MANITOBA PUBLIC UTILITIES BOARD

Re: MANITOBA HYDRO

COST OF SERVICE STUDY REVIEW

INTERVENOR WORKSHOPS

Before Facilitator: Bill Grant

HELD AT:

Public Utilities Board

400, 330 Portage Avenue

Winnipeg, Manitoba

June 23, 2016

Pages 736 to 1005

1 APPEARANCES

2	Regis Gosselin	)PUB Board
3	Marilyn Kapitany	)
4	Larry Ring	)
5	Hugh Grant	)
6	Sven Hombach	)Board Counsel
7	John Athas	)Board Consultant
8	Brady Ryall	)Board Consultant
9		
10	Kelly Derksen	)Manitoba Hydro
11	Odette Fernandes	)
12	Janelle Hammond	)
13	Michael O'Sheasy	)
14		
15	Antoine Hacault	)MIPUG
16	Patrick Bowman	)
17		
18	Byron Williams	)Consumer Coalition
19	Alex Nisbet	)
20	William Harper	)
21		
22	Bill Gange	)Green Action Centre
23	David Cordingley	)
24	Paul Chernick	)
25		

1 APPEARANCES (Cont'd)

2

3 Christian Monnin)GSS/GSM Group

4 Jarome Leslie)

5 Ian Chow)

6

7 Denise Pambrun)City of Winnipeg

8 John Todd)

9

10 Terrance Delaronde)Manitoba Metis

11)Federation

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1 --- Upon commencing at 9:00 a.m.

2

3 THE FACILITATOR: Well, good morning,

4 everyone. It looks like most everybody's here. Today

5 we're starting with the General Service presentation.

6 Look forward to that. And so would we do the swearing

7 in before the presentation? I guess so. And then on

8 to the presentation for you guys. Thank you.

9 MR. CHRISTIAN MONNIN: If I may, I

10 might -- after the swearing in, I just have a few

11 opening words, just to do some preliminary things.

12 Thank you.

13

14 JAROME LESLIE, Sworn

15 A.J. GOULDING, Sworn

16 IAN CHOW, Sworn

17

18 MR. CHRISTIAN MONNIN: Thank you. And

19 just for the record, on June 10th, on behalf of the

20 GSS and GSM customer class, a report was filed. And

21 that should be GSS/GSM Exhibit number 6.

22

23 --- EXHIBIT NO. GSS/GSM-6: Report from GSS and GSM,

24 filed June 10th, 2016

25

1 MR. CHRISTIAN MONNIN: And the
2 presentation slide deck which was circulated this
3 evening and hard copies circulated this morning should
4 be GSS/GSM Exhibit number 7.
5
6 --- EXHIBIT NO. GSS/GSM-7: Presentation slide deck
7 and hard copies
8
9 MR. CHRISTIAN MONNIN: I'm not going
10 to address the credentials of London Economics
11 International. Those can be found in -- in GSS/GSM
12 Exhibit number 6.
13 To my immediate left is Mr. Jarome
14 Leslie who'll be carrying most of the weight this
15 morning. However, there's also A.J. Goulding and Ian
16 Chow who may chime in from time to time to answer some
17 questions.
18 At this time, I'd like to also take
19 this opportunity to welcome Mr. -- Mr. Ring, a new
20 member of the Board.
21 And also I'd like to identify Mr. Ron
22 Kowsloski (phonetic) in the back who's here on behalf
23 of the Canadian Manufacturers and Exporters, Manitoba
24 Division, who's one (1) of the stakeholder groups, in
25 addition to the Manitoba Hotel Association and BOMA

1 who we've been liaising with in order to move forward
2 with the GSS/GSM customer class issues.
3 Subject to any questions or comments,
4 I'll now pass the torch over to Mr. Leslie.
5
6 (BRIEF PAUSE)
7
8 MR. CHRISTIAN MONNIN: The question
9 was asked: Are there copies of the presentation? I'm
10 fresh out, but if someone is willing to share with
11 member -- Board member Kapitany, I'd -- I'd be most
12 welcome.
13 BOARD MEMBER KAPITANY: Thank you.
14 MR. CHRISTIAN MONNIN: Now that's
15 collaboration. Thank you very much.
16
17 PRESENTATION BY GSS/GSM:
18 MR. JAROME LESLIE: Thank you, Bill.
19 Thank you, Christian. Good morning all. I'd like to
20 jump right into the presentation.
21 As we all know, we have -- LEI has been
22 retained to represent the interests of Manitoba
23 Hydro's General Service Small and Medium customer
24 classes in this review of their cost of service
25 methodology.

1 And in so doing, LEI would have
2 analyzed the related -- or design cost of service
3 issues with respect to the perspective of GSS and GSM
4 customers, and it would have proposed our amendments
5 and recommendations and our evidence to the existing
6 Manitoba methodology.
7 And this would be towards improving its
8 align -- general alignment with asset and rate-making
9 principles. And we believe, with these amendments,
10 that with cost service methodology, Hydro would be
11 consistent with wider industry practice.
12 Now, in terms of the key issues that
13 we've identified, in our view, we've deemed that these
14 were specifically important to GSS and GSM customers,
15 and we'll focus our evidence on these topics, the
16 first being the allocation of fixed costs to export
17 sales, second being the allocation of net export
18 revenue, third being the treatment of demand --
19 demand-side management costs, fourth, revenue cost
20 coverage issues.
21 And this slide essentially presents a
22 summary of Hydro's proposals in status quo versus
23 LEI's recommendations on how these should be adjusted.
24 And I'll go through sequently and touch on each of
25 these issues.

1 Moving forward, I'd like to start with
2 the issue related to the allocation of fixed costs to
3 the export class. And in Manitoba Hydro's proposed
4 approach, fixed costs are essentially assigned to 50
5 percent of export sales, and this would be essentially
6 representing the dependable share of exports. And
7 whereas with regard to opportunity sales, this portion
8 of sales would pick up only the variable portion of
9 costs.
10 And we disagree with this approach
11 based on previous statements made by Hydro in the
12 course of the series of workshops in this proceeding,
13 and also going back to the need for an analysis to
14 Manitoba's Hydro's Preferred Development Plan, where
15 Hydro has acknowledged the influence and role that
16 opportunity exports have played in the decision to
17 advance generation investments.
18 More specifically, in the NFAT, Hydro
19 assumes that all surplus electricity can either be
20 sold as either long-term firm energy, or as on or off-
21 peak opportunity sales. Based on the fact that this
22 justification was used in the decision to advance this
23 generation, we believe that on this basis, opportunity
24 export should therefore pick up a -- a portion of the
25 fixed costs related to these investments.

1 Now, on this slide we show a breakdown
2 of historical and forecasted dependable and
3 opportunity exports, and the key point here is to note
4 the case that we -- to some degree, we see base level
5 consistency in the amount of opportunity exports
6 observed over the time frame.
7 And when viewing the total exports
8 volume as compared to the level of dependable exports,
9 we see that at its lowest point, it still has been
10 significantly higher than the portion of dependable
11 export sales. And this relates to our point that a
12 portion of export -- of opportunity export sales can
13 therefore be considered reliable, and so should pay a
14 portion of fixed costs.
15 And this takes me into our approach of
16 how we decide what share of exports should be
17 allocated with these fixed costs. And what we've
18 looked at here is the average total exports, and as it
19 relates to the variation around the volumes of exports
20 seen, and we implement the two and a half (2 1/2)
21 standard deviations that we observe that with
22 reasonable confidence in any given year. We can
23 expect export volume sales to be above this -- this
24 boundary. And this is equivalent of assigning 66
25 percent -- or attributing fixed cost to 66 percent of

1 total exports.

2 And bringing this back to Hydro's

3 language, and this is equivalent of dependable exports

4 continuing to pick up their portion of embedded

5 generation and transmission costs, so inclusive fixed

6 cost, and also the additional 16 percent now being

7 assigned to opportunity exports. And this, we

8 believe, is the -- an appropriate amount of fixed

9 costs to be allocated to this class of exports.

10 Now, I'd like to go onto our second key

11 issue, which relates to the allocation of net export

12 revenue. Now, this issue would have came up out of

13 apparent discrepancy between the language used by

14 Hydro in their cost of service methodology. For

15 instance, the approach apparent from the model.

16 And what I mean by that is that within

17 the cost of service methodology, Hydro states that

18 allocation of net export revenue is based on shares of

19 total costs for each customer class. However, from

20 the model, and also from discussions through the

21 course of these workshops, Hydro's made the

22 clarification that this is instead based on the share

23 of allocated costs.

24 And we disagree with this approach,

25 because the exclusion here of direct costs from the

1 allocation of net export revenue isn't consistent with
2 the principle of fairness. And on that point, this
3 relates to the fact that some customer classes by
4 nature would have smaller portions of directly
5 assigned costs -- assigned to their overall cost
6 responsibility, and would therefore be benefiting from
7 more favourable shares of net export revenue as
8 compared to other classes, which by their nature,
9 would carry a -- larger portions of direct costs in
10 their overall cost responsibility.
11 And we believe that this approach
12 should be replaced by a hol -- a more holistic measure
13 of total costs, which essentially ties back to what
14 Hydro was initially trying to say in their
15 methodology, to do it on the basis of total cost,
16 inclusive of allocated and direct costs.
17 And in -- in essence, this represents
18 the full amount that each customer class contributes
19 to the meaning of Hydro's revenue requirement. And
20 that -- that's why I believe this is the more
21 equitable approach to take in the allocation of net
22 export revenue.
23 Thirdly, this relates to the treatment
24 of DSM costs. And under Hydro's proposed approach,
25 these would be directly assigned to customer classes.

1 And we disagree with this approach for two (2)
2 reasons.
3 First is because DSM in and of itself
4 provides system-wide benefits through the reduction of
5 peak demand costs. And this reduction of costs is
6 attributable to all repairs. And therefore, as they
7 all benefit, this could be seen as a public good.
8 And on this basis, we believe that
9 since all repairs benefit from this, they should also
10 be allocated the costs associated with these programs.
11 Second, direct assignment essentially
12 penalizes participating classes for providing a
13 system-wide benefit, as it reduces -- or counteracts
14 the incentives that Hydro offers in the first place.
15 And on that point, we believe that DSM
16 rather should be allocated through cost of service,
17 and I believe we -- on this matter, we are in
18 conceptual agreement with the argument before by the
19 Coalition. However, in our view, as peak demand is
20 the primary driver for the need of the DSM programs in
21 the first place, therefore, these costs should be
22 allocated on this basis.
23 And by that rationale, we propose the
24 2CP allocator, or D14 from the model. That, we
25 believe, would be most representative of the -- of

1 matching the drivers of the cost of DSM to how it's
2 allocated to all customer classes.
3 Lastly, on matters of revenue cost
4 coverage, here we again raise the point of the
5 situation that general service small classes are at an
6 -- above the -- the flying zone of reasonableness, and
7 we again underscore that this is something that the --
8 we'll seek to rectify at the next general rate
9 application.
10 And I won't go much further into -- to
11 this matter. And I'd like to conclude my presentation
12 and open the floor for questions from all parties.
13 Thank you.
14 BOARD MEMBER KAPITANY: Mr. Leslie,
15 could I ask a question just before you go on? It's on
16 slide 8.
17 MR. JAROME LESLIE: Sure.
18 BOARD MEMBER KAPITANY: So I think I
19 heard you say opportunity export sales should pick up
20 a share of fixed costs?
21 MR. JAROME LESLIE: Yes.
22 BOARD MEMBER KAPITANY: But then here
23 you're saying 66 percent of total export sales should
24 be considered dependable. I'm just -- I'm not clear
25 where you're saying what should be assigned to the

1 opportunity sales.

2 Could you just over that again? I

3 might just have missed your point.

4 MR. JAROME LESLIE: Right. In regards

5 to this point, it's -- this essentially could be

6 viewed as treating 66 percent of costs as dependable

7 based on how Manitoba Hydro applies its cost of

8 service approach in the sense that dependable exports

9 carry full embedded costs.

10 However, given that under Hydro's

11 defined split of opportunity to dependable, since it's

12 50:50, it's -- an alternative way of framing this

13 point would be that the additional 16 percent over and

14 above the 50 would be coming from their current

15 definition of -- of opportunity export sales.

16 So it's relatively same -- making the -

17 - the same point just in terms of -- and just

18 different in the way of how the -- it's framed.

19 BOARD MEMBER KAPITANY: Sixty-six

20 percent are dependable. Thirty-four percent are then

21 opportunity sales?

22 MR. JAROME LESLIE: It could be viewed

23 in that way as to -- to keep the -- to be consistent

24 with the -- the approach of assigning fully embedded

25 to dependable and only variable to opportunity, so in

1 that sense, yes.

2 BOARD MEMBER KAPITANY: Okay. Thank

3 you.

4 BOARD MEMBER GRANT: Could I pile on

5 here while -- before I...? Just two (2) points for

6 clarification. On page 10, can you give me this

7 public good argument? Because I really don't follow

8 how DSM is a public good.

9 MR. A.J. GOULDING: Thanks. We

10 appreciate the -- the question. If -- if we think

11 about a public good as something that all people -- or

12 all consumers benefit from and that is difficult to

13 otherwise carefully allocate the -- the additional

14 benefits to.

15 So, for example, we talk about a public

16 good being something that has strong positive

17 externalities and that is more difficult to isolate in

18 terms of who pays for it.

19 In this particular case, what we're

20 looking at is that the benefits of demand-side

21 management accrue to particularly customers that have

22 a substantial amount of peak load so that the peak is

23 shaved. The peak being the most expensive part of the

24 overall cost.

25 And, consequently, the view is that all

1 customers should pay for this because all customers,
2 in some sense, provided they contribute to peak load,
3 are attaining a benefit.
4 So, you know, we -- we might not think
5 of this as being quite the same as, let's say, the --
6 the public good that comes from the environmental
7 benefits that a forest provides, for example. But,
8 nonetheless, the -- the benefit is diffuse even though
9 the costs are granular.
10 BOARD MEMBER GRANT: And, sir, I just
11 want to thank you for that. And just to clarify the -
12 - your summary chart which compares the status quo,
13 just the last point just so I make sure I understand
14 the argument. So you're saying currently the RCC for
15 GSS customers is above the zone of reasonableness.
16 Are you suggesting that -- so there's
17 two (2) potential things that go on, you redo the cost
18 of service analysis. When you say, "correct in
19 subsequent rate applications," are you suggesting
20 that, if you redid the cost of service along the lines
21 that Hydro's suggesting, that then you would still be
22 outside the zone of reasonableness? Have you run
23 that?
24 MR. JAROME LESLIE: Oh, to answer your
25 question -- I'm sorry. To answer your question, as

1 you said, there are two (2) parts. The cost of
2 service will -- well, adjustments to the cost of
3 service methodology would invariably change RCCs.
4 However, the rate design portion of the overall rate
5 making process is where, essentially, the corrections
6 or -- would be largely made, so.
7 BOARD MEMBER GRANT: But -- but my
8 question is: Would you -- if you -- if you ran -- if
9 you did what Hydro's suggesting to do with cost of
10 service and you ran that projection, would the GSS
11 still be outside the zone of reasonableness?
12 MR. JAROME LESLIE: To answer your
13 question, yes. The -- the purpose of the cost of
14 service review is to -- on the basis of cost
15 allocation -- cost allocation principles, to determine
16 the correct cost responsibility to assign to GSS/GSM
17 class.
18 And we believe the rate design piece is
19 where we match the revenues for that class to -- to
20 the -- to the level of cost that they have or bearing
21 as their responsibility.
22
23 (BRIEF PAUSE)
24
25 BOARD MEMBER GOSSELIN: I have a

1 question just to clarify something in my own mind.
2 You're proposing that we treat DSM as demand related.
3 And that's different than some of the Intervenors'
4 position that dams are not really built for demand
5 purposes. They're really providing energy.
6 So fundamentally, your position is that
7 you don't agree with that notion that -- that really
8 dams being constructed by Manitoba Hydro are not
9 constructed for the purpose of meeting peak demand.
10 MR. A.J. GOULDING: Just -- just a
11 clarification. So I think your question relates to
12 generation facilities, specifically large hydro
13 facilities. Our focus in our comments here is on the
14 demand-side management and DSM and I think the -- the
15 question of what is essentially causing the need for
16 DSM.
17 And so we haven't focused our comments
18 on large-scale generation facilities like -- like dams
19 and the question of whether they're built to serve
20 energy or peak. But our comments are focused on DSM
21 and what causes that. I apologize if that -- if
22 that's not -- not clear.
23 THE FACILITATOR: Thank you, all. I
24 understand we have a change in the order of -- of
25 questioning, and that the City of Winnipeg is going to

1 go first.

2 Is that correct?

3 MS. DENISE PAMBRUN: Thank you, Mr.

4 Grant.

5

6 CROSS-EXAMINATION BY MS. DENISE PAMBRUN:

7 MS. DENISE PAMBRUN: Just a couple of

8 areas, gentlemen, and any one of you can answer this

9 question as you see fit -- or these questions as you

10 see fit.

11 So I'd like to talk first about the

12 analysis you've done on export sales. I take it it's

13 your position that -- or your view, opinion that a

14 basic amount of opportunity sales can be viewed as

15 appropriate to be part of the business as usual for

16 cost allocation purposes.

17 Is that fair?

18 MR. JAROME LESLIE: Just to clarify my

19 understanding, business as usual case of opportunity -

20 - treatment of opportunity sales, could you clarify

21 that -- that portion?

22 MS. DENISE PAMBRUN: Well, I think

23 what I'm saying is that you've looked at the

24 historical record of Hydro and the forecast

25 assumptions, and you seem to be saying that there's

1 going to be opportunity sales. There has been a
2 considerable amount of it.
3 At least if not more than half of
4 export sales have been opportunity sales over the last
5 number of years, and it's forecast for the next number
6 of years. So that's really -- opportunity sales in
7 significant amounts are business as usual for Manitoba
8 Hydro.
9 Is that fair?
10 MR. JAROME LESLIE: Yes, that's
11 correct.
12 MS. DENISE PAMBRUN: All right. And
13 so I'd like to ask you to explain how you have
14 quantified opportunity sales to include and allocating
15 fixed costs. I'm not sure I understand how you've
16 quantified that.
17 MR. JAROME LESLIE: Our rationale is
18 based on the fact that Hydro has justified generation
19 investment on being able to capture these opportunity
20 sales. And the fact that this has gone into the --
21 the economic -- the economic analysis that went into
22 making this decision, we believe that, accordingly,
23 they should also carry a share of the responsibility
24 of these fixed costs.
25 And to your point and our -- to our --

1 to the point that we're making, it's clear that we are
2 seeing consistent levels of opportunity exports.
3 And our recommendation essentially
4 tries to capture what portion of these opportunity
5 exports can be considered reliable in determining how
6 much of these sales should be assigned to the fixed
7 costs.
8 MS. DENISE PAMBRUN: Right. And what
9 I'd like to ask you specifically about is how have you
10 quantified that -- that -- the amount you've picked?
11 How have you picked the amount?
12 MR. JAROME LESLIE: Okay. So we could
13 refer to the -- slide 8 from our presentation.
14 MS. DENISE PAMBRUN: Okay. Okay.
15 MR. JAROME LESLIE: Right. So here we
16 show the -- the breakdown of dependable and
17 opportunity exports over a historically forecasted
18 period. And we've looked at what the average level of
19 total exports would be, and then looked to measure the
20 -- the variation around the volumes of exports that
21 we've seen.
22 MS. DENISE PAMBRUN: And you used a
23 two point five (2.5) standard deviation.
24 MR. JAROME LESLIE: That's correct.
25 MS. DENISE PAMBRUN: Okay.

1 MR. JAROME LESLIE: And in our view,
2 we believe that it's reasonable to expect that in any
3 given year export revenue sales by volume would be
4 within this plan, and --
5 MS. DENISE PAMBRUN: Okay.
6 MR. JAROME LESLIE: -- we used the --
7 the lower standard deviation as -- as the benchmark of
8 saying, okay, export revenues are expected to be at
9 least this -- this portion. And when compared to the
10 average, that's how we -- we arrive at saying 66
11 percent. --
12 MS. DENISE PAMBRUN: Okay.
13 MR. JAROME LESLIE: -- of -- of total
14 exports should carry fixed costs.
15 MS. DENISE PAMBRUN: Okay. Now, so
16 you've used the two point five (2.5) standard
17 deviation. This chart shows in the -- is it ten (10)
18 years -- ten (10) years prior to this year, that
19 standard -- that 66 percent was arrived at in one (1)
20 year. Is that right?
21 MR. JAROME LESLIE: No. In -- if you
22 take it back to slide 7 --
23 MS. DENISE PAMBRUN: Yeah.
24 MR. JAROME LESLIE: -- you see that
25 over the historic period we've went as far down as --

1 MS. DENISE PAMBRUN: Oh, I see.
2 MR. JAROME LESLIE: -- so which it's
3 still reasonably above the -- the threshold we
4 identified on slide 8.
5 MS. DENISE PAMBRUN: Right. My
6 question is, why didn't you use the mean rather than
7 the two point five (2.5) standard deviation?
8 MR. JAROME LESLIE: Could you bring up
9 slide 8 again? So...
10
11 (BRIEF PAUSE)
12
13 MR. JAROME LESLIE: We disagree with
14 using the mean because at any given year you could see
15 volumes at -- above or below that point, and we saw
16 that the -- a lower bound -- the lower standard
17 deviation bound was more appropriate in saying -- in
18 being able to reasonably say that we can reasonablely
19 expect to see this portion of sales in any given year
20 as opposed to the mean which would open yourselves to
21 be above and below.
22 MS. DENISE PAMBRUN: Are you
23 suggesting that the standard deviation allows for less
24 volatility? It reflects -- it gives you more room to
25 manoeuver?

1 MR. JAROME LESLIE: It -- we believe
2 it's a conservative approach in deciding what -- what
3 a consistent level of export should be.
4 MS. DENISE PAMBRUN: So it's a more
5 conservative measure.
6 MR. JAROME LESLIE: Yes.
7 MS. DENISE PAMBRUN: Okay. Would you
8 agree with me that the -- leaving aside a historic
9 measure and only doing a forward-looking measure, that
10 is ignoring the past ten (10) years and only doing a
11 perspective analysis, might be more useful considering
12 that we're doing a perspective cost?
13 MR. A.J. GOULDING: So I -- I think
14 there's a couple of things here. Ultimately this is
15 driven largely by hydrology, and so in order for us to
16 think about doing a prospective analysis we can't
17 avoid looking at the past. And so I guess I would
18 argue that what we have done is we've taken a view to
19 the future that's informed by the past, and that the -
20 - what -- what our historical analysis suggests is
21 that this potential level is consistent with the
22 amount that should be allocated to firm, because we
23 can expect it, all right?
24 So I think that -- that you -- you
25 can't do a forecast without having an understanding

1 and expectation of what hydrology is likely to be in
2 the future and that's what we've based our analysis
3 on.
4 MS. DENISE PAMBRUN: So it's your
5 opinion that export sales, and in particular,
6 opportunity sales are supply-side driven more than
7 they are demand-side driven?
8 MR. A.J. GOULDING: I think I would
9 put it differently in the sense that what -- what
10 we're saying is that many of the investments that have
11 been made over time in the system have been justified
12 partially on the basis of exports.
13 And that level of exports that was used
14 in the justification is higher than the dependable
15 export level. And consequently, we believe it's
16 appropriate for exports to bear a higher share of
17 fixed costs.
18 MS. DENISE PAMBRUN: And can you
19 identify for me which of those investments were -- the
20 decisions to make those investments were driven by
21 exports?
22 MR. JAROME LESLIE: Well, these relate
23 to the -- the assets reviewed in the NFAT and the
24 advancements of -- of the Keeyask. And also
25 associated transmission investments as well, as an

1 example.

2 MS. DENISE PAMBRUN: So advancement of

3 Keeyask you said?

4 MR. JAROME LESLIE: Correct.

5 MS. DENISE PAMBRUN: And which others?

6 MR. JAROME LESLIE: The associated

7 transmission investments. So it would be the Riel

8 Conversion Sta -- Station as well.

9 MS. DENISE PAMBRUN: I'm sorry?

10 MR. JAROME LESLIE: Riel Conversion --

11 Conversion Station.

12 MS. DENISE PAMBRUN: Riel Conversion.

13 Any others?

14 MR. A.J. GOULDING: We're -- we're

15 happy to take that under review and -- and provide

16 additional --

17 MS. DENISE PAMBRUN: Provide an

18 undertaking?

19 MR. A.J. GOULDING: Yes.

20 MS. DENISE PAMBRUN: That would be

21 fine. Thank you. Mr. Secretary...?

22 THE FACILITATOR: Just to be clear

23 then, we -- we have our first undertaking of the day,

24 Sean, and it is to provide an identification of those

25 assets that, I take it effectively have been advanced

for the purposes of making export sales and for the future domestic load.

Is that correct?

MS. DENISE PAMBRUN: No, just for export sales. Yes, opportunity export sales. Thank you, Mr. Chernick for the clarification.

THE FACILITATOR: For the purposes of opportunity export sales, Sean. Thank you.

--- UNDERTAKING NO. 34: GSS/GSM to provide an identification of those assets that have been advanced for the purposes of opportunity export sales

CONTINUED BY MS. DENISE PAMBRUN:

MS. DENISE PAMBRUN: Can we move on to DSM costs, please. My understanding then, Gentlemen, is that you propose 100 percent allocation of DSM costs to system benefits and not to participating classes.

Is that correct?

MR. JAROME LESLIE: We'd say, Yes, we propose that is allocated through cost of service.

1 MS. DENISE PAMBRUN: Right. Okay.
2 MR. JAROME LESLIE: Allocated through
3 the cost of service process.
4 MS. DENISE PAMBRUN: Right. Using two
5 (2) coincident peak?
6 MR. JAROME LESLIE: That's correct.
7 MS. DENISE PAMBRUN: Right. My
8 understanding of Hydro's DSM program is that it's only
9 done to the extent there are system benefits. Do you
10 agree with that?
11 MR. JAROME LESLIE: Yes.
12 MS. DENISE PAMBRUN: All right. My
13 understanding as well is that other jurisdictions
14 justify a greater investment in DSM based on customer
15 bill savings. Is that your understanding as well?
16 MR. JAROME LESLIE: I believe that the
17 customer bill savings are part of the system benefits
18 derived from DSM.
19 MS. DENISE PAMBRUN: Right.
20 MR. JAROME LESLIE: So they're -- the
21 part -- they're -- they're related.
22 MS. DENISE PAMBRUN: You would --
23 would you agree with me that DSM reduces both demand
24 and energy?
25 MR. JAROME LESLIE: That's correct.

1 MS. DENISE PAMBRUN: So it reduces
2 generation, transmission, and distribution system
3 wide?
4 MR. A.J. GOULDING: Not necessarily.
5 MS. DENISE PAMBRUN: Okay.
6 MR. A.J. GOULDING: So what would tend
7 to happen from DSM is that, as you begin to look at it
8 from an integrated research plan perspective, it
9 allows you to first potentially delay some generation
10 investments, and over a longer period of time, to
11 delay upgrades to your distribution system and -- and
12 your transmission system.
13 So the timing by which it affects these
14 various investments differs. It does have an impact
15 across the value chain, but not at the same time.
16 MS. DENISE PAMBRUN: Fair enough.
17 Now, you've heard Mr. -- I appreciate, Mr. Goulding,
18 you haven't had an opportunity to hear Mr. Chernick's
19 evidence. I don't know that you were here all of the
20 last couple of the days. But the other gentlemen with
21 you have heard Mr. Chernick's evidence.
22 Do you believe that is an acceptable or
23 reasonable approach to DSM costs?
24 MR. JAROME LESLIE: In Mr. Chernick's
25 evidence, he proposes a series of tests in relation to

1 -- relation to how DSM should be treated. However, he
2 doesn't put forward a specific proposal on how they
3 should be done.
4 So I'm not certain -- there's a
5 specific point where we can agree or disagree with
6 what he's proposing.
7 MS. DENISE PAMBRUN: Okay. All right.
8 Well, perhaps -- Mr. Chernick has assured me he's
9 going to question you on that, so I will -- I will
10 leave it in his very capable hands.
11
12 (BRIEF PAUSE)
13
14 MS. DENISE PAMBRUN: Very well. Thank
15 you very much, gentlemen. Those are my questions.
16 THE FACILITATOR: Thank you. Well,
17 good, we're now over to Bill.
18
19 (BRIEF PAUSE)
20
21 CROSS-EXAMINATION BY MR. WILLIAM HARPER:
22 MR. WILLIAM HARPER: Could we turn to
23 pages 4 and 5 of your evidence, please? You're here
24 starting at page 4, you outline some principles of
25 rate design. You've actually squared in them a nice

1 blue box here. And I -- the -- you have a footnote
2 there, sort of that -- that -- where the sources from
3 Bonbright.
4 And what I was curious about when I
5 looked at the box is it did not specifically include
6 efficiency. And I was wondering why that was the
7 case, and why there was a specific omission of that
8 when I believe it is one (1) of the principles cited
9 specifically by Bonbright in -- in the text you've
10 cited there?
11 MR. A.J. GOULDING: I believe we
12 regard it as being incorporated in incentives
13 compatibility such that the desire and, you know,
14 efficiency is a very general term, but that the
15 overall objective of a rate design is that you have --
16 you seek to overcome the challenges embedded in a cost
17 of service regime, which may not be as focussed on
18 efficiency as we might like, while at the same time
19 designing rates for -- if -- to provide incentives to
20 consumers to efficiently use power.
21 So we've generally seen that as being
22 subsumed within the incentives compatibility category.
23 MR. WILLIAM HARPER: Well, thank you.
24 I thought it might have been. But the -- since the
25 incentives category was qualified by what was desired

1 by policymakers, that was presuming that policymakers
2 always -- were always interested in efficiency, which
3 I hope they are. But -- and I -- and I assume that --
4 that's your perspective too, and that's why you assume
5 it -- it's subsumed within this particular item?
6 MR. A.J. GOULDING: I -- I appreciate
7 your point that, you know, for something to be
8 considered incentives compatible, we can sit as -- as
9 economists or advisors and come up with what we think
10 is appropriate, but that ultimately, those that are
11 actually setting the rates are going to be in a
12 position to know how to balance the various economic,
13 political, and social needs to determine which
14 incentives are actually appropriate.
15 MR. WILLIAM HARPER: But then -- and
16 one (1) of those considerations would -- would be
17 efficiency, I think, is what you -- is -- is what I
18 hear you saying, actually. But it's up -- always,
19 see, up to policy makers such as the Board here to --
20 to make those balances.
21 MR. A.J. GOULDING: Yes. I -- I think
22 that's right. I think it's -- it's one (1) of these
23 things that economists just naturally assume will be
24 subsumed in rational decision making. But economists
25 also, I think, tend to underweight some of the other

1 factors that play into rate design.

2 MR. WILLIAM HARPER: That -- that's

3 very -- no, because I think the principle is you've

4 got a number here, and that's just one (1) of a number

5 of items that have to be balanced. And it's -- it's

6 the decision of policy makers to figure out how to

7 balance basically all the items you've got in that

8 blue box there.

9 Okay. And -- and I was wondering, if

10 you turn over to page 5, you -- and I think it's the

11 second paragraph where you say:

12 "LEI has considered all of the above

13 principles, generally and

14 specifically, from the GSS/GSM

15 customer perspective."

16 And I guess in -- when you were

17 reviewing the methodology. So you view all of those

18 principles as being appropriate principles to consider

19 when you're looking at a cost of service methodology

20 and whether it's reasonable or not?

21 MR. A.J. GOULDING: Yes, that's

22 correct.

23 MR. WILLIAM HARPER: Okay, fine. No,

24 that -- that's all I wanted. Thank you very much.

25 I wanted to go to your -- and I guess

1 they -- maybe just follow up on some conversation that
2 one (1) of the Board members had with you and the City
3 of Winnipeg has -- had with you earlier on the slide
4 8, if we go could to, in terms of your determination
5 of -- of maybe -- rather than call it 'determination
6 of dependable exports', your determination of the
7 portion of opportunity exports that should be --
8 attract a proportion of fixed costs.
9 And if -- if I understand it, you're --
10 you've got a period here which has -- you've got a
11 fifteen (15) year period here, some of which is
12 historical, and some of which -- which is forecast
13 data, correct?
14 And I assume the forecast data you
15 obtained out of some -- one (1) of the IR responses
16 that Manitoba Hydro gave you as to what was there,
17 their expectation as to forecast export volumes
18 through the year 2019/2020? You -- you don't have to
19 give me the reference. I just assumed that's -- I
20 just want to confirm that -- that you -- that that was
21 where it came from.
22 MR. JAROME LESLIE: Yes.
23 MR. WILLIAM HARPER: Okay. No -- no,
24 that's fine. And -- and your -- and your two point
25 five (2.5) standard deviation was calculated using the

1 data over all those fifteen (15) years?

2 MR. JAROME LESLIE: That's correct.

3 MR. WILLIAM HARPER: Okay. Now, are

4 you aware that Manitoba Hydro, when it forecasts --

5 when it does its forecast, that forecast is actually -

6 - in every year is roughly an average of what would

7 happen under a hundred (100) different waterflows,

8 roughly?

9 You know, they've gone back in time and

10 looked at what's the waterflows every year, and that's

11 sort of a -- an average based on the -- based on what

12 are all -- what might -- what might the different --

13 what -- what might the actual waterflow be based on

14 history. And those numbers are actually -- each of

15 those numbers is actually an -- an average.

16 Are you aware of that?

17 MR. JAROME LESLIE: Yes, and -- yeah,

18 I say yes, yeah.

19 MR. WILLIAM HARPER: Okay. And so

20 that, in actuality, if we were to go forward in time,

21 at any particular point in time between 2015/'16 up to

22 2019/'20, the actual level of exports could well --

23 would well -- could well be above that line, or it

24 could well below that average.

25 And a matter of fact, it's very

1 unlikely that the actual exports in each of those five
2 (5) years is going to be at the average. It's
3 probably going to be a number higher or a num -- or a
4 number lower.
5 Would -- would you agree with that?
6 MR. JAROME LESLIE: Yes. I believe
7 that there's -- with -- inherent to forecasting levels
8 of export sales, you're open to -- to that being the
9 case.
10 MR. WILLIAM HARPER: So I guess what I
11 was having a problem with is in -- in calculating the
12 standard deviation, you've used an average here,
13 whereas if I'd had -- actually had fifteen (15) years
14 of actual data, would you agree with me the standard -
15 - the range of the standard deviation would probably
16 have been higher?
17 MR. A.J. GOULDING: Yes. And I -- I
18 think that we were happy to -- without over-promising,
19 to look at available historical data and calculate
20 without using the forecasted in -- in that average. I
21 think that's --
22 MR. WILLIAM HARPER: No. I -- I was
23 just -- I just wanted to clarify that, you know, sort
24 of where -- and -- and I appreciate you're working
25 with the data that -- that you have. But I just

1 wanted people to understand we've got a mix of --
2 MR. A.J. GOULDING: Yeah. No, I --
3 MR. WILLIAM HARPER: -- we -- we've
4 got a mix of averages and actuals in here to begin
5 with, sort of thing.
6 MR. A.J. GOULDING: Yeah, yeah. It's
7 -- it's a -- it's a fair point.
8 MR. WILLIAM HARPER: Okay. So, you
9 know -- okay, that -- that's fine. There is --
10 because I'm -- I'm just trying to go back over my
11 notes, because there was some comments during the
12 presentation, and I want to make sure I pick -- picked
13 those up at the same point in time. I -- I think
14 that's fine. Okay.
15 I want to go to your comments on DSM,
16 and at page 12 -- and maybe -- maybe go back first --
17 I wanted to pick up on one (1) of the comments that
18 was during the presentation. And you were talking
19 there about how -- somebody asked you -- were asking
20 you about -- I think it was City of Winnipeg, Do -- do
21 savings -- doesn't DSM generation savings and
22 generation, transmission, and distribution?
23 And you said, yes, but you seemed to
24 qualify it with the fact that we'll -- we'll see the
25 savings in generate -- I got the impression -- I just

1 wanted to clarify whether this is what you meant or
2 not -- that we'll see the savings -- time -- from a
3 timing perspective, we'll see the savings in
4 generation first, and then subsequently, that -- after
5 that at some point in time, savings will emerge in
6 transmission, some point in time after that, savings
7 will emerge in dis -- distribution.
8 Was -- was that what you were saying in
9 the intent -- in the intent of your statement?
10 MR. A.J. GOULDING: So when we think
11 about DSM in the context of integrated system plan,
12 the investments that DSM defers are always going to
13 depend on the nature of that particular system. But I
14 think as a broad generalization, initially your
15 benefit is going to come from avoided fuel costs,
16 which obviously in a hydro-dominated system, are less
17 beneficial than they would be in -- in a fossil-
18 dominated system. So your -- your quick wins, if you
19 will, are that you defer some variable costs in the
20 generation system.
21 But you also, as you begin to expand
22 your DSM programs, have the ability to defer your
23 investment program, and that likely comes first in
24 generation. And the question of where that sits on
25 distribution and transmission, I would argue it

1 probably allows you to defer transmission next and
2 distribution last, but the actual impact on any kind
3 of a -- an integrated system plan is going to depend
4 on the configuration of the particular network and
5 system.
6 MR. WILLIAM HARPER: Well, thank you.
7 Because that was -- that was -- that's my
8 understanding and my experience, too, is that, I mean,
9 it depends on the configuration of the system. Would
10 -- would you agree -- like, I -- I've been involved in
11 processes whereby, you know, integrated planning is
12 not done at the system level. It's done sort of at a
13 regional supply level.
14 And DSM is considered as an option,
15 along with building new transmission and -- or new
16 substations. And at that point in time, clearly the
17 benefit is coming from transmission before it comes
18 from anything else, or it's coming from a substation
19 savings at -- prior -- prior to anything else at that
20 point in time.
21 And so would you agree with me that,
22 you know, you characterize it as a general rule but
23 it's going to be system-specific as to what types of
24 savings -- after we get past your fuel from a fixed-
25 cost savings perspective, what type of savings emerge

first, or second, or -- or third?

MR. A.J. GOULDING: Yes, I think that's correct.

MR. WILLIAM HARPER: Okay. No, I -- I just want -- wanted to clarify that. Thank -- thank you. Could we turn -- turn to page 12 of your evidence, then?

(BRIEF PAUSE)

MR. WILLIAM HARPER: And this may be somewhat a bit repetitive from what the City of Winnipeg was asking you, but I just want to follow up on it a bit. And here -- here you were recommending that DSM be -- be allocated to all customer classes basically on -- on a demand basis.

And I understand the first part of your argument about it being a -- whether we call it a public good, or a resource option, as I might call it at that point. I guess I was curious, your choice of demand -- and if I heard in the presentation was the fact that your view was we go to demand because the system is demand constrained.

What -- what -- that's what I heard in the presentation, and I just wanted to confirm that

1 that was your logic as to why you saw using demand as
2 the allocator, because it's your understanding that
3 the system was demand constrained in terms of looking
4 forward, in terms of, you know, what -- what was
5 driving the need for future investment.
6 MR. A.J. GOULDING: That -- I -- I
7 appreciate your point, but I think that we were
8 thinking about it a little bit more broadly in a sense
9 that, you know, as -- as we look out and look at
10 system planning, the view is that your driver for
11 system planning is generally going to be peak demand
12 growth over time. And if we can constrain that we are
13 going to be less concerned about, you know, how much
14 water we have to hold back or whether we need to build
15 peaking facilities, that there's a number of
16 investments that are -- that are driven over the long
17 run by peak that will be the first ones to be avoided
18 from a DSM investment.
19 I think our -- our primary point is --
20 is that in some sense this is a cost that needs to be
21 allocated across all customers. I don't think that we
22 are fixed on a particular way of doing that, but we do
23 want to emphasize that an allocation of DSM based on
24 who provides the DSM does not, to us, seem to be an
25 appropriate way of doing it.

1 MR. WILLIAM HARPER: Okay. So if
2 somebody was to demonstrate to you that in -- that in
3 Manitoba Hydro's circumstance they were actually
4 energy constrained, not demand constrained, you'd be
5 opening to say some, or if you follow that logic
6 through entirely, all of it should maybe be -- be
7 allocated on an energy basis to customers?
8 I mean, to -- to all -- to all
9 customers?
10 MR. A.J. GOULDING: We -- we would be
11 open to looking at that, yes.
12 MR. WILLIAM HARPER: Okay. Fine. No,
13 I just -- I just wanted to clarify what -- your
14 recommendation here. Can we turn to page 8, please?
15 Here -- here you're talking about your treatment of
16 net export revenue and the fact that you basically
17 disagree with -- with Manitoba Hydro.
18 And -- and then if you go down to the
19 bottom page 9, I think, was actually where I -- I'm
20 sorry, let me just get my -- no, that's right. It was
21 the bottom of page 8. I -- I apologize again. It's
22 sort of been a long three (3) days here.
23 You -- you out -- you start to outline
24 your argument as to why you disagree with Manitoba
25 Hydro and the -- you say:

1 "The rationale for doing so should
2 be there on a basis of fairness,
3 objectivity, and equity as consumers
4 in specific customer classes would
5 not be able to be served if
6 investments and expenditures that
7 are directly attributable to
8 customers have -- have not been
9 made."
10 Now, I guess what I was struggling with
11 was when you say 'served', because you would agree
12 with me that a -- a fair majority of those directly
13 assigned costs are actually DSM costs?
14 MR. A.J. GOULDING: Yes.
15 MR. WILLIAM HARPER: Apart from the
16 AR&L. I mean, the two (2) -- the two (2) biggest
17 chunks are probably the AR&L and the DSM costs,
18 correct? And the -- the DSM costs are really to try
19 and encourage people to do activities on basically the
20 customer side of the meter to reduce their electricity
21 use, or better manage their electricity use.
22 Would -- would you agree with that
23 statement?
24 MR. A.J. GOULDING: Yes.
25 MR. WILLIAM HARPER: And so I guess

1 what I was struggling with is if that activity is
2 taking place on the customer side of the meter, how
3 does that relate to investments made to serve the
4 customers, because when I think of serving the
5 customer I think of being -- the utility is able --
6 has got the facilities in place to deliver the
7 electricity that the customer wants to the point of
8 the meter, whoever's the point of demarcation where --
9 where the customer takes it.
10 So I was curious about how -- how those
11 -- I was trying to marry up the types of direct
12 assignments we had with the statement about the
13 ability to serve the customer and maybe you could help
14 me out on that?
15 MR. A.J. GOULDING: Sure. And thanks
16 -- thanks so much for laying -- laying the issue out.
17 I think that from our perspective we have to
18 distinguish between who is the customer in these
19 particular circumstances. And I think that when we
20 talk about a DSM investment that is behind the meter,
21 right, in that particular case we should be referring
22 to a DSM supplier rather than the customer.
23 And consequently, I believe that there
24 is an argument that this DSM supply is bring procured
25 on behalf of customers generally, not the specific

1 customer that is serving as the DSM supplier in this
2 particular case.
3 And think that's one (1) of the
4 thoughts that drives our analysis in this particular
5 section.
6 MR. WILLIAM HARPER: Okay. And I
7 guess -- and actually I -- I was quite -- quite
8 curious -- in the -- in the case of the two (2) -- the
9 two (2) -- as you indicated here you stated the
10 evidence was prepared on behalf of the GSS and the GSM
11 customer classes.
12 And we just talked about how a good
13 chunk of the directly assigned costs or DSM. Would
14 you agree with me that in the case of those two (2)
15 classes all of the costs are -- all -- all the
16 directly assigned costs in Manitoba Hydro's Cost of
17 Service Study are DSM?
18 MR. A.J. GOULDING: Subject to check,
19 yes.
20 MR. WILLIAM HARPER: Okay. Okay. And
21 so -- and so that act -- so that actually if we were
22 to follow your other recommendation, which is to note
23 basically, you know, sort of take DSM and allocate it
24 on a sort of public goods system wide basis,
25 basically, effectively, GSS GSM customers would have

1 no directly assigned at that -- at that particular
2 point if we follow through -- through that
3 recommendation.
4 Would that be correct?
5 MR. A.J. GOULDING: Yes, that --
6 that's correct.
7 MR. WILLIAM HARPER: Okay. No, I -- I
8 just want to understand those. Okay. I think that's
9 all the questions I have. Thank you very much.
10 THE FACILITATOR: Thank you.
11 BOARD MEMBER GOSSELIN: Excuse me. I
12 thought I heard an undertaking. And I -- I want to
13 make sure that there was an undertaking. You, I
14 thought, said that you would prepare to look at old
15 data, older data, to -- to cal -- recalculate the
16 standard deviation?
17 MR. A.J. GOULDING: Yes, I -- I think
18 that -- that's appropriate. We'll -- we'll look at
19 the historical data and make sure that we've provided
20 a holistic perspective on calculating the standard
21 deviation and where that fits relative to the
22 historical troff in exports.
23 MR. WILLIAM HARPER: Mr. Grant, unless
24 the panel finds it of use, I mean, I -- I wasn't -- be
25 -- being a witness, I wasn't going to impose an

1 undertaking on somebody unless I thought -- I thought
2 I absolutely needed it. So it wasn't absolutely
3 necessary from my -- from my perspective, but if other
4 people want it, that's fine. But I just want to make
5 it clear it wasn't something I -- I was looking for.
6 THE FACILITATOR: We won't blame you,
7 in any event.
8 BOARD MEMBER GOSSELIN: I'd like to --
9 I'd like to see it, so.
10 THE FACILITATOR: Yeah. Good. So we
11 have another taking, to provide that chart on, which
12 ta -- page was it, page 8 based on actual data only.
13
14 --- UNDERTAKING NO. 35: London Economic to
15 redevelop Figure 3 of its
16 pre-filed evidence based
17 on the appropriate
18 available data including
19 the data provided by
20 Manitoba Hydro in
21 Attachment 31 and
22 reconsider its threshold
23 for treating some portion
24 of opportunity sales as
25 attracting full embedded

1 costs

2

3 CONTINUED BY MR. WILLIAM HARPER:

4 MR. WILLIAM HARPER: I -- I guess if

5 you were going to do that, there's a distinction when

6 you're just using the ten (10) years that there or in

7 trying to -- I assume the undertaking is to try and go

8 back and find maybe another five (5) years so you at

9 least have fifteen (15) years of comparable -- of

10 historical data then.

11 MR. A.J. GOULDING: Yeah, I -- I think

12 that this gets to --

13 MR. WILLIAM HARPER: What's available.

14 MR. A.J. GOULDING: -- what -- what's

15 available. You know, I'd -- I'd like to be able to

16 look at it from several perspectives. And I think

17 using -- as long as the data's internally consistent,

18 an appropriate set of historical streams would --

19 would be appropriate.

20 So what -- what we'll do is we will

21 look at available historical data, look for internally

22 consistent data streams, and provide a series of

23 calculations that examine the upper and lower bounds

24 using appropriate standard deviations.

25 THE FACILITATOR: Thank you.

1 BOARD MEMBER GRANT: Can I just chime
2 in on that? Because I think there's really two (2)
3 issues. One is I think it's inappropriate to use
4 forecasted data to derive the -- the averages in
5 deviations, and so I think -- I think you have to use
6 historical data for that.
7 And, secondly, if I'm not mistaken,
8 since 2005 has been some historic high water flow
9 years, and so you're getting a very potentially bias
10 sample. And so I think you have to run back into more
11 historical data to get a more -- perhaps a relevant
12 sample, and then just use that historical data to do
13 the statistical exercise.
14 MR. A.J. GOULDING: To clarify, our
15 intent is to use only historical data in -- in our
16 undertaking and, as well, to be attentive to both high
17 and low years to assure that the historical sample
18 that we're looking at is leaving aside the potential
19 for long-term changes in climate and so forth but is
20 as representative as we feel is appropriate in our
21 professional judgement.
22 THE FACILITATOR: With that, is there
23 -- can Manitoba Hydro help out here?
24 MS. ODETTE FERNANDES: Yes. I was
25 actually waiting to jump in. I think part of Ms.

1 Derksen's questions was going to be along the same
2 lines. And we were trying to look back to see what --
3 exactly what type of information we have on the record
4 right now in terms of the historical data. And we
5 thought what we may do during Ms. Derksen's questions
6 was, if that isn't available, maybe we'll provide
7 these witnesses with, you know, another few years of
8 data going back so that they can update their
9 analysis.
10 THE FACILITATOR: That would be very
11 helpful.
12 MR. CHRISTIAN MONNIN: If I may, this
13 is turning out to be one heck of an undertaking, and
14 I'm not sure how it's been crystalized. But what I
15 propose is, when the transcript is available we can
16 circle back and -- and try to craft an undertaking
17 from this discussions that's satisfactory to the Board
18 and everyone who's -- who's here.
19 THE FACILITATOR: Sounds good,
20 although it also sounds as if Manitoba Hydro may help
21 you out even more than that during the examina - or
22 questioning that they have.
23 MR. CHRISTIAN MONNIN: Or they may
24 hinder, so we'll wait and see.
25 THE FACILITATOR: I'm -- I'm sure

1 they're here to help you.

2 MS. ODETTE FERNANDES: We're very

3 helpful, Mr. Monnin.

4 MR. CHRISTIAN MONNIN: For the record,

5 I do not doubt that.

6

7 (BRIEF PAUSE)

8

9 THE FACILITATOR: Bill, do you have

10 any further questions?

11 MR. WILLIAM HARPER: No. That was all

12 I had. Thank you.

13 THE FACILITATOR: Right. Thank you.

14 So we're on how to Green Action and

15 Paul.

16 MR. PAUL CHERNICK: Yes. Thank you

17 very much.

18

19 CROSS-EXAMINATION BY MR. PAUL CHERNICK:

20 MR. PAUL CHERNICK: I'd like to start

21 on page 4 in that -- of your -- your testimony with --

22 in your evidence with the -- in the pre-filed

23 evidence, not -- not the handout, in the -- the box

24 about rate design principles on page 4.

25 And my first question is why you're

1 talking about rate design principles in a cost
2 allocation case. And is it your understanding that
3 design of rates is on the table in this case?
4 MR. A.J. GOULDING: So our general
5 focus is on cost allocation. We believe that cost
6 allocation and rate design are not actually two (2)
7 separate silos, and that the rules of cost allocation
8 are derived from rate design principles, particularly
9 cost causation. So we thought it was useful to list
10 off the rate design principles.
11 We are not attempting to say that this
12 is a paper about rate design. We've tried to focus it
13 on cost allocation. Had it been a paper on rate
14 design, we would have probably written a longer paper,
15 for one thing.
16 MR. PAUL CHERNICK: So are you saying
17 that, for example, the concept of the cost of energy
18 is the -- it's the same regardless of whether you're
19 talking about rate design and efficient rate design,
20 or whether you're talking about an equitable cost
21 allocation, that you would use embedded costs for both
22 of those and ignore marginal costs for rate design
23 because it's not two (2) silos, it's just one (1)
24 silo, and you once do it once?
25 MR. A.J. GOULDING: So I just want to

1 make sure that I understand your -- your question. Is
2 your question: Should we consider marginal costs in
3 our cost allocation study?
4 MR. PAUL CHERNICK: No. You were the
5 one who just said that there -- there aren't two (2)
6 silos. There isn't one with efficient rate design and
7 another with equitable cost allocation. It's all one
8 (1) thing, and therefore you want to talk about it all
9 at once.
10 And I'm asking you whether you're
11 saying therefore you should use -- whatever is
12 considered to be a capacity cost for cost allocation
13 must be collected through capacity or demand rates.
14 And whatever is considered an energy
15 cost for cost allocation purposes should be used to
16 set the energy rate, ignoring marginal cost
17 considerations, ignoring avoidable costs, because
18 we're only concerned about the embedded costs from the
19 cost allocation.
20 Or maybe you're saying the opposite,
21 that we really should be looking at marginal costs in
22 cost allocation, so we'll have marginal costs used for
23 rate design.
24 I just don't understand how you're
25 saying it's the same thing and it can't be split.

1 MR. A.J. GOULDING: So I don't believe
2 that that is what I'm saying. I believe that what I'm
3 saying is that, in order to perform cost allocation,
4 we need to have some principles, some ideas about who
5 to allocate what to, and that, in terms of thinking
6 about what are those principles, that can be explored
7 through looking at these standard rate design
8 principles.
9 And so with that in mind, the initial
10 view of cost allocation, we have looked at that as
11 being driven primarily by cost causation, and have
12 focussed our paper on primarily allocation issues, not
13 rate design issues. And, indeed, in terms of our
14 observation with regards to issues like the revenue to
15 cost ratios we have said that's a rate design issue
16 that we've flagged for future discussion. But we, in
17 terms of what we're looking at here, have focussed on
18 cost allocation.
19 MR. PAUL CHERNICK: Okay. And -- and
20 are you agreeing then that -- that they are two (2)
21 separate silos? That there's a cost allocation
22 process which looks at some of these things, at cost
23 causation, that's your fourth one -- fourth item on
24 this list, maybe non-discrimination, but doesn't get
25 into the incentives which are determined by the -- the

1 design of the rates, or the administer of simplicity
2 and transparency, which is your last item, which is
3 also a rate design issue.
4 So are -- are you now agreeing that
5 they're two (2) separate processes and you can't just
6 say, oh, we're going to do them all through the cost
7 of service study?
8 MR. A.J. GOULDING: No. This is an
9 iterative process of which cost allocation is one (1)
10 part. So the focus of this proceeding, as we
11 understand it, is primarily on doing the cost
12 allocation piece. And in many regulatory processes
13 you do that, and then you go onto do another piece.
14 And these processes interact with one another.
15 And so you have a set of foundational
16 principles and you have a series of steps that you do,
17 and the principles inform your cost allocation. The
18 cost allocation is in turn something that informs the
19 next stages of rate design. And ultimately regulators
20 will almost always need to balance the results from a
21 cost allocation study against other principles that
22 they may be seeking to achieve in their overall rate
23 design.
24 MR. PAUL CHERNICK: Okay. So what I
25 hear you saying is that the cost allocation study

1 should basically drive rate design except where the --
2 the regulators have other objectives, other than --
3 other than these five (5) that you've laid out here.
4 Because all of these are being incorporated in the
5 cost allocation.
6 MR. A.J. GOULDING: So I think that
7 where I have perhaps only a slight disagreement with
8 you is -- is in terms of the word 'drive' in that I
9 take the use of that word to mean that cost allocation
10 is the primary and overarching objective of rate
11 design, whereas I believe it is an important but not
12 exclusive component of rate design.
13 MR. PAUL CHERNICK: Okay. Maybe we've
14 gotten about as far as we can on -- on that item. I'd
15 like to -- to go onto the -- the issue of the
16 opportunity sales, and now I guess we're down on page
17 7 of your pre-filed. And a few lines above your
18 Figure 3 you say that:
19 "Acceleration of generation
20 investment was justified under the
21 assumption of sustained export
22 sales."
23 And just to be clear, can you name any
24 generation investment that was accelerated into 2014,
25 or '15 or '16 or '17, because of opportunity sales?

1 MR. A.J. GOULDING: I believe we've
2 already taken an undertaking in this regard.
3 MR. PAUL CHERNICK: Okay. And can you
4 tell me what the latest generation addition to the
5 Manitoba Hydro system was, the latest plant owned by
6 gener -- by Manitoba Hydro?
7 MR. A.J. GOULDING: I'm a bit confused
8 by your question in that --
9 MR. PAUL CHERNICK: The -- the last
10 one (1) built.
11 MR. A.J. GOULDING: So if -- are you
12 talking about the last one (1) approved or the last
13 one (1) --
14 MR. PAUL CHERNICK: The last one (1)
15 that's actually been built and might be serving
16 opportunity sales at this time.
17 MR. A.J. GOULDING: So what we will do
18 as part of that undertaking is identify which of the
19 plants is serving opportunity sales and which is -- is
20 not.
21 MR. PAUL CHERNICK: Okay. So just --
22 just sitting here right now you can't tell me which
23 the most recent addition was to the Manitoba Hydro
24 generation system?
25 MR. A.J. GOULDING: I don't believe

1 that my telling you which was added and at what time
2 has any bearing on our analysis in this particular
3 paper.
4 MR. PAUL CHERNICK: Well, if you
5 happen to know that the -- the latest plant built by
6 Manitoba Hydro was Wuskwatim in 2005, would you be
7 suggesting that that had been accelerated advanced
8 from 2014 or 2017 all the way to 2005 for the
9 opportunity sales?
10 MR. A.J. GOULDING: So our discussion
11 in this analysis is based on the set of investments
12 that Manitoba Hydro has proposed in the substantial
13 additional capital expenditures that are going to --
14 or that are ongoing, as well as historical
15 investments.
16 MR. PAUL CHERNICK: Okay. But Keeyask
17 is not in rates in the 2014 PCOSS. It won't be in the
18 PCOSS for the coming GRA. So how does its use -- its
19 causation affect whether there's any current costs
20 that were accelerated into the current years by
21 opportunity sales?
22 MR. A.J. GOULDING: So I -- I
23 appreciate your analysis in this regard. Nonetheless,
24 in terms of looking at long-term investment planning,
25 we believe that as we look both backwards and

1 forwards, that exports have been a driver in the
2 timing of additions to the system.
3 And we believe that our analysis here
4 with regard to cost allocation is appropriate.
5 MR. PAUL CHERNICK: Okay. But let's -
6 - let's look at it specific. Let's suppose that --
7 that my -- what I threw out before was correct and
8 that Wuskwatim was the last unit added. And that --
9 let's suppose that it was moved forward from 2008 when
10 it would have built -- been built for domestic load
11 and firm exports.
12 Let's suppose it was moved forward
13 three (3) years from 2008 to 2005. How is that
14 relevant to how the cost of the generation system is
15 allocated today if nothing was accelerated in 2 -- and
16 by today I mean in 2014 or 2017 for the -- the range
17 of years that we're looking at if nothing was
18 accelerated, no costs were accelerated into those
19 years for opportunity sales?
20 MR. A.J. GOULDING: So --
21 MR. PAUL CHERNICK: And -- and let --
22 and let me just step back and -- and give -- give you
23 a little context. I understand how your argument
24 would apply for the -- the first few years of the
25 operation of Keeyask. When it comes online it was

1 brought forward for exports, maybe partly for the
2 opportunity sales.
3 You -- you know, you could argue that
4 it wouldn't have been in -- in service in 2019 without
5 the opportunity sales. It would have been service in
6 2000 -- only in 2022. So maybe there are a few years
7 there where there are costs that are due to the
8 opportunity sales.
9 I'm asking you about outside of those
10 periods when a project was actually moved forward, how
11 is this argument relevant?
12 MR. A.J. GOULDING: So speaking
13 generally, I believe that this argument applies not
14 only to acceleration but sizing and system design. And
15 I believe that the system would be designed
16 substantially differently if there was no assumption
17 of exports, inclusive of opportunity exports.
18 Consequently, I believe the --
19 MR. PAUL CHERNICK: I'm sorry, you
20 just said --
21 MR. A.J. GOULDING: -- principle --
22 MR. PAUL CHERNICK: -- exports
23 exclusive of opportunity or exports above the -- the
24 dependable, the firm exports?
25 MR. A.J. GOULDING: Exports inclusive

1 of opportunity --

2 MR. PAUL CHERNICK: Oh.

3 MR. A.J. GOULDING: -- sales.

4 MR. PAUL CHERNICK: Okay.

5 MR. A.J. GOULDING: So in terms of a

6 general allocation principle, we believe that exports

7 are under allocated --

8 MR. PAUL CHERNICK: M-hm.

9 MR. A.J. GOULDING: -- in terms of the

10 --

11 MR. PAUL CHERNICK: Right.

12 MR. A.J. GOULDING: -- overall firm

13 system costs.

14 MR. PAUL CHERNICK: Okay. So in your

15 evidence I saw you saying this -- your -- your

16 argument was that resources were accelerated. And

17 that's certainly true for some period of time --

18 MR. A.J. GOULDING: Right.

19 MR. PAUL CHERNICK: -- due to export

20 sales. And maybe that's true partly due to the

21 opportunity. Now you're saying that, say Wuskwatim

22 was a larger -- built as a larger plant in

23 anticipation of the opportunity sales and that, if

24 there had been no opportunity market, Manitoba Hydro

25 would have built a smaller Wuskwatim or a different

1 plant?

2 MR. A.J. GOULDING: So I'm speaking

3 generally rather than in terms of the specifics of a

4 historical generation investment.

5 MR. PAUL CHERNICK: Okay. So is it

6 fair to characterize your answer that, well, you think

7 this might happen, but you can't point to anyplace

8 where it did?

9

10 (BRIEF PAUSE)

11

12 MR. PAUL CHERNICK: As a general

13 principle, it could happen. But you don't -- you

14 can't say, well, Manitoba Hydro built this plant

15 different so that it could provide opportunity sales?

16 MR. A.J. GOULDING: So our assertion

17 is based on a general rather than a specific analysis,

18 so that's -- that's correct, yes.

19 MR. PAUL CHERNICK: Okay. And is it

20 your understanding that the -- that building hydro

21 facilities to meet domestic load plus dependable

22 exports inherently brings along with it the ability to

23 meet opportunity sales because in most years you have

24 excess water that you can use for opportunity exports?

25

1 (BRIEF PAUSE)

2

3 MR. A.J. GOULDING: I would say that

4 that depends on the circumstance. I think that that,

5 in may cir -- in many cases, is probably correct, but

6 it may not always be correct depending on how the

7 generation investment is configured.

8 MR. PAUL CHERNICK: Okay. I -- I have

9 another question about the -- the standard deviation

10 that you -- that you selected here, the two point five

11 (2.5) standard deviations. You say that that

12 represents a one (1) in six (6) -- a hundred and --

13 excuse me, one (1) in a hundred sixty-two (162) year

14 likelihood that total exports would fall below this

15 threshold.

16 Your fifteen (15) years did not include

17 a hundred year drought, did it? And wouldn't you, in

18 a hundred and sixty-two (162) years, expect to see a

19 hundred year drought?

20 MR. JAROME LESLIE: Our -- to

21 understand your question more clearly, our fifteen

22 (15) year analysis here, to your point, does not

23 represent a hundred year drought. And --

24 MR. PAUL CHERNICK: And yet you're

25 claiming that you've covered a hundred and sixty-two

1 (162) years of variation even though you don't have
2 the worst in a hundred years?
3 MR. JAROME LESLIE: We're saying that
4 the -- based on the variability observed over this
5 horizon, then this would -- this informs our position
6 that you would see export sales being below this lower
7 threshold in a one hundred sixty-two (162) year --
8 MR. PAUL CHERNICK: Right. But, in
9 fact, in -- in at least once in a hundred years, Hydro
10 would expect to have zero export -- opportunity export
11 sales due to drought. Isn't that the case?
12 MR. JAROME LESLIE: And I believe it's
13 part of our undertaking to, did the analysis on
14 extended historical time frame would better capture
15 the var -- variability that year you're describing
16 here.
17 MR. PAUL CHERNICK: So you didn't look
18 at that in deciding -- in -- in stating that, oh,
19 we've covered a hundred and sixty-two (162) years.
20 You haven't -- you didn't look at whether you had the
21 twenty (20) year drought, the fifty (50) year drought,
22 the hundred (100) year drought in -- in that data set?
23 MR. A.J. GOULDING: That -- that's not
24 what this assertion is. What -- what this assertion
25 is, is that, using the two point five (2.5) standard

1 deviation, that correlates to a particular expectation
2 with regards to when the -- when this data point would
3 be exceeded.
4 MR. PAUL CHERNICK: Right, but
5 assuming that there is such a thing as a hundred (100)
6 year drought and that the Company would be making no
7 opportunity sales in that event, then your
8 extrapolation to a hundred and sixty-two (162) years
9 from ten (10) years of -- of real data and five (5)
10 years of average data is wrong.
11 I mean, you can just look at it and
12 say, Well, if there are times in a hundred (100) years
13 that we wouldn't have any sales, and we're saying that
14 in a hundred and sixty-two (162) years you always have
15 at least half of what's been observed as the average
16 over this period, then you've just got the wrong
17 period.
18 You're -- you're extrapolating from one
19 period to a much larger reality without -- without
20 having enough data to do a decent job.
21 MR. A.J. GOULDING: So, first of all,
22 I wouldn't accept the idea that my colleagues have not
23 done a decent job. And --
24 MR. PAUL CHERNICK: I'm sorry for
25 that, but go on.

1 MR. A.J. GOULDING: You don't -- you
2 don't have to be sorry for that. Everyone is playing
3 their role here.
4 MR. PAUL CHERNICK: No, I'm sorry that
5 -- that you don't accept that, but go on.
6 MR. A.J. GOULDING: Well -- and I
7 appreciate your -- your view.
8 MR. PAUL CHERNICK: It would be good
9 to give them some feedback about tying their sweeping
10 statements to reality --
11 MR. A.J. GOULDING: M-hm.
12 MR. PAUL CHERNICK: -- okay? And you
13 can't just say, Oh, I know how to calculate --
14 MR. CHRISTIAN MONNIN: All right. I'm
15 sorry. Just -- is that a question? Because I don't
16 think it is.
17 MR. PAUL CHERNICK: We -- we have a
18 discussion going here.
19 MR. CHRISTIAN MONNIN: That's not a
20 discussion, sir.
21 THE FACILITATOR: Just -- just one (1)
22 moment. One (1) thing is we're in a workshop rather
23 than in a hearing, so I --
24 MR. CHRISTIAN MONNIN: A sandbox.
25 THE FACILITATOR: -- we're -- we're

1 trying to --

2 MR. PAUL CHERNICK: Okay.

3 THE FACILITATOR: -- play nice and get

4 things -- but I think the other part, Paul, was, in

5 looking at the statement that -- that is at play here

6 was, you know, it appears from the wording, if I can

7 get to it here, the lower bound of this confidence

8 interval.

9 So I think that the calculation has

10 just been a statistical calculation --

11 MR. PAUL CHERNICK: Okay.

12 THE FACILITATOR: -- without looking

13 at the realities of the -- the various drought years.

14 So I think we can leave it at that --

15 MR. PAUL CHERNICK: Okay.

16 THE FACILITATOR: -- that it should

17 have looked at those as well, and it would have been

18 better if it had.

19 MR. PAUL CHERNICK: If you -- if you

20 ignore the next several words where it talks about one

21 (1) in a hundred sixty-two (162) year likelihood.

22

23 CONTINUED BY MR. PAUL CHERNICK:

24 MR. PAUL CHERNICK: But anyway, moving

25 on to -- to my next question, at the bottom of that

1 section, just above Section 3.2, you say in italics
2 that your adjustment is equivalent to assigning fixed
3 costs to 16 percent of opportunity export sales.
4 Didn't you mean to 32 percent of
5 opportunity export sales because it's an additional 16
6 percent of total sales, of which half are opportunity?
7 So, I mean, if you just look at the -- the diagram
8 that you've laid out here, aren't you adding in --
9 MR. JAROME LESLIE: Our statement is --
10 MR. PAUL CHERNICK: -- a third of
11 export sales?
12 MR. JAROME LESLIE: -- our statement
13 is that the additional 16 percent of these exports
14 would come from opportunity sales.
15 MR. PAUL CHERNICK: Okay. So it's
16 assigning fixed costs to an additional 16 percent of
17 export sales, which would be 32 percent of the
18 opportunity sales?
19 MR. JAROME LESLIE: Right.
20 MR. PAUL CHERNICK: Okay.
21
22 (BRIEF PAUSE)
23
24 MR. PAUL CHERNICK: On the -- the
25 issue of the allocation that export revenues to

1 include the -- the assigned costs, directly assigned
2 costs, in addition to allocated costs, would you agree
3 that, with -- well, first of all, if you prevailed on
4 the DSM allocation, then almost all of what's left as
5 directly assigned costs would be street lighting. Is
6 that correct?
7 MR. JAROME LESLIE: Yes.
8 MR. PAUL CHERNICK: There would be
9 almost nothing in -- in the GSS or GSM. And I can
10 direct you to --
11 MR. A.J. GOULDING: I believe that
12 that's consistent with the answer that we already gave
13 in this regard.
14 MR. PAUL CHERNICK: Okay. And do you
15 think that it makes sense to allocate the net export
16 revenues to the cost of the light -- the street
17 lighting luminaires, which the City could own but has
18 chosen to let Manitoba Hydro own, which is not really
19 part of a utility service. It's an end use.
20 MR. A.J. GOULDING: So ultimately
21 there are choices that all kinds of customers make
22 and, you know, we certainly would anticipate that the
23 allocation of export revenues may be one (1)
24 determination in a customer's choice of how they
25 configure their investments. But we don't believe

1 that that detracts from the principle that the overall
2 allocation of net export revenues should be based on
3 the allocation of total costs to that customer class.
4
5 (BRIEF PAUSE)
6
7 MR. PAUL CHERNICK: So your answer is,
8 yes, it make sense to allocate net energy revenues to
9 the cost of the luminaire. Is that what you said?
10 The charges for the luminaire are a cost that
11 allocated in -- that's directly assigned as part of
12 the total cost, and you would --
13 MR. A.J. GOULDING: Yes.
14 MR. PAUL CHERNICK: Okay. So now, a
15 residential customer can't go to Hydro and say, I
16 don't want to buy my water heater. I want you to buy
17 it. I want you to install it. I want you to run the
18 -- the power line from my -- from my -- my service
19 drop to the -- through the house to the water heater.
20 I want you to maintain it. I want you to come every
21 several months and flush it out. And charge me for
22 that.
23 They can't do that now, but if they
24 could would you say, well, that water heater rental
25 charge should also be in the -- receive some of the

1 net energy revenues?
2 MR. A.J. GOULDING: So I think the
3 only difference that I would have with you is whether
4 we're able to take a portion of the costs and assign
5 those to what we might call energy services.
6 MR. PAUL CHERNICK: Right.
7 MR. A.J. GOULDING: And so if we had a
8 set of activities that were energy services that a
9 customer could choose to undertake or not undertake,
10 and to supply separately that -- that were not part of
11 the monopoly service then I would be more comfortable
12 not allocation those items a share of the net export
13 revenues.
14 But getting back to the examples of DSM
15 where the customer is really a supplier --
16 MR. PAUL CHERNICK: M-hm.
17 MR. A.J. GOULDING: -- then I would
18 argue that those -- those costs should --
19 MR. PAUL CHERNICK: Okay.
20 MR. A.J. GOULDING: -- not be directly
21 --
22 MR. PAUL CHERNICK: So the -- the lum
23 -- street lighting luminaire like a residential water
24 heater is not part of the monopoly service. Many
25 customers have their -- provide their own luminaires.

1 There's no reason why it has to be -- that -- that
2 part has to be owned by or maintained by Manitoba
3 Hydro. And not all of the street lights in the --
4 street and area lighting in the -- the Province are
5 maintained by Manitoba Hydro. But we -- you take that
6 subject to check?
7 MR. A.J. GOULDING: Sure, yes.
8 Absolutely.
9 MR. PAUL CHERNICK: Okay. So really
10 what your argument comes down to is, Well, that's not
11 a monopoly service, so we can say the street lighting
12 equipment really shouldn't be attracting the -- the
13 net energy revenues. And that leaves us with the DSM
14 costs, and that you would like the net energy revenues
15 be helping to pay for the DSM costs for the classes?
16 If -- if the costs are allocated -- or
17 -- or excuse me, directly assigned as opposed to being
18 allocated the way you've proposed. So that really,
19 this is an alternative. If you don't get the DSM
20 costs reallocated based on some kind of broad
21 allocator, demand or energy, then you would -- then
22 you'd like the net energy revenues to partially
23 support them?
24 MR. A.J. GOULDING: Could -- that --
25 that's correct. I think there's a -- a lot of

1 overlap. You know, if we do a Venn diagram here,
2 there'd be a great --
3 MR. PAUL CHERNICK: Okay.
4 MR. A.J. GOULDING: -- deal of
5 overlap.
6 MR. PAUL CHERNICK: Okay. I'd like to
7 hop down to page --
8 THE FACILITATOR: Paul...?
9 MR. PAUL CHERNICK: Yeah?
10 THE FACILITATOR: It being 10:30, I'm
11 wondering if we can do the following, first off take
12 the fifteen (15) minute break, and secondly, you have
13 been going for half an hour, but we do have extra
14 time. How about when we come back, if you plan on no
15 more than fifteen (15) minutes if you organize your
16 stuff for that.
17 MR. PAUL CHERNICK: I -- I think
18 that's completely reasonable.
19 THE FACILITATOR: Great. Thank you.
20 We'll be back at a quarter to 11:00.
21
22 --- Upon recessing at 10:30 a.m.
23 --- Upon resuming at 10:49 a.m.
24
25 THE FACILITATOR: Okay, everyone, if

1 you can take your seats, we can get back to the fun.
2
3 (BRIEF PAUSE)
4
5 THE FACILITATOR: So, Paul, back to
6 you.
7 MR. PAUL CHERNICK: Thank you. I'd --
8 I'd like to move onto page 12 and the box about public
9 goods and free riders. And of course, I -- I, you
10 know, agree with all the concepts in here. This is
11 sort of established wisdom -- received wisdom on -- in
12 economics.
13 But I -- I just wanted to focus on
14 whether DSM is -- I -- I take it your point is that
15 DSM is a public good and should be treated that way.
16 Is that what -- what your point is?
17 MR. JAROME LESLIE: Yes, that's
18 correct.
19 MR. PAUL CHERNICK: Okay. So now for
20 a public good, somebody who is providing it doesn't
21 get any more benefit from it than anybody else in the
22 public, right? I mean, it would be something like if
23 -- if I put some device on my -- my gas furnace so
24 that the -- the exhaust has fewer particulates or
25 other pollutants in it, which makes the air in my area

1 cleaner, then the air that I breathe is not affected
2 much more than the air of anybody else in my town.
3 So it's a public good. Everybody
4 shares in it equally. Nobody can be excluded from
5 that benefit. Nobody has to pay to get the benefit
6 that I just created. Is that how a public good works?
7 MR. A.J. GOULDING: Well, I -- I don't
8 completely agree with your characterization in the
9 sense that I -- I don't believe that the -- the good
10 has to have solely positive externalities and no
11 private benefit in order for it to be a -- a public
12 good.
13 So I think that, you know, there --
14 there's probably a spectrum of activities that have,
15 you know, an -- an array of positive externalities
16 going from, you know, 100 percent positive
17 externalities and no private benefit to, you know,
18 somewhere -- you know, the closer that you get to some
19 threshold, you -- you might say -- you know, for --
20 for example, graduate education, you know, going to
21 graduate school --
22 MR. PAUL CHERNICK: M-hm.
23 MR. A.J. GOULDING: -- has a certain
24 degree of -- of a public good element, and it has
25 positive externalities, but it also has a substantial

1 private benefit.

2 MR. PAUL CHERNICK: Okay. And you

3 would call that a public good. And -- and since it's

4 a public good, it should be paid for by -- by

5 everybody through -- through taxes, for example?

6 MR. A.J. GOULDING: I think that's --

7 that's an argument that some people make. I -- I'm

8 skeptical of it in terms of graduate education. I'm -

9 - I'm more accepting of it in terms of elementary and

10 primary school, but --

11 MR. PAUL CHERNICK: Okay.

12 MR. A.J. GOULDING: -- yes.

13 MR. PAUL CHERNICK: So the -- you said

14 -- and one (1) of the -- the rules that public goods

15 are non-excludable is one (1) of the -- of Holcombe's

16 descriptions of public goods. But not everybody can

17 participate in the DSM programs, at least not right

18 away, because some of them are driven by when you

19 build a new house, or when you're renovating your

20 house, or when your air conditioning breaks down and

21 you need to buy a new one, or your refrigerator is --

22 is ready for a replacement.

23 So the portion of the DSM costs that

24 aren't externalities, that aren't public, that are

25 private, people are excluded from that, aren't they?

1 MR. A.J. GOULDING: Yes.

2 MR. PAUL CHERNICK: Okay. And to pick

3 up on -- on a point that was being raised earlier, on

4 -- in -- in my evidence I put forward sort of a test

5 of, well, look at an allocation of DSM directly to

6 participating classes. Look at it as an allocation

7 across all of the -- the classes based on some kind of

8 benefit-related allocator, and see whether either one

9 of those, or both of them, I mean, makes some classes

10 worse off than they would have been had the DSM not

11 existed.

12 Would you agree with me that that's a

13 reasonable test of whether an allocator for DSM costs

14 is equitable? That with the DSM and its public

15 benefits and some allocations of costs, if everybody's

16 better off, then that's -- if -- if that -- that may

17 be an equitable allocation. If some groups are -- are

18 worse off, then you have a problem?

19 MR. A.J. GOULDING: Well, you're

20 proposing a pareto optimal standard. Is that correct?

21

22 (BRIEF PAUSE)

23

24 MR. PAUL CHERNICK: Yeah, I think you

25 could put it that way.

1 MR. A.J. GOULDING: So I think our
2 perspective on this is -- is a bit different, right?
3 We see DSM as a source of supply and that, in terms of
4 thinking about why we go about purchasing DSM, we
5 would look at that as being driven by the same drivers
6 that go into your overall system plan, and so that the
7 arguments about how you allocate the costs of DSM
8 should be consistent with the way that you allocate
9 the -- the items that it replaces.
10 Now, in this particular case, we've
11 said, Let's suppose -- and obviously, we've heard
12 discussion today about whether the driver for system
13 planning is demand or energy. But let's suppose that
14 system planning is driven by demand, and therefore,
15 demand is causing this additional investment, this
16 additional cost, and therefore demand should pay for
17 that. And that's -- that's how we are looking this.
18 And so the question of the extent to
19 which an individual customer benefits as a supplier
20 is, to us, a different issue than how they benefit as
21 a customer. And so our analysis is based on the DSM
22 as being part of a portfolio of -- of alternatives to
23 supply, and we have analyzed in -- in that -- from
24 that approach.
25 MR. PAUL CHERNICK: Yeah. I -- I

1 understand how you've analyzed it. So in a situation
2 where -- say, DSM costs four (4) cents, and the
3 avoided costs are ten (10) cents, and it's clearly
4 very cost effective. Manitoba Hydro encourages a lot
5 of customers in a particular class to participate.
6 As a result of that, let's suppose that
7 the reduced cost allocation to that class is twelve
8 (12) cents because of the way that the various peak
9 demand allocators are affected by this reduction in
10 load and the energy allocators. And so the class
11 revenue requirement goes down by fifteen (15) cents.
12 They would be better off with the DSM
13 even if they were charged -- if the class were charged
14 the whole twelve (12) cents -- if that's -- excuse me,
15 the whole four (4) cent cost of the measure.
16 And -- and yet, if you -- you're
17 transferring the -- the -- some of that fifteen (15)
18 cent savings in allocation to the other classes, they
19 would be worse off if they have to pay for both the
20 reallocation of the costs and the DSM.
21 Is that not a -- a situation that can
22 arise?
23 MR. A.J. GOULDING: I think that what
24 we would want to do is -- there's a wide range of
25 circumstances that could arise as a -- as a

1 consequence.

2 But I think that, in -- in this

3 particular case, we would want to disaggregate the

4 analysis in terms of the payments that are coming to a

5 customer class with regards to the actual DSM from the

6 analysis of the -- of the benefits. And I think

7 that's what we're doing here.

8 So I don't disagree with you that there

9 could be a variety of outcomes when you look at the

10 actual allocation within the model. But my sense is

11 that the scenario that you've proposed is one (1) of a

12 wide range --

13 MR. PAUL CHERNICK: M-hm.

14 MR. A.J. GOULDING: -- of potential

15 outcomes in -- in this --

16 MR. PAUL CHERNICK: Right. And -- and

17 my suggestion was to look at the range of outcomes and

18 make sure that you're at a place where you're not

19 either burdening the non-participant classes or the

20 participant classes by either allocating too much on

21 system benefits or too much to -- to -- directly

22 assigned to the participating classes.

23 MR. A.J. GOULDING: And I -- I believe

24 that's consistent with some of where we started in the

25 sense that what -- what we've said is that cost

1 allocation is a starting point, and that then you need
2 to go and look at additional elements in your rate
3 design to determine whether -- when we look at this
4 holistically, whether the outcome is consistent with
5 rates that result in the design principles that you
6 believe are important.
7 MR. PAUL CHERNICK: Okay. My final
8 question or -- it -- yeah, I guess it's -- it's just
9 one (1) question probably -- is on page 12 at the
10 bottom, you refer to an RCC of 100 percent, indicating
11 that the customer class is paying the costs associated
12 with serving that class.
13 And this is a -- an issue that I
14 brought up, I believe, with Mr. Bowman as well, when
15 you say the costs assoc -- associated with serving
16 that class, you -- you really mean the -- an equitable
17 allocation of joint cost to that class. They aren't
18 necessarily costs created by that class, or costs that
19 could have been avoided if the class didn't exist.
20 We're taking up a bundle of costs, and
21 just dividing it up, and the -- the Cost of Service
22 Study is giving us a -- a sense of an equitable
23 allocation of costs to the class. And if it -- we've
24 got a hundred percent RCC, then, you're paying the
25 amount that the Cost of Service Study has shoved your

1 way.

2 But calling it costs associated with

3 serving that class may be too strong a term. Would --

4 would you agree that that's sort of what we're doing?

5 MR. A.J. GOULDING: So I -- I think

6 that what I would say and -- is -- is that -- I mean,

7 ultimately, your cost allocation carries with it a

8 degree of judgment. And that once we've determined

9 what the cost allocation is, then we're comparing, you

10 know, the amount that's recovered relative to the cost

11 allocation, and if there's a wide divergence, then

12 that leads us to ask further questions.

13 And -- and I -- I believe that -- that

14 while you'd hope that the cost allocation -- the

15 principles of caus -- causality marry exactly, it's

16 not -- it's an art rather than a science. And so I

17 think that, you know, if -- if we said the same amount

18 of revenue as the allocated costs associated with

19 serving that class, that may be consistent with --

20 with what you're --

21 MR. PAUL CHERNICK: That -- that's

22 exactly the point I -- I wanted to make. Just that --

23 to make sure that you weren't suggesting that those

24 allocated costs were sort of objectively and

25 irrefutably the cost of that class, as if they're

1 walking out of the store with something they haven't
2 paid for.
3 This is an allocation process. We come
4 up with a number. It's the best number we can come
5 up, but it's an allocation. It's not a cost
6 necessarily that's directly caused by the class.
7 And it -- it -- this is -- this is just
8 a trap that I think a lot of people fall into in
9 trying to -- and -- and I'm sure I've said something
10 similar at -- at times, trying to say things briefly,
11 and it's easy to -- to misinterpret the cost
12 allocation, in my view, as being a -- a final answer.
13 And then that concludes my questions,
14 and I'm --
15 THE FACILITATOR: Good.
16 MR. PAUL CHERNICK: -- passing it
17 along.
18 THE FACILITATOR: Thank you. So our
19 next group of questions come from MIPUG and Patrick.
20
21 CROSS-EXAMINATION BY MR. PATRICK BOWMAN:
22 MR. PATRICK BOWMAN: Yes, hello. Good
23 morning. Just as a -- a brief preamble, Mr. Goulding,
24 you weren't here for the other days, I don't believe,
25 and for everyone involved, the -- the questions we're

1 going through is -- is really focussed on replacing
2 the IR process that would normally exist for the
3 evidence.
4 And so there's a few things we just
5 want to make sure that we can -- we can cover off, and
6 -- and I'm hoping that we don't take a whole bunch of
7 time. There's just a -- a few items in here that --
8 that I hope to address.
9 But for completeness, one (1) of the
10 first things is your submission has the LEI
11 credentials attached to the back, but one (1) of the
12 things it doesn't address is the CVs of the individual
13 participants and their role in preparing the evidence.
14 And for the completeness, is that -- is it possible
15 to have that put on the record?
16 MR. CHRISTIAN MONNIN: Mr. Bowman,
17 thank you. Thanks for the courtesy of speaking within
18 the side bar before going on the record today. We're
19 prepared to -- we'll provide you with the individual
20 CVs of Mr. Leslie, Mr. Goulding, and Mr. Chow, and
21 we'll provide with an overview of the roles with
22 respect to the evidence that's been submitted.
23 MR. PATRICK BOWMAN: That -- that'd be
24 helpful. Thank you.
25 MR. CHRISTIAN MONNIN: Thank you.

1 MR. PATRICK BOWMAN: Oh, is it -- I -
2 - I think we have to use -- use the magic word
3 'undertaking'.
4 THE FACILITATOR: Yes, that's right.
5
6 --- UNDERTAKING NO. 36: GSS/GSM to provide the CVs
7 of Mr. Leslie, Mr.
8 Goulding, and Mr. Chow,
9 and an overview of the
10 roles each played with
11 respect to the evidence
12
13 CONTINUED BY MR. PATRICK BOWMAN:
14 MR. PATRICK BOWMAN: The other thing
15 is be -- obviously, London Economics, as you say, has
16 been around a long time, and has been involved in a
17 lot of different cases throughout the world. The --
18 the piece at the back goes through some of those, but
19 am I to understand that at -- at least in terms of --
20 of Canada a significant amount of the work is -- is in
21 Ontario, which has some hydro, but is mixed with other
22 -- other forms of generation?
23 Or -- or is -- do you want to sort of
24 fill that out in terms of the -- the office that you
25 work with or the -- the key type of cases that you

1 work on?

2 MR. A.J. GOULDING: Thank you for --

3 for the opportunity to discuss that question. So

4 while our office is -- is based in -- in Toronto, we

5 work across Canada and we've worked on -- I realize

6 Alberta isn't going to help you in your question given

7 its significant lack of hydro relative to -- to

8 Manitoba, but in addition, we work in Quebec and in

9 British Columbia, both of which obviously have

10 substantial amounts of hydro.

11 We've also worked further afield in

12 places that have a significant amount of hydro.

13 MR. PATRICK BOWMAN: And I'll say for

14 a brief piece of evidence you have certainly waded

15 into a few of the epic battles that those of us who

16 have been here for a while have -- have dealt with and

17 I think some of that showed up this morning.

18 One (1) -- one (1) of those epic

19 battles that shows up in this hearing at least is --

20 is the commonly referenced shaded box at page 4 of

21 your testimony on the -- the rate design principles.

22 And if -- if Summer (phonetic) is keeping track of the

23 -- of the script, Mr. Chernick and I tend to align, I

24 believe, on the side of being very clear about the

25 principles and purposes of a cost of service analysis

1 separate and distinct from the principles of a rate
2 design step of the process and that one (1) can get
3 into a bit of trouble if you -- if -- if we're not
4 clear about that.
5 And -- and I think this section read a
6 bit like they're all part of the same process. And I
7 -- I believe perhaps your -- your discussion with Mr.
8 Chernick may have -- have clarified that a bit. But
9 won -- I was just wondering -- I just want to get it
10 clearly, when you set out the rate design principles
11 here, you comment on rate design later in the
12 document. You talk about rebalancing.
13 But in terms of a -- a Cost of Service
14 Study, cost causation is the one (1) that you're --
15 you're focussing on being the driver there as opposed
16 to something like -- like incentives?
17 MR. A.J. GOULDING: That's -- yes,
18 that's -- that's correct.
19 MR. PATRICK BOWMAN: So as much as
20 it's a rate design principle, things like incentives,
21 or I -- I could add some others, but administrator
22 efficiency or something are not really key to the Cost
23 of Service Study. Those will get dealt with in a rate
24 design step?
25 MR. A.J. GOULDING: That's -- that's

1 correct.

2

3 (BRIEF PAUSE)

4

5 MR. PATRICK BOWMAN: Now, I think a

6 lot of this other material has been -- has been dealt

7 with, so I think we can move a little bit quicker

8 here. I'm -- I'm going to your section on allocation

9 of fixed costs to export sales.

10 And just to be clear, there have in

11 effect over the last few days almost been three (3)

12 different concepts of how one treats export sales in

13 the Cost of Service Study sketched out a bit,

14 although, only really two (2) of those are dealt with

15 in any particular piece of evidence.

16 One (1) of those concepts is we create

17 an export class. We break it into two (2) different

18 services, one (1) called dependable and one (1) called

19 opportunity and then we figure out how to allocate to

20 each of those.

21 A second concept is we create an export

22 class, but just one (1) class and we assign costs to

23 that based on the nature of exports.

24 And a third is going back to a model

25 that was used here before, which is we basically don't

1 have an export class. Export revenues can just get
2 credited against the -- the system as a -- a benefit
3 to customers.
4 We don't have to go down the road of
5 trying to say, What are the cost to serve exports,
6 because it doesn't help us learn the -- the
7 profitability of exports. It doesn't help us set
8 rates for exports, so why are we going through all
9 this exercise in the study.
10 So I'll call that sort of the zero
11 export class, one (1) export class, two (2) export
12 class. This section you've weighed in on how one
13 would divide the line were one to have two (2) export
14 classes, but I don't see you sort of weighing in on
15 the ought there be one (1), ought there be zero, ought
16 there be two (2) question.
17 Do you -- did you take a position on
18 that, or?
19 MR. A.J. GOULDING: I suppose we've
20 taken a position by exclusion in -- in that we've
21 proposed something that we believe is both sensible
22 and consistent with our view of cost causation.
23 I don't believe that our intention is
24 to say that this is absolutely the only approach. So,
25 you know, we -- we haven't in -- in this particular

1 paper had extensive discussion of what are the pros
2 and cons of an export only method or the pros and cons
3 of a no export class method.
4 We were really focused on this as -- as
5 cost allocation building on the status quo.
6 MR. PATRICK BOWMAN: Right. So given
7 what Hydro put out, which is two (2) export classes,
8 you looked at how -- does that pass your smell test
9 for the right way to do it and, if not, how would you
10 tweak it to make it better. Is that fair?
11 MR. A.J. GOULDING: Yeah.
12 MR. PATRICK BOWMAN: Okay. And so
13 just clarifying, if I look -- I'm -- I'm moving now
14 just to the very top of page 7. You say it defines
15 the opportunity of dependable export sales as -- as
16 50:50. There's a note at the bottom. I just want to
17 clarify.
18 You're not saying the method is 50:50.
19 You're saying the end result of the method they apply
20 at this point in time yields about 50:50. Is that a
21 fair statement?
22 MR. JAROME LESLIE: That's a fair
23 statement. That's a fair statement.
24 MR. PATRICK BOWMAN: Okay. So any of
25 us who have produced, you know, evidence of this

1 nature know that, once you've waded in to talking
2 about something like standard deviations, everyone can
3 jump on a data question and miss perhaps the point of
4 the -- of the section, the conclusion.
5 And just to drag it back to sort of
6 what this is trying to deal with, as I understand it,
7 your entire section 3.1 is -- is an analysis to deal
8 with an overall conclusion you came to that Manitoba
9 Hydro's approach was under allocating costs to
10 exports?
11 MR. A.J. GOULDING: Yes, that's
12 correct.
13 MR. PATRICK BOWMAN: So re --
14 regardless of this other piece we're talking about,
15 the -- the conclusion you're working with is -- is
16 related to how many costs -- how -- what type and
17 scale of costs we'd want to apply to exports and --
18 and Hydro not having gone far enough?
19 MR. A.J. GOULDING: That's correct.
20 MR. PATRICK BOWMAN: Okay. In the
21 context of a cost of service study when you deal with
22 this in other places, I don't know whether you --
23 because of perhaps Manitoba's situation may be a bit
24 different, we can have extremely different financial
25 results from year to year due to things like water

1 flows. And sometimes you even know that way in
2 advance.
3 So if one is running a cost of service
4 study, I'm presuming that you're accepting what us
5 Manitoban's do about trying to run a cost of service
6 study based on some -- some average flow, if you like,
7 rather than try to capture this very nuance of, is it
8 a drought year, is it a flood year. You -- you've
9 seem to -- accepted that rationale. Is that fair?
10 MR. A.J. GOULDING: Yes.
11 MR. PATRICK BOWMAN: Yeah. And so
12 we're not trying to go sort of ruthlessly short on our
13 -- our methods or what -- what does a given year look
14 like. I -- I presume you accept that you're trying to
15 develop a set of methods that is reasonably robust
16 across different conditions and can be applied for
17 while?
18 MR. A.J. GOULDING: Yes, that's
19 correct.
20 MR. PATRICK BOWMAN: Now, when you
21 say, "applied for a while," do you have a sense as to
22 -- you know, if a system's going to be in a type of
23 condition for five (5) or ten (10) or twenty (20)
24 years, maybe not fifty (50) years, do you have a sense
25 as to what -- you know, what horizon you're trying to

1 represent with that robustness or do you -- would you
2 be interested in commenting on that?
3 MR. A.J. GOULDING: I mean, that's a -
4 - that's an interesting question. And I -- I think
5 that we have to deal with it in -- if you think about,
6 I guess, confidence intervals. But I would say that
7 you want to make sure that -- you know, ideally, you
8 don't want to revisit it in the next five (5) years,
9 right?
10 You're going to have more information
11 at the end of five (5) years. You'd like for it to be
12 durable, you know, at least probably for ten (10)
13 years and to have a foundation that could have the
14 possibility of going out for twenty (20).
15 But, you know, in each kind of five (5)
16 year block you're going to have more information that
17 informs whether what you're doing is working and
18 you're ideally going to refine based on the foundation
19 that you've -- that you've built up.
20 So I think that the -- the time frame,
21 I would, thinking broadly, like to put something in
22 place that's going to work for twenty (20) years but
23 have the opportunity to be refined in, let's say, five
24 (5) year increments.
25 MR. PATRICK BOWMAN: And is that due

1 to -- like, we've already said you don't want to try
2 to chase one (1) year facts, you want to chase
3 something longer. But is -- is that -- is that due to
4 sort of administrative requirements, the -- the cost
5 and complexity of the hearing, or the difficulty of
6 forecasting if you go too far?
7 Like, is it -- what it sends to
8 customers for a horizon they can react on? Like what
9 -- what goes into that consideration?
10 MR. A.J. GOULDING: I -- I think it's
11 a -- it's a balance in the sense that, you know,
12 ideally, if you can move away from something that
13 requires extensive hearings on an annual basis, I
14 think that that's probably good for maybe everybody
15 but people like me. So I think that's potentially
16 beneficial.
17 On -- on the other hand, I think that,
18 you know, when we -- when we look at, you know,
19 periods of time, both with regards to the industry as
20 well as with regards to the data, right, and we think
21 about how fast the industry is changing and how
22 reliable the historical data is, what -- what we want
23 is to have the ability to check back in at a time when
24 we think that there may have been enough changes to
25 warrant further analysis.

1 And I think -- I work -- I worked with
2 a number of hydro assets and looked at data, and I --
3 I have enough of a concern that the future doesn't
4 look like the past with regards to hydrology to
5 believe that it's worthwhile to check in every five
6 (5) years to see whether you can define -- you know,
7 determine whether there's been some kind of a shift in
8 hydrology.
9 MR. PATRICK BOWMAN: So leaving that -
10 - I -- I wasn't actually going to the hydrology part.
11 I will go there in a minute, so I'd like to talk about
12 that. This was a bit building on the questions Mr.
13 Chernick had sought your thoughtful opinion on in
14 terms of, you know, is there a cost in today's revenue
15 requirement associated with advancing Wuskwatim or
16 advancing a plant.
17 And I guess my -- my question to you
18 is: In the context of Manitoba where -- we have some
19 combustion turbine that were put in place in the early
20 2000s, at the time premised on the idea that one could
21 use them to firm up exports and capture some revenue.
22 After that, we pursued some wind on the
23 premise that it was a good supply option, but also
24 that you could -- you could build up your energy
25 supply to be able to go -- go to market and -- and

1 increase some export sales.

2 Then we have the Wuskwatim plant that

3 was advanced. Today, Wuskwatim's in service and

4 serving domestic, but it was clearly advanced a number

5 of years, depending on which load forecasts you work

6 with.

7 And -- and we're moving forward with

8 building Keeyask which is -- is significantly

9 advanced. And if DSM efforts are successful and loads

10 don't grow very fast, as they seem to be doing, it's

11 going to be advanced a long time.

12 So over that sort of twenty (20) year

13 horizon, there's this sequence of plants that -- that

14 came online that were either justified or advanced

15 based on the premise of chasing exports.

16 The fact that nobody points to one (1)

17 line item in today's revenue requirements and say,

18 That was the one that advanced for exports, doesn't

19 undermine the -- your point that Hydro -- that

20 export's integral to Hydro's decisions about when it

21 builds things.

22 MR. A.J. GOULDING: I -- I agree with

23 that. This analysis was not founded on any one (1)

24 investment, but on a review -- or on an understanding

25 of the broader system planning justifications in -- in

1 Manitoba.

2 MR. PATRICK BOWMAN: Okay. Now, going

3 to your graph, I understand you're going to update

4 this and -- and produce some data for people that will

5 have standard deviation calculations, and again, for

6 the same reason, possibly focusing on what it means

7 rather than just what the math is.

8 One (1) thing I can tell you you will

9 see is, as soon as you extend this further back, you

10 will find that 2003/'04 was an extreme drought in

11 Manitoba.

12 It was a one (1) year event, and -- and

13 in that year, the -- the top area, blue colour, I

14 guess, on your -- your -- page 7 of your evidence will

15 -- will drop down significantly compared to anything

16 that's there. Before that, it'll be higher, and

17 depending on how far you go back, you'll see these ups

18 and downs.

19 Can you explain in terms of this how

20 that changes -- if that year were included, how would

21 that change the meaning you drew from this that these

22 opportunity revenues seem pretty integral to the --

23 the system over -- over a reasonable horizon?

24 Would it change it because there's that

25 one (1) spike down?

1 MR. A.J. GOULDING: So while our
2 analysis is obviously driven by the time horizon that
3 we look at, I think that there's a difference between
4 a one (1) year event and one (1) that occurs
5 repeatedly and relatively frequently. And so I'm not
6 convinced that we would throw out this methodology
7 based on a single year, nor do I necessarily think
8 that if there's one (1) year that drops below the two
9 point five (2.5) standard deviation that we -- we
10 might adjust the levels.
11 And, you know, depending on the time
12 horizons that we look at and the way that the data is,
13 you know, would our, you know, calculation or
14 recommendation that it be 16 percent that's added as
15 opposed to 14 percent or 18 percent, that will, you
16 know, almost certainly change depending on the time
17 horizon that we look at.
18 But in terms of finding some
19 excursions, I think that we wouldn't necessarily throw
20 out the idea that opportunity exports contributed to
21 the analysis of the timing of when to build something
22 and what to build.
23 MR. PATRICK BOWMAN: So what we'll get
24 from Hydro at times in hearings like this is a very
25 long-term hydrologic record --

1 MR. A.J. GOULDING: M-hm.
2 MR. PATRICK BOWMAN: -- a hundred
3 years. And they'll apply it to the existing plant.
4 We can't just look at what it generated in the 1930s.
5 We'll say what -- what -- if we had the assets today
6 and the 1930s --
7 MR. A.J. GOULDING: Yeah.
8 MR. PATRICK BOWMAN: And they could
9 draw graphs that presumably look something like this.
10 It may not be based on actuals. It would be based on
11 how -- how dependable is the supply.
12 MR. A.J. GOULDING: Yeah.
13 MR. PATRICK BOWMAN: And that graph
14 would show drops, as we talked about, it would show
15 spikes of course. That's the way that the hydrology
16 works. And it would show some of those drops
17 sustaining for even three (3) or four (4), five (5)
18 years. It would be for that -- may --one (1) of them
19 goes almost seven (7) years, okay. Just to -- to sort
20 of context the question.
21 But if we had that graph that showed a
22 hundred years, and through most of that graph over any
23 -- over any sort of real horizon this blue resource
24 arises, is that consistent with -- I'm paraphrasing,
25 but you saying in an -- in an economic context this

1 blue reve -- blue revenue -- blue power is firmer than
2 you think?
3 It may not be firm enough that I go
4 sign a contract with someone to guarantee I could
5 supply them, but in the integral economics of your
6 system it's pretty firm?
7 MR. A.J. GOULDING: Yes.
8 MR. PATRICK BOWMAN: So -- and -- and
9 so in a way that graph -- other than it's showing
10 extreme bottoming out or something where you'd say,
11 no, no, this stuff is take it when you get it but
12 other wise it's really unreliable. If -- if blue is
13 there most of the time, it's just underlining your
14 point. It's firmer than you think, and you better --
15 you better consider it that way.
16 MR. A.J. GOULDING: Yes.
17 MR. PATRICK BOWMAN: Okay.
18
19 (BRIEF PAUSE)
20
21 MR. PATRICK BOWMAN: Now, is that
22 different than -- you -- if you've done this cost of
23 service work in other places I'm sure you have run
24 across the idea that often a utility will be able to
25 gain some revenues from some -- some side function,

1 renting their poles, doing some -- producing bills for
2 someone, and they can gain a bit of revenue.
3 Is -- is your basic case that this --
4 this blue part for sure -- for sure the green part,
5 but also substantively the blue part is very different
6 than that type of revenue? That -- that, you know,
7 take it if you get it but you didn't chase it.
8 MR. A.J. GOULDING: It's an
9 interesting question. I -- I think that it is
10 different in the sense that when we look at the
11 overall thought process that goes into planning, when
12 we built the poles, right, we built exactly the number
13 of poles that we thought that we would need for our
14 domestic customer class. We didn't anticipate that
15 Shaw or -- or Rogers would come along and have another
16 use for these poles.
17 And therefore that revenue never really
18 went into the planning process to begin with. And I
19 think that's a bit different from an asset that's from
20 the beginning being built with multiple drivers.
21 MR. PATRICK BOWMAN: So I guess I'll -
22 - I'll go to the question then. If your conclusion is
23 some of this area that's plotted in blue, shaded in
24 blue in your graph, and the graph might look
25 different, by its nature it looks a lot more like the

1 green part, to dependable, so a lot -- a lot more of
2 the opportunity looks like dependable.
3 What is the nature of the character of
4 the blue part you're saying should still only be
5 assigned variable costs? What is it about that
6 residual stuff that you -- you still consider to be
7 opportunity variable costs that leads to it only
8 getting variable costs?
9 What -- what's missing from you being
10 able to say, No, no, that stuff you built for just as
11 much as the other?
12 MR. A.J. GOULDING: So I think it's
13 probability of realization in -- in that if -- if we
14 were to just build a basic performer for the asset,
15 right, and think about what would we rely upon, right,
16 what would we -- and I'm speaking simplistically and
17 generally here, right.
18 If -- if we were looking at a, you
19 know, a merchant facility that we had to take to the
20 bank and we had to look at coverage ratios and look at
21 a whole host of other financial things, what level of
22 activity would we rely on.
23 And so in terms of these amounts that
24 are above a particular threshold, I think that we
25 would say, Look, you know, it -- it makes us feel more

1 comfortable to do the investment that we think that
2 there's going to be even more than we've laid out.
3 But what we feel that we can represent
4 to the bank, in my hypothetical example, we have a
5 high degree of confidence in -- in this particular
6 level. We're pretty confident there's going to be
7 more than that out there, but we don't want to rely on
8 that for our financial projections.
9 And, I mean, where -- where you draw
10 that line, of course, is subject to judgment, but our
11 argument for not including all of the blue, I think is
12 -- is based on the degree of confidence that we have
13 that it will be there in most years.
14 MR. PATRICK BOWMAN: Okay. You used
15 the term 'probability of realization' which I have
16 written down and circled. Is it acceptable that we
17 work within this context, that this is a -- the test
18 that you might apply? Is -- you acceptful -- you --
19 you're okay if I continue to use that term?
20 MR. A.J. GOULDING: Yes, I think so,
21 yeah.
22 MR. PATRICK BOWMAN: Okay. So you
23 have the example of a discussion with a bank. A bank
24 may say, I need to be paid my bond interest every
25 year. I need you to be able to show me you're going

1 to pay it every year. You may be able to show them on
2 average, I'm going to get this revenue. I may have a
3 drought here or there, but I have some reserves
4 that'll get me through it.
5 But without trying to say to them,
6 Don't worry, one (1) in twenty (20) I'm going to get a
7 really good one (1). The -- the bank might not be
8 really impressed about getting paid one (1) year in
9 twenty (20).
10 MR. A.J. GOULDING: Right.
11 MR. PATRICK BOWMAN: But that's
12 different than when you're assessing a long-term asset
13 and you're saying, I may have a low probability of
14 receiving that. Well, that really high spike, for
15 example, in '05/'06 --
16 MR. A.J. GOULDING: M-hm.
17 MR. PATRICK BOWMAN: -- I may have a
18 really low probability of receiving that in any year,
19 but I have a near certainty I'm going to get it a
20 couple of times over two (2) decades, or a tim -- or
21 one (1) time over two (2) decades, or -- or one
22 hundred (100) years if you're talking about the life
23 of a hydro plant.
24 Does that -- does that change your
25 probability -- like what is -- what is your horizon

1 for probability of realization? When -- when we just
2 talked about cost of service, you know, ten (10) to
3 twenty (20) years is a nice horizon as opposed to a
4 bank who's looking at a one (1) year test.
5 MR. A.J. GOULDING: I think -- I mean,
6 the -- the challenge with, you know, hydro in general
7 and running a hydro system is you don't know exactly
8 when that year is going to occur and, you know, when
9 you're doing things like a net present value analysis,
10 for example, which obviously is not what we're doing
11 in a cost allocation study, but, you know, generally
12 speaking whether you get that high year in the first
13 year or in the last year it makes a big difference to
14 how valuable that surplus is.
15 And I think because of the variability
16 in the value of that surplus I'm inclined to view that
17 potential revenue differently from the -- that -- from
18 the revenues that we expect on a -- on a more normal
19 basis.
20 MR. PATRICK BOWMAN: So if Manitoba
21 Hydro prepared its NFAT, a need for an alternatives
22 proposal for the -- the Keeyask plant, for example,
23 and in doing that, they -- they ran detailed economic
24 tables going seventy-eight (78) years into the future
25 and in each case ran those based on mean lo -- mean

1 water so that they're effectively picking up these
2 very occasional peaks --
3 MR. A.J. GOULDING: Right.
4 MR. PATRICK BOWMAN: -- you're
5 suggesting that they may not have a high enough
6 probability of realization to want to build into that
7 economics. You shouldn't use the mean. You should
8 use something below the mean because of the
9 probability realization, ignoring your hydro --
10 hydrological climate change issue for a moment?
11 MR. A.J. GOULDING: Yeah. I think
12 it's -- it's partially a question of how conservative
13 your analys -- your -- your audience is, right, how
14 conservative your investment committee is in how they
15 think about going forward, right?
16 I think that a reasonable investment
17 committee would look at the average, want to think
18 about does the -- does the future look like the past
19 and determine to what extent they need a little bit of
20 margin for error against the -- against the average.
21 And so I -- I think that if I were
22 sitting on the investment committee I would probably
23 want some degree of -- right, I'd want to have a zone
24 of comfort around that average in order to be
25 comfortable going forward with the investment.

1 MR. PATRICK BOWMAN: I accept that.
2 But let me ask you a question sort of from the
3 perspective of, you know, the -- the Manitoban who
4 might understand the economics but doesn't deal with
5 the level of detail you do on -- on a daily basis.
6 These hydro plants always have the risk
7 of drought. They always have a lot of variability.
8 The assertion by -- that's been made is we effectively
9 need a Crown to develop them because of the -- the
10 difficulties of getting a private sector investor into
11 putting six (6) or $8 billion and -- and build a plant
12 and -- and what they would require in terms of an
13 equity return.
14 If we called Bay Street up and said
15 build us Keeyask, what would they require as an equity
16 return for a plant that could go through a seven (7)
17 year drought? Wait, what? And rather than us wanting
18 to pay these big re -- big -- big returns to Bay
19 Street we say, no, no, we -- we'll finance within the
20 finance. We'll back it with a government guaranteed
21 debt. We'll -- we're accepting of a high debt level
22 and we've got a million ratepayers here who will --
23 who -- who will, you know, look -- look at something
24 like a longer a term. We're -- we're going to look to
25 seventy-eight (78) years, not just twenty (20) or not

1 just ten (10) or not just the life of a bond.
2 If that's our investment context, what
3 I would hear you saying is, on an investment
4 committee, they may decide Manitobans are being too
5 bold, be more cautious, look to a shorter term, get
6 pushed away from Hydro, maybe look at some gas plants
7 down south, look at -- look at something with lower
8 capital, scale back, don't -- don't try to take
9 something like this on even though there's this near
10 certainty that over the life you're going to have some
11 of these good years.
12 Is -- are -- are you suggesting that
13 we're out there in terms of trying to go through this
14 much of a hydro system?
15 MR. A.J. GOULDING: So I'm very
16 cautious about waiting too far beyond the specifics of
17 cost allocation --
18 MR. PATRICK BOWMAN: Fair enough.
19 MR. A.J. GOULDING: -- given the
20 sensitivity of that particular topic. I think the
21 only observation that I would make, you know, is that
22 you certainly want to do your analysis consistent with
23 your investment horizon, right?
24 And so, if you really do have a sixty
25 (60) or seventy (70) or a hundred year investment

1 horizon, you might still want to have some cushion --
2 MR. PATRICK BOWMAN: Absolutely.
3 MR. A.J. GOULDING: -- relative to
4 what the data suggests would be the average.
5 MR. PATRICK BOWMAN: I think that's --
6 that's fair enough. And in -- and in -- in finding
7 that cushion, though, one (1) of the things that
8 helped pay for that cushion is some good years that
9 are likely to occur but may not occur very frequently
10 or -- or any that you can bank on in advance. Good
11 waterflow years, I mean.
12 MR. A.J. GOULDING: Yeah. I -- I
13 think that almost anybody that invests in a hydro
14 facility is -- is going to be relying on the high
15 years balancing out the low years.
16 And the extent to what -- you know,
17 whether you do an analysis that implicitly takes into
18 account the low years and throws out some of the high
19 years as a means of justifying your investment, I
20 think different people will land in different places
21 with regards to what the appropriate threshold would
22 be.
23 MR. PATRICK BOWMAN: Thank you. That
24 was -- I -- I think that was very -- very useful.
25 Probability of realization was a helpful -- helpful

1 term for that.

2 THE FACILITATOR: Patrick --

3 MR. PATRICK BOWMAN: Yeah.

4 THE FACILITATOR: -- just a couple

5 more minutes, please.

6 MR. PATRICK BOWMAN: I -- I don't

7 think I have any more minutes. I'm just looking to

8 check.

9 THE FACILITATOR: Perfect.

10

11 (BRIEF PAUSE)

12

13 MR. PATRICK BOWMAN: Yeah. I -- I

14 have nothing else.

15 THE FACILITATOR: Great. Thank you

16 very much. I thought it sounded like a love-in there

17 in the questioning until you tried to push them from

18 the lower bound up to the full amount of the

19 opportunity costs.

20

21 (BRIEF PAUSE)

22

23 THE FACILITATOR: Probably just as

24 well. I understand we also have another change here

25 so that the -- the Board is going to do its

1 examination at this point in advance of Manitoba
2 Hydro. John...?
3 MR. JOHN ATHAS: Thank you.
4
5 CROSS-EXAMINATION BY MR. JOHN ATHAS:
6 MR. JOHN ATHAS: Picking up on the --
7 I have a few areas of questions, but I want to pick up
8 on the area that Mr. Bowman was talking about. And I
9 guess I wanted to ask the questions in a little bit
10 more direct way, and the -- and regarding the
11 opportunity sales levels and appropriateness.
12 Do you think it was inappropriate to
13 base the opportunity sales in an economic
14 justification like the NFAT on the modelling process
15 that Manitoba Hydro used, which is to look at a
16 hundred (100) years of -- of water history and look at
17 the plant configurations that they have going forward
18 -- so when they add new hydro, they -- they get more
19 sales -- and -- and to base their -- to base the --
20 their recommendation to the Board and the Board's
21 ultimate acceptance on their modelling and using the
22 average of those -- of those hundred (100) year
23 analyses?
24 MR. A.J. GOULDING: So I think that
25 folks at Manitoba Hydro and -- and utilities like that

1 live and breath hydrology and hydrology analysis. And
2 so I would not want to suggest that they've done
3 something that was incomplete or inappropriate.
4 I think that what I would suggest is
5 that, in examining that data, analysts could use the
6 same set of data and come to different conclusions
7 about what the appropriate thresholds are.
8 And I think that in looking at the
9 average of the data relative to, you know, how you
10 perform sensitivities, different people might come up
11 with a different threshold to trigger the investment.
12 And we might not have used average in -- in those
13 circumstances.
14 MR. JOHN ATHAS: Okay. Well, one (1)
15 of the things -- just to put it in context, they --
16 they -- that process was used to develop a reference
17 case. And then there was an uncertainty analysis that
18 went along with that for twenty-seven (27) branches --
19 MR. A.J. GOULDING: Yeah, yeah.
20 MR. JOHN ATHAS: -- of probability of
21 outcomes --
22 MR. A.J. GOULDING: Yeah.
23 MR. JOHN ATHAS: -- and things like
24 that.
25 MR. A.J. GOULDING: Yeah.

1 MR. JOHN ATHAS: So does -- does that
2 -- does the fact that that was incorporated into a
3 larger uncertainty analysis affect your answer in any
4 way?
5 MR. A.J. GOULDING: No. So, I mean, I
6 think that it's certainly standard procedure to -- to
7 run something like a Monte Carlo analysis to look
8 through the data and stress it, but ultimately there's
9 the process, and then there's the parameters that are
10 used to make a decision based on the data that comes
11 from the process, right.
12 And so I think that there's perhaps two
13 (2) points, right. One (1) is that whether we would
14 use the average or some set of deviations around that
15 in order to decide whether to go forward with an
16 investment, we -- we might have used a different
17 threshold.
18 But in addition -- and I think what is
19 related to our submission is that we -- we do believe
20 that some portion of the exports that's identified as
21 opportunity in this analysis is actually expected in a
22 way that contributed to the decision to go ahead with
23 the investment.
24 And so when we explore this using
25 essentially two (2) classes of exports based on

1 dependable and opportunity, we would assign a higher
2 degree of firmness to a portion of the opportunity
3 exports.
4 MR. JOHN ATHAS: So then to the extent
5 that -- in -- in recommend -- to -- recommending to
6 our client had you been here and during the NFAT, you
7 would have recommended that there be some degree of
8 investigation and potentially critique about the -- of
9 -- of assuming that all the modelled -- the -- the
10 average of all the modelled opportunity costs --
11 opportunity export revenues was used in the
12 justification?
13 MR. A.J. GOULDING: So again I'm --
14 I'm very cautious about wading into other processes
15 and -- but an observation that I will make is that the
16 hydrology is only one (1) part of the analysis.
17 And in -- in terms of were I sitting in
18 that kind of a process, I would encourage what -- what
19 analysts love about hydrology is that there's lots and
20 lots of data, and we can -- we can look at it, and we
21 can think about it, and we can develop these sorts of
22 probability analyses. What's a lot more difficult to
23 do is to figure out what that output is going to be
24 worth in the future.
25 And again acknowledging that we're

1 going beyond what the focus of our work was here, I
2 think I do want to make an observation that in making
3 an investment decision we -- we need to both look at
4 the potential output, and the value as well.
5 MR. JOHN ATHAS: Sure. And -- and
6 would it surprise you that with all the parties that
7 were involved in that -- in the major proceeding to
8 decide to whether to go forward with $4 billion of
9 investment that no one made that a particular
10 discussion point as to something that wasn't taken
11 into account? The kind of things you're suggesting.
12 MR. A.J. GOULDING: I -- I would be
13 shocked if it hadn't, and -- and in fact obviously
14 while it wasn't part of this analysis, I mean, I think
15 we -- we did look at the NFAT review, and obviously we
16 know some people that were involved in it, and I think
17 there's always a question of, you know, did -- did one
18 (1) element of analysis get enough -- was it reviewed
19 in sufficient depth relative to another piece? Each
20 process is different.
21 MR. JOHN ATHAS: Okay. So if -- but
22 if they -- if the full opportunity costs as per --
23 coming out of modelling -- for opportunity export
24 revenues coming out of the modelling was accepted by
25 the community that was involved in that review,

1 including the Board and Manitoba Hydro, wouldn't then
2 the opportunity costs -- all the opportunity export
3 revenues have factored into causing the investment in
4 hydro -- in the hydraulic investment of $4 billion?
5
6 (BRIEF PAUSE)
7
8 MR. A.J. GOULDING: I think that the -
9 - the question is how and to what extent were the high
10 years taken into account and/or discounted, all right.
11 And I think that if there's a -- a view -- if there's
12 a set of analysis that says, We viewed 100 percent of
13 the output of the exports, and we took all of this
14 into account in making this investment, then there may
15 be an argument that instead of our 66 percent, that
16 some larger proportion should be allocated a greater
17 portion of firm costs.
18 MR. JOHN ATHAS: Okay. What -- what
19 determines the level of into -- of export opportu --
20 opportunity sales that occur? What are the -- what
21 are the key ingredients, in your mind?
22 MR. A.J. GOULDING: So first and
23 foremost, whether they're actually there, whether the
24 -- whether the volumes exist.
25 MR. JOHN ATHAS: I'm just trying to

1 understand -- I'm trying to determine -- determine if
2 that -- what determines the volumes. So I'm not sure
3 what you -- are you talking about the -- the volumes
4 of demand for those -- for those -- so now I'm just --
5 so taking into consideration even a starting point
6 that they might not exist at all, you know, what --
7 what are the building blocks that you have to have to
8 make -- to have export sales happen?
9 MR. A.J. GOULDING: Just -- just so
10 I'm clear, are we talking about export sales in
11 general, or specifically the opportunity sales?
12 MR. JOHN ATHAS: We can take it in
13 steps, but it -- it -- I was -- wanted to get to
14 opportunity sales, so if you want to -- if we wanted
15 to do it -- let's say -- let's take it in general
16 first.
17 MR. A.J. GOULDING: So in order for
18 there to be the potential for export sales, the
19 generation and associated transmission has to be sized
20 so that you have volumes available to sell.
21 MR. JOHN ATHAS: Okay. So the extent
22 is available capacity in generation and transmission.
23 That's one (1) step?
24 MR. A.J. GOULDING: Yes.
25 MR. JOHN ATHAS: Okay.

1 MR. A.J. GOULDING: Secondly, you have
2 to have a market. And by "market," I want to
3 emphasize I'm speaking broadly. You have to have --
4 it doesn't necessarily have to be a competitive
5 wholesale market, but you have to have somebody on the
6 other side of your transaction that is willing to buy
7 the -- the associated volumes.
8 MR. JOHN ATHAS: Okay. Is that a
9 limiting factor in this at all, given the fact that
10 they can put power into the MISO market at the
11 clearing prices that -- that MISO has?
12 MR. A.J. GOULDING: The -- I -- I
13 realize it seems like an obvious answer that there's -
14 - there's no constraints. You know, MISO is -- is one
15 (1) of the largest wholesale markets in the United
16 States.
17 And provided that -- that Manitoba
18 Hydro is willing to accept any price, they are likely
19 to be able to sell all of their bol -- volumes. I
20 think the -- the question becomes -- you know, market
21 dynamics have changed dramatically, you know, even in
22 the last five (5) years. And so there are certainly
23 going to be hours in which the price is -- is
24 unattractive.
25 MR. JOHN ATHAS: Okay. The -- so

1 there might be a very limited amount of influence on
2 the amount of export sales from the market -- the
3 market acceptance of the -- of -- I mean, generation
4 transmission capacity is an availability of -- of
5 production. And the market is the availability
6 limitations that you say that there could be some
7 degree of small hours.
8 Because what -- we've mentioned earlier
9 that there's little to no variable costs of making the
10 water sales when you consider it's sell versus spill
11 as the -- as the opportunity.
12 MR. A.J. GOULDING: Right.
13 MR. JOHN ATHAS: So is there anything
14 else that -- that is a key ingredient into making
15 export sales happen?
16 MR. A.J. GOULDING: There's the
17 practicality of having people to do them, right? In
18 other words, somebody has to make the connection in --
19 in terms of the financial and administrative aspects
20 of making these export sales, so.
21 MR. JOHN ATHAS: Okay, well, in -- in
22 trying not to -- trying to get the -- get through it a
23 little quicker, the one I'm driving to, and you can
24 tell me whether you don't think it's relevant, is
25 water. That you have to have enough water to util --

1 to -- to push through the -- that capacity that you
2 would -- that you mentioned?
3 MR. A.J. GOULDING: Yes, I -- I
4 certainly think that's relevant.
5 MR. JOHN ATHAS: Okay. So the -- the
6 two (2) key ingredients are whether you have enough --
7 whether you have more water than the lowest year,
8 which was the planning year for how much energy they -
9 - they wanted to -- you know, how much dependable
10 energy they could count on. And you have to have
11 enough capacity in your generation and transmission
12 line to deliver it.
13 Is that fair?
14 MR. A.J. GOULDING: I -- I would still
15 argue that you -- you have to have a counterparty.
16 But given that, you know, you -- you have to have the
17 water and you have to have the capability to convert
18 that water into electricity. You have to be able to
19 transport it to your counterparty and you have to have
20 somebody that's going to buy it.
21 MR. JOHN ATHAS: Okay. Now, is that
22 change between opportunity sales and ex -- and -- and
23 firm sales?
24 MR. A.J. GOULDING: No.
25 MR. JOHN ATHAS: Okay. So I have to

1 have -- so the -- the existence of the investment in
2 capacity creates -- is one (1) of the key things that
3 -- and the damming that -- the dams, not just
4 generating capacity, but the dams, is a key ingredient
5 as to making export sales -- opportunity export sales
6 possible?
7 MR. A.J. GOULDING: Yes.
8 MR. JOHN ATHAS: Okay. Now, in the --
9 in setting revenue requirements, typically and in this
10 -- and for the -- for this cost of service proceeding,
11 even though it's a gent -- generic methodology that we
12 wanted to come out of here versus rate setting, the --
13 the level of revenue requirements is set by a
14 forecasted modelling of the -- that mean year, the
15 average year process that uses ninety-nine (99) years
16 and comes up with an average, starts with existing
17 water conditions at the time of the -- of the
18 modelling year they were doing, and comes up with an
19 average.
20 Is -- is that inappropriate?
21 MR. A.J. GOULDING: No.
22 MR. JOHN ATHAS: Okay. So that level
23 of sales to decide on how much money we want to take
24 in -- in from customers is okay, but that level of
25 sales isn't appropriate to use for allocating costs,

1 those costs that we're talking about for the total
2 revenue requirements?
3 MR. A.J. GOULDING: So I think, you
4 know, it -- it gets back to what is your threshold and
5 what's your degree of -- of confidence in the
6 allocation? So in the process that you mentioned, I
7 think that you'd -- you'd mentioned, you know, using -
8 - using the average. And I think that what -- what
9 we've done is a bit more conservative than that in --
10 in terms of thinking about what proportion of those
11 opportunity sales are going to be available in most
12 years for -- for sale.
13 And so, you know, I -- I believe that
14 you can certainly come to a reasonable analysis that
15 some higher level of sales is probable. And the
16 question is, you know, in -- in how many years are you
17 going to hit that.
18 MR. JOHN ATHAS: Okay. In looking at
19 other costs, not -- not just -- not export revenues
20 but in -- right in the cost all -- in determining the
21 revenue requirements there were forecasts of O&M,
22 forecasts of capital projects being completed, and --
23 and many forecasts of -- of actions happening that
24 affect revenue requirements.
25 Would you -- would you take that for

1 grant -- I mean, take that as an assumption --
2 MR. A.J. GOULDING: Yes.
3 MR. JOHN ATHAS: Okay. Do we -- do we
4 discount the -- or try to adjust the best estimate for
5 those costs to account for probability of -- of cost
6 overruns, or probability of not needing O&M, or
7 probability of needing more O&M because of storms or
8 whatever? Do we -- is that -- is that process
9 generally done in any cost of service proceedings?
10 MR. A.J. GOULDING: Generally I would
11 expect that there would be some level of contingency
12 attached to many cost categories.
13 MR. JOHN ATHAS: Okay. So if a -- if
14 a capital investment that's being -- being finished up
15 that year has a contingency in it, which obviously has
16 no tangible equipment related to it because it's a
17 contingency that can happen in several areas, is it
18 inappropriate to have that contingency in the capital
19 cost estimate being used for the -- for setting
20 revenue requirements?
21 MR. A.J. GOULDING: Depending on the
22 level, no.
23 MR. JOHN ATHAS: Okay. So I'm
24 actually going to turn it over to my colleague, Brady,
25 to follow up on this, and then he's going to pass it

1 back to me. We have just about ten (10), fifteen (15)
2 minutes.
3 MR. BRADY RYALL: Good morning. On
4 page 7 of your evidence going back to the Figure 3
5 graph, you make the reference that -- that your source
6 is Manitoba Hydro Undertaking number 5, and I went --
7 I went to the reference and started trying to, you
8 know, figure out some of the -- some of the data
9 points and I was having a little bit of trouble.
10 I was going to ask for an undertaking
11 to -- for you to provide a little more information on
12 that, but with the new undertaking that you're going
13 to look at maybe a different or a better data set I
14 don't think it's necessary to -- to do that for this
15 particular figure.
16 But if -- if your counsel agrees,
17 perhaps with the -- when you provide the undertaking
18 if you could be sure to highlight and detail all your
19 references, and -- and where the information is coming
20 from? Is that something that could be done?
21 MR. CHRISTIAN MONNIN: Yeah, we
22 undertake to do that.
23 MR. BRADY RYALL: Okay.
24
25 (BRIEF PAUSE)

1 THE FACILITATOR: And -- and I don't
2 think that need be a separate undertaking. It'll be
3 consumed in the earlier --
4 MR. CHRISTIAN MONNIN: I was just
5 going to suggest that.
6 MR. BRADY RYALL: -- combined that
7 would likely be best. And -- and sorry, to -- to add
8 one (1) more slight detail to that is in terms of it -
9 - if it's being provided as a graph, could also the
10 data points be provided as well?
11 MR. CHRISTIAN MONNIN: Yeah, we'll
12 roll that into the prime undertaking, which --
13 MR. BRADY RYALL: Okay.
14 MR. CHRISTIAN MONNIN: -- might
15 fluctuate a little bit, subject to what Hydro provides
16 us this afternoon.
17 MR. BRADY RYALL: Understood. And --
18 okay, no that's good. Thank you very much.
19 MR. JOHN ATHAS: Okay. Moving into
20 the -- the question about -- about DSM, do you -- what
21 -- what do you use to -- as the basis for your
22 assertion that the primary driver of the DSM is peak
23 load reduction?
24
25 (BRIEF PAUSE)

1 MR. A.J. GOULDING: So I think the
2 primary driver may have been stronger than -- than
3 perhaps we should have used perhaps in this particular
4 case. I mean, to a certain extent there's an
5 interplay between what your overall system needs are
6 and the way in which you would optimally design a DSM
7 program.
8 I think the underlying point there
9 should be that, presuming that peak demand is the
10 primary driver of system planning going forward, that
11 DSM should be allocated to the drivers of peak demand.
12 But if other elements are driving system demand, then
13 DSM should be allocated consistent with the way in
14 which those drivers are allocated.
15 MR. JOHN ATHAS: So if -- if we were
16 to -- if -- if we were to accept the -- the notion
17 that there is no need to plan for capacity to meet
18 peak because, as Mr. Chernick mentioned yesterday,
19 there seems to be sufficient enough capacity as a by-
20 product to energy procurement that it's -- it's --
21 that capacity is irrelevant in terms of a planning
22 issue, would that change the -- the proposal to
23 allocate DSM under a CP methodology?
24 MR. A.J. GOULDING: I'm not sure that
25 I completely accept the premise, but if I did accept

1 the premise, then I would I think be comfortable
2 allocating it to energy rather than to peak demand.
3 MR. JOHN ATHAS: Okay. Thank you.
4 Now, the last area is net export revenues. And -- and
5 Mr. Harper asked you some questions about it, whether
6 it matters whether the direct assignment is inside the
7 utility system versus outside.
8 And I just wanted to make sure that I
9 understood that -- that you were in agreement with
10 that concept of inside the utility system versus
11 outside. It seemed to be that you were in agreement.
12 MR. A.J. GOULDING: I think in -- in
13 most circumstances, yes, but I think there -- there
14 may well -- and in the future there may be more
15 circumstances in general where the utility has a
16 variety of ways of meeting potential load growth. And
17 those may be both -- they -- they may be on either
18 side of the metre.
19 And so I would be a little bit
20 concerned about saying that we would not -- I don't
21 accept the premise that we would never include a cost
22 that was behind the metre in looking at the cost --
23 cost allocation.
24 MR. JOHN ATHAS: So what -- what
25 criteria do you use for a cost being relevant to the

1 distribution of net export revenues? Which -- which -
2 - by --
3 MR. A.J. GOULDING: I mean, I --
4 MR. JOHN ATHAS: -- by their wording
5 tells me that they're part of export revenues, so just
6 to --
7 MR. A.J. GOULDING: -- I mean, our
8 approach here has been to start with the overall cost
9 allocation and to use that as the primary driver for
10 the allocation of net export revenues.
11 And we believe that any exclusion of
12 costs should be on a case-by-case basis. We had the
13 advan -- the example of street lighting and the
14 question of whether there was the ability for the
15 customer to make a different choice that would affect
16 this.
17 And so let's -- let's say that the
18 Utility were suddenly to decide that it was going to
19 serve -- this is an extreme example -- everybody using
20 some combination of small diesel gen sets and solar
21 panels, right?
22 To me, that is simply an extension of
23 their interpretation of their obligation to serve, and
24 those costs should be incorporated in the cost
25 allocation that then determines the allocation of the

1 net export revenues.

2 MR. JOHN ATHAS: So essentially,

3 that's just generation at a different location?

4 MR. A.J. GOULDING: Exactly.

5 MR. JOHN ATHAS: Okay. So would --

6 would any generation costs be irrelevant to include in

7 the allocation of net energy revenues?

8 MR. A.J. GOULDING: I would argue not

9 in they're consistent with the Utility's obligation to

10 serve.

11 MR. JOHN ATHAS: So the -- and -- and

12 what about transmission, like interconnection costs?

13 MR. A.J. GOULDING: I would say again,

14 if it's consistent with the obligation to serve, they

15 should all be included.

16 MR. JOHN ATHAS: So -- so I might have

17 missed that before on this. I actually just -- so

18 you've made it really clear then you believe it's only

19 a relationship to the Utility's obligation to serve

20 all customers that make that cost relevant to the net

21 export revenue allocation?

22 MR. A.J. GOULDING: Yes.

23 MR. JOHN ATHAS: Why not relevance to

24 the cost -- or the -- for the -- to the creation of

25 export revenues as a criteria versus just the

1 Utility's obligation to serve?
2 MR. A.J. GOULDING: Could you help me
3 understand the question a little bit more? So are you
4 saying --
5 MR. JOHN ATHAS: Let me give you --
6 let me give you an example then. I'm not talking --
7 I'll give you two (2) examples. I'm not talking about
8 volume of kilowatt hours with DSM. But --
9 MR. A.J. GOULDING: M-hm.
10 MR. JOHN ATHAS: -- if DSM costs twice
11 as much, does that change my export revenues?
12 MR. A.J. GOULDING: I just want to
13 make sure that I understand the hypothetical. If DSM
14 costs twice as much as the value of the exports?
15 MR. JOHN ATHAS: No, twice as much as
16 what's in the -- what's in the test year.
17 MR. A.J. GOULDING: So because it
18 costs twice as much, that then means that it's -- it's
19 increasing the allocation of net export revenues -- is
20 -- is --
21 MR. JOHN ATHAS: It changes the
22 allocation --
23 MR. A.J. GOULDING: Right.
24 MR. JOHN ATHAS: -- of net export
25 revenues --

1 MR. A.J. GOULDING: Yeah, yeah.
2 MR. JOHN ATHAS: -- between the
3 classes. Okay. And if -- if area lighting costs --
4 at the fixture level --
5 MR. A.J. GOULDING: M-hm.
6 MR. JOHN ATHAS: -- costs twice as
7 much, that also would cha -- into your -- in using --
8 if you included all direct costs, that would also
9 change the allocation of net export revenues without
10 change -- without having really had any effect on the
11 export revenues?
12 MR. A.J. GOULDING: Yeah. I -- I
13 mean, I think the -- the question of the -- of the
14 lighting and the lighting fixtures is -- is a somewhat
15 unique attribute in getting back to the question of
16 whether it's incorporated in their obligation to
17 serve.
18 And, you know, if it is not, you know,
19 if it's genuinely a choice, then I would consider
20 excluding it.
21 MR. JOHN ATHAS: Okay. Now, if the --
22 if suddenly the -- the metering plan for residential
23 customers changed such that the cost of -- the amount
24 of money that was going to be expended on metres from
25 new metres and O&M to change them out and test them

1 like doubled in the test year --

2 MR. A.J. GOULDING: M-hm.

3 MR. JOHN ATHAS: -- and -- would that

4 change net export revenues allocation under your

5 methodology?

6 MR. A.J. GOULDING: So, I mean, I

7 think, getting -- getting back to our allocation

8 method, we would answer the same regardless of what

9 customer class it was. So if -- if our customer class

10 ended up having fewer metering costs in the future,

11 then they would get less of an allocation and another

12 customer class would get -- would get more.

13 So in -- in the approach that we have

14 proposed, you're -- you're right that metering costs

15 increase for a particular customer class, the cost to

16 serve that class goes up. And there's a corresponding

17 increase in their allocation of net export revenues.

18 MR. JOHN ATHAS: So why is that cost

19 relevant to export revenue allocation?

20 MR. A.J. GOULDING: Well, I -- I think

21 that we -- we need to determine what we're trying to

22 accomplish with net export revenues, right? And

23 there's many different philosophies for how that net

24 export revenue should be applied.

25 MR. JOHN ATHAS: And actually, I --

1 we'd just like to understand your under -- your
2 criteria that you're applying to say that that's
3 relevant.
4 MR. A.J. GOULDING: Right. So, I
5 mean, what -- what we're applying is share of total
6 costs. Right.
7 MR. JOHN ATHAS: And why is --
8 MR. A.J. GOULDING: Complete total
9 costs.
10 MR. JOHN ATHAS: And that includes
11 just -- that includes those metering costs that I was
12 talking about. So why are those relevant to export
13 revenues from across the service basis?
14 MR. A.J. GOULDING: So in -- in our
15 overall perspective the net export revenues are a -- a
16 benefit, or, you know, potentially in -- in some years
17 when you make very little or -- or not so much of a
18 benefit, but that -- that they should be allocated
19 back according to direct costs in terms of a -- a --
20 from -- from the perspective of fairness and equity.
21 So our -- our view is that your
22 contribution to the total cost of the system, and each
23 customer class is going to have differences in terms
24 of it's metering costs or of other elements that are
25 particular to it, that the most appropriate way of

1 allocating the net export revenues is based on the
2 costs that have been allocated to particular customer
3 classes.
4 MR. JOHN ATHAS: So if the -- so if
5 three (3) years from -- five (5) years from now we're
6 looking at a net export revenue calculation that's
7 extremely negative because the export prices are down,
8 the amount of exports have increased a lot because
9 Keeyask is on -- in place, but it cost billions of
10 dollars, and we finished off some additional
11 transmission that cost billions of dollars, so that
12 number is extremely negative.
13 You would be comfortable explaining to
14 classes of customers that have distribution related
15 costs in that allocation that it's fair for you to --
16 for them to absorb more of those negative impacts?
17 MR. A.J. GOULDING: I mean, you can't
18 have it both ways, right. And so I think that in that
19 -- in those circumstances you would have to point out
20 what is happening over the long run rather than what's
21 happening in a -- in a specific year in order to think
22 about the overall benefits to -- to that particular
23 customer class.
24 So I certainly wouldn't want to have an
25 approach that said, You know what, we're only going to

1 take it in the years that it's beneficial to a
2 particular customer class and we're not going to take
3 it in a -- in a year when it's -- when it's negative.
4 That's not internally consistent.
5 MR. JOHN ATHAS: So if -- if we're
6 having this discussion --
7 THE FACILITATOR: Sean, can --
8 MR. JOHN ATHAS: Okay. I just have
9 one (1) last -- one (1) last question.
10 THE FACILITATOR: Thank you.
11 MR. JOHN ATHAS: So we're having this
12 discussion in four (4) years from now and the outlook
13 is for the next -- under almost anybody's estimation
14 that net export revenues are going to negative for the
15 next twenty (20) years, is your position the same?
16 MR. A.J. GOULDING: I wonder if
17 anybody's position will be the same under those
18 circumstances. You know --
19 MR. JOHN ATHAS: I'm not asking you to
20 answer that difficult question, but --
21 MR. A.J. GOULDING: Yeah.
22 MR. JOHN ATHAS: -- just your -- just
23 your own difficult question.
24 MR. A.J. GOULDING: I think that we've
25 tried to straddle a line here in our testimony between

1 what's good for our customer class as well as what's
2 internally consistent in terms of the overall cost
3 allocation.
4 And so I'd like to hope that we would
5 argue the same thing if our scop -- if our scope of
6 work was the same in those circumstances.
7 I suspect that under those
8 circumstances we would be -- we would be employed by a
9 customer class that was trying to come up with
10 arguments about why not to be allocated those negative
11 costs. So I think you're absolutely right that in
12 those circumstances somebody's going to come and --
13 and try and push those costs off onto oth -- onto
14 other customer classes.
15 MR. JOHN ATHAS: Okay. And -- and if
16 I can just do one (1) small one (1) because this is
17 just a fact -- a fact quick question. Thank you for
18 that answer. Yeah, on Figure 5 you've shown the
19 effect of a change in the allocation process for net
20 export revenues.
21 Are tho -- is that assuming the net
22 export revenues that are in Manitoba Hydro's filing or
23 is it based on a different set of -- or is it based on
24 something like your use of the 66 percent?
25 MR. JAROME LESLIE: That represents

1 the data in the model provided by Manitoba Hydro
2 reflected of PCOSS14 amended.
3 MR. JOHN ATHAS: Okay. So the only
4 change in here is the allocation of NER?
5 MR. JAROME LESLIE: That's -- that's
6 correct.
7 MR. JOHN ATHAS: Thank you.
8 THE FACILITATOR: Thank you, everyone.
9 Back at 1:15. Thanks.
10
11 --- Upon recessing at 12:17 p.m.
12 --- Upon resuming at 1:15 p.m.
13
14 THE FACILITATOR: Well, good
15 afternoon, everyone. Welcome back, Kelly. We missed
16 you. And with that, it's over to you.
17
18 CROSS-EXAMINATION BY MS. KELLY DERKSEN:
19 MS. KELLY DERKSEN: Good afternoon. I
20 understand that there was an undertaking requested of
21 your firm this morning. We were actually able to
22 identify the information on your behalf. If someone
23 could pull it up?
24 ` The information is, I -- I believe
25 available on our website. It's from our '16/'17

1 supplemental filing, and I believe this is the data
2 that was requested. I think it can be -- this
3 particular table can be left up. I have one (1)
4 question in a couple of moments for you with respect
5 to this, please.
6
7 (BRIEF PAUSE)
8
9 MS. KELLY DERKSEN: Can I interpret
10 your evidence to come maybe from a little bit
11 different of an angle to be that the remaining 34
12 percent of the export sales identified, which are
13 opportunity sales, are to be assigned variable costs
14 only and treated incrementally in the context of cost
15 of service? Would that be a fair representation,
16 please?
17 MR. JAROME LESLIE: Yes, that's
18 correct.
19 MS. KELLY DERKSEN: Thank you. This
20 morning I understand I missed it, so I apologize, but
21 I understand that there were a number of concerns
22 identified with respect to the analysis that -- that
23 your firm has prepared. I want to echo those
24 comments.
25 We, too, have a number of concerns with

1 respect to the analysis prepared in addition to those
2 identified this morning, but I don't intend to
3 identify them and question you about them at this
4 time. But I wanted to note for the record that that
5 is the -- the perspective of Manitoba Hydro.
6 And in particular, one (1) of -- one
7 (1) of the areas of concern for us is with respect to
8 the '03/'04 fiscal year, and if we advised you that
9 that '03/'04 year was one (1) of the worst droughts on
10 record in Manitoba in the last hundred years, would
11 you be prepared to concur or comment on the fact that
12 in this table that's being identified in front of you,
13 attachment 31, that virtually no opportunity sales
14 were taking place in that year.
15 In -- in fact, the number is 735
16 gigawatt hours in that year, and that's not quite zero
17 but for Manitoba Hydro's operations very close to
18 zero. And in fact what's left out of this table
19 that's not there is the fact in that year we were
20 purchasing power to support our domestic load to the
21 tune of 10 gigawatt hours which virtually offset any
22 oper -- any export sales made in that year.
23 Could you -- could you comment on that
24 or would that be your understanding, please?
25 MR. A.J. GOULDING: So I just want to

1 confirm. Are you asking us to confirm that we see on
2 the table that 2003/2004 you had total sales of 735
3 gigawatt hours and that that was a significantly lower
4 year than the other years in the table?
5 MS. KELLY DERKSEN: Yeah, I guess I
6 had two (2) questions for you, if you're aware that
7 that was one (1) of the worst droughts on record which
8 meant that almost no opportunity sales were made in
9 that year?
10 MR. A.J. GOULDING: So it's clear from
11 the table that a very small amount of opportunity
12 sales were made in that year.
13 MS. KELLY DERKSEN: Than you for that.
14 And -- and the second part of my question is: Were
15 you also aware -- it's not identified specifically in
16 this table. But were you also aware that the --
17 Manitoba Hydro was purchasing in that year
18 approximately 10 terawatt hours -- and I think I need
19 to confirm for the record, 10 terawatt hours in that
20 year just to support Manitoba load and that virtually
21 offset any of the export sales that we made in that
22 year.
23 Were you aware of that?
24 MR. A.J. GOULDING: So subject to
25 check, we would accept that that -- that that

1 occurred. And we would refer back to our discussions
2 this morning with regards to how we would look at, you
3 know, outlier years in terms of thinking about the
4 general theory of what we would look at with regards
5 to expected opportunity sales.
6 MS. KELLY DERKSEN: Thank you.
7 THE FACILITATOR: Kelly, are you
8 moving on to another area now? No.
9
10 CROSS-EXAMINATION BY MR. MICHAEL O'SHEASY:
11 MR. MICHAEL O'SHEASY: Good afternoon.
12 I was here this morning. And I had the privilege of
13 hearing some of the interplay, but, unfortunately, I
14 can't say that I understood it all. So I'm going to
15 ask possibly some questions that have already been
16 asked, but if I ask them in my way, maybe I'll better
17 understand them, and they relate to opportunity sales,
18 obviously a big topic of discussion.
19 Could we pull up that page 7, the
20 graph, just quickly, please?
21
22 (BRIEF PAUSE)
23
24 MR. MICHAEL O'SHEASY: Yes. Thank
25 you. This graph appears to show dependable sales and

1 opportunity sales, dependable sales being in green and
2 opportunity sales being in blue. Would -- would you
3 agree?
4 MR. A.J. GOULDING: Yes.
5 MR. MICHAEL O'SHEASY: Okay. And it
6 looks to me just cursory looking at the green that the
7 green level is pretty dependable, if you will, pretty
8 stead -- steady, and the blue seems to be more
9 variable. Would you agree with that?
10 MR. A.J. GOULDING: Yes.
11 MR. MICHAEL O'SHEASY: Okay. And
12 let's see, I want to make sure that we all agree that
13 the purpose of estimating or determining the amount of
14 opportunity sales versus dependable sales is strictly
15 for the separation of those export sales in PCOSS, a
16 cost of service study, for a forecasted test year.
17 Would -- would you agree that that's
18 the purpose of our discussion this morning regarding
19 the amount of opportunity sales in the amount of
20 dependable sales?
21
22 (BRIEF PAUSE)
23
24 MR. A.J. GOULDING: I think that our
25 evidence is specific to this particular proceeding and

1 specific to the purpose of this particular proceeding.
2 Consequently, what we are talking about here is an
3 overall approach to cost allocation which we believe
4 is appropriate in the context of this proceeding.
5 MR. MICHAEL O'SHEASY: Okay. And it
6 would then inform PCOSS as to how the expectation of
7 export sales should be divided into dependable and
8 opportunity sales in whatever forecasted PCOSS years
9 is appropriate.
10 Is that correct?
11 MR. A.J. GOULDING: Yes.
12 MR. MICHAEL O'SHEASY: Okay. So, for
13 example, let's take the year 2017/'18 on this graph
14 here. So what we're talking about is, if you look at
15 that slice of this graph here, it would represent
16 total export sales. And what we're trying -- simply
17 trying to do is figure out how to divide up that total
18 slice into a blue area and a green area.
19 Do you want me to say that again?
20 MR. A.J. GOULDING: Not at all,
21 although there's certainly times I -- I benefit from
22 repetition. So I think we are saying the same thing
23 in -- in slightly different ways in that we are
24 suggesting that a larger proportion of what's
25 currently viewed as opportunity sales should be viewed

as more dependable and treated in the same way as the dependable exports.

MR. MICHAEL O'SHEASY: But the goal -- I think the -- the objective is, in a PCOSS year, to try to accurately portray for those export sales as best we can how much would be opportunity sales and how much would be dependable sales.

(BRIEF PAUSE)

MR. A.J. GOULDING: I think that, in addition, we are looking at it not -- not just to say, you know, what would be the sales. But we're also looking at it as a -- an allocation means.

MR. MICHAEL O'SHEASY: M-hm.

MR. A.J. GOULDING: And so we're -- we're looking to say, Okay, the anticipation is that we can have a reasonable expectation of a particular level of exports that is higher than the amount that's currently shown in green on this graphic, and that that in turn should influence the allocation of firm costs to the export class.

MR. MICHAEL O'SHEASY: So if -- if I had infinite wisdom and I knew for 2017 and '18 how much of that was going to be opportunity sales and

1 dependable sales, you would say that's not the issue.
2 The issue is more of how do you associate those costs.
3 The actual degree of those sales is not important, or
4 as important.
5 MR. A.J. GOULDING: Well, I think that
6 there's a -- perhaps a couple of nuances there in the
7 sense that I think that our observation is that --
8 let's -- let's say that we all have perfect foresight
9 -- that whatever the outcome is in that particular
10 year, right, we would likely attribute a higher
11 proportion of those sales to -- we would view a higher
12 proportion of those sales as being dependable than
13 what is covered in the current approach.
14 MR. MICHAEL O'SHEASY: Okay. And I
15 want to delve into that question about whether
16 considering what on the graph might be considered blue
17 is something that should get fixed-cost allocation
18 because I think that's what you're proposing, okay?
19 MR. A.J. GOULDING: Yeah.
20 MR. MICHAEL O'SHEASY: Now, I think
21 it's important that we make a distinction here from
22 what was submitted earlier today, and that was,
23 looking at the degree of opportunity sales over many
24 years in the past, that would infer that we could
25 depend on them in the future.

1 And that's a -- that's the
2 consideration that we might want to use then for
3 determining whether they ought to be allocated some
4 fixed costs or not.
5 But I'd like to submit another idea, to
6 me, of much more paramount importance and get your
7 opinion on it. And that is I think we need to
8 consider the characteristics of the sale itself.
9 Two (2) products, simply put, and two
10 (2) very different characteristics. Dependable sales
11 are obviously -- I know I'm preaching to the choir
12 here, but I just got it out on the table. They are
13 firm. They are of a long-term nature. And, in
14 general, they command a higher price, for reasons I'll
15 allude to shortly.
16 Opportunity sales, on the other hand,
17 they're of a short-term nature. They are not firm.
18 And they, in general, command a lower price. The
19 reason they command a lower price is the buyer of
20 those products, another utility, has to recognize
21 that, regardless of the number of years in the past,
22 that that similar sale had not been interrupt --
23 interrupted; it could be interrupted.
24 And that mere fact makes it an inferior
25 product to the dependable product. In a previous

1 lifetime, I worked for a large utility in the
2 southeast. And when we were buying and selling we
3 called these type sales economy sales versus firm
4 sales, but we had to take into consideration that
5 those economy sales could be curtailed.
6 We were told that, be -- because
7 electricity is ubicuious (sic), it's -- it's in -- in
8 our entire fabric of society. The worst thing we can
9 do -- or the -- if we're going to fulfill our
10 responsibility, the worst thing we can do is to allow
11 the lights to go off. And that's a little different
12 from a lot of utilities.
13 I flew up on Delta. They could bump me
14 off if they were full. You can't run out of
15 electricity if you want to keep your job and -- and do
16 your job.
17 So with that in mind, I would propose
18 that the characteristics of an opportunity sale or mu
19 -- much different from the characteristics of a
20 dependable sale. And I would propose that, in cost of
21 service, if you take a green -- a blue area and
22 convert it to a blue -- a green area, for the sake of
23 this cost of service allocation exercise, you may be
24 totally ignoring the transaction that took place
25 itself.

1 And the fact that that purchaser of the
2 product, he had to provide his own backup for this
3 non-firm energy because he can't let the lights go
4 off. So that is my -- I'll -- I'll try to circle the
5 wagons now.
6 So my point is that I believe that the
7 characteristics of the sale are paramount in
8 determining whether these products are dependable or
9 whether these products are opportunity sales. And I'd
10 like to get your opinion on that.
11 MR. MICHAEL O'SHEASY: So I'm -- I'm
12 not convinced of that approach from a cost allocation
13 perspective. I hear what you're saying with regards
14 to a system reliability perspective.
15 But I think that the point that we're
16 making is somewhat more basic in terms of thinking
17 about whether the sales themselves are expected and
18 whether, in -- in terms of a normal year, you can
19 reasonably expect that income will come from these
20 sales and was, to a certain extent, factored into the
21 investment decision.
22 So our discussion is not based on
23 whether in any particular sale you're selling energy
24 and capacity versus energy only, but rather how -- to
25 -- to what extent you can expect that a sale will be

1 there at all.

2 MR. MICHAEL O'SHEASY: Just a followup

3 to that. In our PCOSS, what we're doing, as you know,

4 is we're allocating the costs that the utility

5 incurred, the imbedded costs. And we're also

6 associating the benefits that might be attributable in

7 this case to export sales.

8 And my point is that those benefits

9 that we're trying to associate with domestic

10 customers, those benefits are based on the product

11 characteristics. And I think in PCOSS we want to

12 allocate costs accurately. We want to allocate

13 benefits accurately.

14 And if we were -- I'm going to phrase a

15 question shortly. If we were to -- if we were to

16 attribute fixed cost allocation to a sale, an

17 opportunity sale, that had -- had no consideration

18 whatsoever of firmness and -- and backing up, and if

19 we were to do that, I would -- I would propose that we

20 would be over allocating cost to a sale that never had

21 that in mind, and therefore the cost allocation did

22 not match up with the benefit result.

23 Would you agree or disagree?

24 MR. A.J. GOULDING: I -- I don't think

25 that I do agree. Now, again, we're looking at this

1 from a cost causation standpoint primarily, and we're
2 coming from the perspective that some portion of the
3 opportunity sales did cause a portion of these costs.
4 MR. MICHAEL O'SHEASY: M-hm.
5 MR. A.J. GOULDING: And so should be
6 allocated a portion of these costs. With regards to
7 the overall benefits, I think that gets back to this
8 kind of discussion about what proportion of costs
9 should determine the allocator of the benefits. But
10 we see that as a different discussion from the cost
11 causation elements of the opportunity sales.
12 MR. MICHAEL O'SHEASY: You -- you
13 probably heard discussion, I think yesterday, that
14 there's -- I -- I don't think there's any question
15 that units on Manitoba Hydro's system may be advanced
16 to make dependable sales, but they're not advanced for
17 opportunity sales. You're probably aware of that, are
18 you not?
19 MR. A.J. GOULDING: I am aware that
20 that is the perspective of Manitoba Hydro.
21 MR. MICHAEL O'SHEASY: Okay. Thank
22 you. I don't have any other questions.
23 MS. KELLY DERKSEN: Could you just
24 give me one (1) moment, please, Bill?
25 THE FACILITATOR: Maybe why you're

1 thinking through that, Mike, did -- were you in sales
2 at one (1) time in your past life?
3 MR. MICHAEL O'SHEASY: I was a product
4 manager for the southern company in Georgia Power, and
5 as a consequence, I had to deal with customers a lot,
6 and explain why the price was what it was and why we
7 were charging what we were. And some of Patrick's
8 customers were the most cantankerous to explain that
9 to, so I -- I was well versed in that.
10 MR. CHRISTIAN MONNIN: If I may, I
11 just want to comment that Andy Griffith as Matlock has
12 nothing on you, sir.
13 MR. MICHAEL O'SHEASY: I hope that's a
14 compliment.
15
16 (BRIEF PAUSE)
17
18 CONTINUED CROSS-EXAMINATION BY MS. KELLY DERKSEN:
19 MS. KELLY DERKSEN: I think I just
20 have one (1) -- one (1) more question, and that will
21 be it from Manitoba Hydro, please.
22 Are you aware, sir, that the greater
23 level of fixed cost responsibility that you assign to
24 the export class benefits ultimately the -- the
25 largest users on our system, the -- the industrial

1 customers, versus the fewer costs -- fixed costs that
2 you assign to the export class benefits ultimately the
3 -- the lower volume users, the residential customers,
4 and the customers that your firm represents is sort of
5 somewhere in between and has impacts on both sides?
6 Are you aware of that, and can you
7 comment on that, please?
8 MR. A.J. GOULDING: So our analysis
9 suggests that this change would result in changes in
10 rates that are beneficial to our customer class. So -
11 - and does result in changes to rates to other
12 customer classes.
13 MS. KELLY DERKSEN: Is -- is that both
14 of that -- both GSM and GSS?
15 MR. A.J. GOULDING: So the impact is
16 different on the -- on the two (2) customer classes
17 that -- that we represent, and it's more favourable to
18 one (1) than the other.
19 MS. KELLY DERKSEN: Thank you. Those
20 were all my questions.
21 THE FACILITATOR: Thanks very much.
22 Over to the panel.
23 BOARD MEMBER GOSSELIN: I have a
24 couple of questions I'd like to ask of the witnesses.
25 And I guess one (1) of the questions I have, and I --

1 I wanted to make sure I understood the response that
2 you provided to -- to the Board's advisor.
3 Specifically, in a -- in a scenario
4 where we have a negative net export revenue, would
5 that change your recommendation to the Board, I mean,
6 in respect, for example, of the allocation of -- of
7 allocated and direct costs?
8 You know, in a very real possibility
9 that once future generation comes on stream that we
10 end up with a negative export revenue scenario, would
11 that change your recommendation?
12 MR. A.J. GOULDING: You can't have it
13 both ways, as I said previously. You can't argue
14 that, you know, our customer class should get the
15 benefits only when it's good for them and somebody
16 else should bear the costs when it's bad for them. So
17 we have to be consistent in our recommendation.
18 BOARD MEMBER GOSSELIN: And -- and
19 equally true that the -- the recommendation you made
20 with respect to allocation of fixed costs to export
21 sales, that's wouldn't change either?
22 MR. A.J. GOULDING: No.
23 BOARD MEMBER GOSSELIN: Now, a
24 question for Me. Monnin. And I guess, you know, your
25 intervention has been relatively narrowly focussed on

1 four (4) things as opposed to that of other
2 Intervenors, which have covered a range of decision
3 points that are -- are arrived at, or at least have to
4 be addressed when we make a -- a cost of service
5 decision.
6 And I guess what I want to know is what
7 inference should we draw from the fact that you
8 haven't commented on the range of other issues that
9 have been focussed on by the other Intervenors?
10 Specifically, an example would be --
11 Mr. Harper, for example, identified a number of places
12 where they agreed with the decisions that had been
13 made by -- or the recommendations that had been made
14 by Manitoba Hydro with respect to cost allocation.
15 And I guess my question is, what's your
16 -- what's the position of your client with respect to
17 those other issues?
18 MR. CHRISTIAN MONNIN: Thank you. And
19 I'm sure that my friends from London Economics will
20 want to come clean up on what I attempt to provide as
21 an answer here. The view that we came in was -- that
22 -- that can be anchored in brevity is the soul of wit.
23 And what I mean by that is our
24 intervention was later downstream, no pun intended,
25 and it had to be necessarily more focussed, given the

1 timelines that we were working with. And also
2 efficiency was a -- an equal hallmark of what we
3 wanted to do to achieve here.
4 So we've identified the four (4) core
5 issues that -- in -- in conjunction with working with
6 the stakeholder groups that would represent GSS and
7 GSM, identify issues that would be of importance and -
8 - and would provide a meaningful contribution to this
9 process, given where we are -- where -- where we are
10 when we got in.
11 With respect to the other issues that
12 have been raised, I've deferred to my friends from
13 Lond -- London Economics. There are certainly issue -
14 - areas where we agree, where -- where we're sympatico
15 with what Hydro has put forward. And ideally -- and -
16 - and as well, we agree -- are sympatico with what the
17 Intervenors have put -- other Intervenors have put
18 forward.
19 And in that sense, we saw no purpose to
20 be part of the 'me too' brigade.
21 THE FACILITATOR: Any other questions
22 from the panel?
23 BOARD MEMBER KAPITANY: I just have a
24 question about the table that you're going to change
25 based on additional information that's been provided.

1 And Ms. Derksen is -- am I to take from the chart that
2 you put up -- Ms. Villegas, could you put it back up,
3 that that is the only information in addition to what
4 has already been presented that would feed into this
5 graph that was presented on page 8 of the
6 presentation? No, sorry, not that one. The -- the
7 table with the -- yeah, that one. Thank you.
8
9 (BRIEF PAUSE)
10
11 THE FACILITATOR: That was a -- a
12 question, though, I was going to come to at the end on
13 whether the information provided here obviated the
14 need for the Information Request.
15 It seems to me, there were two (2)
16 things that were at play. One (1) was to have more
17 historic data, of which this table provides that. But
18 the other thing that was at play was whether that
19 might change the confidence levels in the standard
20 deviations that might be recommended by London
21 Economics which isn't resolved as a result of this
22 table.
23 BOARD MEMBER KAPITANY: Well, that's
24 correct. And -- and in my view, too, this goes back
25 to 2000/2001, but there were exports prior to that

1 period. So I'm just wondering if there can be a more
2 complete data set, and if it is the case that you're
3 going to be redoing this -- this information on the
4 confidence intervals based just on this or on a
5 broader period, and if so, you know, what kind of
6 information we'll be looking at.
7 MR. A.J. GOULDING: So first of all, I
8 -- I want to thank our colleagues at -- at Manitoba
9 Hydro for providing this -- this data. And from our
10 perspective, first of all, what we'd be doing is
11 looking at this data, and processing it, and -- and
12 considering the confidence intervals from -- from
13 various perspectives, looking at different tranches.
14 We would ideally like to look at a
15 longer time series, being conscious of the fact that
16 the more that you look at a longer time series,
17 particularly of something that's hydro-dominated,
18 there's more adjustments that you need to make,
19 because it's not just about the hydrology. It's also
20 about the capabilities of the system, the technology
21 and how that's changed. So in -- the longer that the
22 data series becomes, the more that we would have to be
23 mindful of those particular elements.
24 And -- and so I'm -- on -- on the one
25 hand, you know, I -- I would like to work with

1 whatever's the longest data stream that is available
2 that's internally consistent. On the other hand, I
3 would just want to make sure that anything that we did
4 work with, that we identified, you know, differences
5 in the system and its capabilities.
6 MS. KELLY DERKSEN: With respect to
7 opportunity sales, we have information going further
8 back than 2000. We likely have data going back to
9 1992, just subsequent to when Limestone was built.
10 The challenge becomes that, you know,
11 when we do our planning, when we look at our
12 dependable sales and what -- how we need to serve
13 Manitoba load, we look at a hundred (100) plus years.
14 And so you then start getting into the
15 debate of, for this particular purpose, you confined
16 it, but ignored the very significant data set that we
17 draw on that drives our decisions at the end of the
18 day in terms of how we plan and -- and build our
19 resources.
20 So the challenge becomes then: Why
21 would you ignore that data and that analysis for
22 purposes of cost of service to more confine it to
23 specific dates? That would be my comment.
24 THE FACILITATOR: Okay. Kelly, I -- I
25 think, though, the purpose that -- that the chart was

1 developed for, and the questions that have come with
2 it was a bit different than that. It was more, from
3 their perspective, despite Mike's eloquent sales pitch
4 to them, the -- the table on page 8 of the submission
5 to make it more relevant to have more years of data,
6 but, as pointed out, not so badly influenced by --
7 probably by the different generation plants that came
8 into service over the medium-term history, but also
9 perhaps the markets that might have been available.
10 So that it's a -- a consistent time
11 frame to look at. I'm wondering whether, though,
12 whether it isn't sufficient at this point to take the
13 fifteen (15) years that we have here in attachment 31,
14 and ask London Economics to (1) revise their table --
15 so sorry, this may be an undertaking -- revise their
16 table from page 8 of the -- the presentation and
17 provide some commentary on how that does or does not
18 affect their confidence level in terms of the
19 opportunity sales that they might suggest be it --
20 attract fixed costs for the purposes of the export
21 components.
22 Would that be satisfactory? I'm -- I'm
23 worried that if we go back too far, we are into
24 different markets that didn't exist, and perhaps
25 different dams that -- that weren't in place.

1 BOARD MEMBER KAPITANY: Yeah. I guess
2 fair enough. It still seems like a fairly small data
3 set to me, but if that's what we're working with, then
4 I guess that's -- would be acceptable.
5 MS. KELLY DERKSEN: We're also --
6 THE FACILITATOR: Is that -- oh,
7 sorry, carry -- no, over to you, Kelly.
8 MS. KELLY DERKSEN: It is a small data
9 set, and is not representative of the analysis that we
10 do and -- and can cause a number of issues. We also
11 have very significant concerns about the reliability
12 of the analysis performed in the first place.
13 And so with those two (2) comments, the
14 -- the data is available. It -- it's here. It --
15 it's online so, you know, the undertaking can be
16 prepared based on this. And we'll have to go there
17 and assess what we have once we have it.
18 THE FACILITATOR: So in your
19 suggestion, then, you will provide the -- the data set
20 back to 1992, is it, and -- and they will work from
21 that?
22
23 (BRIEF PAUSE)
24
25 THE FACILITATOR: One (1) second.

1 (BRIEF PAUSE)

2

3 MS. KELLY DERKSEN: We have it
4 available back to 1992. It's not readily available,
5 so I would suggest that we leave it back to this table
6 if it's in -- if -- if it's in the agreement of other
7 parties here, and subject to wanting to get access to
8 the -- the working papers that drive the analysis that
9 is ultimately prepared.
10 THE FACILITATOR: Antoine, you had a
11 comment?
12 MR. ANTOINE HACAULT: Yes. Just to
13 perhaps say that that data set is probably appropriate
14 that -- that's shown on the screen there, the
15 attachment 31-MFR-4, which is part of the 2016/'17
16 supplementary filing.
17 I know this is kind of a legal point,
18 but it was in 1997 that Hydro had added to its
19 purposes and objects a very specific purpose, not only
20 to service the local market, but to market and supply
21 power to persons outside the province. That was an
22 additional purpose and object that was added to this
23 Corporation's mandate, which did not exist in prior
24 years.
25 THE FACILITATOR: Thank you. Perhaps

1 then given -- given the comments, that it seems to me
2 that the undertaking as I articulated it a minute or
3 two (2) ago is -- still stands as the appropriate
4 undertaking at this point?
5 MR. CHRISTIAN MONNIN: I -- I would
6 suggest the following. That -- that I agree with that
7 undertaking subject to reviewing the various earlier
8 undertakings to make sure that we have a complete --
9 that we've captured everything that's been requested
10 of us, because I'm not sure if this data set on
11 attachment 31 is exactly what was being asked of us
12 earlier, and I just want to make sure that we're all
13 on the same square.
14 THE FACILITATOR: I -- I don't follow.
15 Are you proposing that you would answer both, which
16 seems to me to be a much more onerous undertaking for
17 you, whereas we've rather refined the -- the
18 undertaking as a result of this data and the
19 discussion.
20 MR. CHRISTIAN MONNIN: Well, my
21 comment was more in line with the following, is the --
22 this undertaking seems to have evolved quite a bit
23 since this morning --
24 THE FACILITATOR: Right.
25 MR. CHRISTIAN MONNIN: -- and if it's

1 now fixed upon our -- attachment 31, and everyone is
2 satisfied with that, then we'll proceed under that
3 undertaking. However, without having the benefit of
4 the record in front of me, I'm not sure that this
5 covers everything that's been requested of us moving
6 up until this point. And I want to make sure that
7 we've covered all those requests.
8 THE FACILITATOR: Right. Well, that
9 request was coming from a consolidation of the panel,
10 and the advisors, and myself. And so we now have
11 that. It would have been nice to have additional
12 data. The data is not easily available and may or may
13 not be as appropriate. Other parties seem to think
14 that sticking with this group of data, which would
15 provide a simple task for London Economics to deal
16 with, is appropriate. Why don't we go with that?
17 MR. CHRISTIAN MONNIN: Well, I guess,
18 I -- it's a question subject to -- to any answers that
19 those who will actually be doing the work, non-
20 economics, I hear that Hydro has some concerns with
21 the data and concerns with the -- the analysis.
22 If -- if that is true, then perhaps
23 it's better to have more data than less data. But I
24 would just leave it at that and -- and turn to My
25 Friend, London -- London Economics, to see if they're

1 comfortable with -- with what's been suggested.
2 THE FACILITATOR: Well what would you
3 guys like to do?
4
5 (BRIEF PAUSE)
6
7 MR. A.J. GOULDING: So while, from my
8 perspective, I would prefer a longer data series, I'm
9 also mindful of practicality. So I would like to work
10 with the longest data series that is practical to
11 obtain and that is reasonably internally consistent.
12 And so I -- I'm certainly not here to
13 make work for others unless it's necessary and -- and
14 practical. So I think the main thing that we just
15 want is clarity. If -- if the undertaking is to work
16 with this specific data, then we will do that and
17 provide a -- you -- you know, a view informed by this
18 data.
19 If we were able to, you know, for
20 example, have data back to the point at which this
21 additional responsibility was added to Manitoba
22 Hydro's mandate, that would seem to be consistent with
23 the legal framework, but it may not be consistent with
24 the way that the data is kept or with the way in which
25 the data has been defined.

1 MS. KELLY DERKSEN: I think our -- our
2 perspective is twofold. Number 1, we have very
3 significant concerns with how the analysis was
4 prepared. And I'd hate to perpetuate that analysis if
5 we believe it is significantly flowed to begin with by
6 spending a sig -- significant amount of time trying to
7 pull data together. And so perhaps where we start is
8 with this more limited set and we see where we go from
9 there.
10 With respect to the legal obligation of
11 Manitoba Hydro, I can't comment other than to say that
12 we may have additional comments if that were to become
13 an issue in terms of how we resolve this undertaking.
14 THE FACILITATOR: Since we have a time
15 frame that's shorter than that, let's try to not make
16 that a -- an issue. And so that we can move on, I'm -
17 - I'm thinking back on how Bill Harper started this
18 one off, but then said he didn't want -- didn't need
19 or want the information if it was going to be onerous,
20 and we've come to where we are today.
21 Can we have as an undertaking that,
22 based on the information in Attachment 31 of MFR-4,
23 London Economics will regenerate a table similar to
24 that on page 8 of its presentation identifying any
25 sources or other things so that people can check the

1 data and that, based on that, London Economics will
2 provide any further comments on the bands of
3 reasonableness for the attribution of fixed cost to
4 opportunity sales on the chart.
5 Is that an acceptable undertaking?
6
7 (BRIEF PAUSE)
8
9 THE FACILITATOR: Actually, sir, if --
10 if it's not an acceptable undertaking, or if you're
11 going to take up more time on it, we do have to get to
12 the last one (1) and we could meet at the break and
13 talk more about it if -- if you think somehow there
14 needs to be more discussion about the undertaking.
15 MR. CHRISTIAN MONNIN: And that's
16 probably the most efficient way to proceed, sir.
17 We'll -- we'll do that and we'll circle back.
18 THE FACILITATOR: Thank you.
19 MR. BRADY RYALL: Mr. Grant...? To
20 your left here.
21 THE FACILITATOR: To my left. Here I
22 am. Hi, Brady.
23 MR. BRADY RYALL: So I just wanted to
24 -- if -- we seem --
25 THE FACILITATOR: Now, what?

1 MR. BRADY RYALL: -- we appear to have
2 landed upon attachment 31 as the dat -- data set. So
3 if that's the case, and subject to Manitoba Hydro
4 correcting otherwise, I believe the final year of the
5 2015/'16 is not a complete year of export sales. It
6 may only run to the end of December.
7 And I just wanted the parties to be
8 aware that that's the -- if that's -- if Manitoba
9 Hydro can confirm that, that -- that would be an
10 important thing for London Economics to keep in mind.
11 THE FACILITATOR: Thank you. We've
12 lost some time, so why don't we have this panel stand
13 down, and we'll move on to the last panel with respect
14 to the City of Winnipeg. Yes?
15 MR. CHRISTIAN MONNIN: I -- I
16 apologize. I know we're -- we're short for time, but
17 there's something that -- there's one (1) comment that
18 I feel compelled to make. And first of all, I want to
19 thank you all for the participation we had this
20 morning.
21 But I do want to stress that our
22 expectation as follows, sir, that it's not too much to
23 expect in an academic setting or debate, that we
24 should all agree. But it is exactly what we should
25 expect that there should be unvarying civility.

1 And I would -- I look forward to -- to
2 ensuring that unvarying -- unvarying civility
3 continues in this process.
4 THE FACILITATOR: Thank you. The
5 City, please.
6
7 (PANEL STANDS DOWN)
8
9 THE FACILITATOR: All right, everyone.
10 I think we're pretty well ready to go.
11 Denise, I hope your luncheon went well.
12 MS. DENISE PAMBRUN: It went very
13 well, thank you, Mr. Grant. My son gave a beautiful
14 rendition of the song from Winnie the Pooh, Deep in
15 the Hundred Acre Wood. But of course in our house,
16 it's deep in the 200 Cambridge in Winnipeg, which is
17 our address.
18 And you may refer to me as Daphne Mom
19 because I don't know if you remember Scooby-Doo. I'm
20 Daphne --
21 THE FACILITATOR: Perfect.
22 MS. DENISE PAMBRUN: -- Daphne Mom.
23 My husband is Fred. My other son is Shaggy. You
24 know, we're a Scooby family. So the graduating --
25 special needs graduating class of Grant Park High

1 School got treated to a little rendition of Deep in
2 the 200 Cambridge. I'm sorry you missed it. It was -
3 -
4 THE FACILITATOR: Yeah. No, me, too.
5 MS. DENISE PAMBRUN: It was special.
6 I was a proud mother.
7 This afternoon, the City of Winnipeg is
8 represented by myself, Denise Pambrun, counsel to the
9 City. The client is represented by Mr. Bruce Chin,
10 who is the lighting systems engineer for the City of
11 Winnipeg.
12 And today, evidence will be presented
13 on behalf of the City by Mr. John Todd of Elenchus. I
14 understand he requires no introduction. Those of you
15 who spend a lot of time in these hearings know him far
16 better than I do.
17 And so with that, I'm going to have Mr.
18 Todd give his evidence. You do not have a written or
19 a printed version of this, because John likes to keep
20 you all guessing as to what's coming on the next
21 slide. You will get a hand -- or a printed version of
22 this after the presentation. Thank you.
23
24 JOHN TODD, Sworn
25

1 THE FACILITATOR: John, over to you.

2

3 (BRIEF PAUSE)

4

5 PRESENTATION BY THE CITY OF WINNIPEG:

6 MR. JOHN TODD: That's what lawyers

7 are for, pushing the buttons, right? We can move on

8 to agenda slide, and what I'm going to cover today is

9 scope of the Elenchus evidence.

10 And there are a couple of areas where

11 I'm going to go a little bit outside of the initial

12 evidence for a couple of reasons. There has been a

13 lot of other evidence filed -- i.e., the other expert

14 evidence -- since my evidence was filed. We all filed

15 simultaneously.

16 So there are issues that have been

17 raised in the discussion which I felt I needed to

18 address, and you'll understand that in the context of

19 the scope of my evidence, per se.

20 And in terms of definitions, I did want

21 to comment on what is cost causality and what are

22 directly-allocated costs.

23 With that, three (3) and four (4) are

24 the specific areas covered in the evidence, and five

25 (5) are issues arising from Intervenor reference.

1 There are a few areas where -- were not addressed in
2 my evidence. They're -- they're sort of outside of
3 scope except that I was watching re: Further issues.
4 And -- but there's some areas where I feel
5 perspectives may not have been covered that I just
6 wanted to raise for the panel's purposes.
7 Next slide, please.
8 MR. ANTOINE HACAULT: Mr. Chair, I
9 haven't intervened at all -- it's Mr. Hacault here --
10 at all in the past, but this is the first time any
11 witness -- and we're going to be discussing this --
12 has ventured into getting to new evidence that's not
13 related to a pre-filed report.
14 OBJ And I just note my objection to any
15 such evidence for the record, because if one (1)
16 witness is going to get into filing new evidence that
17 wasn't in their reports and going astray, does that
18 mean everybody is going to now have a chance to do
19 that at this hearing? And if so, when?
20 MS. DENISE PAMBRUN: Mr. Grant, may I
21 comment in response? Thank you.
22 I think there's a distinction that is
23 important here is, with the exception of the City, all
24 the parties had their experts discussing matters
25 amongst themselves, giving the experts of each of the

1 parties an opportunity to effectively give evidence
2 while questioning other experts.
3 So they would state what they view --
4 thought the correct position was and gave an
5 opportunity to the expert they were questioning to
6 comment on it. Because the City chose to do things
7 slightly differently, that didn't occur.
8 So what Mr. Todd is doing is
9 effectively doing the same thing in a different
10 format. I don't see why the City shouldn't get an
11 opportunity to have that occur. Just in a -- there --
12 Mr. -- Mr. Hacault will have an opportunity obviously
13 to question Mr. Todd about it.
14 THE FACILITATOR: Except that he's
15 only seen Mr. Todd's point of view at this point in
16 time. It seems to me that's unfair to him. My
17 inclining would be that as with the questioning of --
18 of other panels, it was largely confined to what their
19 evidence was, and if a questioner asked them questions
20 outside of that, we've had a few cases where they've
21 responded to that kind of questioning.
22 It seems to me we're going to,
23 especially at this last time in the week, get into a
24 lot of trouble if we all of a sudden have John
25 expanding his evidence into areas he hadn't been

1 looking at previously. And that if other parties are
2 then going to feel -- strive -- striving for the right
3 word -- sandbagged by having this evidence come out at
4 such a late time that it seems to me that in terms of
5 fairness and in terms of basically wanting to complete
6 this within three (3) hours, that we can't allow it.
7 Or --
8 MS. DENISE PAMBRUN: Well, first of
9 all, Mr. Hacault is not going to have any less time
10 than anybody else because let's say Mr. Bowman was
11 sitting here and one (1) of the experts asked him a
12 question. He didn't have any extra time -- I'm sorry,
13 that expert didn't have any extra time to prepare for
14 anything that got said, so I don't -- I don't think
15 that's --
16 THE FACILITATOR: The difference
17 though is --
18 MS. DENISE PAMBRUN: -- necessarily
19 accurate.
20 THE FACILITATOR: -- that John's going
21 to speak to areas that he had not addressed in his
22 written evidence --
23 MS. DENISE PAMBRUN: And some of the
24 experts also spoke to matters that were not -- in
25 their questioning spoke to matters that were not in

1 their own evidence --

2 THE FACILITATOR: Yes.

3 MS. DENISE PAMBRUN: -- because they

4 were responding to issues that experts who were

5 sitting here spoke to, and then they wanted to

6 challenge them on that. And in their questions, they

7 rose points --

8 THE FACILITATOR: Agreed.

9 MS. DENISE PAMBRUN: -- that -- and so

10 what -- that's what Mr. Todd is essentially doing.

11 With respect to your second point, I don't see why the

12 City shouldn't have the same amount of time anybody

13 else had simply because we're at the end of the three

14 (3) day period. I don't see why we should be denied

15 natural justice.

16 THE FACILITATOR: Yes. We -- we can

17 carry on into the evening if necessary. But I think

18 that given what we've allowed so far we should at

19 least just stick with that. So John would not address

20 areas outside of his evidence in his presentation. If

21 parties ask him questions during the course of their

22 questioning that stray beyond his evidence, we've

23 allowed that to occur so far so it would be unfair to

24 not allow that to occur at this time.

25 MS. DENISE PAMBRUN: I see. So -- but

1 in the earlier questioning, if say Mr. Harper had not
2 raised an issue in his evidence, nobody stopped him
3 from questioning on that issue.
4 THE FACILITATOR: Well, Mr. Harper
5 dealt with the things that were in his evidence.
6 MS. DENISE PAMBRUN: Right. And in
7 his own evidence when he was quest -- see, but what
8 essentially Mr. Todd is doing is he's dealing in his
9 evidence with what he would have asked if he were
10 asking the questions.
11 THE FACILITATOR: Yes, and John could
12 have done that in his evidence, too.
13 MS. DENISE PAMBRUN: I see. So you're
14 penalizing the City because it chose to operate a
15 little differently from the other parties.
16 THE FACILITATOR: Well, I -- I guess
17 I'm trying to fulfill the role of a neutral
18 facilitator that I was hired to do. And I'm trying to
19 be fair to the City, and I'm trying to be fair to all
20 the other parties, too. And we have one (1) party
21 objecting to a extended set of rules for the City at -
22 - at this point in time, and given how late we are in
23 the proceeding it seems to me that it would be unfair
24 to all those other parties to all of a sudden allow
25 someone to speak on anything they feel like if they

1 hadn't addressed that in their evidence in the first
2 place.
3 MS. DENISE PAMBRUN: Well, I'm not
4 agreeing. This will be under protest on the basis
5 that the City is taking the position that it is not
6 getting an opportunity to address all the issues which
7 it feels are relevant to its position because, of
8 course, it did not know when it filed its evidence the
9 positions taken by the other parties.
10 THE FACILITATOR: Nor did the others.
11 MS. DENISE PAMBRUN: Thank you.
12 THE FACILITATOR: Sorry, Sven, I see
13 you going for your thing here.
14 MR. SVEN HOMBACH: What I may suggest,
15 if -- if the City's looking for a ruling from the
16 panel at this point in time, perhaps we could step
17 down for a few minutes and allow the panel to consider
18 the matter.
19 MS. KELLY DERKSEN: Manitoba Hydro
20 hasn't had an opportunity to speak to this, but
21 perhaps Ms. Fernandes will -- will do that as par --
22 part of the caucus, or should I offer that up now?
23 THE FACILITATOR: As I understand it,
24 it should be done now.
25 MR. SVEN HOMBACH: You certainly have

1 an -- have a right to do it now if any party wants to
2 take a position on this matter.
3 MS. ODETTE FERNANDES: I think
4 Manitoba Hydro's only comment is that where parties
5 may not feel that they have the ability to ask the
6 questions we do note that the Board has planned a
7 concurrent evidence session. So if some of those
8 issues need to be maybe addressed at that portion of
9 this process, then that's also an option to be
10 considered.
11 THE FACILITATOR: I think we're over
12 to the Board to...
13 MR. SVEN HOMBACH: Is there anybody
14 else that has submissions on the matter before the
15 panel considers the issue?
16 MR. ANTOINE HACAULT: I have just two
17 (2) or three comments to what was stated. Firstly,
18 the only people who were sworn were the people who
19 answered questions from a technical evidentiary
20 perspective. Just because Antoine asked questions
21 doesn't make my questions evidence more than it does
22 if Patrick Bowman asked the questions.
23 Secondly, Mr. Todd was able to, as any
24 other party, if he had questions about the evidence
25 that was filed by others, to ask those questions; he

1 chose not to at that stage.

2 The other matter that was raised by Mr.

3 Grant but which we strongly -- we feel pretty strongly

4 about is that there were a number of expert reports

5 filed. Everybody asked questions about those reports.

6 And Ms. Pambrun started the presentation by saying,

7 Well, we didn't even want to show you the slides

8 because we wanted it to be a surprise.

9 I have a lot of issues with that manner

10 of proceeding when everybody else filed reports well

11 in advance that allowed parties to do considered

12 thinking about what they might ask questions about to

13 help inform the Board. Ultimately, that's what we

14 want to do.

15 And if we get slides by surprise I'm

16 not too sure how we prepare to properly ask questions

17 on that and if that means an adjournment. So thank

18 you.

19 MS. DENISE PAMBRUN: You can have the

20 slides. They pre -- the reason that we don't provide

21 slides in advance is that I feel that people don't

22 watch and listen to the person giving evidence, they

23 read ahead and they don't listen; that's all. That's

24 the only reason we weren’t getting the slides in

25 advance. If you want them, you can certainly have

1 them.

2 THE FACILITATOR: Over to the panel.

3 MR. SVEN HOMBACH: I'd suggest we step

4 down for a few minutes.

5

6 --- Upon recessing at 2:17 p.m.

7 --- Upon resuming at 2:34 p.m.

8

9 THE FACILITATOR: All right, everyone,

10 I think we're just about ready to go here.

11

12 (BRIEF PAUSE)

13

14 THE FACILITATOR: Sorry, just one (1)

15 sec, John. Is -- over to the Board with respect to

16 determination.

17

18 BOARD RULING:

19 BOARD MEMBER GOSSELIN: Thank you,

20 Bill. We -- the panel has had an opportunity to

21 deliberate on the issue at hand and has decided that

22 now is not the time to introduce new evidence. The

23 City had an ample opportunity to -- to address the

24 issue in its pre-filed evidence. And it also had the

25 opportunity to question the -- the experts for the

1 Intervenors in the same way that the -- those parties
2 did.
3 And if the City has a real concern
4 about this decision and its import, we can address it
5 tomorrow at the pre-hearing conference and find some
6 way to resolve the issue, of possible, with respect to
7 the position of the City.
8 And I would also say that Mr. Todd will
9 have the opportunity to participate in the concurrent
10 evidence session in September and will have the
11 opportunity then to participate and offer his views
12 about topics that'll be discussed by those experts.
13 THE FACILITATOR: Thank you.
14 MS. DENISE PAMBRUN: Thank you, Mr.
15 Chairman. I can advise that the -- the new evidence
16 does not relate to City issues. It was simply to try
17 to assist the panel in some of the discussion that's
18 taken place and it's looking more and more like
19 there's not going to be any concurrent evidence, so
20 it's not going to be an issue, I think.
21 So I think we now are in a position to
22 have before you the amended document and we should be
23 in a position to proceed. Thank you.
24 THE FACILITATOR: John, over to you.
25

1 CONTINUED PRESENTATION BY THE CITY OF WINNIPEG:

2 MR. JOHN TODD: Thank you. So we are

3 at slide number 3. I believe that a new version is

4 available to be circulated, which has deleted the last

5 three (3) slides. In terms of this presentation we

6 will simply not move to the last three (3) slides as

7 we go through and I think that will address the -- the

8 Board's ruling.

9 Scope of the evidence, the mandate as

10 given was focused. It's the City of Winnipeg

11 intervention. The primary concern of the City rela --

12 relates to streetlighting. They are part of the A&RL

13 class.

14 For them the largest category of their

15 costs are directly allocated costs, 70 percent of all

16 their costs. There's also significant distribution

17 costs. Essentially for the streetlighting, the energy

18 related issues, allocation of generation and

19 transmission -- essentially surrounding error -- so

20 given the dollar value of them I have no mandate from

21 the streetlighting side to even worry about those

22 issues at all.

23 Secondary concern relates the GSS and

24 GSM classes. They're -- they have separate

25 representation. Therefore, my instructions were to

1 collaborate. We had some meetings and discussions. I
2 -- the collaboration did not involve me reviewing or
3 participating in the evidence at all, but I was aware
4 of the issues they were addressing, but I have
5 refrained from spending a lot of time on those issues
6 since other parties were there.
7 On top of which, the cost allocation
8 road show has come to Manitoba. We've all heard each
9 other's views many times before. And so frankly I was
10 quite confident about what issues were going to get
11 covered within this proceeding. Nothing new really
12 arises.
13 Next slide, please. So just set into
14 context, we all talk about cost causality. And to
15 understand where the City is coming from around the
16 area of roadway lighting, you've got to understand the
17 concept, or at least the way I view the concept of
18 cost causality.
19 It sounds easy, but it isn't. There's
20 been reference to cost causality of -- or certain
21 views of it being fictions or notional. Yes,
22 causality is fictional. Yes, it is notional. It is
23 not clear cut. Without creating concepts of cost
24 causalities opposed to a true clear cut cause of
25 relationship, we could not do cost allocation. Those

1 relationships aren't there.

2 The fictions are useful if they serve a

3 purpose and that's what I'll get to as I get into they

4 details of the proposal. I'll skip the next comment,

5 because it goes outside of what I've talked about in

6 the evidence.

7 Cost allocation can inform rate design.

8 Rate designs outside of the scope of this proceeding,

9 but cost allocation informs that later steps. And if

10 you're trying to get insights out of the cost

11 allocation then you can do it in ways that give you

12 insights.

13 For example, what are customer related

14 costs. And those customer related costs may inform

15 you as to what's an appropriate customer monthly

16 charge. That's a standard accepted cost allocation

17 issue. The challenge is how you stick to principle

18 driven as opposed to result driven approaches to cost

19 causality.

20 Moving down, this is the slide that we

21 wanted to keep secret. I know it's very controversial

22 and I know it's going to create a lot of problems for

23 the parties. But -- so we look at this slide. The

24 Jets just scored a goal. Who caused the goal? Was it

25 the player who passed the puck to the player that

1 scored the goal? Was it in fact the backchecker on
2 the -- on the other team who wasn't doing his job
3 backchecking? Was it the goalie who didn't grab the
4 puck before it went in the net? Or was it all of the
5 above?
6 Cost allocation is no different. It is
7 not clear cut who caused generation costs. We have
8 fictions, or we have concepts and nationality to say,
9 We are going to attribute causality in a fair way. We
10 are going to say that the guy who scored the goal gets
11 a point, and the guy who passed the puck gets a point.
12 That in effect they have equally caused the goal,
13 although under different labels.
14 It could be two (2) points for being
15 the scorer; one (1) point for being the passer. It's
16 an arbitrary decision. Cost causality in cost
17 allocation is the same thing. We make judgments about
18 how we do -- about how we attribute causality, and we
19 try to do it in a way that is fair and equitable to
20 the end result. Next slide, please.
21 So cost causality drives the cost
22 allocation, or should. Cost allocation invents ways
23 to notionally reflect the causal link and assign blame
24 for the cost. Who caused it. We'll see examples. So
25 how do you share out producing energy? Well,

1 sometimes are very simple. We share what we call --
2 and it's out of scope to talk about generation for me
3 -- but we can talk about who caused generation costs.
4 If we call it an energy cost, we
5 allocate it on the basis of kilowatt hours. If we
6 call it a capacity cost, we allocate it based on
7 kilowatts. The way we label it drives the causality
8 of how we allocate it. The truth is, it's both. The
9 truth is, if we didn't put in lots of turbines so that
10 we can run all the generation through the dams when we
11 got a lot of water, we could still meet our capacity
12 requirements and our energy requirements as minimal
13 forecast.
14 We would have less export revenue but
15 we would end up having to expand the system for
16 capacity instead of energy. It's engineering
17 decisions and economic decisions that determine what
18 we build, and determine causality. So that's just to
19 demonstrate causality is a notional concept.
20 So let's turn to the concept of
21 directly allocated costs, and directly allocated costs
22 just like everything else is notional. There's
23 different ways of defining it. If you go across
24 different jurisdictions, what are defined as directly
25 allocated costs differ a bit. Some things are clear,

1 some things aren't.

2 So what we have here we can see on this

3 slide every class has some directly allocated costs

4 the way they're currently defined. Now, in most

5 classes those directly allocated costs are DSM costs.

6 Some parties are saying we should not be directly

7 allocating DSM costs to the parties. If that proposal

8 were accepted, this slide of directly allocated costs

9 would look very different. It's a labelling issue,

10 directly allocated costs. Move on, please.

11 I'm going to suggest that there are two

12 (2) types of directly allocated costs. For the sake

13 of labelling clarity, I'm going to talk about a type

14 one (1) asset, or type one (1) directly allocated

15 costs is an asset that is used exclusively, and it's

16 an asset type that is also used for the system on a

17 shared basis.

18 What I mean -- so what I'm saying is if

19 you're talking about a transformer, you may have a

20 transformer that is used exclusively to one (1)

21 customer, or you can have a transformer that is

22 located in the network in a place where lots of people

23 are sharing that transformer. Some places you're

24 going to have -- that transformer will be treated as a

25 directly allocated cost. Other jurisdictions just

1 say, oh, it's all just part of the network even if
2 it's assigned to one (1) customer only.
3 In that category, I'd put transformers,
4 poles, and wires. In our case, DSM is in that
5 category because we have chosen, or the Board has
6 chosen, to directly allocate DSM costs. The concept
7 we can put around DSM is that it's -- it's a type 1,
8 but that could be different.
9 A type 2 is an asset that is used
10 exclusively, and the asset type is not used for the
11 system on a shared basis. Street lighting -- this is
12 very important for street lighting. Luminaires -- the
13 light in the fixture -- are not something that is used
14 generally throughout the network. It is used only for
15 street lighting.
16 So a key question is: Should inclusion
17 of some type 2 costs -- or type 2 assets in the
18 category that is directly allocated disqualify all of
19 the direct reallocated costs from being included in
20 the net export revenue allocator?
21 Maybe if it's practical, you'd like to
22 actually split out type 1 and type 2. If you -- if
23 it's not practical to split out type 1 and type 2
24 related costs, then you either have to come to a -- we
25 put them all in or we take them all out.

1 In essence, what is being done right
2 now is you're saying, You know what, we've got some
3 directly-allocated costs that -- that are like stoves
4 and fridges. So we're going to take all of the
5 directly-allocated costs out of the NER allocator.
6 They have been tainted, so we're going to take them
7 all out.
8 Next slide, please. So another
9 controversial slide. Some of the direct-allocated
10 costs we look at relate to street lighting. Here's
11 what some street lighting looks like. Very simple.
12 It's a pole, it's a luminaire.
13 Next slide, please. Other places, it
14 looks more like this. You've got a pole; you've got a
15 light; you've got distribution -- primary distribution
16 wires, you've got secondary distribution wires; you've
17 got this, where it came from -- i.e., San Francisco;
18 proposed transmitting and receiving antennas -- i.e.,
19 pole attachments. It's used for all sorts of things.
20 Next slide, please. That creates the
21 concept of some poles are shared or in the Company's
22 materials it's often referred to as distribution in
23 the cost allocation model. It's talked about
24 distribution poles as opposed to exclusive poles.
25 A distribution pole, what you have is a

1 pole that has more than a luminaire attached to it.
2 In addition to the luminaire, it's got secondary wires
3 or primary wires or all of the above.
4 There's a revenue class ratio in
5 distribution, and the references where this comes from
6 is there. There are issues around how this is
7 calculated. There's a lot of estimates go into it,
8 but those are the num -- these are the numbers we
9 have.
10 Distribution has an RC ratio of one
11 fifteen (115), exclusive one twenty-five (125). If
12 you back out the numbers, essentially deduce
13 approximation, the costs associated with an exclusive
14 pole are 146 percent -- i.e., almost half higher than
15 a shared pole.
16 And guess what? A shared pole is
17 shared, so only part of it is the dedicated asset for
18 -- for the street light.
19 Next slide, please. So what we have
20 is, in some places we have something that looks like
21 this. We have houses or businesses, we have poles
22 running down the street, we have wires on them, but we
23 don't have a street light.
24 So let's simplify it with the next
25 slide, and conceptually we simplify from that picture.

1 What we have is a distribution network. We have
2 poles, we have a drop going down to the house.
3 Now, that drop that would go to a house
4 is a dedicated facility. In the cost allocation
5 model, we don't call that a dedicated facility that we
6 direct allocate to residential. Why? Because
7 everybody's got one, and everybody's a different
8 customer.
9 Down a street, we have ten (10) houses,
10 ten (10) drops. Each drop is dedicated, but the drops
11 -- the ten (10) drops are shared. Therefore, it's not
12 a directly allocated facility.
13 Okay, let's turn to directly allocated
14 costs the other way. This is the picture we saw
15 before. The schematic is we have exactly the same
16 configuration. We have a couple poles. We have some
17 wires running between the poles. We have -- instead
18 of a house being connected to the pole, we have a
19 luminaire attached to the pole; the same thing, except
20 it's a luminaire instead of a house.
21 Now we say, oh -- or what the model
22 says is, you know what, that pole is now not part of
23 the pool of pools -- of poles. That pole is now a
24 part of that light, so we're not going to treat it
25 like the service drop to the individual houses

because, you know what, I've got ten (10) lights. There's only one (1) customer, the City. I've got ten (10) drops. There's ten (10) customers.

So because the ten (10) drops have ten (10) customers, we call them -- it's part of the pool because the ten (10) lights -- the equivalent of the drop is the pole. We've got ten (10) poles, but it's one (1) customer. We're going to call that directly allocated. To me, that's a difference without any meaning. The poles are a shared facility whether you put a light on it or a house on it.

So we look at the more complicated version. This is one (1). You can see there's poles, there's -- there's wires, electrical wires other than going to street light. There's street lights. You can't really see it in this picture very well, it's blown up, but it's there.

So, conceptually, now we have -- is we've got a pole which is a shared pole. We've got a house attached to it. We've got a luminaire attached to it. So what does this mean? Go to the next slide. What then do we define as the -- as the directly allocated not part of the system type 2 asset?

Do we define the green circle, which is the luminaire, which is different than the usual

1 distribution system assets or do we take the red box -
2 - and guess what, green means go and red means stop.
3 Green is good, red is bad, right?
4 So we take the red box. And then we're
5 saying, well, because we're putting a luminaire on it,
6 it's now different. It's now no longer a type 2
7 asset, it's a type 1. It's something which is somehow
8 different than the normal electrical assets, not just
9 the light, but now the pole, as well.
10 Why is that different? That is a
11 judgment call. That is part of what cost allocation's
12 all about. We create whichever fiction we want.
13 Clearly, the City wants to create the abstract notion
14 or fiction if you want that it's only the green
15 circle.
16 Other parties would like to see the red
17 box being the notional standalone asset that cannot be
18 treated as part of the distribution system because
19 that's a streetlight, and streetlights are like
20 stoves.
21 So the next slide, please. Just to be
22 clear then, within the tariff there's a definition of
23 exclusive and shared poles. The way they're defined
24 in the tariff, an exclusive pole is a corporate-owned
25 pole for the primary pers -- purpose of supporting

1 outdoor lighting devices. A shared pole is a pole for
2 the primary purpose of supporting electrical circuits
3 other than outdoor lighting.
4 So the fact that it's supported, the --
5 the supporting outdoor lighting is seen as what makes
6 it dedicated or not, not the fact that it's a pole.
7 Now, in the interest of full disclosure, the next
8 slide shows a lot of the exclusive lighting poles look
9 more like this than any other pictures.
10 There are two (2) ways -- and these --
11 these are often referred to as decorative poles.
12 There's two (2) kinds of decorative poles.
13 Manitoba Hydro has its inventory of
14 decorative poles that it has available and it's like
15 you can go into Walmart and say, I'd like 'A', 'B', or
16 'C'. A developer can go into Manitoba Hydro and say,
17 We would like, 'A', 'B', or 'C' pole as our
18 streetlighting pole, which is different than the
19 wooden pole which is typically used to carry wires.
20 So the poles may look a bit different,
21 but it's still a pole. It's connecting electrical
22 customers to the system. There's a second type of
23 decorative pole and the City has many of them, where
24 they say, You know what, we don't actually like your
25 selection of Walmart poles.

1 You know, we're going to go and we're
2 going to get a nice pole by going somewhere else.
3 Manitoba Hydro says, Fine, you can do that, but then
4 you buy the pole and give them to us and we'll install
5 them for you.
6 So there are poles out there which the
7 City pays for. They're not part of the rate base.
8 They're not part of the dir -- directly allocated
9 assets. They're outside of that, because they've
10 already paid for them. It's like a customer
11 contribution.
12 And at the same time, there are
13 decorative poles from the City and many of the -- I'll
14 say the -- the 'exclusive' poles look different.
15 Functionally, arguably, they're the same.
16 So if we move to the next slide. That
17 sort of closed off -- see, this is number 3. We've
18 closed off the discussion of -- I hope I've helped you
19 understand where I and the City are coming from in
20 terms of how you should -- are directly allocated
21 costs non -- somehow inherently different from the
22 electrical system?
23 Are they more like fridges and stoves,
24 or are they more like the customer drop? What I'm
25 saying is the poles, not the lumi -- not the light

1 itself, not the little lamp that goes in, but the rest
2 of it is essentially the same as the distribution
3 system.
4 So now we turn to, okay, that's what's
5 directly allocated. How should we treat the directly
6 allocated when it comes to net export revenue? Okay.
7 There's been a lot of discussion of the net export
8 revenue. Net -- the treatment of it is determined --
9 is determined by the purpose.
10 See, at the end what I'm saying --
11 saying the Board needs to decide is you don't first
12 decide how you allocate the net export revenue. First
13 you have to decide is what is the purpose of
14 allocating net export revenue somewhere.
15 The purpose that you chose will
16 determine the way you should allocate it or not
17 allocate it at all. Purpose number 1, and -- and
18 there's no right answer, this is your judgment.
19 Purpose number 1 is to provide what I refer to as a
20 dividend based on the customer bill.
21 In other words, we're like a co-op.
22 The Province owns Manitoba Hydro. We've got a co-op
23 out here. We are a prairie Province. We believe in
24 co-ops. The co-op is making some money on exports.
25 We're going to take that profit and we're going to

1 dividend it back to our co-op owners. Not as
2 taxpayers, but as users of the service.
3 So one (1) way of saying we're going to
4 dividend it back is saying, You know what, we're going
5 to divi -- dividend it back to you based on how much
6 you pay. Now, strictly speaking, if that's what
7 you're going to do, the logical way to treat it is
8 we're going to give everybody the same fixed reduction
9 on their bill.
10 We're going to calculate what it is an
11 everybody is going to get 1 percent back, or 5 percent
12 back, or 20 percent back. But the way it's sort of
13 being looked at to me you're saying, Okay, we're going
14 to use allocated costs as a proxy.
15 But I -- in allocated costs we're going
16 to -- so we're going to give peop -- back to people
17 based on their allocated cost. Allocated cost to the
18 extent that we're talking about a revenue cost ratio
19 of 100 percent is essentially a proxy 4 revenue. So I
20 -- I think that the way I interpret the current
21 methodology, except for the treatment of directly
22 allocated costs, is that you're dividending back by a
23 proxy for a revenue. It's what it looks like to me.
24 Except if you're going to do that, you
25 should be including directly allocated costs no matter

1 where they come from, i.e., 100 percent of all
2 directly allocated costs should be included in that
3 allocator. And then it's just a dividend based on the
4 business you do with Manitoba Hydro.
5 Purpose two (2), provide a dividend
6 based on the cost of electricity service provided.
7 Okay. I'd say, fine, if you want to do that then
8 maybe you take the fixtures out of the allocator. But
9 the wires and the poles are just part of the
10 distribution system. They should be left in. It's a
11 little bit harder to do. Manitoba Hydro has got to do
12 some work to break out the street lighting costs that
13 are directly allocated between the two (2) types. You
14 could do it.
15 You could create a segregated reserve.
16 That's a different purpose. You say, what we want to
17 do is create a -- create a segregated reserve. We're
18 going to take net earnings, and we're going to split
19 it into two (2) parts. From what I have heard of what
20 Manitoba Hydro is planning to do in the future years,
21 there's not going to be any difference in terms of
22 rate increases they're asking for. There's going to
23 be no difference to their total revenue. There's
24 going to be no difference to their total financial
25 statements in aggregate except that their retained

1 earnings are going to be split in two (2) parts. One
2 (1) part of it will be called some kind of reserve.
3 I'm not sure what the impact of that is
4 in the short run, i.e., as long as Hydro is coming in
5 looking for 3.95 percent increases but somewhere down
6 the road it could make a difference.
7 I suppose based on John Athas's
8 questions before, another way to look at it would be
9 saying we want to dividend back to generation and
10 transmission because those are used to create the
11 power and transmit the power that is exported. And
12 therefore we're going to just feed it back to those
13 functions. It's another possibility that could be
14 done with -- with a different kind of allocation.
15 Next, please.
16 So the recommendation is -- my
17 recommendation is first determine your intended
18 purpose. There's some history there. I've tried to
19 interpret the history. I think that history says
20 we're trying to give it back to the customers of
21 Manitoba Hydro. To me, I'm not clear from the history
22 as to whether the intent is to give it back to them
23 based on their total business with Manitoba Hydro, or
24 based on the amount of their costs that are
25 electricity system costs.

1 That decision is something you will
2 have to make, and to me you've got to make that
3 decision based on what you intend as being the way --
4 the -- the purpose of the distribution of the benefit,
5 or the net export revenue.
6 I'm suggesting there's a logic to
7 purpose two (2). Purpose two (2) says it would be
8 based on the Hydro assets, not on things like
9 luminaires. You know, I accept Ms. Derksen's comments
10 about, well, the luminaire is like a store or fridge.
11 You know, some -- some customers have it, others
12 don't. But that would mean you've got to find a way
13 to -- to take the cost of the luminaires themselves
14 out of the bundle that is directly allocated costs for
15 area and roadway lighting.
16 My view, and again that's a judgment
17 call, is poles and wires are normally distribution
18 type of assets. Even if the pole looks different,
19 it's still a pole. Being pragmatic, you may not want
20 to -- you may want to avoid the work of the split.
21 Therefore you either include it all, or include
22 nothing. That's a simple solution. You've got to
23 pick one way or the other.
24 I think I'm still in the bounds of
25 legality? Yes, okay. Why separate street and

1 sentinel lighting? Well, I'll keep it simple. I
2 think my time is probably about up, isn't it, Bill?
3
4 (BRIEF PAUSE)
5
6 MR. JOHN TODD: Just this slide
7 basically says when you work the numbers back
8 implicitly, and I've done some manipulation here, this
9 is a hearing about methodology. Numbers will have to
10 be reworked in a future proceeding but you work the
11 numbers back. And in effect street lighting has a
12 billing -- a cost per bill of a hundred and forty-five
13 dollars ($145). Sentinel lights have a cost per bill
14 of seven dollars and seventy-eight cent ($7.78).
15 That's working the numbers in City of Winnipeg,
16 Manitoba Hydro Round One 3(a) to 'C'.
17 Overall, on average for the class, the
18 billing cost is ten dollars ($10) a bill roughly, a
19 little under that if you update it to current numbers.
20 The point here is that the costs of
21 billing are allocated on the basis of the number of
22 connections, not the luminaires.
23 The City, or area and roadway lighting
24 other than sentinels has, depending on which zone
25 you're in, between sixty-six (66) I think it is and

1 six hundred (600) luminaires per bill. Sentinels have
2 one (1).
3 And they're lumped together, they all
4 get treated as though there's the average ratio of
5 bills per luminaire. Costs are allocated on the basis
6 of luminaires, so in effect the street lighting pays
7 many times per bill for billing -- for the billing
8 costs compared to sentinel lighting.
9 And so in the context of this
10 proceeding -- i.e., cost allocation -- part of cost
11 allocation is designing rate classes. You can solve
12 this problem by splitting sentinel and street lighting
13 into -- in separate classes.
14 An alternative solution which is not
15 part of this proceeding and therefore is not part of
16 my evidence -- perhaps I should be stopped here, but
17 an alternate solution is to say, Let's have a monthly
18 charge per bill that is the ten dollars ($10) or so.
19 And then everybody -- sentinel lighting
20 owners, street lighting people -- would all be paying
21 the same amount in terms of the billing costs embedded
22 in their total cost of service and being allocated to
23 them. So that's -- that's a solution that could be a
24 -- a revenue requirement or GRA solution that the City
25 may propose if this -- if the classes aren't split.

1 But within the context of this
2 proceeding, splitting the classes, treating them
3 separately, allocating costs separately would end up
4 with recognizing the inequ - inequitable way in which
5 costs of billing get allocated as they are driven by
6 numbers of lights not numbers of bills.
7 And with that is where I stop unless
8 somebody happens to ask a question on other topics.
9 THE FACILITATOR: Thank you, John.
10 You're as eloquent as ever. Over to Patrick.
11 MR. PATRICK BOWMAN: Just checking the
12 total time allotted. That -- I'm joking. We -- we
13 actually don't have any questions.
14 THE FACILITATOR: Thank you for that.
15 Consumers -- Consumers Coalition, Bill?
16
17 CROSS-EXAMINATION BY MR. WILLIAM HARPER:
18 MR. WILLIAM HARPER: I apologize for
19 this because I have some written questions and some
20 thoughts were coming to me as I flipped up the slides,
21 but not having a hard copy -- could we go to slide 22?
22 And maybe I could just look at that for a minute and
23 see if I actually do have a question on it. I wasn't
24 too sure if I did at the time.
25 I apologize for this, but they were

1 going through -- slide 22, I believe it was. Thank
2 you.
3
4 (BRIEF PAUSE)
5
6 MR. WILLIAM HARPER: So I would assume
7 -- I just want to clarify, you -- you're talking here
8 about sort of how to implement purpose number 2
9 because that's the one that you -- you from your
10 perspective feel there's -- there's a reasonable logic
11 behind?
12 And so you go on to talk about how you
13 implement it and define the relevant Hydro assets and
14 exclude all the poles and wires. And -- but you would
15 exclude the luminaires or anything that was specific
16 to the provision of street lighting -- the street
17 lighting itself.
18 Is that my understanding?
19 MR. JOHN TODD: Yeah. I mean, I'm --
20 I'm basically -- conceptually, I'm supporting Ms.
21 Derksen's logic that says there's something in street
22 lighting which is like a home and a house.
23 MR. WILLIAM HARPER: Okay.
24 MR. JOHN TODD: If there's a bulb in
25 the house that's not included, why include the bulb in

1 a street light?

2 MR. WILLIAM HARPER: No. Okay. And

3 that -- there's this -- maybe if we could turn up the

4 City of Winnipeg 1(b). The -- the Manitoba Hydro's re

5 -- response to that.

6

7 (BRIEF PAUSE)

8

9 MR. WILLIAM HARPER: If you'd just

10 scroll down to the bottom of that page there. Right

11 there. That's great. I think this is sort of a

12 description Manitoba Hydro put together of the types

13 of assets that were included in the A&R pot that's

14 currently directly assigned. And I see the lamps and

15 luminaires there.

16 When I looked at that there seemed to

17 be other equipment there that would fall into that,

18 for want of a better characterization, fridges and

19 stoves. And I -- I would look at things like

20 automatic control equipment, sensors, relays, and

21 switches, perhaps even some of the post and arms if it

22 was the arm holding the luminaire.

23 Would you agree with me that, that

24 stoves and fridges analogy would apply -- would apply

25 to more than just the luminaires? There's probably --

1 I mean, your point is it doesn't apply to the poles --
2 the sort of poles and wires part. But there's other -
3 - there's other facilities there besides just the
4 luminaires that -- that would fit into that category
5 equivalent of fridges and stoves.
6 Would you agree with that?
7 MR. JOHN TODD: Yes, I agree. What
8 you need -- what you'd, in effect, do to implement
9 that method is define something as a cutoff point.
10 MR. WILLIAM HARPER: Right.
11 MR. JOHN TODD: And I think there's --
12 there's a white area, there's a black area, and
13 there's a grey area.
14 MR. WILLIAM HARPER: And then could
15 you go -- go to your evidence, page 5, line 6, please?
16 Because you seem to be taking the sort of -- and I
17 just -- I just want to confirm from that principle.
18 You should to be taking the view that the stuff that's
19 like the fridges and stoves will be, and I quote your
20 words, "a small portion of the total."
21 And I was just wondering. I haven't
22 seen anything in the evidence, at least in this
23 proceeding, that provides me any understanding as to
24 what portion of that -- whether -- whether that would
25 be small, medium, or large, to be quite honest with

1 you.

2 And I was wondering if you could point

3 me to anything on the record that sort of suggests --

4 that indicates it is small or whether that was just

5 sort of an -- an assumption you were going on?

6 MR. JOHN TODD: I agree there's

7 nothing on the record. That detail is not there

8 anywhere. And we have a 1989 -- in -- in the GRA,

9 there is the study of cost allocation for street

10 lighting. There was a 1989 study, I believe, very

11 old, which tries to go in more detail. I've gone

12 through that carefully. And, frankly, that doesn't

13 split up this kind of detail there either.

14 So even going back to that intensive

15 study of street lighting, it focussed on the

16 luminaires itself, so it is not on the record. I

17 guess I looked at the poles and wires. And I have

18 assumed, what's the word I used, small --

19 MR. WILLIAM HARPER: Small portion,

20 yes.

21 MR. JOHN TODD: Small could be defined

22 as 5 percent or it could be defined as less than 50

23 percent.

24 MR. WILLIAM HARPER: Okay, but, I

25 guess, because on the basis of that comment, you're --

1 you're leaping from that to the thing. I think your
2 recommendation was it should all be in. And I under -
3 - took from your -- took from your presentation that
4 it wasn't quite that. You were saying we should try
5 and in -- investigate this more and find out what --
6 you know, see if we can put some bounds around that
7 number before we decide whether it's all in or all out
8 or -- or do we want to go with the third option, which
9 is try -- let's try and actually put a number around.
10 Would -- would that be fair to say that
11 that's your position as opposed to put -- put it all -
12 - put it all in?
13 MR. JOHN TODD: Well, first of al,
14 given a few of the comments on the additional data
15 needs, like, your list of additional date
16 requirements, Bill, that you're proposing that the
17 Company should be doing, I think this goes at the
18 bottom of the list.
19 So we may get to this, you know, Ms.
20 Derksen, what, 2050. I'll be long gone before we get
21 down to this level of detail of analysis to get better
22 data. But, in principle, it'd be great to have better
23 data. Practically, you know what, whatever you do for
24 every class other than street lighting, this a
25 rounding error. We see that from the impacts.

1 So unless they're going to hire me to
2 do it, I -- I think it's a waste of time. I'll be
3 glad to do it for you. No, actually, that's not true.
4 It would be a boring exercise.
5 MR. WILLIAM HARPER: So -- so I guess,
6 at the end of the day, your recommendation is still
7 put -- put it all in?
8 MR. JOHN TODD: Yeah, put it all in.
9 In fact, arguably, that's consistent with one (1) of
10 the other objectives, which is to say, you know, this
11 is a co-op. Whatever business you do with Manitoba
12 Hydro, we'll give you a dividend based on that. But
13 my expertise does not qualify me to talk about the
14 different objectives. Those are policy objectives.
15 MR. WILLIAM HARPER: Okay. And I
16 think you've answered by second area of questions,
17 which is you're proposing that they're actually --
18 you're proposing that ideally there should be two (2)
19 separate customer classes. Sentinel lights would be
20 one (1) customer class, streetlighting would be the
21 other customer class and you would them in the PCOSS,
22 or whatever -- the cost of service model as two (2)
23 separate customer classes and allocate all types of
24 cost to them generation, transmission, and
25 distribution as two (2) separate classes?

1 And, obviously, customer billing then
2 would go -- go along and it would go along and it
3 would get allocated in those two (2) separate customer
4 classes as well. Is that your recommendation?
5 MR. JOHN TODD: Exactly. There are
6 two (2) different tariffs right now, so it's taking
7 those different tariff items and saying they are
8 separate classes. Other than billing, as best I can
9 tell everything else would be strictly proportional,
10 so it would make no difference except for the billing
11 costs.
12 There would be alternatives of treating
13 them as a -- as two (2) sub-classes and just creating
14 a differential based on the difference in billing
15 costs.
16 Or as I mentioned, outside the scope of
17 cost allocation one could just say, You know what, if
18 we take the billing cost out and charge that as a --
19 as a monthly charge per bill we'd make the problem go
20 away.
21 So there -- there's different ways to
22 skin the cat. I mean, my -- my concern is that
23 because of the -- because the allocation is based on a
24 count of connections, it ends up treating sentinel
25 versus streetlights inequitably.

1 MR. WILLIAM HARPER: Okay. And maybe
2 that's where I am, my last area of questions. If you
3 go to slide -- I think it was slide 23. And I
4 apologize, that's slide 23 at the number on -- at the
5 number on the bottom, yes, number 23. If -- if I'm
6 not -- yes, when you were talk -- you were just
7 talking about number of bills here with the
8 presumption that there are seven hundred and eighty-
9 five (785) bills going to streetlighting customers and
10 twenty-five thousand nine hundred and seventy-four
11 (25,974) bills going to sentinel customers.
12 Am -- and I correct?
13
14 (BRIEF PAUSE)
15
16 MR. JOHN TODD: Yes, and -- and that -
17 - that is -- it's another area as has been discussed
18 with Hydro that a lot of the numbers at the
19 distribution level are based on very old data and it
20 required a number of assumptions. Those numbers come
21 from the City of Winnipeg/Manitoba Hydro Round 13A-C
22 page 3, which is a table.
23 That's based on a count of 1991 numbers
24 of services. And they've -- that has calculated a
25 relative cost based on -- on updating the number of

1 services. In that table they don't update the costs.
2 It's still 1991 costs. That's a few years ago.
3 A lots changed since then, the types of
4 luminaries, you know, the equipment, so I would take
5 those calculations as nothing more than roughly
6 indicative.
7 MR. WILLIAM HARPER: Well, actually I
8 wasn't even focusing on the fact that the numbers may
9 be roughly indicative. My issue was separate, and
10 I'll get to that, but thank you very much.
11 So -- but in that -- in the -- in the
12 assumption you're assuming that each sentinel basic
13 light is getting a separate bill.
14 Am I correct?
15 MR. JOHN TODD: That's what Ms.
16 Derksen said -- well, no, she didn't say that. When
17 asked in workshop 1 she said that there's a one (1) to
18 one (1) relationship between sentinels and customers.
19 MR. WILLIAM HARPER: Right.
20 MR. JOHN TODD: Given that there's a
21 one (1) to one (1) relationship between sentinels and
22 customers I'm assuming that there's a one (1) -- that
23 every sentinel light means a bill.
24 MR. WILLIAM HARPER: Well, I guess and
25 that was -- that was the point. And I mean, we can --

1 we can go to the interrogatory response, but I --
2 would -- would you take, sub -- subject to check, and
3 we can go to it if you want that, virtually all
4 sentinel light customers they're sentinel -- they may
5 have a sentinel light but they're associated with --
6 with another rate classification, whether it be a
7 residential customer who has a farm, or a general
8 service customer who's, you know, operating a business
9 and has -- has a sentinel light so they may be charged
10 a sentinel light fee off the sentinel light tariff,
11 but they're also getting a bill for another rate
12 classification, whether it be residential, or general
13 service, or whatever?
14 Would you take that and accep -- and
15 accept that?
16 MR. JOHN TODD: That's a good point,
17 which is another concern about the allocator being
18 used.
19 MR. WILLIAM HARPER: Right. And I
20 guess -- and that was the point I was going to,
21 because if -- if they're -- probably they aren't
22 getting a bill, what -- what's showing up for sentinel
23 lighting is one (1) line on a bill they're already
24 getting, and therefore, you know, the cost -- you
25 could say, What's the cost of producing that

1 additional line on the bill. It may be 1/10th of the
2 -- of the cost of the bill.
3 And so you'd have to use a weighted
4 customer allocator, or a weighted bill allocator in
5 your -- in your -- do you agree if we go down this
6 road those are other things you would have to consider
7 in the process?
8 MR. JOHN TODD: Yes, which is done in
9 the cost allocation model. I mean, that -- part of
10 that slide where you were -- right -- it points out
11 the -- the billing allocator has a count of customers
12 times a weighting factor. The weighting factor for
13 the A&RL class is point zero zero-zero six (.0006),
14 and by the way I don't think it's any of the class
15 that has three decimal places of zeros before the
16 number but they are all, you know, fractions -- small
17 fractions of one (1) and that weighting factor is what
18 drive the average cost.
19 In 1991, it's two fifty (250). When
20 I've scaled it up to today by the total -- total
21 billing cost allocation would be just under ten
22 dollars ($10). It looks like that weighting factor is
23 probably in the ballpark of being correct for the
24 class as a whole.
25 MR. WILLIAM HARPER: I mean -- yes,

1 it's --

2 MR. JOHN TODD: But there would be a

3 weighting factor, and I agree. You -- you'd have to

4 come up with new weighting factors. We could split

5 them in, and we'd take that into account.

6 MR. WILLIAM HARPER: And -- and would

7 you agree the weighting factors would have to take

8 into account whether or not there was actually a

9 separate bill being mailed with a stamp on it to a

10 customer or whether it was a line on a bill?

11 MR. JOHN TODD: Yeah. And I would

12 hope that it does. I -- I don't know what's behind

13 that weighting --

14 MR. WILLIAM HARPER: Well, and I -- at

15 this late date I -- I don't propose to go to COW3 and

16 go through that long tangled discussion with you. I -

17 - I think -- I think you'll begin to agree that that's

18 something we would need to look at if we wanted to

19 implement your methodology. That's acceptable to me.

20 If -- if you would agree that that's

21 something that we need -- we -- we need to look at?

22 MR. JOHN TODD: If -- yeah, you'd need

23 --you'd need separate weighting factors, shall I say,

24 consistent with the way most things are done,

25 particularly at the distribution level within the

1 model. It's just one (1) more number pulled roughly
2 out of the air. It's not a problem.
3 MR. WILLIAM HARPER: Well, I think
4 I've had enough. Thank -- thank you very much.
5 THE FACILITATOR: Thank you, Bill.
6 MR. JOHN TODD: Sorry, I was being a
7 bit unclear but I wasn't implying, Ms. Derksen, that
8 the numbers are pulled out of the air. Just, you
9 know, you've -- you're doing the best you can with the
10 available data and I recognize that, but your data is
11 not always the best so you work with it.
12 THE FACILITATOR: There'd be some
13 pokery jiggery involved perhaps.
14 MR. JOHN TODD: That's true. It's --
15 I had my terminology wrong. I apologize.
16 THE FACILITATOR: All right, Paul,
17 over to you.
18
19 CROSS-EXAMINATION BY MR. PAUL CHERNICK:
20 MR. PAUL CHERNICK: Okay. I -- I have
21 the same problem that Mr. Harper had in that I don't
22 have a copy of the slides. But you -- you indicated
23 at -- at one point in your discussion that -- that
24 causality is notional. And I'm trying to figure out
25 what you mean by that.

1 Do you mean that causality is sort of
2 imaginary? It's -- it's fictional? It can be
3 whatever you want it to be? Or that it -- just it
4 extends to some extent on how you think about the
5 planning process, and the investment process?
6 MR. JOHN TODD: Well, first of all
7 that question, Mr. Chernick, opens the door to one (1)
8 of the last three (3) slides, so I will accept the
9 opportunity. A goal is caused by something by
10 somebody but the causality is complicated.
11 MR. PAUL CHERNICK: I -- I don't want
12 to talk about goals. I mean --
13 MR. JOHN TODD: No, just --
14 MR. PAUL CHERNICK: -- and when you're
15 --
16 MR. JOHN TODD: -- just let me --
17 MR. PAUL CHERNICK: -- talking --
18 MR. JOHN TODD: -- just let me finish.
19 MR. PAUL CHERNICK: -- about hockey
20 again, and I don't want to talk about hockey. I'm an
21 American.
22 MR. JOHN TODD: We're -- we're in
23 Winnipeg now. You've got to --
24 MR. PAUL CHERNICK: And -- and --
25 MR. JOHN TODD: -- you've got to go

1 with --

2 MR. PAUL CHERNICK: -- and --

3 MR. JOHN TODD: -- the Jets.

4 MR. PAUL CHERNICK: -- and notional

5 also seems to be a British and Canadian term, I don't

6 hear it much in the States, and I'm just trying to get

7 to what do you mean by notional? Do you mean it's a

8 fiction at one extent, or that there is some judgment

9 involved? It sounded to me for a while in your

10 discussion like you were just saying, This causality

11 stuff, it's just something we make up. It's just

12 stories we tell our children to -- to help them go to

13 sleep, or to keep them out of the woods.

14 MR. JOHN TODD: At the -- at the

15 extreme end it is little better than that. If we try

16 to talk about the causality of the president's salary

17 and link it to customer class, if -- the -- you come -

18 - you come up with a method of allocating the

19 president's salary in a way that you consider is

20 reasonable. It has nothing to do with causality.

21 Now, at the other extreme there are

22 some costs that are -- the causality is very clear.

23 And that's where the goal analogy, I'm sorry, is

24 relevant. If somebody picks up the puck and skates

25 down the rink and puts it in the net, you're pretty

1 clear who should get the credit for that. There are
2 other situations where it's not clear.
3 And in cost allocation, there are some
4 cases where we know what the causality is. We know
5 which class has caused it. For example, we know that
6 large-volume customers are not connected to the
7 secondary distribution system. We know they are not
8 causing the secondary distribution costs. That lack
9 of causality is clear.
10 We come up with ways of looking at it
11 so that we can say, A reasonable way to view the way
12 generation is caused seems reasonable. In my view,
13 causality -- when we're assigning costs to customer
14 classes, we're talking about how customers have caused
15 costs.
16 All the discussion in the last three
17 (3) days about generation costs being caused by the
18 need to expand a facility which is driven by energy or
19 demand based on what we built in the past, and the
20 claim that generation is driven by the need for energy
21 when it is inherent in Hydro's system with export
22 capacity that you're going to put in lots of
23 generation -- lots of turbines.
24 And if you put in lots of turbines,
25 you're never going to be capacity constrained. But

1 the turbines are there because you want to have the
2 turbines to generate the power when you've got lots of
3 water to export it. So you're over-provisioning
4 turbines.
5 If you over-provision turbines, energy
6 by definition is going to cause -- by one (1) way of
7 looking at it -- the need to expand your capacity,
8 expand your new -- build new facilities.
9 MR. PAUL CHERNICK: So, John, in other
10 words, you're saying that in that case you can say
11 that --
12 MR. JOHN TODD: That's the story.
13 MR. PAUL CHERNICK: -- energy --
14 energy cause -- that -- that increased energy use will
15 make you add another dam, but increased demand won't
16 because if you have enough dams to meet your energy
17 requirements, then you'll have enough to meet your
18 peak loads.
19 MR. JOHN TODD: And what I would say
20 and what I've done in the past, you know, as recently
21 as this past year with New Brunswick Power, said,
22 Let's look at the cost driver as being the load factor
23 of the customers because it's the customers that are
24 causing the investment.
25 So let's get away from looking at the

1 facilities and creating energy and demand splits based
2 on the facilities you happen to have in your system,
3 and let's simply look at customer demand. And so you
4 get into different kinds of -- of systems.
5 MR. PAUL CHERNICK: Okay, John. Come
6 on.
7 MR. JOHN TODD: That's the story.
8 Those are stories.
9 MR. PAUL CHERNICK: I've got a limited
10 amount of time. If you -- if you talk for an hour on
11 every question that I ask you, I'm not going to get
12 through even understanding your testimony.
13 In -- in my oral evidence, I -- I said
14 that, Look, the system load factor says that the
15 amount of your fixed cost that's due -- that method
16 that you just proposed, that says that the cost of
17 your generation, your fixed generation system, your --
18 the plants that you've built, that those are -- are --
19 the fraction of -- of those that are energy driven are
20 the same regardless of whether all your plants are
21 gas-fired steam or all your plants are hydro or
22 nuclear.
23 And I said, That's a ridiculous
24 assumption. And you're saying, No, it's a perfectly
25 reasonable assumption.

1 Is that right?

2 MR. JOHN TODD: What I am saying is --

3 where I disagree with you is you're saying one (1)

4 method's right and the other's wrong. All I'm saying

5 is all these different methods are used. They're all

6 right. They're just different perspectives.

7 MR. PAUL CHERNICK: Then if you

8 believe it, it's right? That's sort of what you

9 started with that if you believe that this is what

10 causes -- if you believe that load factor causes the -

11 - the building of power plants, and that peak loads

12 increase the costs of the Manitoba Hydro generation

13 system, even though you can't point to any place where

14 that actually happened, if you believe it's true, then

15 it's a reasonable way to allocate it.

16 If you don't believe it's true, it's

17 not reasonable. And what you believe -- or what the

18 panel believes defines reality and not the other way

19 around.

20 Is that correct?

21 MR. JOHN TODD: Well, you used some

22 words that I would not use, such as defining reality.

23 To me, it's not reality. It is you choose a panel.

24 Each regulator in each jurisdiction chooses a way of

25 looking at what causes the costs.

1 MR. PAUL CHERNICK: And is it good to
2 --
3 MR. JOHN TODD: The way you look at it
4 --
5 MR. PAUL CHERNICK: -- good to base --
6 is it good, if you can, to base that way of looking at
7 things on the reality of the planning of the system
8 and the investments in the system?
9 MR. JOHN TODD: Okay, that -- that
10 statement implies that costs to be allocated to
11 customers are driven by engineering decisions about
12 building facilities. And I'm saying that's one (1)
13 view. And I'll turn to the view that I consider
14 equally legitimate is that costs are driven by the way
15 customers use electricity.
16 THE FACILITATOR: Can we focus the
17 questions on the premise of the City with respect to
18 the allocation of the costs and the allocation of the
19 net export revenue back to it rather than our
20 philosophies?
21 MR. PAUL CHERNICK: I think we've
22 exhausted this particular --
23 THE FACILITATOR: Good.
24 MR. PAUL CHERNICK: -- item. I'm a
25 little -- I was also confused by your presentation in

1 that you seem to be saying that there were
2 transformers, poles, and wires that Manitoba Hydro was
3 directly assigning to somebody. And I assume that
4 would be to the street lighting.
5 And other than poles that hold up
6 streetlights that would not be needed for any other
7 purpose, are -- are you saying that -- that Manitoba
8 Hydro, in addition to the list of things that Mr.
9 Harper read from a discovery response, also has a
10 group of distribution costs that it dumps into the
11 direct assignment for street lighting and, if so,
12 where -- where are those numbers shown?
13 MR. JOHN TODD: Sorry, I missed your
14 question. What's --
15 MR. PAUL CHERNICK: Is there a dir --
16 I got the impression that you were saying that there's
17 -- that Manitoba Hydro directly assigns transformers
18 to street lighting or to somebody. And I'm just
19 checking to see whether -- is that what you meant or
20 did I misunderstand what you were saying?
21 MR. JOHN TODD: My comment on
22 transformers was that, in some jurisdictions that I'm
23 involved in and involved in cost allocation models for
24 them, we assign as dedicated facilities, which
25 includes transformers and lines that go to one (1)

1 customer, those are directly allocated to that
2 customer or customer class.
3 MR. PAUL CHERNICK: But not that it
4 happens in Manitoba Hydro's system?
5 MR. JOHN TODD: Frankly, I'm not
6 certain when it comes to MIPUG customers. Some of
7 them have dedicated facilities. I did not drill down
8 on their materials, but it would be quite legitimate.
9 And, frankly, I would assume that they are directly
10 allocated to that class if it's a dedicated
11 transformer.
12 MR. PAUL CHERNICK: Okay, do you look
13 at the cost of service study to see whether -- see
14 what dis -- distribution plant lines are direct
15 assigned? Because I'm looking at -- at the cost of
16 service study, the allocated cost tab. And I see
17 allocation to lighting of dedicated lighting equipment
18 and the buildings and general equipment that are
19 prorated to everybody, and some of that goes to
20 lighting.
21 A couple of thing -- three (3) -- and
22 then four (4) items go to diesel, the diesels, the
23 buildings that they're in. And that's the only
24 distribution plant that I see as being directly
25 assigned.

1 So I don't see any transformers. I
2 don't see any wires. I don't see any poles that are
3 being directly assigned to anybody, so I'm not sure
4 why you -- you were talking about it?
5 MS. DENISE PAMBRUN: The witness has
6 already answered that he didn't drill down on those
7 other classes.
8 MR. PAUL CHERNICK: Okay. So you
9 didn't look at the cost of service study. That's
10 fine.
11 MR. JOHN TODD: Okay.
12 MR. PAUL CHERNICK: You -- and you
13 also did not drill down on street lighting. You
14 cannot tell me that there's any street lighting --
15 that street lighting is assigned a single transformer,
16 right?
17 MR. JOHN TODD: I have looked at the
18 information that is available for Manitoba Hydro. I
19 have not gone into Manitoba's Hydro files, some of
20 which -- for information that doesn't exist --
21 MR. PAUL CHERNICK: Did you --
22 MR. JOHN TODD: -- yes.
23 MR. PAUL CHERNICK: Did you ask them
24 whether any transformers were allocated to
25 streetlights?

1 MR. JOHN TODD: Mr. Chernick, you
2 yesterday pointed out that this is essentially a
3 policy process. We're trying to make policy decisions
4 here. And then the methodology, the details, will be
5 implemented exactly as you've suggested for your own
6 materials, and I'm doing the same thing.
7 So, no --
8 MR. PAUL CHERNICK: Okay.
9 MR. JOHN TODD: -- I did not drill
10 down.
11 MR. PAUL CHERNICK: All right, so --
12 MR. JOHN TODD: I did not look at
13 everybody's transformers.
14 MR. PAUL CHERNICK: So your
15 recommendation is not that there's something wrong
16 with Hydro's allocation, but that Hydro should look at
17 what's allocated to street lighting and see whether
18 it's allocating common plant to street lights, the
19 same kind of plant that would be used for anybody else
20 to street lights.
21 Is that what -- really what you're
22 saying then? Again, I -- I don't have -- you know, I
23 didn't have the slides while you were going through
24 them so I wasn't able to take notes, and I'm not -- I
25 -- I got a different impression from the slides than I

1 did from -- from your pre-filed.
2 And -- and if you're -- if you're
3 saying, No, there -- you don't know of any problem,
4 but that's something that -- that Hydro should be
5 careful of, I'm fine with that.
6 MS. DENISE PAMBRUN: Can we pull the
7 slide up, please, for the benefit of the questioner?
8 Which slide are we looking at, Mr. Chernick?
9 MR. PAUL CHERNICK: I -- you want me
10 to now stop and go back and read the slides --
11 MS. DENISE PAMBRUN: No, I just want
12 to know --
13 MR. PAUL CHERNICK: -- that he didn't
14 give us -- didn't give to us?
15 MS. DENISE PAMBRUN: I just want to
16 know which slide you'd like to refer to so that we can
17 clarify exactly what was --
18 MR. PAUL CHERNICK: If you'd emailed
19 them to us, I could now search for the word
20 'transformer', but I don't have it electronically.
21 Perhaps somebody else could do that. Perhaps Mr. Todd
22 could tell us whether he believes that he referred to
23 transformers.
24 MS. DENISE PAMBRUN: If you don't want
25 any help, I won't offer it.

1 MR. PAUL CHERNICK: I was answering
2 you --
3 MR. JOHN TODD: In the slide that is
4 in front of you right now, type 1 -- type 1 has the
5 word 'transformers'.
6 MR. PAUL CHERNICK: Okay.
7 MR. JOHN TODD: Okay.
8 MR. PAUL CHERNICK: So are you saying
9 that transformers are being directly allocated? You
10 say, "Directly allocated." I understand you to use
11 all -- "Directly allocated" to mean directly assigned
12 rather than run through an allocation factor.
13 But you're saying that some
14 transformers are directly assigned to certain customer
15 classes. And are you now saying that's true
16 someplace, but you don't know whether it's true in
17 Manitoba?
18 MR. JOHN TODD: This slide -- this --
19 the -- my comments are made on the basis of -- it's a
20 conceptual distinction. I was trying to be clear to
21 the Board, the panel, as to what would be a type 1
22 asset, i.e., the kind of asset that is used in the
23 electrical system and not outside, versus the type 2
24 assets, which are owned by Manitoba Hydro but are not
25 standard electrical system type devices.

1 This is trying to give examples of the
2 kind of thing that -- that Ms. Derksen was referring
3 to in workshop number 1, saying, Well, what is
4 equivalent to fridges and stoves, and what isn't.
5 MR. PAUL CHERNICK: Okay. So Manitoba
6 Hydro does direct assign DSM in POSS14 (sic) amended,
7 and that's a -- a subject that people have talked
8 about in -- at some length. You seem to be agreeing
9 that luminaires probably should be direct assigned to
10 the lighting class.
11 Is that correct?
12 MR. JOHN TODD: I'm not -- I have no
13 disagreement with Manitoba's Hydro's method of
14 directly assigning. That's fine.
15 MR. PAUL CHERNICK: Okay.
16 MR. JOHN TODD: The question is: What
17 is the nature of the directly assigned costs, and
18 therefore, should they be built into the allocator for
19 net export revenue? That's where the issue is.
20 MR. PAUL CHERNICK: Okay. So you
21 agree that the luminaires are type 2 and at the other
22 extreme that transformers are type 1. Now, did I hear
23 you say as you were going through your slides that you
24 thought decorative posts should be treated as type 1
25 because a decorative post is like a -- a utility pole,

1 and therefore it's really type 1 and it's not type 2,
2 or did I misunderstand?
3 MR. JOHN TODD: What I said is that
4 there are two (2) types of decorative poles. Both
5 poles are there to carry the wires that run
6 electricity from the common distribution system to the
7 customer's light.
8 Of those two (2) types of decorative
9 posts, one (1) the customers pay for. The other are
10 the company's inventory. And arguably, and I think
11 it's a reasonable argument, you've got 20 foot poles,
12 and 30 foot poles, and 40 foot poles, and you've got
13 15 foot poles that go down a street in a new
14 development that carry streetlights. They're all
15 poles, and the poles are made necessary.
16 Here's another one (1) of these
17 causality dilemmas, is the pole caused by the light or
18 is the pole caused by the need to get a wire from the
19 main system to the light? If the pole is caused by
20 the need to carry the wire, that's part of the
21 distribution system.
22 MR. PAUL CHERNICK: I -- okay, I'm --
23 I'm a little confused. You showed a picture --
24 THE FACILITATOR: Paul -- Paul, just
25 so that you're aware, maybe just a couple minutes more

1 --

2 MR. PAUL CHERNICK: Okay. Yeah. I

3 was trying to get to things where we -- where we

4 agreed, but I'm still trying to understand what it is

5 that you're claiming about the -- the allocation.

6 The -- the decorative post that you

7 showed us that had a light on the top and a steel post

8 leaning up to it, painted steel post, that is not

9 carrying a wire from one (1) place to another. It's

10 carrying a wire from the ground up to the light. It's

11 supporting the lamp. It has no other function for the

12 -- for the system. There's no -- the residential

13 customers near that light do not need that post for

14 anything except for the fact that they're -- if

15 they're consumers of the lamp -- of the lamp's light.

16 And are you saying that that kind of --

17 of post is a Type 1 that's needed for everybody and

18 that's part of the system, or it's Type 2 which is

19 like a luminaire needed only for street lighting?

20 MR. JOHN TODD: That is an example of

21 one can look at it in either way.

22 MR. PAUL CHERNICK: Okay.

23 MR. JOHN TODD: And people can differ

24 in their views. What I'm suggesting is there are also

25 wooden poles that are uncontested which are there

1 simply to carry the wire to get from the distribution
2 centre to a house.
3 MR. PAUL CHERNICK: Right.
4 MR. JOHN TODD: And why would a wooden
5 post that's carrying a wire to a house be treated
6 differently than a metal pole that is carrying a wire
7 from the main system to a -- well, a Manitoba-Hydro-
8 owned but for City purposes, luminaire?
9 MR. PAUL CHERNICK: Well -- okay.
10 It's my understanding that -- and let's use overhead
11 systems, because they're a little easier to think
12 about. The Utility pays for a -- a service drop from
13 my -- the pole near my house to a place high on my
14 house, and I'm responsible for them getting it down to
15 my circuit breaker box, and distributing around my
16 house.
17 Everything beyond that connection point
18 is my responsibility. Looking at this picture that
19 you've given us, it seems to me like the comparable
20 connection point is underground where the secondary
21 system connects to that -- the wire running up into
22 that streetlight. And I see no purpose for the post
23 other than street lighting. And...
24 MR. JOHN TODD: I have a house with a
25 --

1 MR. PAUL CHERNICK: I'm trying to
2 understand whether you're really saying that that's
3 really a type -- Type 1 investment that's serving all
4 the customers.
5 MR. JOHN TODD: I have a post in -- a
6 -- a pole in the back of my yard which is only there
7 to get electricity to my house. They own it. It's --
8 it's considered part of the pool, but, you know, it's
9 -- it's there to get power to my appliance. You can -
10 - you can disagree with me, but I hope you're not
11 saying --
12 MR. PAUL CHERNICK: No, I'm just
13 trying to --
14 MR. JOHN TODD: -- You're right and I'm
15 wrong.
16 MR. PAUL CHERNICK: -- I'm just trying
17 to understand what -- what it is that -- that you're -
18 -
19 MR. JOHN TODD: Yeah.
20 MR. PAUL CHERNICK: -- so you're --
21 you're saying that -- that even moving -- well, okay.
22 Never mind. It's a -- this is sort of the equivalent
23 of the foundation under your house. In this case,
24 Manitoba Hydro pays for the foundation, and you're
25 saying, Well, that's a Type 1.

1 MR. JOHN TODD: That's your way of
2 looking at it, which -- which is fine, and I accept
3 that there's -- people disagree with me.
4 MR. PAUL CHERNICK: On slide 15 --
5 THE FACILITATOR: Ask -- ask a
6 question, Paul. Chose your best one.
7 MR. PAUL CHERNICK: Slide -- slide 15
8 -- just trying to understand his presentation. You
9 were trying to make some kind of point here about this
10 -- this situation, and who was going to be -- how it
11 was going to be treated, whether it was Type 1 or Type
12 2.
13 And were you saying these lines
14 presumably -- I don't -- I don't known whether they're
15 primary or secondary, or whether you're suggesting
16 that there be both there, but do those run onto serve
17 other customers in addition to street lighting, or do
18 they exist only in -- in this example for
19 streetlights? Because all we see here is a
20 streetlight and a pole, and some wires.
21 MR. JOHN TODD: It depends on the
22 location. I mean, I'm sure there are locations where
23 the configuration that is cost effective is probably
24 running off of a distribution main down a street, and
25 it's only streetlights down the -- down the street.

1 There's places where it's going to be shared where
2 it's going onto other houses. There's all kinds of
3 configurations that are built out, depending upon the
4 economics of the situation
5 MR. PAUL CHERNICK: You said this was
6 -- you described this as an exclusive pole, so that
7 would mean that it wasn't serving any other class
8 other than the streetlight.
9 Is that -- is that -- was that your
10 intent in -- in slide 15?
11 MR. JOHN TODD: I believe that is the
12 defini -- that -- looking at the definitions of
13 exclusive poles, it is a pole which is not carrying a
14 conductor for electrical purposes. So if -- if this
15 was being treated as an exclusive pole, the wire would
16 not be going on to --
17 MR. PAUL CHERNICK: Okay.
18 MR. JOHN TODD: -- serve a residential
19 customer.
20 MR. PAUL CHERNICK: That was part of
21 what confused me. All right.
22 Thank you very much, Mr. Grant.
23 THE FACILITATOR: Thank you. Let's
24 take fifteen (15) minutes. Is that all right with
25 everybody? Fifteen (15) minutes, four o'clock

1 promptly, and we'll still get through by 5:00, I
2 think.
3
4 --- Upon recessing at 3:46 p.m.
5 --- Upon resuming at 4:00 p.m.
6
7 THE FACILITATOR: All right, everyone.
8 If we can get going pretty soon. Perhaps while people
9 are taking their seats, there are a couple of small
10 matters that -- that I should deal with.
11 One (1) is I'm happy to say that we
12 have a consensus with respect to the undertaking that
13 the General Service Group are going to do. And so,
14 Sean, if I can read it out, it is that London Drugs
15 (sic) will develop figure...
16
17 (BRIEF PAUSE)
18
19 THE FACILITATOR: Apparently I'm into
20 apologies right off the get-go here. Let -- let me
21 try again. London Economics, a prestigious firm, will
22 re-develop Figure 3 of its pre-filed evidence based on
23 the appropriate available data, including the data
24 provided by Manitoba Hydro on attachment 31, and will
25 reconsider its threshold for treating some portion of

1 opportunity sales as attracting full embedded costs.
2 We have one (1) other small item to
3 deal with, and I -- I believe that Byron wants to
4 clarify one (1) comment from earlier on.
5 MR. BYRON WILLIAMS: Yes, and I
6 apologize. I wasn't in the room. I think in -- in
7 one (1) -- a -- a comment by one (1) of the Board
8 members, the -- in a question of London Drugs --
9 London Economics -- just teasing, guys -- there was a
10 suggestion that Mr. Harper had set out the position of
11 the Coalition on a number of issues.
12 And I just wanted to be clear that Mr.
13 Harper appears as an independent expert. Consistent
14 with what he's done in every hearing, we're very proud
15 of his evidence. There are times where our clients
16 will choose to agree with all of it. There are also
17 times, like in the recent NFAT, where they don't
18 always agree.
19 So he's here as an independent expert,
20 and -- and our client's positions will be made
21 apparent later on in the hearing. And I thank you for
22 that opportunity.
23 THE FACILITATOR: Thanks, Byron.
24 We're on, then, I -- I've been told, but just to
25 confirm, any questions from General Service?

1 (BRIEF PAUSE)

2

3 MR. CHRISTIAN MONNIN: No questions

4 for the City of Winnipeg, thank you.

5 THE FACILITATOR: Thank you. So we're

6 on to Kelly and Manitoba Hydro. Hopefully you can

7 work with the sports analogy. I really liked that

8 part.

9 MR. JOHN TODD: And I can assure you,

10 Bill, I've been to the London Drugs offices, and

11 there's no smell -- smell of marijuana in the place at

12 all.

13

14 CROSS-EXAMINATION BY MS. KELLY DERKSEN:

15 MS. KELLY DERKSEN: I'm not sure that

16 I have many questions, but I can -- I can tell you I

17 do this for a living, and I was quite confused by some

18 of the discussion that occurred this afternoon. So

19 you're going to have to help me out a little bit here,

20 please, Mr. Todd.

21 I can't interpret, and I need you to

22 help me understand your evidence. Is your evidence

23 that Manitoba Hydro should ignore trying to draw a

24 distinction between different lighting equipment --

25 the pole, the wire, the -- the luminaire?

1 We should ignore that for purposes of
2 returning net export revenue to customer classes, and
3 assume that all of that cost, all of the direct
4 assigned costs, be included in that calculation? Or
5 is your evidence that we should be looking at it more
6 finely as you went on at fair length about -- I -- I
7 don't know. Can you help me, please?
8 MR. JOHN TODD: I hope I can. And I
9 think the distinction is between what is -- what might
10 be done in a perfect world and what might be done in
11 our world. In a perfect world, i.e., information is
12 free, I would say drill down, get all the details,
13 separate out what is within the category of directly
14 allocated costs to street lighting and every other
15 class, and identify what costs of -- which of those
16 costs are associated with normal costs of the electric
17 system in which costs are an, i.e., type 1 versus type
18 2.
19 That separation is only made necessary
20 if the goal of the Board is to have net export revenue
21 allocated back to classes based on their share of the
22 electrical system costs after we remove the -- the
23 type 2 costs, as I referred to them for simplicity.
24 If that's your starting point, is your
25 policy, then in an ideal world, you'd separate those

1 costs out.

2 MS. KELLY DERKSEN: Yeah, that --

3 that's not particularly helpful, Mr. Todd. I'm sorry.

4 In --

5 MR. JOHN TODD: So once I finish. So

6 the -- the -- from your question, I think the

7 confusion came. It sounded like I'm saying, Well,

8 then just ignore that. And I'm saying, yeah, in a

9 practical world, probably that would be an onerous

10 thing to do. Therefore, the way -- what my evidence

11 was, you simplify by either allocating all or nothing.

12 And my suggestion is that it's probably

13 more equitable to include all directly allocated costs

14 than none. But that would be the Board's decision as

15 to what they think is more equitable.

16 MS. KELLY DERKSEN: Okay, thank you.

17 On page 11 -- it's actually number -- slide number 21,

18 you ident -- dentify three (3) purposes. Can you take

19 -- point me in your written evidence where those three

20 (3) purposes are, please? Because I'm try -- where --

21 part of my confusion is I don't know where this is in

22 your written evidence.

23 And with respect to purpose number 2,

24 which is, I think, what you're saying is the practical

25 solution to deal with your evidence, which is to

1 exclude fixture costs, like, when you say, "Exclude
2 fixture costs," does that mean just the luminaire that
3 you were talking about?
4 Can you help me? I'm just confused
5 about what it is that your recommendation is. This
6 was not what I interpreted your written evidence to
7 be, so I -- I'm just really struggling.
8
9 (BRIEF PAUSE)
10
11 MR. JOHN TODD: The -- the written
12 evidence was based on the record that existed at the
13 time of writing of that evidence. The -- I -- I guess
14 we -- I think for myself and others, there's a long
15 history -- there's a long history to this treatment of
16 next export revenue, so I guess I fell into the trap,
17 in a sense, of saying, Okay, the train has left the
18 station.
19 The Board, previous Boards, the Board,
20 in the past, has made the decision that net export
21 revenue is being allocated back to customer classes
22 and on the basis of costs, which included distribution
23 costs.
24 I looked at that and said, Well, all I
25 know for sure is that the assets that are used to

1 produce the power and get -- and to export the power
2 are only generation and transmission costs.
3 Therefore, if this was kind of a what are the -- what
4 are the assets that -- what are the assets that are
5 used for exports and let's have a rebate back to those
6 assets, you wouldn't be using this approach.
7 So clearly, it's an attempt to get the
8 rebate out to everybody. What I couldn't tell was
9 whether the rebate should be going back to everybody
10 based on the amount they pay, or something else,
11 except that clearly, the past decision was you exclude
12 directly allocated costs.
13 What I tried to say in my evidence, and
14 I'm sorry if I was confusing, was that if you look at
15 the directly allocated costs in the model, which
16 includes DSM -- and DSM is clearly an alternative to
17 generation and transmission. I mean, you engage in
18 that to avoid other investments. Leaving directly
19 allocated costs out of the allocator is leaving out
20 costs which, in my mind, are core costs of the
21 electrical system. It also leaves out on the area and
22 roadway lighting side poles and wires.
23 And I looked and said from what I think
24 the Board was trying to do, this doesn't seem to
25 accomplish that goal very well. Therefore, we should

1 be including directly allocated costs in the allocator
2 of net export revenue. With all the discussion that's
3 gone on I thought, Well, and -- and frankly, Ms.
4 Derksen, I was sold by your comment about -- in part
5 about street lighting being like stoves and fridges.
6 I thought, Well, there's some truth to that. So what
7 I'm trying to do here is -- is recognize that, but at
8 the same time recognize that that's not the whole
9 story.
10 So what's my recommendation? My
11 recommendation is if it's -- if Manitoba Hydro wants
12 to go to the effort of splitting out the costs that
13 are not related to assets that are electrical assets,
14 fine. Create an allocator for net export revenue that
15 is directly allocated costs with those costs taken
16 out.
17 If they don't want to go to that
18 effort, the next best pragmatic solution is probably
19 to just allocate net export revenue out on the basis
20 of total cost, including directly allocated costs.
21 And that's a simplifying -- administratively
22 simplifying solution, even though it's not the sort of
23 theoretically perfect solution.
24 Is -- does that clarify where I'm
25 coming from?

1 MS. KELLY DERKSEN: I think -- well,
2 I'm -- I'm not sure. Maybe I just need a vacation.
3
4 (BRIEF PAUSE)
5
6 MS. KELLY DERKSEN: I highly doubt
7 that we have the type of data that you are suggesting
8 ought to be used to draw a distinction between a
9 light, its pole, and other equipment that may -- may
10 be attached to it. And so I'd hate to see that the
11 regulator adjudicate on this matter, and direct the
12 Corporation to do that because, quite frankly, I don't
13 think we have that data.
14 And so that was part of my struggle is,
15 that's not in your written evidence. It's offered up
16 here. And so...
17
18 (BRIEF PAUSE)
19
20 MR. JOHN TODD: I'm with you, Ms.
21 Derksen.
22 MS. KELLY DERKSEN: I -- I know. The
23 trouble is, is that we have a -- we have a -- a Board
24 who has to make a decision, and if they are not
25 appreciative of the -- if this data exists or doesn't

1 exist, and the level of effort that needs to go into
2 this methodology that's not in your written evidence
3 but we've talked about today, I'm -- that's what is
4 causing me to be confused. And so I apologize if I'm
5 behind the eight (8) ball here, but it -- when -- you
6 know, when you have option number 2 on slide 21 to
7 say, "Exc -- exclude future costs" -- sorry.
8 I'm sorry, it doesn't say that. It
9 says, "Exclude fixture costs," you're not sugge --
10 you're suggesting that as your in a perfect world
11 approach, but that's not actually what your
12 recommendation is. Your recommendation is not to go
13 to that level of detail?
14 MR. JOHN TODD: Okay. So first of
15 all, let's be clear on what is in my evidence and what
16 is not in my evidence. I think people have tried to
17 characterize what I've said today as, Oh, this is not
18 in your evidence. If you turn to page 5, lines 4 to 7
19 of my evidence, pre-filed, it says:
20 "At most, Hydro's rationale would
21 justify removing luminaires from the
22 allocator. However, for sake of
23 simplicity, it would be far easier
24 to avoid the effort that would be
25 needed to remove this small portion

1 of directly allocated costs that are
2 attributable to luminaires in
3 determining the NER allocator."
4 That's my position. What is in the
5 slides and what I've said today is completely
6 consistent with that. I -- it was intended to
7 clarify, and do more detail, and yes, there may be
8 more than literally, the -- well, I'm not quite sure
9 how we defi -- how you would define a luminaire, but
10 it's the luminaire and its relevant parts, but that's
11 there, line -- page 5, lines 4 to 7.
12 And I don't think said anything
13 different.
14 MS. KELLY DERKSEN: It's just your
15 slide 21 says, "Exclude fixture costs." And I didn't
16 know what that meant, if that's a luminaire, or if --
17 and -- and why then if you're suggesting that your
18 position is, Why go through that trouble, where is
19 that option on slide 21 to say, Provide a dividend
20 based on the cost of -- of electricity services
21 provided, period.
22 MR. JOHN TODD: Okay. There has been
23 a lot of fuss made about this being new evidence.
24 What the slide says before that purpose number 2 is:
25 "What is the intended use of net

1 export revenue?"
2 What I'm trying to do is elucidate the
3 thinking, because I have felt that the waters were
4 muddied over the last couple of days about what net
5 export revenue is. We've got -- we've got a bunch of
6 positions on the table, like, let's have a segue in
7 reserve and so on.
8 The only message here is, the Board
9 first has to decide what its goal is as a policy, and
10 then the theoretically best solution will flow from
11 that automatically.
12 And here's -- here's three (3)
13 purposes. Those are not solutions. Those are
14 purposes. I identified three (3). There's probably
15 ten (10) possible purposes. I've identified some
16 popil -- possible purposes. I've identified that
17 number 2 leads to my observation or recommendation at
18 page 5, lines 4 to 7.
19 And when you add in my recommendation
20 in my evidence, that there is a -- it would be far
21 easier to avoid the effort part. That clarifies
22 purpose 2 and says, Okay, so in reality, you probably
23 don't go through all the work to try to remove the
24 fixture costs, and you just include the directly
25 allocated costs in the allocation net export revenue.

1 Obviously, it was unclear. I did not
2 realize it was so unclear.
3 MS. KELLY DERKSEN: Thank you for
4 that. Those are -- those are my questions.
5 THE FACILITATOR: Thank you. So we're
6 on now to the Board consultants. John...?
7 MR. JOHN ATHAS: Brady is going to go
8 first.
9 MR. BRADY RYALL: John's offered that
10 I'm going to go first for a change, so.
11 THE FACILITATOR: Bra -- Brady, I
12 noticed that you're hiding some of your Coke can --
13 the day goes -- on is --
14 MR. BRADY RYALL: Hopefully I can get
15 through it in just the one (1).
16
17 CROSS-EXAMINATION BY MR. BRADY RYALL:
18 MR. BRADY RYALL: All right. Good
19 afternoon. It's been mentioned many times, but just
20 as a starting point, the credit for net export revenue
21 is based on the total allocated costs.
22 Is that your understanding?
23 MR. JOHN TODD: Yes. Let's be clear
24 in the terminology, because total allocated costs,
25 when I first read it, I thought that meant total.

1 MR. BRADY RYALL: Yeah.

2 MR. JOHN TODD: When you actually look

3 in the cost allocation model, there's a cell where

4 they've got the title Total Allocated Costs, and it's

5 actually the total costs that are allocated as opposed

6 to directly ass -- assigned.

7 So it's -- it's on the basis of total

8 allocated costs which, in that definition, is net of

9 directly allocated or directly assigned.

10 MR. BRADY RYALL: Okay. And your

11 understanding of why directly assigned costs -- and

12 let's just focus on the area in roadway lighting

13 directly assigned costs.

14 What's your understanding of Hydro's

15 position as to why those are excluded from the net

16 export revenue credit?

17 MR. JOHN TODD: Prior to the first

18 workshop, I had no idea why. That's why I asked Ms.

19 Derksen. Her response was, Well, it's because

20 luminaires, sentinel lights, streetlights are

21 equivalent to stoves and fridges. Therefore, they

22 should be outside.

23 So I deduced from that that what she

24 was saying was we should only include what our

25 electrical asset, whatever -- type 1, type-related

1 costs.

2 Okay. So I went back and looked at all

3 the directly-allocated costs, and I said, Well, other

4 classes have directly-allocated costs, and they're not

5 items that are equivalent to stoves and fridges. So

6 why are they left out?

7 And I also looked at the street

8 lighting category and said, Well, part of those

9 directly-allocated costs are poles and wires. So why

10 are those left out?

11 And that's the way I -- you know,

12 that's -- I kind of backed into my position. And so

13 my understanding is that they're left out because the

14 category of directly-allocated costs are tainted by

15 the inclusion of some things that are not core

16 electrical assets.

17 That's the best way I can -- and I'm --

18 it's not my -- it's not my policy, right? But that's

19 the best way I can try to characterize the way I

20 understand the rationale.

21 MR. BRADY RYALL: Okay. I understand

22 your position, then. But part of -- is part of

23 Manitoba Hydro's position that those are what they

24 term assets that are beyond -- behind or beyond the

25 point of delivery? Have you heard them use that

1 concept?

2 MR. JOHN TODD: Yeah. I think that's

3 -- I think that's related. And unfortunately for

4 streetlights, the point of delivery is not clear-cut.

5 We don't have a metre. Therefore, that in itself is -

6 - like, who scored the goal? You know, it's -- it's a

7 judgment call.

8 MR. BRADY RYALL: Right. So the -- I

9 was going to go --

10 MR. JOHN TODD: They're -- they're

11 taking it back to the goalie, gave the puck to the

12 defenceman. I'm saying, You know, let's cut it off

13 with the guy who took the shot.

14 MR. BRADY RYALL: Okay. I was going

15 to say for other customers, it is clear. It's the

16 metre is the point of delivery. And for -- and you're

17 saying for street lighting, it's -- it's not quite --

18 Hydro has one (1) position. You've got your -- you

19 have a different position.

20 MR. JOHN TODD: Yeah, and I got that

21 hockey now -- I had to get the hockey analogy in for

22 Bill again, you know.

23 MR. BRADY RYALL: Well, I'm -- I'm

24 missing hockey right now, so I appreciate --

25 MR. JOHN TODD: So does Denise. She

1 really misses hockey.

2 MR. BRADY RYALL: But for -- let's --

3 let's -- I want to go a little bit different tack now,

4 then. The -- the Cost of Service Study is to allocate

5 the Utility's revenue requirement, correct?

6 MR. JOHN TODD: Revenue requirement,

7 yes.

8 MR. BRADY RYALL: Revenue requirement.

9 And you've identified through some of your slides what

10 -- or some of the components of a revenue requirement

11 that relate to street lighting, which are luminaires,

12 some poles, wires, a few other things?

13 MR. JOHN TODD: They are part of the

14 revenue requirement, exactly.

15 MR. BRADY RYALL: And you've also

16 clarified -- I saw in one (1) of your slides that

17 Manitoba Hydro owns these -- owns the luminaires, they

18 own the poles, they own -- they own the wires.

19 Is that correct? The City doesn't own

20 those?

21 MR. JOHN TODD: Unfortunately, in the

22 real -- real world, everything's a little bit muddy.

23 The -- some of -- all of the shared poles are owned by

24 Hydro, as far as I know. Some proportion of the dec -

25 - so-called decorative poles -- i.e., non-standard

1 electrical poles -- are owned by Manitoba Hydro.
2 The City has advised me those poles are
3 typically worth in the area -- they're -- they're
4 Walmart poles worth -- costing a couple of hundred
5 dollars, two hundred and fifty dollars ($250) or so.
6 They're -- also, the City puts in a
7 higher quality than Walmart poles that often cost a
8 couple thousand dollars, you know, in downtown areas
9 where you're trying to create a -- a better look and
10 feel. Those are paid for entirely by the City.
11 Therefore, some of the streetlights, where there is a
12 standard charge per luminaire, in some cases, the pole
13 that holds that luminaire has cost Manitoba Hydro zero
14 for the same rate as charged.
15 So some are zero. Some are two hundred
16 and fifty dollars ($250). The two hundred and fifty
17 dollar ($250) poles go into the pool of costs.
18 MR. BRADY RYALL: Is there any reason
19 why -- or I assume there is, so perhaps you can share.
20 What would be the reason for Manitoba Hydro, with the
21 exception of the -- of those special decorative poles
22 that -- that the City purchases and Hydro then -- then
23 installs, why does Hydro own the -- the -- basically,
24 why does Hydro own the street lighting system and not
25 the City?

1 MR. JOHN TODD: That -- that would
2 require somebody with even more lines on their face
3 and even whiter hair than mine because, that's the
4 ancient history of going back to the days of Winnipeg
5 Hydro.
6 I think the -- as -- as I understand
7 it, the street lighting system kind of came along with
8 Winnipeg Hydro, and it's the practice here, as in many
9 jurisdictions. And sometimes it's based -- it's
10 individual municipalities. Some -- in some cases, the
11 hydro utility owns the street lighting system. In
12 some cases, they don't.
13 MR. BRADY RYALL: Okay. Other than
14 for it's been kind of the case all -- you know, since
15 -- since streetlights came along, is there anything
16 that would preclude a third party from actually owning
17 the street lighting system and providing lighting
18 service to the -- to the City, to the citizens of the
19 City, and that third party would pay Manitoba Hydro
20 for the electricity, but, otherwise, that third party
21 would own the poles, the wires, the luminaires?
22 MR. JOHN TODD: I suspect that that's
23 a legal question.
24 MR. BRADY RYALL: Okay.
25 MR. JOHN TODD: There may be legal

1 impediments. But other than that, it's contractual.
2 MR. BRADY RYALL: That's kind of what
3 I was -- what I was getting at, is that some of these
4 things might just be contractual. That it's -- it
5 could be convenient for the City to -- to pay Manitoba
6 Hydro to do this. They -- they have the trucks. They
7 have the equipment to -- to access this?
8 MR. JOHN TODD: Yeah.
9 MR. BRADY RYALL: Okay. If you could
10 -- I mean, when you say that there -- there might be
11 some legal implications, if you can go with me that,
12 if there -- if there weren't legal implications, if
13 you can -- if you can just -- if you can work with me
14 on the assumption that a third party could own this --
15 own the street lighting system, there would have to be
16 a point of delivery from Manitoba Hydro to the -- to
17 the street lighting system, correct?
18 MR. JOHN TODD: There would have to be
19 a point of delivery, yes.
20 MR. BRADY RYALL: Okay.
21 MR. JOHN REID: It's -- you know, I --
22 thinking where would that be for a street lighting
23 system is an interesting one, but, yeah, go ahead.
24 MR. BRADY RYALL: And -- and I'm --
25 we've -- you know, we started by talking about point

1 of delivery. And it -- it -- you might have a
2 different position on where that is compared to
3 Manitoba Hydro, compared to another person we could
4 ask. They may -- everybody may have a -- a slightly
5 different view of what that point of delivery is, but
6 there would be one, correct?
7 MR. JOHN TODD: Yes. And the -- the
8 point -- the point of delivery will -- will vary with
9 the situation. So, for example, if you had a third
10 party supplying street lighting, in part, that third
11 party would be another third party seeking full
12 attachments, because wherever it's economic, they
13 would say, We want to pay a rental fee to put our
14 luminaire on your pole, right?
15 And, similarly, they would be looking
16 around just taking the example of -- of cellular
17 systems, okay? In the City, cellular antennae pay
18 rental fees to go on buildings, on poles, you know,
19 wherever it's effective for the system, so they don't
20 build all their own poles, but they have the
21 equivalent of poles to have their antennas mounted up
22 in the sky, just like a street light is.
23 So where there's poles, they would pay
24 a pole fee, a pole attachment fee. Where there are
25 standalone poles, they would probably buy those poles

1 and -- and use those poles. Frankly, in some
2 locations, they might say, Gee, where it's just
3 cheaper to attach a streetlight onto a building, just
4 like a cell tower, rather than put in a pole. Lots of
5 options. And there would be a lot of incentive to
6 keep the price -- keep -- keep the costs down --
7 MR. BRADY RYALL: Right.
8 MR. JOHN TODD: -- if a third party
9 was doing it.
10 MR. BRADY RYALL: So the third party
11 would pay -- in our -- in our scenario here, the third
12 party would pay Manitoba Hydro for both the
13 electricity and some pole rental fees?
14 MR. JOHN TODD: Some pole rental fees
15 and attachment fees, and whatever, yes.
16 MR. BRADY RYALL: But this -- for a
17 third party, it's going to -- now that it owns -- it's
18 going to own a good chunk of the existing street
19 lighting system now. Those costs to -- to own and
20 maintain that system now would no longer form part of
21 Manitoba Hydro's revenue requirement.
22 MR. JOHN TODD: Then they wouldn't,
23 and let me bring in another -- we -- we love analogies
24 in this session, don't we? Okay. So if we're going
25 to go down that path, let's also go down the path of,

1 you've got a new development, which is houses.
2 The developer says, as happens in some
3 locations, What we're going to do is we're going to
4 attach to the Manitoba Hydro system at the edge of our
5 residential development, and we're going to distribute
6 power to all the -- to all the houses. Now we have a
7 distribution system, which is the same as Manitoba
8 Hydro. It's going to be outside the revenue
9 requirement. Exactly the same facilities.
10 Yes, it's a third party that owns it.
11 Those facilities would then not be part of the revenue
12 requirement. They would not be directly allocated
13 costs. They would not be going into the allocator for
14 net export revenue. So there's many ways you can
15 configure things. And, yes, you can -- you can
16 imagine a scenario where those assets are outside of
17 Manitoba Hydro.
18 But we heard from MIPUG the other day,
19 right, that some transformers are owned by customers.
20 Those transformers are outside the Manitoba Hydro
21 system. They're outside the revenue requirement.
22 They do not attract net export revenue. But if Hydro
23 owns them, they do. But they're all transformers.
24 So where I'm coming from is, yes, you
25 can draw these distinctions. You can talk about who

1 the owner is. To me, it's not who owns it. It's the
2 nature of the asset.
3 MR. BRADY RYALL: Fair enough. So you
4 -- but -- you brought up legal questions before, and I
5 guess have -- having a private distribution system to
6 the public might also bring in some of those legal
7 questions, but --
8 MR. JOHN TODD: But it's a totally
9 analogous situation with these legal questions, and --
10 and, I say, in some jurisdictions, it's not -- it
11 depends on a franchise agreement, and -- and it -- and
12 it is -- it is happening. That's what -- you know,
13 that's what some of the grid -- you know, some of the
14 distributed generation, and you're getting a lot more
15 than just distribution systems. You're getting whole
16 stand-alone microgrids.
17 MR. BRADY RYALL: So you were
18 anticipating where I was going with this, and that is
19 but with just -- maybe we can get -- get -- I can put
20 the question on the record, and you can answer it.
21 Is that if the -- if the third party
22 did own this system and it was outside the Utility's
23 revenue requirement, that -- and if that had always
24 been the case, and it just was -- it never occurred to
25 anybody that this would be something that Manitoba

1 Hydro would do, would we be necessarily having this
2 conversation about the distinction between the total
3 allocated costs versus -- and excluding directly
4 assigned costs if it wasn't -- and -- but what I mean
5 by -- let me clarify that.
6 If it's -- if -- if these directly
7 assigned costs are the equivalent to a third party
8 owning that system and operating that system, it would
9 never entertain our mind that that's a utility cost.
10 Is that...
11 MR. JOHN TODD: Well, we have what we
12 have, and the same could be said about if -- if every
13 large -- everybody owned their transformers, it would
14 be different, but -- but, yeah. Under that scenario,
15 that's -- that's true.
16 And -- and it's interesting, when I was
17 finding those pictures for the slide presentation, you
18 go on the web, and you look at streetlights, half of
19 the pictures I saw were street lights with solar
20 panels on top of them. Presumably had batteries. You
21 know, so they are what is -- and -- and these were
22 companies that are selling them. Mainly Chinese
23 companies.
24 What they're selling now are
25 streetlights that are designed to be stand-alone

1 systems. It's a whole different approach to street
2 lighting. The parking metres in the street. They've
3 got solar panels. They don't connect into the Hydro
4 system. If they're electric ten (10) years ago, they
5 would have.
6 So, yes, the world is changing, but
7 what we're trying to do is allocate the costs that are
8 costs of Hydro, and in particular with my evidence,
9 we're trying to say, Given the way the system is
10 structured, given the way the costs are structured,
11 what's the appropriate way to allocate net export
12 revenue back to the customer classes?
13 MR. BRADY RYALL: Okay. Thank you.
14 I'll turn it over to Mr. Athas.
15
16 CROSS-EXAMINATION BY MR. JOHN ATHAS:
17 MR. JOHN ATHAS: Thank you. I have
18 one (1) question that could actually be -- be answered
19 in one (1) word, and we'd be --
20 MR. JOHN TODD: Do you want to tell me
21 the word first?
22 MR. JOHN ATHAS: Look at slide 21,
23 which is conveniently up there still. Are there --
24 are there potentially additional purposes than the
25 three (3) you have up there?

1 MR. JOHN TODD: Yes.
2 MR. JOHN ATHAS: I'm all set.
3 THE FACILITATOR: Thank you. Are
4 there any questions from the panel?
5 BOARD MEMBER GOSSELIN: Actually, I
6 have a question on the last bullet of slide 21. A
7 segregated reserve will be to reduce returned
8 earnings. That's an environment where the net export
9 revenue is negative, right? Is that how I should read
10 that?
11 MR. JOHN ATHAS: Eith -- either way.
12 I mean, this is -- Mr. Bowman's discussion about,
13 Let's not allocate it back -- let's take it right out
14 of the cost allocation process, keep it separate.
15 What I'm saying is that for the time being, it appears
16 there'll be -- there will be a given rate increase
17 scenario, whatever happens there.
18 The splitting of retained earnings, if
19 the net export revenue is positive, there would be a
20 reduction of net earnings because there'd be part of
21 net earnings -- part of the positive number would be
22 this reserve. So it would be -- it would -- it would
23 be kind of a part A of retained earnings and a Part B.
24 And Part B could be positive or
25 negative. If it's negative it means the other net

1 earnings goes up.

2 BOARD MEMBER GOSSELIN: Quite an

3 advantage, I see, of a segregated reserve would be to

4 avoid all this fighting about how to allocate the --

5 the net. And at -- at the moment, the -- the net

6 positive retained -- net positive export revenue has

7 the effect of -- of minimizing rate increases that

8 would otherwise be required from -- from the -- the

9 various classes?

10 MR. JOHN TODD: I have a fundamental

11 concern with the way that's been presented in this

12 proceeding. Stated that way, it implies that we're

13 using a test year cost of service rate-making process

14 where we come up with a revenue requirement and we set

15 rates to recover it.

16 The last GRA, Manitoba Hydro came in

17 and said, We're asking for 3.95 percent. Our debt

18 ratio is going down. We actually need more than that,

19 but that's not viable. For the foreseeable future,

20 we'll be coming in asking for 3.95 percent. And the -

21 - what would -- what would be a revenue shortfall,

22 presumably, if not now, then in the future, in a

23 standard test year approach is being absorbed by the

24 retained earnings.

25 That's why the last bullet there says

1 "given the rate increase scenario". And that's, I
2 think, what Ms. Derksen has been trying to point out
3 that if you went with that scenario, you don't change
4 the revenue, because the revenue's not being driven by
5 a revenue requirement minus some net export revenue.
6 It's not the way Manitoba Hydro comes
7 up with its rate increase request, right? So the
8 reality is they're going to come with the same rate
9 increase. They're going to have the same rates.
10 They're going to have the same volumes. They're going
11 to have the same export revenue in dollar terms. All
12 you're doing is rejigging the retained earnings line
13 in the financial statements to make it smaller if you
14 keep positive net export revenues as a separate item,
15 as a reserve.
16 And it seems to me if you go back
17 twenty-five (25) years, didn't Manitoba Hydro have
18 something called a rate stabilization reserve, same
19 thing. It just -- it just took the net -- the -- the
20 retained earnings and -- and split part of it off, or
21 maybe it was the whole thing, and just labelled it
22 differently. And that was used to stabilize rates.
23 But it actually didn't change the rates that were
24 being requested.
25 THE FACILITATOR: Are there any other

1 questions? Well, then I think we're drawing to a
2 close. There are only two (2) small things to -- to
3 occur.
4 The -- the first is that I wanted to
5 thank everyone for what I think is a very valuable
6 discussions over the past three (3) days on -- on the
7 most important issues. I think we've all come to
8 understand the positions and the issues better than we
9 did before.
10 And last of all, I need to turn it back
11 over to Sven for the -- are there any comments with
12 respect to tomorrow's pre-hearing conference?
13 MR. SVEN HOMBACH: Thank you, Bill.
14 This is just a reminder to everybody that after the
15 first pre-hearing conference, the process that was set
16 up was to have the two (2) workshops followed by a
17 pre-hearing conference to receive submissions as to
18 which issues should be hived off and sent to written
19 submissions only, and which issues should be subjected
20 to further oral evidence in September. That's going
21 to be tomorrow at nine o'clock. Thanks.
22 THE FACILITATOR: Thank you, everyone.
23 Have a good evening.
24
25 (PANEL STANDS DOWN)

1 --- Upon adjourning at 4:40 p.m.

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4 Certified Correct,

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10 Sean Coleman, Mr.

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