major
20 projects. You might ask in an era where -- where we're
21 reducing staff why we added a vice president. That
22 question's been asked of Mr. Thomson many times and his
23 answer is fairly simple. Would you not want one (1)
24 individ -- would you want one (1) individual, you know,
25 being involved with twenty (20) different divisions

1 across the Corporation or would you want one (1)
2 individual there managing and having oversight over,
3 you know, over $11 billion worth of projects?
4 So we have made quite a -- quite a few
5 changes in our org structure over the last -- last
6 period. It's a shame we didn't have this question when
7 some of the engineering folks were here because I think
8 they could have probably filled in some of the de --
9 the details for you, sir. We certainly could -- could
10 bring some of that information back if you're so
11 inclined.
12 THE CHAIRPERSON: That would be useful
13 I think if you did.
14 MR. DARREN RAINKIE: Sure. To -- to --
15 I'll state it for the record. Manitoba Hydro will
16 summarize the organizational and control changes that
17 it's undertaken with respect to the major capital
18 projects.
19
20 --- UNDERTAKING NO. 44: Manitoba Hydro to summarize
21 the organizational and
22 control changes that it's
23 undertaken with respect to
24 the major capital projects
25

1 THE CHAIRPERSON: Now, I just want to
2 clarify with you as well the extent to which the
3 executive committee and the Board exercises oversight
4 under its major capital projects.
5 I guess my question is: How often do
6 you report to the board, for example, on the evolution
7 of those projects from a cost perspective and a time
8 perspective? You know, is the Board regularly
9 appraised (sic) of what's going on with those projects?
10 MR. DARREN RAINKIE: Yes, sir. The
11 Manitoba Hydro Electric Board meets nine (9) times a
12 year, so it's not a quarterly meeting. It meet nine
13 (9) times a -- nine (9) times a year. Each -- each
14 month there's a report from each of the business units,
15 including the major capital projects business unit,
16 which is where the big projects fit under, as I just
17 mentioned.
18 And there are reports on that business
19 unit on the progress, the challenges, the issues, the
20 risks of the projects, where they are in terms of their
21 -- their costs versus the -- the budget. So that's a -
22 - that's a business unit reporting every month to the
23 board.
24 And then up and above that, of course,
25 we have the regular financial reporting. We have a

1 capital expenditure report that looks at actual versus
2 budgets, as most corporations do. So we -- so there is
3 -- and there are from time to time presentations to the
4 board of directors on a number of issues in terms of
5 the risks and issues.
6 Employment, retraining staff, attracting
7 staff to those projects because one (1) of the major
8 risks, as Mr. Bowen I think indicated, is actually
9 having people and getting them to stay in northern
10 Manitoba. So there's presentations on those.
11 Major contracts over $50 million, and
12 there's a lot of them in the major projects, go to the
13 board. So they get a summary recommendation of all the
14 contracts and who -- who bid, are we accepting low
15 bids, what were some of the issues in terms of the
16 bids, in terms of evaluation. They get evaluation met
17 -- matrices of the various criteria, both qualitative
18 and quantitative, in terms of the bids.
19 So there is -- there's lots of
20 information flowing to our board on these projects,
21 sir, given their importance.
22 THE CHAIRPERSON: What would trigger
23 oversight, enhanced oversight, in relation to a
24 project? You know, what would trigger more management
25 scrutiny or board scrutiny of a project?

1 MR. DARREN RAINKIE: Well, certainly
2 one (1) of the concerns is -- and we're fairly early in
3 these projects -- is -- is the contingency,
4 contingencies that have been included in the budget and
5 -- and whether or not -- well, I guess there's --
6 there's two (2) things. Sorry. I should back up.
7 The first thing is what my previous
8 witnesses were talking about. And obviously, when the
9 major bids come in, looking at them, looking at what
10 those bids are versus what we had originally estimated.
11 And then of course that flows into as
12 well looking at contingencies. The thing that would
13 concern us the most is we start chewing into those
14 contingencies early on in the project.
15 So those are -- those are the -- the
16 major contracts. And -- and the other thing would be
17 the employment issues, retaining -- attracting and
18 retaining the -- the appropriate craft labour, as the -
19 - as the engineers say. I'm not sure -- quite sure
20 what that term means, "craft labour", but I've
21 interpreted it in my own way.
22 But that is a major concern is -- is
23 being able to attract people to come up north, work on
24 these projects, and stay so that we can get the right
25 productivity on the project.

1 That's huge because in the end these
2 things don't build themselves, obviously. They require
3 thousands of workers. At its height, Keevask is
4 expected to have two thousand (2,000) working on the
5 project. So -- so we're constantly looking at those --
6 those types of equations.
7 And those are probably the three (3)
8 biggest triggers are -- is -- is major -- major parts
9 of the contract, contingencies and where we're at with
10 their usage, and what's happening on the labour front,
11 up and above just the overall where are we at in the
12 budget. I mean, that's an obvious one, but those are -
13 - those are probably, from my perspective anyway, the
14 three (3) or four (4) major areas.
15 THE CHAIRPERSON: Those -- Mr. Peters,
16 please?
17 MR. BOB PETERS: Thank you, Mr.
18 Chairman. Before you close today, I just thought I
19 would put on the record the -- the process for
20 tomorrow, as I know some people are following the
21 transcript from afar.
22 Thanks to the good efforts of associate
23 secretary Simonsen, we are tracking favourable to the -
24 - to the time line. And tomorrow morning at 9:00 a.m.,
25 Green Action Centre's counsel, Mr. Gange, will be on

1 the microphone. He will be followed by Mr. Orle and
2 Mr. Masi. And without putting too much pressure on
3 them, but relying on the time estimates they've given,
4 we can expect their questions to be concluded at
5 approximately coffee break in the morning.
6 And following coffee break in the
7 morning Ms. Fernandes intends to seat her -- the
8 Manitoba Hydro DSM panel, rate panel, and load forecast
9 panel. And they will be going through the direct
10 presentation in a similar fashion where they have the
11 PowerPoint slides to review with the -- with the Board.
12 Now, that said, Mr. Chairman, that puts
13 us perhaps a little bit ahe -- ahead of schedule. And
14 some people might value a Friday afternoon more than a
15 Tuesday afternoon, so if the Board is satisfied after
16 hearing the DSM panel tomorrow, that may be the end of
17 the day and we'll -- we'll leave that to the Board to -
18 - to get back to us on and see how the day rolls out,
19 but that's an option that's available. Thank you.
20 THE CHAIRPERSON: Thank you, Mr.
21 Peters. With that I think we're -- we'll adjourn for
22 the day and we'll see each other tomorrow morning.
23 Have a good evening.
24
25 (PANEL RETIRES)

1 --- Upon adjourning at 4:53 p.m.
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6 Certified correct,
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11 Bob Keelaghan, Mr.
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