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MANITOBA PUBLIC UTILITIES BOARD

Re: APPLICATION BY MANITOBA HYDRO FOR APPROVAL OF
RATES FOR THE DIESEL ELECTRIC SERVICE IN
BROCHET, LAC BROCHET, SHAMATTAWA AND TADOULE
LAKE

Before Board Panel:

- Gerry Forrest - Board Chairman
- Kathi Avery-Kinew - Board Member
- Bob Mayer - Board Member

HELD AT:

Public Utilities Board
400, 330 Portage Avenue
Winnipeg, Manitoba
January 9th, 2004
Volume IV
Pages 699 to 941

APPEARANCES

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1 --- Upon commencing at 9:05 a.m.

2

3 THE CHAIRMAN: Ladies and gentlemen, if I
4 may, I'd like to call the Hearing to order this morning.
5 Before we get into the process, that is allowing Mr. Anderson
6 to continue, Mr. Peters, I'd asked you to speak to counsel,
7 particularly about final submissions and if there's anything
8 else you'd like to report this morning.

9 MR. BOB PETERS: Yes, thank you, Mr. Chair,
10 Board Members, ladies and gentlemen. In my opening comments,
11 I'd indicated that there would be a preference by this Board
12 that the argument would flow relatively contemporaneously
13 with the end of the evidence.

14 It is -- it was my thought at that time that
15 that evidence would finish perhaps Thursday -- late Thursday,
16 or some time today. I do still expect the evidence will
17 finish, but, not early today.

18 And, therefore, informally I think Counsel has
19 a strong preference that an alternate date be set for the
20 closing submissions to the Board. I think it's also fair to
21 say that the -- from the informal discussions held that
22 there's a strong preference for closing submissions to be
23 oral.

24 And Counsel would like to find a time that is
25 mutually satisfactory recognizing the Board's schedule. To

1 that end, there were also discussions about possibly the 22nd
2 of January being a date that might be available, depending on
3 the Board's schedule.

4 There were some concerns with that date on
5 behalf of Manitoba Hydro, in terms of the morning of that
6 date is -- there's some conflicting appointments and matters
7 that have to be attended and can't be moved. But, that was a
8 date that, I believe, most Counsel were available.

9 And I don't know that I spoke to Mr. Smith, at
10 any length on that, so with deference to his comments that
11 I'll perhaps ask you to invite, right after I speak, maybe
12 all parties can -- can indicate their availability on that
13 date and their ability to proceed at -- at that time.

14 So, Mr. Chairman, we are looking for another
15 date, we would -- generally I believe there is some
16 availability on the 22nd, depending on Board schedule and the
17 concern for the Manitoba Hydro. And maybe I'll ask you to
18 turn it over to the other interveners and just get their
19 thirty (30) second update on that same matter.

20 THE CHAIRMAN: Thank you, Mr. Peters. Mr.
21 Williams...?

22

23

(BRIEF PAUSE)

24

25

MR. BYRON WILLIAMS: The 22nd is satisfactory

1 for my clients and I.

2 THE CHAIRMAN: Thank you, Mr. Williams.

3 Mr. Smith...?

4 MR. RANDAL SMITH: As you know, Mr. Chair, I
5 made most of our arguments during our cross examination, so,
6 the -- the 22nd will be find with us too.

7 THE CHAIRMAN: I'm very cognizant of your
8 opening comments, sir, thank you.

9 Mr. Anderson...?

10 MR. MICHAEL ANDERSON: I actually have
11 conflicts that day, but I will undertake to resolve them if
12 the rest of everyone's schedule works in an attempt to
13 accommodate completing the record. Thank you.

14 THE CHAIRMAN: Thank you.

15 Ms. Ramage...?

16 MS. PATTI RAMAGE: As Mr. Peters alluded to,
17 there is a conflict in the morning, as that is Manitoba
18 Hydro's Board meeting on that day, but we should be able to
19 make ourselves available in the afternoon.

20 THE CHAIRMAN: Ms. Ramage, is there a
21 possibility of doing some part of it in the morning?

22

23

(BRIEF PAUSE)

24

25 MS. PATTI RAMAGE: Mr. Warden, is indicating

1 to me eleven o'clock. I'm a little bit sceptical and would
2 like to say noon, myself. But -- I'll go with my
3 instructions.

4 THE CHAIRMAN: Thank you for that. Just give
5 me a minute or two (2).

6

7

(BRIEF PAUSE)

8

9 THE CHAIRMAN: Thank you. With respect to the
10 final submissions and the -- the Board will hear final
11 submissions on January 22nd, starting at 11:00 a.m.

12 The view being that hopefully we'll hear the
13 submissions of the Intervenors, together with Board Counsel
14 and at that time the Board will break for lunch, and that
15 will give you, Ms. Ramage, an opportunity to get further
16 advice or whatever is necessary, to make your final
17 submission.

18 MS. PATTI RAMAGE: Thank you, Mr. Chair.

19 THE CHAIRMAN: Mr. Peters, is there anything
20 other?

21 MR. BOB PETERS: I can indicate that there
22 were discussions also last evening as to the documents that
23 Mr. Anderson was attempting to pose, Manitoba Hydro had
24 objected on the basis of relevance to documents being
25 admitted, and the general matter was discussed amongst

1 counsel, and it will be I think in Mr. Anderson's court this
2 morning to decide whether he is proceeding or not with those
3 matters.

4 THE CHAIRMAN: Thank you. Mr. Anderson, are
5 you ready to proceed?

6 MR. MICHAEL ANDERSON: Yes, I am, Mr. Chair.
7 I think we've resolved that pursuing the particular
8 documents, would consume time that was -- be better spent
9 with the cross-examination I'm -- like to pursue right now.

10 THE CHAIRMAN: Thank you, Mr. Anderson, please
11 proceed.

12

13 MANITOBA HYDRO PANEL, Resumed;

14

15 CONTINUED CROSS-EXAMINATION BY MR. MICHAEL ANDERSON:

16 MR. MICHAEL ANDERSON: Listening to the
17 comments that were made by the presenters, and also having
18 these earlier in my notes in cross-examination, I had some
19 questions about billing, metering, and Rate Application
20 policy.

21 On the Rate Application policy, has Manitoba
22 Hydro been successful in locating the current Rate
23 Application policy for the diesel zone, by any chance?

24

25

(BRIEF PAUSE)

1 MR. MICHAEL ANDERSON: You might recall that I
2 mentioned yesterday that I -- Mr. Singh helped me go through
3 the status update proceeding, because we did ask a question
4 precisely on point for Rate Application policies.

5 The Appendix 24 to Volume 1 of the Information
6 resp -- Requests has rate schedules, but in fact no
7 application policy, so it wasn't helpful.

8 MS. PATTI RAMAGE: That was my understanding
9 also, I was --

10 MR. MICHAEL ANDERSON: Even though our
11 question was for the policy. So, we're still looking for the
12 Rate Application policy of the Corporation for the rates in
13 this service area.

14 I'm ...

15

16 (BRIEF PAUSE)

17

18 MS. PATTI RAMAGE: We had intended to provide
19 that as an undertaking, and we will attempt to have that to
20 you after the break.

21 MR. MICHAEL ANDERSON: That -- that would be
22 great, thank you very much.

23

24 CONTINUED BY MR. MICHAEL ANDERSON:

25 MR. MICHAEL ANDERSON: If we could go to

1 CAC/MSOS/MH-7.1. And hopefully the whole series of questions
2 I have this morning will flow rather quickly.

3

4 (BRIEF PAUSE)

5

6 MR. BOB PETERS: Mr. Anderson, I didn't catch
7 your reference across the way here.

8 MR. MICHAEL ANDERSON: CAC/MSOS/MH-7.1, page 1
9 of 1.

10

11

(BRIEF PAUSE)

12

13

THE CHAIRMAN: We have it, Mr. Anderson.

14

15 CONTINUED BY MR. MICHAEL ANDERSON:

16

17 MR. MICHAEL ANDERSON: In the first paragraph
18 of the answer to this question, would you confirm that it's
19 Manitoba Hydro's policy that the applicable rate is based on
20 the payment responsibility, that is the -- who is paying the
21 bill. Is that what I gather from -- from -- in particular,
22 the second sentence of the first paragraph?

22

23

MR. ROBIN WIENS: I -- I believe we answered
that the other day, that's true, yes.

24

25

MR. MICHAEL ANDERSON: Thank you. And if we
go to INAC-2, page 47, hopefully by now they -- this is

1 entitled, Energy Statement Summary Page for Lac Brochet?

2

3

(BRIEF PAUSE)

4

5

MR. ROBIN WIENS: We have it.

6

7

MR. MICHAEL ANDERSON: Thank you. And without
intending at all to get into another discussion of the
current billing impasse, is that why these fifteen (15)
teacherages were billed at the government rate?

9

10

MR. ROBIN WIENS: Yes.

11

12

MR. MICHAEL ANDERSON: Thank you. Can you
confirm that these are ind -- individually metered
residences?

13

14

MR. ROBIN WIENS: That would be the normal
case.

15

16

17

MR. MICHAEL ANDERSON: And, of course, should
the rate application be approved, they would continue to be
billed the government rate?

18

19

MR. ROBIN WIENS: Yes.

20

21

MR. MICHAEL ANDERSON: Could you please go to
PUB/MH-10. PUB/MH-10-3E, I believe, if I understand the
roman numerals at the top and subs.

22

23

"Demographics and customer profile are all
accounts..."

24

25

Et cetera.

1 MR. ROBIN WIENS: We have that.

2 MR. MICHAEL ANDERSON: Thank you. In the
3 case of an account mailed to a third party for payment would
4 the applicable rate also be determined by payment
5 responsibility; that is, by the person who will actually pay
6 the bill?

7 MR. ROBIN WIENS: It's the -- it's the -- the
8 -- the party whose name is on the bill. The -- it may be --
9 it may be that the bills are paid by a third party but if the
10 -- if the normal responsibility is for the party at the
11 address, I'm not -- you know, I don't have detailed
12 familiarity with -- with how this is arranged. This answer
13 was -- was prepared, I'm assuming, by our billing people.

14 But there may be, in some cases, where an --
15 an individual resident, for example, is responsible for
16 paying the bill, the bill is sent out to that resident but
17 it's paid by a third party or a request is made that it be
18 addressed to a third party.

19 MR. MICHAEL ANDERSON: All right.

20 MR. ROBIN WIENS: I think that's the best
21 response I can give you, Mr. Anderson.

22 MR. MICHAEL ANDERSON: I'll just use the
23 example that I'm thinking of. Can you confirm that it's a
24 common practice, particularly in a -- in a First Nation
25 community -- these First Nation communities for a residential

1 account of a person, for example, on social assistance, to be
2 in the name of that person but that the bill is addressed to
3 the First Nation for payment? You're not aware?

4 MR. VINCE WARDEN: We're not 100 percent sure
5 of that, Mr. Anderson, but I believe that to be the case,
6 yes.

7 MR. MICHAEL ANDERSON: Thank you. In that
8 event, who would be responsible for paying the -- what -- at
9 what rate would that bill be paid? If it was sent --
10 forwarded, on a third party basis, to the First Nation with
11 the intention that the First Nation pay that bill on behalf
12 of that person; who would -- at what rate would that bill be
13 charged?

14
15 (BRIEF PAUSE)

16
17 MR. VINCE WARDEN: Yes, if it's a -- if it's
18 a residential customer that was -- has been assigned to the
19 Band Office for social welfare -- welfare reasons that rate
20 would -- of the residential rate would be maintained.

21 MR. MICHAEL ANDERSON: And -- thank you for
22 that answer. But for clarification then, for billing
23 purposes, what would the difference be between an
24 individually metered residential unit as a teacherage paid
25 for by the Band and an individual residential unit --

1 individually metered with a resident, you know, also being
2 used for residential purpose with the First Nations paying it
3 as social assistance situation?

4 MR. VINCE WARDEN: Well, we -- we would
5 expect, although we don't know for sure, but we would expect
6 that the social assistance would be a temporary nature and
7 that would revert back, at some point, to the user of that --
8 of that electricity; that being the resident -- the
9 residents.

10 Part -- in -- in part in addition to this, one
11 (1) of the issues is, we began at the beginning of the
12 questions with payment responsibility being the determinate
13 for application of the rate.

14 And you have modified that, as I hear it, so I
15 -- because the social assistance funding, typically is from a
16 government agency, Grand Chief Whitebird referred to it,
17 which rate is calculated and so on and so forth. But, it's
18 government source funds being paid out by First Nations.

19 MS. PATTI RAMAGE: Mr. Anderson, I think in
20 the question, we're confusing responsibility for payment and
21 who pays.

22 THE CHAIRMAN: Mr. Anderson...?

23 MR. MICHAEL ANDERSON: That's precisely the
24 intent of my question, Mr. Chair.

25 MR. ROBERT MAYER: I, for one (1), have Mr.

1 Anderson's point. There's significant confusion on the other
2 side. And Mr. Warden's response, quite frankly, bears no
3 real resemblance to reality, because some of these welfare
4 accounts will go right through to the death of the individual
5 and I don't think there's any doubt about that. I recognize
6 the confusion here.

7 MR. VINCE WARDEN: We -- we will clarify that
8 then for the benefit of all parties, to make sure that we're
9 absolutely clear on that point. So, we'll -- we'll -- we'll
10 check our billing processes on that, to make sure that is the
11 case.

12 MR. ROBERT MAYER: I do recall, however,
13 earlier when we discussed the teacherages specifically and I
14 guess the teacherages we were talking about were Brochet's
15 teacherages because it was Frontier School Division's
16 concern.

17 And in that case, I thought I heard one (1) of
18 you say that Frontier had been offered residential rates on
19 the teacherages, but they elected not to take the residential
20 rates?

21 MR. VINCE WARDEN: Yes, we did make that
22 comment, yes.

23
24
25

(BRIEF PAUSE)

1 THE CHAIRMAN: Mr. Anderson, would you like to
2 continue?

3 MR. MICHAEL ANDERSON: Yes, Mr. Chair, thank
4 you.

5
6 CONTINUED BY MR. MICHAEL ANDERSON:

7 MR. MICHAEL ANDERSON: Certainly part -- in
8 part --

9 MR. VINCE WARDEN: I'm not sure -- I'm sorry
10 to interrupt, but I not sure we clearly identified that as an
11 undertaking, but, we will -- we will undertake to -- to
12 provide that information to be -- to be absolutely clear on
13 this point.

14 MR. MICHAEL ANDERSON: And if it is -- if --
15 if I could request as part of the undertaking, if there is a
16 policy document that is an in addition to the rate
17 application policy that you would be providing after the
18 break, if you could please try to provide that, as well?

19 MR. VINCE WARDEN: We don't believe there's a
20 policy document related to that specific issue, but, if there
21 is, we will provide that, as well.

22 MR. MICHAEL ANDERSON: As you go forward with
23 the application process, in consultation with our social
24 development team, is partly where this -- the source of this
25 is coming from, because in -- in an item like this, I'm

1 certain -- would you agree that certainty in terms of field
2 administration is essential in cases like these?

3 MR. VINCE WARDEN: Yes, it's very important.

4 MR. MICHAEL ANDERSON: Then would you also
5 undertake, as part of your application, to ensure that a
6 customer application policy is presented to the Board for
7 their approval and consideration, as part of the rate?

8 MS. PATTI RAMAGE: The Board doesn't approve
9 customer policy applications, Mr. Anderson, so no, we
10 wouldn't be prepared to take that undertaking.

11

12 CONTINUED BY MR. MICHAEL ANDERSON:

13 MR. MICHAEL ANDERSON: Would you prepare -- be
14 prepared to present one (1) for the consideration of the
15 parties in this proceeding, and the Board?

16 MR. VINCE WARDEN: I think we're clear in our
17 application as to what it is we're requesting approval for.
18 And I think we'll -- we'll -- Manitoba Hydro would prefer to
19 leave it at that.

20 MR. MICHAEL ANDERSON: All right, Mr. Warden,
21 I look forward to the reply. Thank you.

22 Questions in a similar vein on residential
23 meter reading. In that we're going into a situation where
24 consumption being within a limited cap, that is two thousand
25 (2000) kilowatt hours, will become very important for the

1 customer.

2 Who reads the meters that record the energy
3 consumption for the remote residential accounts?

4

5 (BRIEF PAUSE)

6

7 MR. ROBERT COX: Yes, in some cases we do have
8 local people from the community that do read the meters for
9 us, and in other cases Manitoba Hydro staff would read them
10 themselves.

11 MR. MICHAEL ANDERSON: Thank you, Mr. Cox.
12 Can you be more specific about those circumstances for these
13 communities. For example, if you could go through each of
14 the four (4) and explain how their meters are read typically,
15 by whom?

16 MR. ROBERT COX: I don't have that information
17 with me right now, we'd have to check and confirm that.

18 MR. MICHAEL ANDERSON: And if it's read
19 locally, how is the information transmitted to Manitoba
20 Hydro?

21 MR. ROBERT COX: Once the meters are read, the
22 information would be mailed to the Manitoba Hydro office
23 responsible for that community.

24

25 (BRIEF PAUSE)

1 MR. MICHAEL ANDERSON: How often are the
2 meters read?

3 MR. ROBERT COX: In most areas in Manitoba,
4 the -- the meters are read every second month and estimated
5 on the other month.

6
7 (BRIEF PAUSE)

8
9 MR. MICHAEL ANDERSON: Are you still
10 consulting about a response? Are the rate blocks capped on a
11 monthly basis?

12 MR. ROBIN WIENS: If you're referring to the
13 two thousand (2,000) kilowatt hours, it is per month.

14 MR. MICHAEL ANDERSON: Is a -- is one (1)
15 month defined as the time between two (2) meter reads, or is
16 it the time between two (2) meter reads, if read every two
17 (2) months? In other words, we have a -- I'll ask the first
18 question, is one (1) month defined as simply the time between
19 two (2) meter reads?

20 MR. ROBIN WIENS: No, no, that's not the case,
21 one (1) month is one (1) month. Typically we would define a
22 billing period as twenty-eight (28) to thirty-two (32),
23 between twenty-eight (28) and thirty-two (32) days. Normally
24 we would try to be at -- at the same date every month.
25

1 (BRIEF PAUSE)

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MR. MICHAEL ANDERSON: I just wanted to use a -- an example, just to -- to understand this. When we're capping residential consumption at two-thousand (2,000) kilowatt hours, and then providing for full cost after that, if we have an example where we have an individual who has consumed right exactly two thousand (2,000) kilowatt hours within a thirty (30) day period, but the meter is actually read over a thirty-five (35) day period, and they therefore show on the meter twenty-three hundred (2300) kilowatt hours, by the way, are you willing -- prepared to accept that, subject to check, that that's the result of that, for the extra five (5) days, they would consume another three hundred (300) kilowatt hours?

MR. ROBIN WIENS: Mr. Anderson, I can -- I can perhaps help you cut to the chase on this.

MR. MICHAEL ANDERSON: That'd be fine, Mr. Wiens.

MR. ROBIN WIENS: I think in -- we've -- we have discussed this, and in practice I think what we would likely do, the normal practice of Manitoba Hydro and most other utilities is that -- is that the residential meters are read every second month, and an estimate is made for the month that the meter is not read.

1 Now, that estimate is not necessarily going to
2 be, obviously because it's an estimate, it's going to be
3 based on past patterns of utilization.

4 And -- and so it -- it can happen that with a
5 -- a residential customer in the City of Winnipeg, that we
6 will over-estimate what they've actually consumed, and then
7 of course the next -- the next following month when the meter
8 is read, they will be billed for less than what they actually
9 used in that month.

10 In practice, I think what we would do in the
11 diesel communities is that we would not apply the last block,
12 unless two (2) months consumption showed over four thousand
13 (4,000) kilowatt hours; is that helpful?

14 MR. MICHAEL ANDERSON: That is helpful. I had
15 wanted to continue with my simulation though and, for the
16 record, confirm that in the event that twenty-three hundred
17 (2300) kilowatt hours over a thirty-five (35) day billing --
18 bill reading period is correct that, subject to check, that
19 would mean an inadvertent over-billing of two hundred and
20 thirty-seven dollars and thirty cents (\$237.30).

21 MR. ROBIN WIENS: If we got outside of the
22 normal billing period, we would pro rate that.

23 MR. MICHAEL ANDERSON: But in terms --

24 MR. ROBIN WIENS: If -- if what -- if, to use
25 your example, if -- if the period was thirty-five (35) days,

1 we would take thirty thirty-fifths (30/35) of the consumption
2 and pro rate that way.

3 MR. MICHAEL ANDERSON: Does your billing
4 system do that currently?

5

6

(BRIEF PAUSE)

7

8 MR. ROBIN WIENS: Our billing system does not
9 automatically do that, Mr. Anderson, except when there is a
10 change of resident. But in -- in this situation we would do
11 that. I'm advised that's been -- already been discussed with
12 our billing department.

13 MR. MICHAEL ANDERSON: Is that proposal
14 contained in your application?

15 MR. ROBIN WIENS: No, it's not.

16 MR. MICHAEL ANDERSON: And just, again, I
17 know that we discussed it but could you confirm please then,
18 for the record, that if there was a five (5) day carry on in
19 a period where this hadn't taken place that the inadvertent
20 over-bill would be two hundred and thirty-seven dollars and
21 thirty cents (\$237.30), subject to check?

22 MR. ROBIN WIENS: I think, as we just
23 explained, there wouldn't be an over-bill.

24 MR. MICHAEL ANDERSON: So your evidence is,
25 is that if the rates are approved, you will not begin to

1 apply them until you modify your computer billing system?

2 MR. ROBIN WIENS: It's only an issue if they
3 go over two thousand (2,000) so it would be done manually and
4 could be done manually.

5 MR. MICHAEL ANDERSON: But my point is, is
6 that you're reading every two (2) months, you issue bills
7 monthly; is that correct?

8 MR. ROBIN WIENS: That is correct.

9 MR. MICHAEL ANDERSON: So where an individual
10 would be getting uniform grid rates the amount of the
11 difference in the bill would be nominal; would you agree?

12 MR. ROBIN WIENS: It would certainly be less
13 than if they were billed -- being billed at seventy-nine (79)
14 cents, yes.

15 MR. MICHAEL ANDERSON: But if it was even two
16 (2) days of average consumption at the full cost rate, the
17 average would be a hundred and five dollars (\$105) of an
18 inadvertent over-bill; would you agree?

19 MR. ROBIN WIENS: Mr. Anderson, I think the
20 point we're trying to make here is that, yes, we've discussed
21 this and, if necessary, we would take extraordinary -- make
22 extraordinary efforts in these situations to avoid an over-
23 bill.

24 MR. MICHAEL ANDERSON: Similar to the
25 question that I had about policy certainty on application for

1 social assistance accounts, I would make the same request,
2 would you undertake to provide that as certainty, as you
3 proceed with your rate application so there's no doubt in
4 anyone's mind that that's how you will administer these bills
5 as a corporate policy?

6 MR. VINCE WARDEN: Mr. Anderson, I think Mr.
7 Wiens has attempted to tell you what our practice will be and
8 I will certainly vouch for that. We will make sure there is
9 no over-billing occurs.

10 I think that's a good reason -- what we've
11 been discussing is a good reason for being as generous as we
12 are with that first two thousand (2,000) kilowatt hours. We
13 -- as we've talked about, there will be very few accounts
14 that fall into that category and when we do, we'll be looking
15 at them.

16 And, as a matter of fact, we will likely be
17 consulting with the local offices to make -- to find out the
18 reasons why they've gone over two thousand (2,000) kilowatt
19 hours and take the steps to avoid that occurring again in the
20 future.

21 It shouldn't happen as a normal course.

22

23

(BRIEF PAUSE)

24

25

MR. MICHAEL ANDERSON: What type of meter

1 will you be using?

2 MR. ROBERT COX: The same meters that are in
3 there now and those are government inspected and approved and
4 they are a single phase meter, one twenty two (122) forty
5 (40) volt meter.

6 MR. MICHAEL ANDERSON: Are these four (4) dial
7 standard or --

8 MR. ROBERT COX: Yes, our standard are -- are
9 four (4) dial some are multipliers of ten (10), but, most of
10 them are straight four (4) dials, yes.

11 MR. MICHAEL ANDERSON: Are these -- given the
12 new rate and certainly the price signal that will be sent by
13 the full cost rate, after two thousand (2000) kilowatt hours,
14 are these meters located in places where it's convenient for
15 the home owner to try to keep track of what their consumption
16 is, if they want to contain their bill?

17 MR. ROBERT COX: As far as I know, yes, they
18 would all be located on the exterior wall of the customer's
19 home and they could read them at any time that they wanted
20 to, to monitor their consumption.

21 MR. MICHAEL ANDERSON: Do you consider the --
22 method of an internal adjustment to your billing computer to
23 be the most efficient way of ensuring accuracy of your
24 metering? For example, have you considered alternate
25 approaches to metering? For example, automated metering,

1 telemetered metering information and so forth?

2 MR. ROBERT COX: No, we have not considered
3 that.

4 MR. MICHAEL ANDERSON: Thank you.

5 MR. VINCE WARDEN: Well, I just might
6 elaborate a little bit on that. There -- there are certainly
7 automated metering technologies that Manitoba Hydro does look
8 at, from time to time.

9 The cost of installing such meters is quite
10 prohibitive. So we have not gone that -- that route. But,
11 the technology is there.

12 MR. MICHAEL ANDERSON: In a circumstance like
13 this, have you also reviewed the possibility of using meters
14 with a digital face that would be easier for the home owner
15 to read?

16 MR. ROBERT COX: No, we have not. The meters
17 that we have now, the -- the four (4) dial meters are ones
18 that we find most accurate. And again have been government
19 inspected and approved for use and we have been moving away
20 from digital meters.

21 MR. MICHAEL ANDERSON: Thank you.

22 MR. ROBERT COX: Just if I might add to that,
23 each month on the bill there is instructions available for
24 customers, how they can read their meter and how they can
25 calculate their consumption.

1 MR. MICHAEL ANDERSON: In the communities that
2 are affected by these rates, are those instructions
3 translated into Dene or Cree syllabics?

4 MR. ROBERT COX: Not at this time, no. But,
5 as I mentioned a few days, that if this is approved, that we
6 would certainly approach the Chief and Council and once the
7 accounts are identified, that had gone previously over the
8 two thousand (2000) kilowatt hours per month, that we would
9 take extra steps to make sure they understood the
10 ramifications and also make sure they understood which
11 appliances were capable of consuming the most consumption, so
12 that they were aware of what to watch for, to make sure that
13 they -- they understood how they could control it and prevent
14 themselves from going over two thousand (2000).

15 MR. MICHAEL ANDERSON: Thank you very much.
16 Could you please turn to PUB/MH 20? This is close to the
17 face subject matter of the correspondence we discussed, but,
18 I am not going where I was going to go with those other
19 documents, I assure you. I have another point in mind, all
20 together.

21 And I believe I'll likely require Mr. Cox's
22 and others assistance, these are older documents. The first
23 sentence of the answer, indicates that specific estimates for
24 each community have not been done, except for the community
25 of Shamattawa, is that correct?

1 MR. ROBERT COX: Yes, that's correct.

2 MR. MICHAEL ANDERSON: Thank you. Could you
3 please turn to INAC/MH 9.2, and in particular, the attachment
4 to it, which is a large number of documents?

5

6

(BRIEF PAUSE)

7

8 MR. MICHAEL ANDERSON: And what I'm looking
9 for, looks like this on its face and it's entitled, Central
10 Supply to the Remaining Communities with Diesel Generation.

11

12

(BRIEF PAUSE)

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MR. MICHAEL ANDERSON: So, once 9.2 is located
there's a group of documents that will relate to the
community sessions that Mr. Cox had referred to, that I'd
like to touch on in a minute, but I have about this much
paper left in that binder, where that document is listed as.
It's about, I don't know, two (2) millimetres of paper.

MR. ROBERT COX: Sorry, what specific document
were you referring to?

MR. MICHAEL ANDERSON: It's the one (1) that's
entitled, Central Supply to the Remaining Communities with
Diesel Generation, and it's in the old Courier font. It
looks like it was typed up on an IBM Selectric. I used to do

1 all my reports on that.

2

3

(BRIEF PAUSE)

4

5 MR. MICHAEL ANDERSON: Do you have it?

6 MR. ROBERT COX: Yes, we do.

7 MR. MICHAEL ANDERSON: Thank you. And if we

8 just do a flip through of the document briefly, at page 2,

9 what do we see on that page, Mr. Cox? Just a general

10 description?

11 MR. ROBERT COX: We have a Central Station

12 Supply project identified for Shamattawa.

13 MR. MICHAEL ANDERSON: And meaning that would

14 be a comparison in this particular case, as we go on to page

15 3 of a land line or diesel generation operation for

16 Shamattawa; is that correct?

17 MR. ROBERT COX: Yes, that's what it appears

18 to me to be, yes.

19 MR. MICHAEL ANDERSON: Thank you. And if we

20 go to page 4 and 5, we find a similar analysis for Pikwitonei

21 and Thicket Portage?

22 MR. ROBERT COX: Yes, that's correct.

23 MR. MICHAEL ANDERSON: And if we go to pages 6

24 and 7, do we find a similar analysis for Lac Brochet,

25 Brochet, and Tadoule Lake?

1 MR. ROBERT COX: Yes, that's correct.

2 MR. MICHAEL ANDERSON: So, the analysis here
3 is estimating the -- can you confirm that at the top of page
4 7 is a Manitoba Hydro cost estimate for Central Supply
5 extension to these three (3) communities?

6 MR. ROBERT COX: Yes, that is what it says.

7 MR. MICHAEL ANDERSON: And that later, at the
8 bottom of the page and carrying on over on to page 8, it
9 compares this cost, the intent of this -- this section of the
10 document is to compare that estimate to the cost of
11 installing diesel generation; is that correct?

12 MR. ROBERT COX: Yes, that is correct.

13 MR. MICHAEL ANDERSON: Can you confirm that
14 the date of this document is 1989?

15 MR. ROBERT COX: Yes, that's correct.

16 MR. MICHAEL ANDERSON: And was this document
17 considered by Manitoba Hydro as it was making its decision
18 with respect to the enhanced diesel program for all these
19 communities?

20

21 (BRIEF PAUSE)

22

23 MR. ROBERT COX: This may have been one (1)
24 that was considered, but there is probably several others
25 that were also considered at that time, that would have been

1 done after 1989.

2 MR. MICHAEL ANDERSON: Thank you, I -- I
3 appreciate that clarification. Would there have been
4 additional comparisons of various land line estimates, cost
5 estimates to other diesel installation estimates for Lac
6 Brochet, Brochet, and Tadoule -- Tadoule Lake?

7

8 (BRIEF PAUSE)

9

10 MR. ROBERT COX: Yes, sorry for the delay,
11 but we do have another report that has been filed and it is
12 in Volume 2 Appendices and the report is dated 1995 and it
13 covers our options for Brochet and Lac Brochet.

14 MR. MICHAEL ANDERSON: Thank you very much,
15 Mr. Cox. And when you say that it covers power options,
16 just, -- again, a very general narrative, what are the items
17 that are viewed in that report or depicted in it? What's the
18 intent of that report?

19

20 (BRIEF PAUSE)

21

22 MR. MICHAEL ANDERSON: The purpose of the
23 report, I should say? Thank you.

24 MR. ROBERT COX: The report does say that it
25 addresses two (2) specific questions and that they are:

1 "Should electrical requirements be met by
2 expansion of the diesel supply or by an
3 alternative supply?"

4 And:

5 "What are the economic impacts of replacing
6 the restricted service with unrestricted
7 service?"

8 MR. MICHAEL ANDERSON: Thank you, Mr. Cox,
9 that's great. And then, just briefly, back to PUB/MH-20.
10 The cost estimate in the first paragraph refers to -- for
11 Shamattawa refers to a one thirty-eight (138) KV
12 configuration; is that correct?

13 MR. ROBERT COX: Yes, that's correct.

14 MR. MICHAEL ANDERSON: Just prior to that
15 estimate being made in 1997, are you aware -- can you confirm
16 that Manitoba Hydro had advised MKO that a sixty-six (66) KV
17 option was technically feasible to Shamattawa?

18 MR. ROBERT COX: Yes. There was some
19 correspondence prior to that that did indicate that sixty-six
20 (66) KV was an option, yes.

21 MR. MICHAEL ANDERSON: Thank you, Mr. Cox. I
22 would hazard a mention --

23 MR. ROBERT COX: Sorry, but I understand --
24 sorry --

25 MR. MICHAEL ANDERSON: -- Mr. Chair that that

1 was one of the documents yesterday. Go ahead, Mr. Cox.

2 MR. ROBERT COX: If I may also add to that,
3 that that was not Manitoba Hydro's preferred option and that
4 is why we are showing the one thirty-eight (138) KV cost in
5 this document.

6 MR. MICHAEL ANDERSON: I do understand that.
7 I just had wanted to confirm that Manitoba Hydro had advised
8 MKO that a sixty-six (66) KV option was technically feasible?

9 MR. ROBERT COX: I'm not sure about those
10 exact words as to being technically feasible because that was
11 one of the concerns that we had with respect to preferring
12 the one thirty-eight (138) KV line.

13 MR. MICHAEL ANDERSON: Without intending to
14 pursue the matter further, I could file the letter and leave
15 it at that if that would be suitable because then the letter
16 speaks for itself?

17 MS. PATTI RAMAGE: I'm going right back to
18 the relevance of this in terms of this -- this isn't a needs
19 and justification hearing and I'm not sure why we're
20 discussing whether -- what happened six (6) years ago in
21 terms of Manitoba Hydro's choice to go with diesel.

22 Manitoba Hydro has said -- has provided
23 information it believes that it's a good choice but it's an
24 interesting discussion maybe, but not for this Board.

25 THE CHAIRMAN: Thank you, Ms. Ramage. Mr.

1 Anderson...?

2 MR. MICHAEL ANDERSON: I'm content to leave
3 the acceptance of Mr. Cox on the record and, as I said, I
4 didn't intend to pursue it beyond that.

5 THE CHAIRMAN: Thank you.

6 MR. MICHAEL ANDERSON: Okay, this is my final
7 line of questions prior to, hopefully bringing our witness,
8 Mr. Chair.

9

10 CONTINUED BY MR. MICHAEL ANDERSON:

11 MR. MICHAEL ANDERSON: Could you please turn
12 to MKO/MH-18 and specifically to the attachment?

13

14 (BRIEF PAUSE)

15

16 And I have an entirely different purpose for this next
17 question than the document may appear. I'll just indicate
18 that now.

19 Can you -- do you have the letter?

20

21 (BRIEF PAUSE)

22

23 MR. MICHAEL ANDERSON: The document is a
24 letter to Mr. R.M. Smith of CESO from G.C. Nesbitt, Manager,
25 Business Department, Eastern Region. And it's dated January

1 20th, 1988.

2 MR. ROBERT COX: Yes, we have it.

3 MR. MICHAEL ANDERSON: Excellent. Could you
4 please describe what -- what area the eastern region covers,
5 please? Just again a narrative sense?

6 MR. ROBERT COX: The eastern region today does
7 not exist, but, at that time, the eastern region covered the
8 eastern half of the Province and included the northern part
9 of the Province also. So, it would be all of the north and
10 eastern part of the Province.

11 MR. MICHAEL ANDERSON: So all of the
12 communities that are currently the subject of our interest in
13 this proceeding, were part of the eastern region?

14 MR. ROBERT COX: Yes, they were --

15 MR. MICHAEL ANDERSON: And --

16 MR. ROBERT COX: -- at that time.

17 MR. MICHAEL ANDERSON: Could you please
18 describe what Mr. Nesbitt's responsibilities were, as manager
19 of the business department of eastern region, in general
20 terms?

21 MR. ROBERT COX: His responsibilities, at that
22 time, were very similar to what I described when I began my
23 direct, which was responsible for dealing with customers on
24 the extension of electric service, whether it be to an
25 existing community or within an existing community, or to a

1 new community.

2 Also dealing with Indian Affairs Canada and
3 First Nations on issues surrounding electricity rates and
4 contracts in their communities.

5 MR. MICHAEL ANDERSON: He would be responsible
6 for the -- the senior person in the region responsible for
7 the rate administration policy, in terms of assigning rates
8 to accounts, for example?

9 MR. ROBERT COX: Would be responsible for the
10 interpretation and application of the rates and policies,
11 yes.

12 MR. MICHAEL ANDERSON: Thank you very much,
13 Mr. Cox. Could you please turn to, what I have as page 2 of
14 the letter, first paragraph, and if you wouldn't mind, Mr.
15 Cox, could you please read the second sentence of that
16 paragraph?

17 MR. ROBERT COX: "The Indian Band accounts are
18 included under the Federal government
19 totals. However they are not included in
20 the surcharge savings calculation as Indian
21 Band accounts are not normally surcharged."

22 MR. MICHAEL ANDERSON: So, would this reflect
23 the policy of Manitoba Hydro in applying the rate policy in
24 eastern region, as of 1988, Mr. Cox?
25

1 (BRIEF PAUSE)

2

3 MR. ROBERT COX: In this situation, certainly
4 all of the accounts that were previously billed to the
5 Federal government or Indian Affairs, were being paid by the
6 Band, but, also considered as government accounts and were
7 being charged the surcharge.

8 There may have been the odd First Nation
9 account that wasn't at that time, but, that was also in the
10 transition and some of them may have changed after.

11 MR. MICHAEL ANDERSON: Would you not agree,
12 Mr. Cox, that the statement here though is affirmative in
13 respect of all Band accounts being -- not normally being
14 surcharged?

15 MR. ROBIN WIENS: Mr. Anderson, that is indeed
16 what the letter says, but, I think we've put on the record,
17 quite clearly that the policy was that those transferred
18 accounts after April the 1st of 1987, would be surcharged.

19 I can't speak to what was in the mind of the
20 writer at the time, January 20th, of 1988. But, the -- the
21 policy in place at that time, was that those accounts that
22 had been transferred and accounts similar to them, would have
23 been surcharged.

24 THE CHAIRMAN: Indeed, Mr. Wiens, earlier in
25 this proceeding there was material with respect to a

1 memorandum that flowed from Mr. Ralph Lambert to Mr. Al
2 McAtavish talking about the old policy and indeed, whether or
3 not, there should be a surcharge to First Nations account.

4 And indeed at that time, I believe, Mr.
5 Lambert suggested to Mr. McAtavish, that indeed, there would
6 not be surcharge, but that policy wasn't adopted; is that
7 correct?

8 MR. ROBIN WIENS: That is correct.

9 MS. PATTI RAMAGE: Mr. Chair, if I could also
10 just jump in for clarification. I believe, Mr. Anderson,
11 when he put this to the witnesses a moment -- a moment ago,
12 referred to letters reading, all Indian Band accounts, and
13 the letter does not include the word all. So, for the
14 record, I would just like that noted.

15 THE CHAIRMAN: Thank you, Ms. Ramage. Mr.
16 Anderson...?

17 MR. MICHAEL ANDERSON: Well, without
18 belabouring that, I'll just leave that as it were, I was just
19 -- my question was, was it intended to reflect that, and Mr.
20 Wiens responded, and I did not quote the letter precisely in
21 that way, as you point out.

22

23 CONTINUED BY MR. MICHAEL ANDERSON:

24 MR. MICHAEL ANDERSON: The other group of
25 documents are also in the same group where we found the

1 Central Supply Study from 1989, INAC-9.2. And these
2 questions are -- I assume will be responded to by -- mainly
3 by Mr. Cox.

4 What I'm interested in -- trying to determine
5 is what the relation -- what the First Nations would have
6 known or be informed of in respect of the surcharge. I do
7 understand there was a great deal of discussion about that,
8 Mr. Chair, but there's specific documents here that are some
9 of the documents that Mr. Cox had referred to in narrative in
10 his testimony, that I just wanted to pursue.

11 THE CHAIRMAN: Can you help me find the
12 appropriate document under -

13 MR. MICHAEL ANDERSON: Yes, excuse me, pardon
14 me, Mr. Chair, it's INAC/MH-9-1, the question was:

15 "Was Canada requested to consent to the
16 upgrading of the generation facilities?"

17 And these documents are an attachment to that.
18 That's what they were intended to --

19 MR. ROBIN WIENS: Are you referring to 9.1, or
20 9.2? I've heard both?

21 MR. MICHAEL ANDERSON: I'm sorry, it is 9.1.

22 MR. ROBIN WIENS: Thank you.

23 MR. MICHAEL ANDERSON: There's a large number
24 of documents bunched together here.

25 THE CHAIRMAN: Again, Mr. Anderson, there's a

1 large volume of documents, what document are you referring to
2 specifically?

3 MR. MICHAEL ANDERSON: I will be referring to
4 several, but the first one (1) is immediately underneath the
5 question. It's the letter to Ms. Jolson.

6 THE CHAIRMAN: Thank you.

7 MR. MICHAEL ANDERSON: And I'll be referring
8 to them only in general, briefly, as I go through this.

9

10 CONTINUED BY MR. MICHAEL ANDERSON:

11 MR. MICHAEL ANDERSON: Now, if we can lift
12 that -- if you can please take Ms. Jolson's -- the letter
13 from Ms. Jolson -- to Ms. Jolson from Mr. Toshinsky, flip
14 past the letter to Chief Bussidor, the letter to Chief
15 Denechezhe, the letter to Chief Michelle, the letter to Chief
16 Miles, and I believe the next letter is to Mr. Barron. No,
17 to the two (2) Mayors of the Northern Affairs communities.
18 The late Mr. McClaverty and Mr. Thorn. And then to Mr.
19 Barron.

20 And then we find a letter from the President
21 and Chief Executive Officer of Manitoba Hydro to Mr. David
22 Thomason, who at the time was Deputy Minister of Northern
23 Affairs.

24 THE CHAIRMAN: I have them all.

25 MR. MICHAEL ANDERSON: Thank you.

1
2 CONTINUED BY MR. MICHAEL ANDERSON:

3 MR. MICHAEL ANDERSON: And would you confirm
4 that subject to the value of the surcharge identified in
5 paragraph 4, that these are absolutely identical form
6 letters, sent by Manitoba Hydro to these two (2) senior
7 officials regarding the announcement of the enhanced diesel
8 initiative?

9 MR. ROBERT COX: The one (1) that you
10 referenced to Mr. Barron is not identical.

11 MR. MICHAEL ANDERSON: I -- the first letter
12 that I'm talking about is the letter to Ms. Jolson, and
13 comparing that to the letter to Mr. Thomason.

14
15 (BRIEF PAUSE)

16
17 MR. MICHAEL ANDERSON: Your numerical --
18 THE CHAIRMAN: Your mike please.

19
20 (BRIEF PAUSE)

21
22 MR. ROBERT COX: We do note that there is
23 minor differences, but it -- it is intended to communicate
24 the same message.

25

1 CONTINUED BY MR. MICHAEL ANDERSON:

2 MR. MICHAEL ANDERSON: Thank you. And as I
3 read page 1, for example, of the letter to Ms. Jolson
4 (phonetic) paragraph 2 advises of the change in Manitoba
5 Hydro Board policy regarding limitations in the diesel
6 service area; is that correct?

7 MR. ROBERT COX: Yes, that's correct.

8 MR. MICHAEL ANDERSON: And paragraph 4, the
9 bottom of that page, advises Ms. Jolson that the
10 "New policy will undoubtedly impact her
11 department as the surcharge presently
12 applied to all government accounts will
13 continue to apply."

14 Is that correct?

15 MR. ROBERT COX: Yes, that is what it says.

16 MR. MICHAEL ANDERSON: And, if we look at the
17 corresponding paragraph in Mr. Thomason's letter the precise
18 same language is used; is that correct? Really all I'm
19 seeking is confirmation it's presenting exactly the same
20 information at aprox -- on the -- dated the same days?

21 MR. ROBERT COX: Yes, it's communicating the
22 same message, yes.

23 MR. MICHAEL ANDERSON: Thank you. For
24 assistance, Mr. Cox, in terms of the understandings that are
25 being communicated by Manitoba Hydro, if you go to the second

1 paragraph, the second and third sentences; could you read
2 those for me please, beginning with "with"?

3 MR. ROBERT COX: "With this increase in
4 service capacity customers served by diesel
5 generators will be able to enjoy the use of
6 all the basic electrical amenities while
7 paying central system electricity rates.
8 This revision supports Manitoba Hydro's
9 position of treating all Manitobans in a
10 fair and equitable manner."

11 MR. MICHAEL ANDERSON: And that certainly
12 reflected the policy of the Board at that time; is that
13 correct?

14 MR. VINCE WARDEN: Maybe I'll jump in here.
15 Your question is whether or not we treat all Manitobans in a
16 fair and equitable manner was the policy of the Board at that
17 time, continues to be the policy of the Board, yes.

18 MR. MICHAEL ANDERSON: Thank you. If we go
19 to the letter that's immediately following the letter to Ms.
20 Jolson which, interestingly, is addressed to Chief Ila
21 Bussidor. I spoke about this a bit yesterday.

22 The intent of the paragraph in respect of the
23 change in service limitations is discussed at the first
24 paragraph in the letter from Manitoba Hydro to Chief
25 Bussidor; is that correct?

1 MR. ROBERT COX: Yes, that's correct.

2 MR. MICHAEL ANDERSON: Can you identify any
3 reference in the letter that advises Chief Bussidor that
4 there will be a surcharge attached to any First Nation
5 account in that letter?

6 MR. VINCE WARDEN: It's a different -- we're
7 talking about a different issue here, that -- that was not
8 the purpose of this communication.

9 MR. MICHAEL ANDERSON: Mr. Warden, would --
10 if you look at the date of the letter, you confirm that it's
11 January 19th, 1990?

12 MR. VINCE WARDEN: January 19th, 1990, yes,
13 it is.

14 MR. MICHAEL ANDERSON: And the letter to Ms.
15 Jolson was dated January 18th, 1990?

16 MR. VINCE WARDEN: Yes.

17 MR. MICHAEL ANDERSON: Would you not con --
18 would you confirm that this letter to Chief Bussidor was to
19 advise her of the beginnings of the en -- enhanced diesel
20 program, that's what I wanted -- that's what I wanted --

21 MR. VINCE WARDEN: That was -- I'm sorry,
22 that was the purpose of the letter, yes.

23 MR. MICHAEL ANDERSON: So they were -- the --
24 the part of the purpose -- the purpose of the letter was to
25 announce the program to all parties.

1 My question was: unlike the letter to Ms.
2 Jolson which discussed the surcharge, is there any reference
3 in Chief Bussidor's letter that there would be a surcharge
4 attached as a -- a consequence of this change in Manitoba
5 Hydro policy?

6 MR. VINCE WARDEN: I think the correspondence
7 recognized who the funding part -- ultimate funding party was
8 and is.

9 MR. MICHAEL ANDERSON: My -- the question of
10 my interest is that, as I recall Mr. Cox's testimony, there
11 was an indication that the First Nations were advised that
12 there would be a surcharge associated with the enhanced
13 diesel program?

14 MR. ROBERT COX: Sorry, I don't recall --

15 MS. PATTI RAMAGE: I don't believe that's --

16 MR. ROBERT COX: -- saying that.

17

18 CONTINUED BY MR. MICHAEL ANDERSON:

19 MR. MICHAEL ANDERSON: All right. The First
20 Nations were not advised there would be a surcharge
21 associated with the program?

22 MR. ROBERT COX: With respect to enhanced
23 diesel, no.

24 MR. MICHAEL ANDERSON: Thank you. If we move
25 through the series of documents and just page flip and get to

1 a letter dated April 4th, 1991 to Councillor Adam Nalge,
2 which letter is a request to attend the community to discuss
3 the enhanced diesel program; is that what the intent of that
4 letter is?

5

6

(BRIEF PAUSE)

7

8 MR. ROBERT COX: Yes, the letter was
9 referencing the diesel enhancement.

10 MR. MICHAEL ANDERSON: Thank you. And it was
11 one (1) of these consultation meetings that you described
12 that took place at this time, re -- in respect of the
13 program?

14

15

(BRIEF PAUSE)

16

17 MR. ROBERT COX: Yes, it is -- it is
18 referencing a meeting that will be held with the First
19 Nations, yes.

20 MR. MICHAEL ANDERSON: Thank you. And the
21 subject of the meeting was?

22 MR. ROBERT COX: The subject of the meeting
23 was enhanced diesel.

24 MR. MICHAEL ANDERSON: As a question at this
25 point, was it necessary for Manitoba Hydro to obtain the

1 consent of the First Nations to initiate these programs,
2 notwithstanding the interest of the Corporation, in doing so?

3 MS. PATTI RAMAGE: If I could jump in here, if
4 you're -- if you're asking did Manitoba Hydro obtain the
5 consent for whatever reason, I'm sure or I hope the witnesses
6 may be -- be able to answer.

7 If you're asking was it necessary, as in, was
8 it legal -- legally necessarily, I don't know that these
9 witnesses are able to provide that kind of an answer.

10

11 CONTINUED BY MR. MICHAEL ANDERSON:

12 MR. MICHAEL ANDERSON: The perception was, was
13 there any understanding that one (1) of the purposes of these
14 consultations was to secure the approval or support of the
15 First Nation for the enhanced diesel initiative?

16 MR. ROBERT COX: We can't answer that at this
17 time.

18 MR. MICHAEL ANDERSON: All right. Thank you.
19 If you could flip to the next page, which is the cover sheet.
20 Is this a cover sheet for the package that was used by the
21 Corporation during that meeting?

22 MR. ROBERT COX: Yes, this is the presentation
23 notes used by the staff that made the presentations.

24 MR. MICHAEL ANDERSON: Were these notes left
25 with the community?

1 MR. ROBERT COX: Not all of that. Some of it
2 is -- act -- again they're presentation notes and then
3 there's copies of their overheads and near the end of that,
4 there is a sheet that says, diesel enhanc -- enhancement
5 presentation handout materials left with the Band Council,
6 April 15th, 1991.

7 MR. MICHAEL ANDERSON: All right. Thank you.
8 And similarly this was to describe the change in Board policy
9 and to provide general information about the enhanced diesel
10 program, correct?

11 MR. ROBERT COX: This was an information
12 presentation for the consumers to make sure they were aware
13 of what the change was with respect to their use and the
14 availability of the amenities that they wouldn't have been
15 able to use before under the fifteen (15) amp service.

16 MR. MICHAEL ANDERSON: Thank you Mr. Cox. If
17 you could go to page 3, numbered page 3 in this first part of
18 the package, and to what is line 5 of paragraph 1; could you
19 read that sentence please, beginning with all?

20 MR. ROBERT COX: It says:

21 "All costs associated with these upgrades
22 will be absorbed by Manitoba Hydro."

23 MR. MICHAEL ANDERSON: And so that is the
24 message that was communicated by Manitoba Hydro to the
25 community?

1 MR. ROBERT COX: Well, I wasn't there
2 personally, but if that was in the speaking notes, I would
3 suggest that, yes, that was what was communicated to them.

4 MR. MICHAEL ANDERSON: Thank you Mr. Cox. If
5 you could just slowly move through the remainder of the
6 pages, up to page 5, just generally scan reading. In between
7 the beginning of this document and where there's a discussion
8 of the rates, was there any discussion about the consequences
9 of the costs of this, in respect, of surcharges of the First
10 Nation government may face?

11 MR. ROBERT COX: I don't believe there was.

12 MR. MICHAEL ANDERSON: Thank you. As a
13 question; I note, when I began to read this, I was quite
14 excited when I got to the third paragraph, which it would --
15 it indicates that one (1) of the Hydro staff were going to
16 review the rates for service with the community, and that
17 there were overheads numbers 12 to 16 attached. But I note
18 when I do the page flip that they're not there. Is it
19 possible to produce them, Mr. Cox?

20 MS. PATTI RAMAGE: Mr. Anderson, I would
21 suspect if they're not there, it's because they are no longer
22 in the Manitoba Hydro's records. This would be the document
23 that -- that was located in response to a -- we were trying
24 to provide as much information as we could. So, if it hasn't
25 been there, I don't believe Manitoba Hydro will be able to

1 find it now, certainly not within the time frame of these
2 Proceedings.

3 THE CHAIRMAN: Mr. Anderson, is your question
4 with respect to -- to the overheads that were used in that
5 presentation, particularly 12 through to 16?

6 MR. MICHAEL ANDERSON: Yes, Mr. Chair. There
7 was considerable discussion about the extent of information
8 that was provided to First Nation Governments in respect of
9 the consequences of the enhanced diesel program.

10 THE CHAIRMAN: They are there?

11 MR. ROBERT COX: Sorry, they are there, Mr.
12 Anderson?

13 MR. MICHAEL ANDERSON: They're just numbered
14 dif -- these are the complete set?

15 MR. ROBERT COX: This is the complete set. If
16 you go to what is titled overhead 13, following that is the
17 residential diesel rates, covering the basic charge first
18 block imbalance. And --

19

20 CONTINUED BY MR. MICHAEL ANDERSON:

21 MR. MICHAEL ANDERSON: Thank you, Mr. Cox, my
22 alternate question was to ask you if these in fact were the
23 set. So, I appreciate it. Thank you.

24 If you then could go to -- and thank you for
25 confirming that they were all attached, if you could go to

1 overhead number 13, please?

2

3

(BRIEF PAUSE)

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5 MR. MICHAEL ANDERSON: And the text is laid
6 out in an interesting pattern, roughly in an hour glass, if
7 we go near the bottom of the bottom part of the hour glass,
8 you see, Then be subject to higher bills and higher
9 consumption. Could you read the short phrase that follows
10 that, beginning with higher?

11 MR. ROBERT COX: Higher -- higher consumption,
12 not higher rates, is that what you're referring to?

13 MR. MICHAEL ANDERSON: Yes, it is, thank you.
14 And then on overhead number 14, would you confirm that that's
15 the cover for the rate that follows without an overhead
16 number necessarily, it's -- it's part of overhead 14, I take
17 it.

18 And overhead -- would you confirm that
19 overheads -- this overhead plus its following, communicated
20 the general service diesel rates that would be expected under
21 this initiative? MR. ROBERT COX: Yes, that is correct.

22

23

(BRIEF PAUSE)

24

25 MR. MICHAEL ANDERSON: And that similarly,

1 overhead number 17 lays out the same information or similar
2 information for diesel residential service?

3 MR. ROBERT COX: Overhead 17 and the
4 attachment there, covers a diesel residential service under
5 the new sixty (60) amp, and the calculation is based on
6 twenty-five hundred (2500) kilowatt hours per month.

7 MR. MICHAEL ANDERSON: All right, thank you.
8 And then the last page was a summary of all the documents
9 that you were using during those sessions?

10 MR. ROBERT COX: Actually those were the
11 documents that were handed out and left with the Band
12 Council.

13 MR. MICHAEL ANDERSON: With the Chief and
14 Council?

15 MR. ROBERT COX: It's -- it says Band Council,
16 but yes, Chief and Council.

17 MR. MICHAEL ANDERSON: Was there anything in
18 this package that explained -- it -- it may have been asked
19 and answered, but was there anything in this presentation
20 that explained the consequences leading to a surcharge rate
21 for First Nation facilities?

22 MR. ROBERT COX: No, there was nothing as part
23 of this presentation.

24 MR. MICHAEL ANDERSON: Thank you, Mr. Cox.
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1 (BRIEF PAUSE)

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MR. MICHAEL ANDERSON: Mr. Chair, that is the end of my cross-examination of this Panel. I'd like to bring my witness on, and if it's possible, may I suggest that it's time for a short break so my witness can prepare himself.

THE CHAIRMAN: Before we do that, Mr. Anderson, there are some undertakings that have been supplied, is there some further undertakings you'd like to supply.

MS. PATTI RAMAGE: There are some draft undertakings in the -- in our meeting room that perhaps if we had the break we could be able to finalize them and produce some of those.

There is also the matter of redirect, if we could have a moment to consult to determine if there's anything that --

THE CHAIRMAN: Ms. Ramage, just to give you -- first of all, with respect to your first observation, we are prepared to sit down so that you can -- or stand down so that you can look at those undertakings and perhaps have them filed.

What my intent is at this point is that I would give parties in this room an opportunity to seek clarification with respect to the undertakings that have

1 already been filed; that is, firstly.

2 Then, if -- if it is agreeable to parties, I
3 would hear or give Mr. Anderson an opportunity to introduce
4 his witness and we can deal with his witness.

5 I do not wish to discharge the Hydro Panel
6 until we have dealt with all -- all the undertakings and, if
7 we can possibly, and any questions that the Board may have.
8 So I'd be reluctant to give you an opportunity to do redirect
9 until that occurs.

10 MS. PATTI RAMAGE: That would be most
11 agreeable.

12 THE CHAIRMAN: Thank you. Then we will stand
13 down and we'll reconvene at twenty-five to 11:00.

14

15 --- Upon recessing at 10:15 a.m.

16 --- Upon resuming 10:43 a.m.

17

18 THE CHAIRMAN: Just before I proceed, Mr.
19 Anderson stepped out, I'll just wait until he returns.

20

21 (BRIEF PAUSE)

22

23 THE CHAIRMAN: Ms. Ramage, you filed some
24 undertakings, would you like to have them marked as an
25 Exhibit?

1 MS. PATTI RAMAGE: Yes, Mr. Chair. The first
2 one (1), I'm going to attempt to go in order as they came in
3 the transcript.

4 The first one (1), deals with a question posed
5 by yourself, I believe, regarding the Hydro Quebec rates.
6 That wasn't assigned an undertaking number in the transcript
7 itself, but I would propose it be assigned an Exhibit number.

8 If we were giving undertaking numbers, I would
9 give it a 2.1, because it came between two (2) and three (3)
10 in order.

11 THE CHAIRMAN: Next one (1) Ms. Ramage, and
12 then I'll mark them all as an Exhibit.

13 MS. PATTI RAMAGE: The next is Manitoba Hydro
14 Undertaking number 4, which was to file a copy of the
15 collection procedures. And I'll just run through them.
16 Followed by Undertaking 5, which was to file a copy of
17 service extension policy and resulting tests.

18 And finally, this is another one (1), that
19 we're going to be a bit creative with, I couldn't find an
20 undertaking number having been assigned to the question of
21 the rate impacts on First Nation accounts dealing with Mr.
22 Williams scenario one (1).

23 Again, I believe, this was a question that
24 came from the Board. If we're trying to track it, I suspect
25 it might be number 9, because the transcript shows a number

1 9, but doesn't show an undertaking going with it on the
2 summary page. So -- and those are all of the undertakings we
3 have to file at this point in time.

4 THE CHAIRMAN: Thank you Ms. Ramage. May I
5 suggest we take Undertaking -- Manitoba Hydro Undertaking
6 number 4, transcript page 291, as Exhibit 16.

7

8 --- EXHIBIT NO. MH 16: Manitoba Hydro Undertaking 4

9

10 THE CHAIRMAN: We'll take Manitoba Hydro
11 Undertaking number 5, Exhibit -- Manitoba Hydro Exhibit 17,
12 that's the reference of transcript page 301.

13

14 --- EXHIBIT No. MH 17: Manitoba Hydro Undertaking 5

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17 THE CHAIRMAN: We'll take Undertaking number
18 9, transcript page 418, as Manitoba Hydro Exhibit 18.

19

20 --- EXHIBIT NO. MH 18: Manitoba Hydro Undertaking 9

21

22 THE CHAIRMAN: And my Undertaking, we'll take
23 as Manitoba Hydro Exhibit 19.

24

25 --- EXHIBIT NO. MH 19: Manitoba Hydro Undertaking by the

1 Chairman

2

3 THE CHAIRMAN: Is that agreeable?

4 MS. PATTI RAMAGE: Yes, it is. Thank you.

5 THE CHAIRMAN: Mr. Peters, there are -- have
6 been some undertakings filed, sir, is there any questions
7 with respect to the undertakings that have already been
8 filed?

9 MR. BOB PETERS: Yes, I could briefly go
10 through my questions on those to keep us current, if I could,
11 Mr. Chair?

12 THE CHAIRMAN: Please.

13 MR. BOB PETERS: Thank you.

14

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

16 MR. BOB PETERS: Members of the Panel -- I'm
17 sorry --

18 MS. PATTI RAMAGE: Sorry, Mr. Peters, I
19 thought we were dealing with Mr. Williams' witness first, and
20 then doing the undertakings together, but we'll just assemble
21 our Panel back into the front row. I see Mr. Williams is --
22 Mr. Williams has moved in there, so we'll let him --

23 THE CHAIRMAN: Sorry, Mr. Williams. Perhaps I
24 wasn't as clear as I thought I was.

25 Mr. Thomas and Mr. Cox are just moving into

1 their seat. Mr. Peters...?

2 MR. BOB PETERS: Yes, thank you, and Mr. Cox
3 may be the individual on the collection action, and Mr.
4 Warden as well.

5

6 CONTINUED BY MR. BOB PETERS:

7 MR. BOB PETERS: As I understand from
8 Undertaking number 4, now Manitoba Hydro Exhibit 16, Manitoba
9 Hydro has a collection policy that applies to residential
10 customers the same, as to whether they're on the grid or in
11 the diesel community?

12 MR. ROBERT COX: Yes, that is correct.

13 MR. BOB PETERS: Can you tell the Board
14 whether there are any consumers in the four (4) diesel
15 communities who are residential customers and have had their
16 electrical supply disconnected on account of collection
17 actions taken by Manitoba Hydro?

18 MR. ROBERT COX: I don't have any direct
19 records, but, yes, I would suggest that that has happened.

20 MR. BOB PETERS: And am I correct that the
21 connect -- the service disconnection policy is the same also
22 for general service, whether you're on the grid or connected
23 to the land line?

24 MR. ROBERT COX: Yes, that's correct.

25 MR. BOB PETERS: In a -- a previous

1 undertaking filed through your client, it's marked as Exhibit
2 Manitoba Hydro number 11, that was a comparison of fuel oil
3 to electricity.

4 Can you or your counsel turn that one (1) up
5 please?

6

7

(BRIEF PAUSE)

8

9 MR. BOB PETERS: This was Manitoba Hydro
10 taking -- Undertaking, I believe number 1, and marked as
11 Exhibit number 11. Have you located that?

12 MR. CHIC THOMAS: Yes, I think we have that,
13 Mr. Peters.

14 MR. BOB PETERS: Thank you, if -- if you
15 can't, please let me know.

16 I take it from this undertaking answer, to
17 heat a home that you have identified as a thousand (1,000)
18 square foot bi-level house with fuel oil in the diesel
19 community is about thirty-four hundred and fourteen dollars
20 (\$3414) a year?

21 MR. ROBIN WIENS: Yes.

22 MR. BOB PETERS: And if you were to heat that
23 same house with electricity, and under your Lynn Lake column
24 you show that it's fourteen hundred dollars (\$1400) a year,
25 correct?

1 MR. ROBIN WIENS: Yes.

2 MR. BOB PETERS: And you used Lynn Lake
3 because there -- of any particular reason?

4 MR. CHIC THOMAS: We chose Lynn Lake because
5 of the similar temperature to the northern communities.

6 MR. ROBIN WIENS: Mr. Peters, you'll see up
7 towards the top of the table, where we show heat loss of
8 annual kilowatt hours to heat, that the diesel community and
9 Lynn Lake are showing the same kilowatt hours.

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(BRIEF PAUSE)

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MR. BOB PETERS: I'm sorry, I missed your last
answer.

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MR. ROBIN WIENS: Mr. Peters, if -- if you
will look toward the top of the -- the table, the second line
down you -- you -- you see we filled the -- what we're
assuming about the kilowatt hours required for the heating
load, and you will see that for Lynn Lake and the diesel
community, the -- the number of kilowatt hours is the same.

MR. BOB PETERS: And when you -- when you
compare the Lynn Lake electrically heated home to the diesel
community electrically heated home, you're showing that it
would be about twenty-two thousand dollars (\$22,000) to heat
electrically in a diese --

1 MR. CHIC THOMAS: Yes. What we're attempting
2 to show there, Mr. Peters, is if the resident was using space
3 heating as a source of heating.

4 MR. BOB PETERS: What would be the cost to
5 heat for the full year in the diesel community?

6 MR. CHIC THOMAS: That would be that twenty-
7 two thousand dollar (\$22,000) number.

8 MR. BOB PETERS: And you've assumed that
9 that's all at the high rate and none of the first two
10 thousand (2,000) kilowatt hours per month is used towards
11 heating, correct?

12 MR. CHIC THOMAS: Yes, that's correct. We're
13 using the full cost of production.

14 MR. BOB PETERS: Will you agree with me that
15 for residents living in the north in the diesel communities
16 there is a financial incentive for them to use electric space
17 heat up until two thousand (2,000) kilowatt hours per month
18 total consumption?

19 MR. ROBIN WIENS: Mr. Peters, if you look at
20 the Lynn Lake column it shows that the oil cost is in the
21 order of eighteen, seventeen (18.17) and the electric cost is
22 fourteen, eighty-six (14.86). So it appears that there is an
23 incentive to use electricity.

24 If you go to the diesel community where the
25 oil cost is higher, I -- I would suggest that's true if you

1 can obtain the electricity at the five point one, six (5.16)
2 cent run off rate.

3 MR. BOB PETERS: And without doing the
4 specific math, Mr. Wiens, for consumers who are mindful of
5 their electrical consumption, there would be a financial
6 advantage to use the excess capacity under two thousand
7 (2,000) kilowatt hours per month for electric space heat
8 rather than going to oil furnace heat?

9 MR. ROBIN WIENS: Assuming that they had such
10 capacity, yes.

11 MR. BOB PETERS: Assuming they had capacity
12 left in their two thousand (2,000) kilowatt hours per month?

13 MR. ROBIN WIENS: That is correct.

14 MR. BOB PETERS: And, from what you've told
15 the Board, that shouldn't be that difficult to have some
16 capacity left if they're -- if they're just running their
17 regular electrical appliances other than heat?

18 MR. ROBIN WIENS: Well, Mr. Peters, that's
19 true. If you -- if you assume that a resident -- that a
20 resident will use, just to -- to use an example, a thousand
21 (1,000) kilowatt hours in a month for lighting, cooking and
22 other uses, other than heat, that they would have, with our
23 proposed rate structure, they would have a thousand (1,000)
24 kilowatt hours available to electrically heat that home.

25 I would all -- I would suggest, in the -- in

1 the Winter months in Manitoba that that would not be
2 sufficient to -- to heat the home but it would -- it would
3 provide for some of the heating requirements.

4 MR. BOB PETERS: And the -- that unused
5 capacity of approximately a thousand (1,000) kilowatt hours a
6 month could result in that consumer saving approximately
7 eight hundred dollars (\$800) a year on -- on heat?

8 MR. ROBIN WIENS: You know I'll accept --
9 I'll accept your number, Mr. Peters.

10 MR. ROBERT MAYER: Going -- going from there,
11 sir, although you wouldn't get a lot of heat if you were
12 heating a full home, a little baseboard heater in a -- in a
13 child's bedroom or something like that would be quite
14 sufficient to provide a significant amount of heat and
15 significantly cut the fuel costs over the course of the
16 Winter; would it not?

17 MR. ROBIN WIENS: I won't dispute that, Mr.
18 Mayer.

19

20 CONTINUED BY MR. BOB PETERS:

21 MR. BOB PETERS: Thank you. Manitoba Hydro
22 Exhibit 12 was a further response filed by the Corporation;
23 could the Panel indicate whether they have that document
24 available as well?

25 MR. CHIC THOMAS: Yes, I think we have that,

1 Mr. Peters.

2 MR. BOB PETERS: And, Mr. Thomas, that's
3 probably got your ink on that document or your work on it.
4 Can you tell the Board what you were trying to demonstrate
5 when you prepared Manitoba Hydro Exhibit 12?

6 MR. CHIC THOMAS: Yes, I think it was a query
7 from Mr. Chairman, if I -- if I believed right, but we were
8 making -- what I was attempting to do was to take out those
9 First Nation accounts that were -- that have always been on
10 the non-government rate and keeping them out of the
11 government rate.

12 So, in other words, leaving them back in the
13 general service rate where they always had been prior to our
14 application.

15 MR. BOB PETERS: And, as a result of -- and
16 you're going to have to help me with the numbers, what you
17 have done is you have identified, I believe in MKO/MH-10
18 approximately seventy-three (73) accounts of the type that
19 you would want to charge, in this application going forward,
20 at the -- at the government rate?

21 MR. CHIC THOMAS: That's correct. Those
22 accounts would still be at the government rate.

23 MR. BOB PETERS: And previous to your
24 application and as it presently happens today, only forty-two
25 (42) of those accounts are charged at the government rate?

1 MR. CHIC THOMAS: That's approximately right,
2 yes.

3 MR. BOB PETERS: And if you kept those same
4 forty-two (42) being charged at the government rate, is the
5 resulting surcharge shown on Manitoba Hydro Exhibit 12?

6 MR. CHIC THOMAS: Yes, that's that one dollar
7 and fifty five point eight cents (\$1.558).

8

9 (BRIEF PAUSE)

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11 MR. BOB PETERS: So in one (1) of your
12 requests of this Board that has been put forward, is you want
13 to include all First Nation non-residential accounts to be
14 billed at the government rate, correct?

15 MR. CHIC THOMAS: That's correct.

16 MR. BOB PETERS: If that part of your
17 application was denied, and you were to simply charge those
18 customers who are currently being charged the government
19 rate, then your surcharge would have to be amended to a
20 dollar fifty five point seven (\$1.557) to recover the
21 outstanding revenue?

22 MR. CHIC THOMAS: That's correct, sir.

23 MR. BOB PETERS: I understand your document
24 then. Thank you very much.

25 Second last point, in the accumulated deficit,

1 Exhibit 12 doesn't touch that accumulated deficit, does it
2 Mr. Thomas?

3 MR. CHIC THOMAS: No, it doesn't.

4 MR. BOB PETERS: And we had some discussion
5 before, but as I understood my notes, the Corporation's
6 prepared to acknowledge that the accumulated deficit that has
7 not yet been put into rates is in the order of magnitude of
8 \$17.7 million dollars forecast to March 31st, 2004, would you
9 agree with that?

10 MR. CHIC THOMAS: That's approximately
11 correct, yes, if we were to forecast it to the end of 2004.

12 MR. BOB PETERS: In your preparing the cost of
13 service studies, Mr. Thomas, are you able to tell the Board
14 how much of that deficit relates to fuel costs, how much to
15 capital costs, and how much to operating and maintenance
16 costs?

17 MR. CHIC THOMAS: That could be done, but, no,
18 I don't have that at the top of my head, no.

19 MR. BOB PETERS: Is that readily -- readily
20 available or readily done?

21 MR. CHIC THOMAS: Yeah -- yeah I'm sorry, Mr.
22 Peters, but basically that relates to when we're calculating
23 the accumulated deficit, we're working with the rates
24 charged. I -- I guess if you wanted to make a proxy for the
25 components that make up that, you could work something out.

1 But to get an exact number, I don't think that
2 would be possible no.

3 MR. BOB PETERS: Okay, I'll leave it at that.
4 My last questions. In preparing the tariff, Mr. Thomas, in
5 this application the tariff that you wanted the -- you want
6 the Board to approve, is found at page 14 of your
7 application. Can you confirm that?

8 MR. CHIC THOMAS: Just give me a moment to
9 locate that Mr. Peters.

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(BRIEF PAUSE)

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 MR. CHIC THOMAS: The only change I would
suggest to that tariff page, Mr. Peters, is that the -- the
total government tariff would have been adjusted as a result
of the surcharge error that we had discovered and
subsequently amended in page 15 of the document.

 MR. BOB PETERS: And you can anticipate now my
next question, is I wonder for the completeness of the
record, if you could re-file the proposed tariff that you're
asking this Board to approve as a result of your application?

 MR. CHIC THOMAS: Yes, certainly.

--- UNDERTAKING NO. 15: Re-file the proposed tariff that
Manitoba Hydro is this Board to approve as

1 a result of its Application.

2

3 MR. BOB PETERS: And Mr. Thomas, since you're
4 going to re-file that tariff, could we also impose on you to
5 conveniently have attached to it, the existing tariff, that
6 is, I think it's 2001-03, for the residential and 2001-40 for
7 the non-government, as well as any prior tariffs that the
8 Corporation has used back to when the Board issued its Order
9 62/94?

10 THE CHAIRMAN: Mr. Thomas, I thought that's
11 what I'd ask for in Manitoba Hydro Exhibit number 10?

12

13 (BRIEF PAUSE)

14

15 MR. CHIC THOMAS: Mr. Chairman, that -- you
16 had asked for a revised revenue schedule. The revised tariff
17 sheet is what Mr. Peters was referring to.

18 THE CHAIRMAN: Thank you.

19

20 CONTINUED BY MR. BOB PETERS:

21 MR. BOB PETERS: And just to close it off
22 then, you will provide those other tariffs that you've been
23 operating under since 1994?

24 MR. CHIC THOMAS: Yes, we will.

25 MR. BOB PETERS: Okay. Mr. Warden, last

1 question to you, sir. The \$17.7 approximate million dollars
2 of -- of accumulated deficit, does not include an interest
3 component, or does it?

4 MR. VINCE WARDEN: No, it does not.

5 MR. BOB PETERS: Can you indicate what Hydro's
6 position is on whether or not that amount should or would
7 accrue, or attract interest, if it was to be recovered from
8 consumers?

9 MR. VINCE WARDEN: We would normally just
10 assess interest on those accounts that have been billed. So,
11 unlike the 2.8 million that we had referred to previously
12 that has been billed and remains unpaid, there would be an
13 interest assessment -- there would be interest assessed of
14 that amount.

15 The \$17.7 million dollars we're discussing
16 though, would not normally bear interest, going forward.

17 MR. BOB PETERS: Thank you for addressing my
18 questions. Thank you, Chairman.

19 THE CHAIRMAN: It begs a question, you know,
20 not to pursue it in any great deal -- great deal of detail,
21 but it is being really set up almost as a deferral account;
22 is it note?

23 MR. VINCE WARDEN: Yes, it's like a deferral
24 account, that's correct.

25 THE CHAIRMAN: So, in principle, deferral

1 accounts usually attract.

2 MR. VINCE WARDEN: Yes, the -- it's probably
3 not a 100 percent correct to say there's no interest, because
4 the interest is being calculated on the -- on the investment
5 and diesel plant, so that -- that amount is being accrued
6 every -- every year as part of the Cost of Service Study.

7 THE CHAIRMAN: Thank you for that
8 clarification.

9 MR. ROBIN WIENS: If I -- if I may be allowed
10 to interject to -- to refer to a previous question posed by
11 Mr. Peters regarding the -- the filing of the tariffs back to
12 1994.

13 Mr. Peters, we're certainly prepared to do
14 that, and we will do it as expeditiously as we can, but in
15 the meantime I might refer you to the response of Manitoba
16 Hydro to CAC/MSOS-3.1, those are not the tariff sheets, but
17 we have showed the rates for all the classes of service in
18 the diesel zone, going back to 1993, in that response.

19 MR. BOB PETERS: And I was just looking for
20 the -- a photocopy of the tariff sheets that were -- were
21 used.

22 MR. ROBIN WIENS: We will provide that.

23 MR. BOB PETERS: Okay, thank you.

24 THE CHAIRMAN: Mr. Peters, does that
25 conclude --

1 MR. BOB PETERS: It does, sir. I thank the
2 witnesses again.

3 THE CHAIRMAN: Mr. Williams, do you have any
4 undertakings in which you require some clarification on at
5 this point?

6 MR. BYRON WILLIAMS: Not at this point, Mr.
7 Chairman.

8 THE CHAIRMAN: Thank you. Mr. Smith...?

9 MR. RANDAL SMITH: Thank you, Mr. Chairman,
10 the undertaking that we're primarily concerned with at this
11 point was the one (1) that Hydro gave to check what accounts
12 were actually transferred from Canada to the First Nations
13 back in 1987, in response partly to my question, that it was
14 only the teacherages and the school accounts, because none of
15 the rest of them existed.

16 And I believe Mr. Anderson got an undertaking,
17 I spoke with Ms. Ramage, she indicates that the search will
18 be done, but it hasn't been completed.

19 THE CHAIRMAN: Thank you then, Mr. Smith, and
20 when that is indeed filed, if there are any questions, then I
21 would suggest that you draw that to my attention?

22 MR. RANDAL SMITH: Thank you, Mr. Chairman.

23 THE CHAIRMAN: Mr. Anderson...? Mr. Anderson,
24 is there a specific undertaking that you had requested that
25 has been filed? I know there are a number that have not been

1 filed, that -- that you have questions on at this point in
2 time?

3 MR. MICHAEL ANDERSON: Not right now, Mr.
4 Chair, thank you.

5 THE CHAIRMAN: Thank you. Then, Ms. Ramage,
6 Exhibit number 19, just for a point of clarification. I'm
7 just trying to sort out in my mind whether or not the
8 presentation put forward by northern stores with respect to
9 rates that -- that they are paying in Quebec, and that was
10 the point of the request to the undertaking.

11 Do I take it by this response, that northern
12 stores in Quebec could have a separate agreement with Hydro
13 Quebec, with respect to the A, the service that has been
14 supplied to them, and secondly, the rates that are imposed on
15 them?

16 MR. ROBIN WIENS: Mr. Chairman, that would
17 appear to be the case from -- from this material. We -- we
18 have not gone back to Hydro Quebec and had any detailed
19 discussion with the people responsible.

20 This is an extract that comes out of their
21 rate policy document and -- and that would be my
22 interpretation.

23 THE CHAIRMAN: And the thousand (1,000)
24 kilovolt amperage, that's the amount of energy that is
25 supplied to the community at large?

1 MR. ROBIN WIENS: I think I'm reading this to
2 say that they would limit it to a connected load of a
3 thousand (1,000) kilovolt amperes by the customer who is
4 seeking access to the rate, that doesn't necessarily mean
5 that the customer would use that much power but that they
6 would have the capability if all of their appliances and
7 electricity using devices were on at the same time.

8 THE CHAIRMAN: And, indeed, this is for --
9 also for non-heat load?

10 MR. ROBIN WIENS: That's also my
11 understanding.

12 THE CHAIRMAN: Thank you for that
13 clarification. Then, Ms. Ramage, we'll let your Panel stand
14 down for the time being. When the further undertakings have
15 been filed, I'll give you an opportunity to bring them forth
16 and if there are points of clarification with respect to them
17 required by the Intervenors I'll give you that -- give them
18 the opportunity and also following that I'll give you an
19 opportunity for redirect.

20 MS. PATTI RAMAGE: Thank you, Mr. Chair.

21

22

MANITOBA HYDRO PANEL STANDS DOWN

23

24 THE CHAIRMAN: Thank you. Mr. Anderson, are
25 you ready now to introduce us to your witness and also I'll

1 give Mr. Williams an opportunity to relocate. I guess what
2 he's really done is maybe got testy and has gone home.

3 MR. BYRON WILLIAMS: No.

4 THE CHAIRMAN: I'm not so lucky. Mr.
5 Williams, now you can move back to your spot over there if
6 you like. Mr. Anderson, would you like to introduce us to
7 your witness.

8 MR. MICHAEL ANDERSON: Thank you, Mr. Chair,
9 yes, I would. Just before I do that, I would just like to
10 deal with some preliminary matters. For the -- for reference
11 of the Board and other parties, MKO's exhibits related to the
12 direct testimony of Mr. Hildebrand are MKO-2 being the direct
13 evidence of Mr. Hildebrand of Stantech Consulting Limited,
14 PUB/MKO-9 being the Information Request of the Public
15 Utilities Board and MKO's response, Hydro/MKO-5 being the
16 Information Request of Manitoba Hydro and MKO's response,
17 CAC/MSOS-2 being the Information Request of CAC/MSOS and
18 MKO's response.

19 Mr. Hildebrand's also prepared tables for some
20 matters that he would like to refer to in his direct and MKO
21 would like to have these tables marked as exhibits. They
22 were circulated to all parties a couple of days ago, Mr.
23 Chair, as far as I know. I have received no objections from
24 them.

25 These tables are presented as a single

1 document with three (3) pages. They've also already been
2 circulated to everyone in the room, I understand.

3 THE CHAIRMAN: Everyone but the Board, I
4 expect.

5 MR. MICHAEL ANDERSON: And the document is
6 entitled, on page 1, MH Application Schedule 3 plus
7 additions. The three (3) included tables are at page 1,
8 calculation of government surcharge, at page 2, estimated
9 revenue under Manitoba Hydro application, and at page 3,
10 estimated revenue under Manitoba Hydro application as revised
11 July 23rd, 2003.

12 And the source of the revision, of course, is
13 Manitoba Hydro's letter dated that day. May we have an
14 exhibit number?

15 THE CHAIRMAN: Mr. Anderson, may I suggest
16 that we receive Manitoba Hydro application Schedule 3 plus
17 additions, the three (3) pages, we'll receive that as MKO
18 Exhibit number 5.

19
20 --- EXHIBIT NO. MKO-5: Manitoba Hydro Application
21 Schedule 3 plus additions.

22
23 MR. MICHAEL ANDERSON: Thank you, Mr. Chair.

24 THE CHAIRMAN: With respect -- just a moment
25 please.

1 (BRIEF PAUSE)

2

3 THE CHAIRMAN: With respect to CAC/MSOS/MKO
4 13, revised, may I suggest that we add that to CAC/MSOS/MKO
5 13, and mark this as 13(b)?

6

7 --- EXHIBIT NO. CAC/MSOS/MKO 13B: Revised Table Dated
8 January 7th

9

10 MR. MICHAEL ANDERSON: That would be
11 satisfactory, that is the revised table dated January 7th,
12 2004 for CAC/MSOS/MKO 13, are you ahead of me?

13 THE CHAIRMAN: I have it, yes, January 7th,
14 2004.

15 MR. MICHAEL ANDERSON: 13(b)?

16 THE CHAIRMAN: Yes.

17 MS. PATTI RAMAGE: Excuse me --

18 MR. MICHAEL ANDERSON: Thank you, Mr. Chair.

19 MS. PATTI RAMAGE: -- Mr. Anderson, would you
20 have additional copies of that available?

21 MR. MICHAEL ANDERSON: Yes, we do, Ms. Ramage.

22

23 (BRIEF PAUSE)

24

25 MR. MICHAEL ANDERSON: We had pre-circulated

1 the copies, hoping that would be of assistance and we'll
2 circulate the remainder.

3 THE CHAIRMAN: Anything further, Mr. Anderson?

4 MR. MICHAEL ANDERSON: Yes, Mr. Chair. There
5 -- although I had -- was going to touch on these, there are
6 also two (2) additional documents that will be referred to in
7 Mr. Hildebrand's direct, as we get through it.

8 And in order, the first one of these would be,
9 is entitled, Breakdown of Proposed Year End, March 31, 2004
10 Diesel Revenue Requirements.

11 THE CHAIRMAN: And where might I find that?

12 MR. MICHAEL ANDERSON: I beg your pardon?

13 THE CHAIRMAN: And where might I find that?
14 Is that in the application?

15 MR. MICHAEL ANDERSON: Oh, I'm sorry, Mr.
16 Chair, I believe that this -- that Mr. Barron may have
17 stapled the two (2) additional tables together, with the CAC
18 13, breakdown of proposed year end -- excellent -- thank you.

19 THE CHAIRMAN: And is this material going to
20 be referenced by Mr. Hildebrand?

21 MR. MICHAEL ANDERSON: Yes it is, Mr. Chair.

22 THE CHAIRMAN: Then may I suggest that we'll
23 mark that as MKO Exhibit number 6.

24

25 --- EXHIBIT NO. MKO 6: Breakdown of Proposed Year End

1 Diesel Revenue Requirements

2

3 MR. MICHAEL ANDERSON: Thank you.

4

5 (BRIEF PAUSE)

6

7 MR. MICHAEL ANDERSON: And then following the
8 discussion by Mr. Hildebrand of MKO Exhibit 6, Mr. Chair,
9 there is a final table that is entitled, Manitoba Remote
10 Diesel Generation Historical Costs and Consumption Comparison
11 Application, Mr. Chairman.

12 THE CHAIRMAN: And we'll receive that as MKO
13 Exhibit 7.

14

15 --- EXHIBIT NO. MKO 7: Manitoba Remote Diesel Generation
16 Historical Costs and Consumption
17 Comparison Application

18

19 MR. MICHAEL ANDERSON: Thank you Mr. Chair.
20 There were two (2) items that we have also had pre-circulated
21 to parties, Mr. Chair, that we really describe, I suppose as
22 updates to CAC/MSOS/MKO 13, 17 and 19.

23 There's information in them in that Mr.
24 Hildebrand will address that is incorporated in each of those
25 IR responses to Mr. Williams.

1 THE CHAIRMAN: Thank you.

2 MR. MICHAEL ANDERSON: Would you like to
3 address those as exhibits or circulate them for information?

4 THE CHAIRMAN: If they are additional
5 responses to IR's already supplied, I would suggest they be
6 added as addendum to those. If you'd like to distribute them
7 so we can make--

8 MR. MICHAEL ANDERSON: Thank you very much.
9 The first is a -- there are three (3) documents, four (4)
10 documents stapled together from the Northwest Territories
11 Power Corporation, the -- the cover page is a press release
12 indicating PUB approves rates.

13 THE CHAIRMAN: Just to assist me, what IR
14 number --

15 MR. MICHAEL ANDERSON: I'm advised that there
16 is information in it that will refer to each of CAC/MSOS/MK0-
17 13, 17 and 19. The Board may recall that those were
18 comparisons of various utility treatments, and Northwest
19 Territories Power Corporation is referred to in each of them.

20

21 (BRIEF PAUSE)

22

23 THE CHAIRMAN: Mr. Anderson, just for our
24 reference then, I would suggest we mark the press release of
25 the Northwest Territories Power Corporation as CAC/MSOS-13-C.

1
2 --- EXHIBIT NO. CAC/MSOS/MKO-13-C: Press release of the
3 Northwest Territories Power Corporation
4

5 MR. MICHAEL ANDERSON: CAC/MSOS/MKO-13-C, Mr.
6 Chair?

7 THE CHAIRMAN: You're correct.

8 MR. MICHAEL ANDERSON: Thank you.
9

10 (BRIEF PAUSE)
11

12 MR. MICHAEL ANDERSON: Our final -- our final
13 document, and also an update, which would be identical in
14 terms of your sequence is -- if I would suggest CAC/MSOS/MKO-
15 13-D? And this one (1) is a -- also a news release from
16 Newfoundland/Labrador Hydro. And again, there are four (4)
17 pages that just provide update information that Mr.
18 Hildebrand will refer to.
19

20 (BRIEF PAUSE)
21

22 THE CHAIRMAN: Mr. Anderson, while I've
23 hadn't a chance to read this material, we'll receive it as
24 CAC/MSOS/MKO-13-D.

25 MR. MICHAEL ANDERSON: Thank you very much,

1 Mr. Chair.

2

3 --- EXHIBIT NO. CAC/MSOS/MK0-13-D: News release from
4 Newfoundland/Labrador Hydro

5

6

7 THE CHAIRMAN: Anything further?

8 MR. MICHAEL ANDERSON: Those are all the
9 additional materials, other than the words of Mr. Hildebrand,
10 Mr. Chair. And of course a review of the evidence that we
11 have provided.

12 THE CHAIRMAN: And did you wish to have Mr.
13 Hildebrand sworn at this time?

14 MR. MICHAEL ANDERSON: Yes, Mr. Chair.

15

16 W. DALE HILDEBRAND, Sworn:

17

18 THE CHAIRMAN: Let the record show that Mr.
19 Hildebrand has been sworn.

20 Do you have any direct, Mr. Anderson?

21 MR. MICHAEL ANDERSON: I do, Mr. Chair, I have
22 a couple of matters.

23

24 (VOIR DIRE ENTERED)

25

1 EXAMINATION-IN-CHIEF BY MR. MICHAEL ANDERSON:

2 MR. MICHAEL ANDERSON: Mr. Hildebrand, I'd
3 appreciate it if you could outline your qualifications as
4 they pertain to the issues before the Board, in respect of
5 the Manitoba Hydro Diesel Rate Increase Application?

6

7

(BRIEF PAUSE)

8

9 MR. DALE HILDEBRAND: Thank you, Mr. Anderson.

10 I spent approximately eight (8) years with
11 Alberta Power who owns and operates all of the diesel
12 generation to remote communities in Alberta and while I was
13 with them I was involved in selling and leasing remote diesel
14 generation units to industrial customers and gained some
15 familiarity with the equipment and the processes and the
16 conditions under which they're applied in the field.

17 From 1996 to present I've been involved as a
18 regulatory consultant for various clients and been involved
19 in all of Alberta Power's, now ATCO Electric's general tariff
20 application which includes all of the costs for the isolated
21 generation or -- to the remote communities in Alberta as
22 outlined in CAC/MSOS/MKO-1-C.

23 I am a professional engineer in the Province
24 of Alberta. I have a Masters of Business Administration from
25 the University of Alberta and about eighteen (18) years of

1 experience in the electric utility industry.

2 MR. MICHAEL ANDERSON: Mr. Hildebrand, at the
3 time that the evidence was filed, it was presented as
4 evidence on behalf of MKO produced by Optimum Energy
5 Management Inc., could you describe, please, your current
6 status.

7 MR. DALE HILDEBRAND: Effective November 1st,
8 2003 all of the employees of Optimum Energy Management
9 elected to join Stantech Consulting Limited. Stantech
10 continues to support MKO and support the evidence that has
11 been filed in this proceeding.

12 MR. MICHAEL ANDERSON: What is your role with
13 Stantech please?

14 MR. DALE HILDEBRAND: My title is Principal
15 of Regulatory Consulting. Electric energy utility regulatory
16 consulting is a new business line for Stantech and,
17 essentially, my role is nearly identical to what it was under
18 Optimum Energy Management. I simply think of it as our
19 company was moved, lock, stock, and barrel, over to Stantech
20 and is now a profit centre within Stantech.

21 MR. MICHAEL ANDERSON: And, just in general
22 terms, Mr. Hildebrand, for those that may not be familiar
23 with Stantech, would you describe a bit about Stantech as a
24 corporation and the scope of its activities?

25 MR. DALE HILDEBRAND: Stantech, and its

1 various affiliates, is a large North America-wide
2 professional services company.

3 They have offices across Western Canada,
4 Ontario, and in the United States, approximately thirty-seven
5 hundred (3700) employees, do about \$450 million a year in
6 business, principally in the areas what I call -- civil
7 engineering, you know, roads, buildings, planning but are
8 aggressively branching into other areas, architecture,
9 interior design, and industrial engineering, which is why
10 they've purchased -- Optimum Energy Management.

11 MR. MICHAEL ANDERSON: Thank you, Mr.
12 Hildebrand. If you could please turn to your evidence on
13 behalf of MKO which is Exhibit MKO-2; do you have it?

14 MR. DALE HILDEBRAND: Yes.

15 MR. MICHAEL ANDERSON: The evidence is
16 titled, Application to increase electric rates in remote
17 communities served by diesel generation, direct evidence in
18 the Manitoba Keewatinowi Okimakanak Inc.

19 Would you please confirm that this evidence
20 was written and prepared under your direction and control and
21 is accurate to the best of your belief?

22 MR. DALE HILDEBRAND: I can confirm.

23 MR. MICHAEL ANDERSON: And you also prepared
24 a number of Interrogatory responses on behalf of MKO related
25 to MKO's evidence and, once again, were these responses

1 prepared under your direction and control and are accurate to
2 the best of your knowledge and belief?

3 MR. DALE HILDEBRAND: They are, subject to
4 the -- letter that you've filed and I'm not sure why this is,
5 but when I read the IR responses last night for probably the
6 tenth time, I did find a few more typos and I'm happy to put
7 those on the record now if the Board choses or I could
8 address them if they come up.

9 THE CHAIRMAN: I would suggest, Mr.
10 Hildebrand, you address them as they come up.

11 MR. DALE HILDEBRAND: Thank you, sir.

12 MR. MICHAEL ANDERSON: Mr. Chairman, I would
13 now ask that Mr. Hildebrand be qualified as an expert in
14 terms of the cost of service study and rate design issues
15 relating to Manitoba Hydro remote service.

16 THE CHAIRMAN: Ms. Ramage...? Mr. Bedford...?

17 MR. DOUG BEDFORD: No objections, Mr. Chair.

18 THE CHAIRMAN: Does anyone have any objection?
19 Having heard none, we'll so qualify him.

20 MR. MICHAEL ANDERSON: Thank you, Mr. Chair.

21

22 (VOIR DIRE CONCLUDED)

23

24 EXAMINATION-IN-CHIEF BY MR. MICHAEL ANDERSON:

25 MR. MICHAEL ANDERSON: So, we'll begin Mr.

1 Hildebrand to outline the substance and purpose of your
2 evidence. Firstly, in your view, what is the main issue in
3 this proceeding, Mr. Hildebrand?

4

5

(BRIEF PAUSE)

6

7

8 MR. DALE HILDEBRAND: Thank you, Mr. Anderson.
9 I think the key issue for the Board to consider in this -- in
10 this proceeding, is the regulatory status of the remote
11 communities.

12 Historical contracts between Manitoba Hydro
13 and Canada and existing tariff structure contain elements of
14 service being provided under a regulated perspective cost of
15 service model and under a regulated contractual model. I'll
16 just try and explain what those mean to me.

17 Under a regulated perspective cost of service
18 model, the Utility has an obligation to serve and typically
19 provide services under uniform or close to uniform rates.

20 For the most part, Manitoba Hydro, follows
21 this model for the remote communities, except for the
22 government surcharge, the retroactive true up or deferral
23 accounts, acceptance of the obligation to serve the remote
24 communities, including the investment, generation, and
25 transmission facilities to provide service and the failure to
share in the cost and benefits of export sales.

1 Under a contractual regulatory model, both
2 parties to a contract would agree to costs before they are
3 expended and the regulator would review and approve their
4 contract and the cost to ensure that the public interest
5 mandate is upheld.

6 It appears that Canada has not been a party to
7 many of the decisions that have been made regarding the
8 remote communities. For example, we've not seen any evidence
9 that Canada has approved the \$16 million expenditure for the
10 new Shamattawa generation facility.

11 If service is to be provided under a
12 regulated, perspective cost of service model, which we
13 suggest it should, then -- Manitoba Hydro needs to accept the
14 obligation to provide service complete with costs and
15 benefits that result.

16 MR. MICHAEL ANDERSON: Mr. Hildebrand, could
17 you please elaborate on your comment on the investment in
18 generation and transmission facilities, to provide service to
19 the remote communities?

20 MR. DALE HILDEBRAND: In my opinion, the
21 provision of isolated generation units to provide service to
22 remote communities is provided as a substitute for
23 transmission, where the full cost of transmission is more
24 expensive than isolated generation.

25 Under a regulated perspective cost of service

1 model, a utility may elect to provide isolated generation
2 units, instead of transmission where it is -- where it is
3 determined that the cost advantage of isolated generation out
4 weighs other factors like reduced reliability, increased
5 maintenance, environmental concerns, et cetera.

6 MR. MICHAEL ANDERSON: How would you summarize
7 your review of the practices of other utilities in Canada,
8 that serve remote communities with diesel power generation?

9 MR. DALE HILDEBRAND: The remote communities
10 in Canada are the last urban areas to be connected to the
11 transmission systems in the respective areas. As Canada
12 continues to grow and industrialize more and more of these
13 communities are inter-connected to larger electric energy
14 systems.

15 In various jurisdictions in Canada, the
16 treatment of cost to serve remote communities, continues to
17 evolve and move towards uniform rates. All of the utilities
18 reviewed, including Manitoba Hydro, have some form of
19 provincial legislation or government policy that provides
20 service to remote communities at a price below cost of
21 service.

22 In essence, grid customers provide some form
23 of subsidy. The \$560,000 per year subsidy proposed by
24 Manitoba Hydro is felt to be one (1) of the lower levels of
25 assistance in Canada.

1 We note that their continual direct
2 contributions from government toward the ongoing cost of
3 service are typically not provided in Canada. The level of
4 subsidy provides -- I'm sorry -- the level of the subsidy
5 provided varies from jurisdictions like Alberta, where remote
6 communities are provided uniform rates to jurisdictions like
7 Manitoba, where the subsidy is based on that provided to
8 rural grid connected customers.

9 Of note, in Alberta, some remote communities
10 have alternate fuel sources for space heating, eliminating
11 the need for usage restrictive tariff pricing.

12 Given the maturity of Manitoba Hydro's system,
13 the relatively small amount of energy provided -- provided to
14 these four (4) remote -- remote communities, the refusal by
15 Canada to recognize the historical contracts and the
16 Government of Manitoba's recent uniform rate legislation, it
17 may be time for Manitoba to shift towards the more
18 progressive jurisdictions, and provide close to uniform rates
19 for all of its customers.

20 MR. MICHAEL ANDERSON: Mr. Hildebrand, will
21 you please provide your thoughts on the on tariff surcharge?

22 MR. DALE HILDEBRAND: In general, we believe
23 that Manitoba Hydro's change from charging an explicit
24 capital contribution to a tariff based surcharge was in
25 hindsight, a mistake.

1 If Manih -- Manitoba Hydro did not intend to
2 take on the obligation to serve the remote communities, and I
3 mean the full obligation, if Manitoba Hydro intended to
4 continue to provide service under a contractual model, the
5 capital contributions from Canada should not have been
6 blended into the tariff.

7 At this time it is unclear to us what portion
8 of the tariff and the proposed tariff relates to the recovery
9 of capital contribution costs, what portion is for other
10 capital costs, and what portion is for operating costs.

11 The blending of these costs makes it difficult
12 to now discern who is responsible for what quantum of costs.

13 MR. MICHAEL ANDERSON: Have you estimated the
14 amount of the diesel subsidy that would occur if the actual
15 revenue to cost comparison ratios were applied?

16 MR. DALE HILDEBRAND: We have attempted to--
17 to provide an estimate of the quantum of the surcharge based
18 on the 2002 prospective cost of service study, and that is
19 shown in MKO Exhibit 5.

20 I'll try to briefly describe this document.
21 The numbers that are shown inside the box in columns A and B,
22 between lines 1 and 15, is essentially a repeat from Schedule
23 3, in Manitoba Hydro's Application.

24 And that goes through a process to derive a
25 Government surcharge on line 13, Column B of a dollar thirty-

1 one (\$1.31) per kilowatt hour, and a full cost Government
2 rate in line 15 of two dollars and ten cents (\$2.10).

3 The derivation of the Manitoba Hydro subsidy
4 to residential on line 2, Column B, of five hundred and
5 forty-five thousand dollars (\$545,000), is derived under Note
6 2 in lines 16 to 21, where Manitoba Hydro takes the full cost
7 rate, multiplies it by the forecasted sales, to come up with
8 a full cost, applies the prog -- progressive Cost of Service
9 Study, Zone 3, revenue cost comparison ratio of 90 percent,
10 to come up with the revised revenue requirement, and then the
11 difference between lines 18 and 21, becomes the Manitoba
12 Hydro subsidy, full cost minus revenue requirement shown on
13 line 21, Column B of the five hundred and forty-five thousand
14 dollars (\$545,000).

15 Similarly for the Manitoba Hydro subsidy to
16 general service, shown on Column B, line 3, which is derived
17 in lines 22 to 27, and those lines 16 to 27 are just a repeat
18 from CAC/MSOS/MH-14.3.

19 Column C is the identical derivation with the
20 one (1) change to the revenue application on July 23rd, 2003,
21 where the residential remote revenue forecast was increased
22 by Manitoba Hydro from seven hundred and thirty-nine thousand
23 (739,000), which is in Column B, line 5, to \$1,049,000
24 dollars, which is in Column C, row 5.

25 The revenue numbers that are shown in Columns

1 -- I'm sorry, in lines 5 through 9 for Column B, are shown on
2 the second page. And if we can just quickly flip to the
3 second page we can see that what we've attempted to do is
4 take the rate, the billing determinants and just calculate
5 the revenue.

6 And the source of the data is shown in column
7 G. And I won't go through that in any detail but just to
8 note that the total revenue under the existing application --
9 or the original application which is shown at line 10 of
10 column B is identical to that shown on Schedule 3 and, I
11 believe, the number that is in column C at line 10 equates --
12 or fairly reasonably equates to the revised application.

13 The result of that is that the full cost
14 government rate with the revised application reduces from two
15 dollars and ten cents (\$2.10) to two dollars and one cent
16 (\$2.01) as shown in column C, line 15.

17 The last column D is the same calculation
18 again, with the exception that ins -- using the prospective
19 cost of service study Zone 3 revenue to cost ratio of 55.5
20 percent which is shown on line 19, column D and that number
21 comes from CAC/MSOS/MH-14.2 and that, essentially, is the RCC
22 before the export revenue is applied to that customer class.

23 Similarly, for general service, the revenue to
24 cost ratio has been changed from 99 percent to 65.5 percent
25 as shown on column D, line 25. The net result of that is

1 that the subsidy levels increase to close to around \$2.9
2 million dollars from the five hundred and sixty thousand
3 (560,000) that's proposed by the applicant and the revenue
4 requirement, as shown on column D, line 4, is reduced to 6.6
5 million which flows through down to line 13 where the
6 required surcharge is reduced to fifty-five (55) cents per
7 kilowatt hour.

8 MR. MICHAEL ANDERSON: Thank you, Mr.
9 Hildebrand. Have you estimated the unit cost of the
10 components of remote generation based on the information in
11 the application?

12 MR. DALE HILDEBRAND: We have attempted to
13 provide some additional information which we hope will be of
14 interest and some use to the Board.

15 If we go to MKO Exhibit 6, these numbers that
16 are shown in column B are, essentially, taken directly from
17 Schedule 2, Attachment 1 of the application where the various
18 costs that we have categorized them into fixed cost
19 facilities, fixed cost distribution and variable costs.

20 Under line 10 of column B, variable costs for
21 fuel of \$3.2 million dollars, we have taken that from
22 Schedule 6, Attachment 1 of the application, fuel handling
23 costs and we understand from the discussion yesterday that
24 that is the -- the cost of fuel plus the transportation cost.

25 And if simply taking the remaining variable

1 costs and called them other, which is shown on column B, line
2 11, of 1.7 million. We've then simply taken these various
3 costs and divided by Manitoba Hydro's forecast of energy
4 consumption to come up with unit costs which are shown in
5 column C.

6 And based on that analysis, we can see fixed
7 costs for the facilities of thirty-five (35) cents a kilowatt
8 hour, fixed costs for distribution of three (3) cents per
9 kilowatt hour and variable costs total of some forty-one (41)
10 cents per kilowatt hour, of which twenty-seven (27) cents is
11 fuel related.

12 We then attempted to take those costs -- those
13 fixed costs and differentiate them between generation and
14 distribution and doing a very rough allocation of 88.8
15 percent and 11.2 percent based on the gross investment in
16 service that was shown on PUB/MH-36 but also laid out in some
17 detail on Exhibit CAC/MSOS-6, page 11 of 12.

18 And again, there's no new information here,
19 it's just trying to break down the cost to look at them in a
20 different way. And I guess what strikes me, is that the
21 fixed costs for distribution of about seven (7) cents a
22 kilowatt watt, is higher than the full delivered cost of
23 electricity to all other customer of Manitoba Hydro.

24 So, just the wire is going from the generation
25 plant in these remote communities to the houses. The

1 recovery of that capital is seven (7) cents a kilowatt hours.
2 And I just leave that for the Board's information.

3 The next one (1) is MKO Exhibit 7, and this
4 again has just been provided for information. The historical
5 costs and consumption comparison which is shown on app -- on
6 the application on page 10, Manitoba Hydro provided some
7 historical cost numbers for various years, just shown in
8 lines one (1) through six (6).

9 And again, we've just differentiated them or
10 attempted to differentiate them between fixed costs and
11 variable costs. And then in lines 7 through 12, break them
12 down as variable costs, just simply dividing the -- the costs
13 in columns C through G, by the consumption, which is in
14 column B, to give the numbers that are shown in columns 7
15 through 12.

16 And then those numbers have just simply been
17 plotted at the bottom there. And although there's probably
18 not enough data points to draw any real conclusions, I think
19 it is interesting to see how these costs have compared over
20 the last decade or so and specifically, in the last two (2)
21 years, for both fixed and variable costs are increasing,
22 which gives rise to this current proposed full cost of
23 seventy nine (79) cents.

24
25

(BRIEF PAUSE)

1 MR. MICHAEL ANDERSON: Mr. Hildebrand, would
2 you please summarize your recommendation to the Board?

3 MR. DALE HILDEBRAND: Our recommendation to
4 this Board would be to issue the following three (3)
5 directives to Manitoba Hydro, in their decision on this
6 proceeding.

7 One (1), that Manitoba Hydro prepare tariff
8 that is consistent with our tariff structure recommendations
9 and file and file for approval. This recommending that
10 tariff design is contained in our response to PUB/MKO 22-C.

11 Any costs in excess of the revenue collected,
12 should be incorporated into Manitoba Hydro's provincial cost
13 of service study and collected from all Manitoba Hydro
14 customers under a Board approved tariff.

15 Number two (2), from the date the new diesel
16 tariff is implemented, Manitoba Hydro will be required to
17 assume full responsibility for the obligation to provide
18 service to the existing remote communities.

19 This would include an obligation to treat
20 diesel generation, as a substitute for transmission, to
21 minimize the cost to providing service to remote communities
22 and to implement a comprehensive energy management program,
23 for these remote communities.

24 And number three (3), the stranded costs as
25 they've been defined in this proceeding, the quantum of which

1 are disputed by Canada, will not be included in the diesel --
2 the new diesel tariff, to these remote communities.

3 MR. ROBERT MAYER: Does that mean -- does that
4 mean the stranded costs would be absorbed by Hydro?

5 MR. DALE HILDEBRAND: That means --

6 MR. ROBERT MAYER: Or Hydro's ratepayers.

7 MR. DALE HILDEBRAND: I have no opinion on who
8 is responsible for those stranded costs. My recommendation,
9 Mr. Vice Chair, is that they not be included in the tariff,
10 and that they be settled outside of the tariff.

11 The point is, is that having them on the
12 tariff sends an inappropriate price signal to these
13 consumers.

14

15 (BRIEF PAUSE)

16

17 CONTINUED BY MR. MICHAEL ANDERSON:

18 MR. MICHAEL ANDERSON: Mr. Hildebrand, have
19 you concluded your evidence and are now prepared for --
20 available for cross examination?

21 MR. DALE HILDEBRAND: Thank you, Mr. Anderson,
22 I have.

23 MR. MICHAEL ANDERSON: Mr. Chair...?

24 THE CHAIRMAN: Thank you very much, Mr.
25 Anderson and welcome Mr. Hildebrand.

1 Mr. Williams are you ready to start?

2 MR. BYRON WILLIAMS: I am -- excuse me, I am
3 Mr. Chairman, I can either start now and go 'til noon, or we
4 could reconvene at -- at 1:00. I'm open to your -- what your
5 direction?

6 THE CHAIRMAN: My preference is you start now
7 and we'll use the next fifteen (15) minutes or twenty five
8 (25) minutes, whatever is an appropriate junction spot and
9 then we'll stand down.

10

11

(BRIEF PAUSE)

12

13

MR. BYRON WILLIAMS: Yes, thank you, Mr.

14

Chairman.

15

16

CROSS-EXAMINATION BY MR. BYRON WILLIAMS:

17

18

MR. BYRON WILLIAMS: And, Mr. Hildebrand, for
your and the Board's reference, I'm not going to go through
the -- the massive volume of references from the file that I
did two (2) days ago, but you may want to have at hand your
-- your evidence, as well as Interrogatory CAC/MSOS/MK0-7.

21

22

23

(BRIEF PAUSE)

24

25

MR. DALE HILDEBRAND: Yes, I have those, thank

1 you.

2 MR. BYRON WILLIAMS: Now, just -- I don't
3 think I need to -- to quote you at any great length, but I'm
4 -- I'm referring to your response to CAC/MSOS/MKO-7, namely
5 the second paragraph of MKO -- or CAC/MSOS/MKO-7-A. And in
6 that you express, first of all, the -- the view that the
7 legislation mandates an obligation to serve from Manitoba
8 Hydro.

9 In that case:

10 "All customers have a right to receive
11 electricity service, regardless of their
12 location in the Province."

13 And secondly:

14 "That the economic expansion of the grid
15 should be governed by service extension
16 investment policy."

17 Is that correct, sir?

18 MR. DALE HILDEBRAND: That's what it says.

19 MR. BYRON WILLIAMS: And that's your opinion?

20 MR. DALE HILDEBRAND: That's my evidence.

21 MR. BYRON WILLIAMS: And without going into
22 detail, your experience in terms of service extension
23 policies is derived both from your experience in the
24 regulatory field in Alberta, and your participation in -- in
25 this process; is that correct?

1 MR. DALE HILDEBRAND: I would say it goes
2 deeper than that. When I was at Alberta Power in the 1988/89
3 time frame, I was responsible for designing the extension
4 policy that Alberta Power took forward to their regulator and
5 was ultimately approved.

6 And in the first four (4) years of the '90s, I
7 was a senior customer service representative, and applied
8 that policy to industrial customers for Alberta Power. I've
9 also been involved in a specific module, where that Alberta
10 Power, or now ATCO Electric's current contribution policy was
11 tested before the regulator, and I believe that ultimate
12 document is also filed on -- on the record in this
13 Proceeding.

14 MR. BYRON WILLIAMS: Yes, it's actually
15 attached to -- to this exhibit. And I -- I'd like to turn
16 there, but just before I do. In your direct evidence today,
17 I believe you spoke of a regulatory prospective model; is
18 that correct?

19 MR. DALE HILDEBRAND: The Prospective Cost of
20 Service Regulatory Model.

21 MR. BYRON WILLIAMS: And the other reference
22 was to co -- a contractual regulatory model?

23 MR. DALE HILDEBRAND: Correct.

24 MR. BYRON WILLIAMS: And in terms of the
25 service extension investment policy, that would fit in with

1 to -- within prospective cost of service regulatory model;
2 would that be right?

3 MR. DALE HILDEBRAND: Yes, but it can also fit
4 into a contractual model. For example, there are regulated
5 contracts that I'm aware of in Alberta, that have applied the
6 existing regulatory service extension policy to them, and
7 that has dictated the investment that the utility has made
8 towards service under those contracts.

9 MR. BYRON WILLIAMS: Thank you. And just
10 turning -- and again, I'm -- I'm not intending to go into
11 this document at great detail, but attached to CAC/MSOS/MKO-
12 7, is a -- the investment document, which I believe on the
13 cover page is ATCO Electric 2002 Investment Policy, dated
14 December 2001. Do you have that, sir?

15 MR. DALE HILDEBRAND: I do. And just for
16 clarification, this is a excerpt of ATCO Electric's
17 application to the Energy and Utilities Board in Alberta, for
18 approval of their investment policy.

19 MR. BYRON WILLIAMS: That's fine. And I'm not
20 necessarily looking at their -- the specifics of ATCO
21 Electric. I'm hoping to use the expert -- the experience
22 you've discussed to just give a brief overview of how these
23 policies may work.

24 And if I can turn your attention to page 1-2,
25 namely lines 10 through 16; do you have that, sir?

1 MR. DALE HILDEBRAND: Yes.

2 MR. BYRON WILLIAMS: It appears that ATCO
3 Electric did a survey of the approach of certain utilities
4 across Canada and a survey -- this survey revealed that no
5 two (2) utilities approach investment in exactly the same
6 manner; is that right?

7 MR. DALE HILDEBRAND: I believe that was the
8 results of their consultant, Confer Consulting.

9 MR. BYRON WILLIAMS: And there's -- just to
10 paraphrase this paragraph, it spoke of extremes at one end,
11 there were complex calculations performed to determine the
12 difference between marginal costs and revenues and, in the
13 case where the marginal cost exceeds the marginal revenue,
14 the customer is charged a contribution; is that correct?

15 MR. DALE HILDEBRAND: Yes, that's what it
16 says.

17 MR. BYRON WILLIAMS: And that's your
18 understanding?

19 MR. DALE HILDEBRAND: Yes.

20 MR. BYRON WILLIAMS: And at the other extreme
21 is investment based on a maximum predetermined distance and
22 when this approach is used customers don't pay the cost of an
23 extension if that extension does not exceed the maximum
24 predetermined distance, correct?

25 MR. DALE HILDEBRAND: That is one approach

1 that Confer has coined as the other end of the extreme.

2 MR. BYRON WILLIAMS: And, basically just to
3 -- again, I'm just trying to get at a shorthand of how this
4 policy may work, if the costs of an extension -- generally,
5 if the costs of an extension to serve a cust -- new customer
6 is greater than the maximum amount the utility is willing to
7 invest then the new customer pays a capital contribution;
8 would that be fair?

9 MR. DALE HILDEBRAND: Correct.

10 MR. BYRON WILLIAMS: And just -- and I'll get
11 back to this a little later in my cross-examination but just
12 so I'm confident of the -- how the process works, one step is
13 to determine the -- you know, I'm speaking generically
14 whether at -- at either extreme of the approach but starting
15 from the premise of, you know, the maximum amount the company
16 is willing to invest, one step, perhaps the first step is to
17 determine the actual cost of providing the extension; would
18 that be fair?

19 MR. DALE HILDEBRAND: Correct. There's
20 usually -- typically an -- a estimate is done on the cost to
21 provide service from the existing system.

22 MR. BYRON WILLIAMS: And it may be
23 characterized or expressed in net present value or current
24 dollars, correct?

25 MR. DALE HILDEBRAND: I think that would be

1 expressed as a capital cost.

2 MR. BYRON WILLIAMS: And the second step
3 would be to determine the revenues that this -- that the
4 customer at the other end is expected to contribute to the
5 Corporation over a certain period of time and that would be
6 expressed in -- in net present dollars?

7 MR. DALE HILDEBRAND: For those utilities
8 that have a contribution policy that compares net present
9 value of cost to net present value of revenue, that would be
10 the approach. For other utilities that use a simplified
11 simple revenue, as I believe we heard yesterday in evidence
12 from Manitoba Hydro is -- is generally their approach, they
13 use three (3) years of revenue, other utilities just use a
14 maximum distance.

15 If you're more than four hundred and thirty-
16 six (436) metres from the existing grid you pay a
17 contribution. If you're less, you don't.

18 MR. BYRON WILLIAMS: And just to follow
19 through on, kind of, the -- the net present value or the --
20 the trying to get a full contribution perspective, just to
21 give a dollar figures, if the calculated cost was ten
22 thousand dollars (\$10,000) and the expected revenue was six
23 thousand dollars (\$6,000) then a contribution would be
24 expected of four thousand dollars (\$4,000); is that right?

25 MR. DALE HILDEBRAND: For a utility that

1 would have an investment policy that used that type of
2 rationale that's directionally the concept. It's -- you
3 know, I like to think of it as a mortgage.

4 You have a hundred thousand dollar (\$100,000)
5 mortgage and you're willing to pay a thousand dollars
6 (\$1,000) a month but the cost of your house is a -- a hundred
7 and twenty-five thousand dollars (\$125,000) well, you've got
8 to pay twenty-five thousand dollars (\$25,000) up front.

9 MR. BYRON WILLIAMS: Just speaking at the
10 level of -- of conception, you spoke of paying up front in
11 that way, would it also be conceivable to work these
12 arrangements so that if you determined that, again, using the
13 example of four thousand dollars (\$4,000) instead of paying
14 the entire amount up front you might pay it in four (4) equal
15 instalments of a thousand dollars (\$1,000) over the course of
16 four (4) years, plus interest?

17 MR. DALE HILDEBRAND: I guess, going back to
18 my mortgage analogy you could take a second mortgage for the
19 other twenty-five thousand dollars (\$25,000) and finance it,
20 however you see fit.

21 MR. BYRON WILLIAMS: So, it's conceivable that
22 rather than have a lump sum payment pre-construction, there
23 could be also payment over a set period of time post -
24 construction?

25 MR. DALE HILDEBRAND: Trying to be helpful,

1 Mr. Byron -- sorry --

2 MR. BYRON WILLIAMS: That's -- that's what my
3 kids call me too, Mr. Byron.

4 MR. MICHAEL ANDERSON: Mr. Williams, Mr.
5 Hildebrand.

6 MR. DALE HILDEBRAND: Mr. Williams, there are
7 utilities in Canada that do take the capital contribution and
8 levelize it, amortize it, put it onto a tariff, off tariff
9 and charge it back to customers in various shapes and forms.

10 MR. BYRON WILLIAMS: Mr. Chairman, I'm just
11 going to head off to another direction, so not a marked
12 departure from the course, but a slight detour.

13 THE CHAIRMAN: Thank you -- thank you Mr.
14 Williams for using the time allotted to you appropriately.
15 May I suggest that we now stand down and we will reconvene at
16 1:15.

17 At 1:15 I'm advised that MKO Grand Chief
18 Garrioch is planning to be here and to make a presentation at
19 that time. So I'd ask you all to be in your seats just prior
20 to that, so we can move efficiently through this afternoon.

21 Thank you.

22

23 --- Upon recessing at 11:59 a.m.

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

25

1 THE CHAIRMAN: Ladies and gentlemen, if I
2 may, I'd like to call the Hearing to order. As I indicated
3 at the break MKO Grand Chief Dr. Garrioch would be with us
4 and he is now here to make his presentation.

5 Dr. Garrioch, in front of you there is a mike
6 when you're ready just press the button please.

7 GRAND CHIEF SYDNEY GARRIOCH: Thank you. My
8 name is Sydney Garrioch, I'm Grand Chief for Manitoba
9 Keewatinook Ininev Okimovin. I'm here to make presentations
10 before the Public Utilities Board of Manitoba regarding the
11 Manitoba Hydro Rate Increase Application.

12 Good afternoon, Mr. Chairman, Mr. Vice Chair,
13 Dr. Avery-Kinew. I appreciate your opportunity to provide
14 MKO's support to Barren Lands First Nation, Northlands Dene
15 First Nation, as well as the Sayisi Dene First Nation, and
16 the Shamattawa First Nation through MKO's participation
17 before this Board.

18 Promoting the social development and well
19 being of MKO First Nation citizens is the primary objective
20 of the MKO organization. An affordable adequate supply of
21 electricity is a essential element of the basic services and
22 infrastructure necessary to maintain a healthy and growing
23 community.

24 As Manitoba public -- electric utility,
25 Manitoba Hydro has a central role in shaping the legacy of

1 Manitoba and its communities. Manitoba Hydro's role and
2 responsibilities to support community development and well
3 being by providing electricity supplies adequate for the
4 needs of the province. I just want to emphasize that
5 important that Manitoba Hydro is responsible and even though
6 Canada has a role to play, but the key point is the -- the
7 leadership and the key component is Manitoba Hydro.

8 Through the development of Manitoba's electric
9 supply system and by sharing the wealth of Manitoba Hydro's
10 power resources with all Manitoba citizens, Manitoba Hydro
11 shares this role. It is deeply disappointing to see Manitoba
12 Hydro propose steps to further isolate these remote
13 communities and slow their growth.

14 Even though Manitoba Hydro has said the rate
15 increase will have minimal effect on these communities, the
16 proposed rates call for overall revenue increases of 77
17 percent for residential customers and 88 percent for general
18 service customers and 140 percent for government customers.

19 Manitoba Hydro also proposes to identify all
20 non-residential First Nation accounts as government accounts
21 and charge some two dollars and one cent (\$2.01) for every
22 kilowatt hour used.

23 If the Public Utilities Board approves the
24 proposed rate increase there is no doubt in my mind that each
25 of these First Nations will almost immediately be placed into

1 severe financial circumstances. All four (4) of these
2 communities will either be unable to pay their bills or will
3 be required to scale back or close down many of the community
4 services.

5 In learning of the statements made by Manitoba
6 Hydro officials during these hearings, I am -- deeply
7 concerned about Manitoba Hydro's apparent indifference to
8 significant negative impacts that will result from the
9 proposed rate increase, if approved.

10 A central activity of the MKO organization is
11 to engage in the joint policy development with governments
12 and their agencies where policies affect the First Nations,
13 MKO and citizen -- their citizens.

14 I am reminded that this Board, in its 1992
15 Manitoba Hydro rate increase order, encouraged Manitoba Hydro
16 to fulfill Mr. Brennan's commitment to -- to a joint working
17 relationship with MKO on policy matters.

18 The proposed MKO Manitoba Hydro working group
19 was to consider matters including rates and supply options
20 for diesel service communities. The joint working
21 relationship proposed in 1992 by MKO promised by Manitoba
22 Hydro President and endorsed by the Board has yet to be
23 established and despite subsequent efforts by MKO.

24 MKO will continue to support Chief Bussidor
25 and Chief Hyslop, as well as Chief Miles and Chief Halkett

1 and their communities in their pursuit of just and reasonable
2 and equitable electrical rates for the -- citizens of their
3 First Nations.

4 MKO appreciates the presentation made to this
5 Board by AMC Crown Chief Whitebird and AFN Regional Chief
6 Francis Flett.

7 I agree that this is also a treaty issue that
8 can't be resolved through equitable sharing of wealth of
9 Manitoba's water power resources with all of the Cree to
10 First Nations people of Manitoba.

11 It is time for Manitoba Hydro to fulfill
12 accept this duty, responsibility to serve all citizens of
13 Manitoba including some two thousand four hundred (2400)
14 First Nations citizens at Brochet, Lac Broche, Tadoule Lake,
15 and Shamattawa.

16 I am pleased to -- to know that fellow
17 northerners and colleagues representing the Frontier School
18 Division and the Northern Stores delivered the same message
19 to you.

20 I strongly urge you to reject the Manitoba
21 Hydro application for rate increases to the diesel service
22 customers.

23 I request that this Board order Manitoba Hydro
24 to develop a new rate proposal that reflects their
25 responsibility to serve as well as the equitable sharing of

1 Manitoba Hydro's export revenue with the diesel services
2 First Nations.

3 Thank you. I resign.

4 THE CHAIRMAN: Thank you Grand Chief Doctor
5 Garrioch, does the Board have any questions?

6 Vice Chair...?

7 MR. ROBERT MAYER: I have a couple of
8 questions, Doctor has -- are you aware of the proposal that
9 is being put forward by MKO?

10 GRAND CHIEF SYDNEY GARRIOCH: I was briefed on
11 that -- informed of what's being proposed by MKO.

12 MR. ROBERT MAYER: And as I understand the
13 proposal and we just heard it this morning, it was actually
14 presented to the Board this morning. It basically calls for
15 Hydro's customers or Hydro itself to bear the significantly
16 increased cost of diesel service. You're aware of that, are
17 you?

18 GRAND CHIEF SYDNEY GARRIOCH: I'm somewhat
19 aware of the -- the customers to be absorbing some of those
20 costs, yes.

21 MR. ROBERT MAYER: And if I am correct and I
22 think I am, although that -- this hasn't gone to the cross
23 examination stage yet, it appears to, or at least -- I
24 shouldn't say relieve, it appears to call upon no extra
25 contribution from the Department of Indian Affairs Canada, or

1 INAC, Indian and Northern Affairs Canada. Are you aware of
2 that, sir?

3 GRAND CHIEF SYDNEY GARRIOCH: Yes, I am aware
4 of that issue, as well, with Canada's matter --

5 MR. ROBERT MAYER: Could you tell me, sir,
6 then why is it the position MKO, that the -- that INAC ought
7 not to contribute at all, never mind substantially, to these
8 increased costs which result from these communities being
9 located where they are on -- where they are in Manitoba,
10 actually? How is it that --

11 GRAND CHIEF SYDNEY GARRIOCH: Just to kind of
12 -- I guess for clarification, I integrated about Hydro's
13 responsibility for these customers in Manitoba. And to be
14 fair for all citizens in Manitoba.

15 We don't want to be caught in the jurisdiction
16 gap between those responsible and how the service be
17 provided. Even though Canada has fiduciary obligation to
18 provide those necessary services to First Nations in these
19 communities, but, we don't want to get caught in the system,
20 how this financing and service is being observed.

21 Cause we worry about not being treated
22 equally. That's an issue. And -- if Federal government
23 comes in play, even though they're somewhat responsible to
24 cost share, like -- other infrastructures like Central hydro
25 projects in other lakes areas, as well as the other areas

1 they constituted 60 percent.

2 We are familiar with those circumstances, we
3 are worried about the delays, because you may need -- may
4 need to work an agreement to get the Federal Government to
5 come to the table, and funding as well. And part of that
6 issue is that needs to be established.

7 Forever, we're going to get caught in that
8 system, and forever First Nations people in our communities
9 will always be affected by it. And also to kind of -- where
10 we are today, we're trying to emphasize the importance that
11 we are treated in a fair way, in this system as well as part
12 of the undertaking that's required.

13 MR. ROBERT MAYER: I -- I think I now
14 understand your position, sir. We -- we had some history
15 from Chief Bussidor, on the basic history or the background
16 of Tadoule Lake, understanding that it came originally from,
17 I believe, North Knife Lake, into Churchill, back to Tadoule
18 in -- under very tragic circumstances.

19 Can you tell me, sir, am I also correct in
20 assuming that Shamattawa is a community that was also moved
21 from its original location at York Factory?

22 GRAND CHIEF SYDNEY GARRIOCH: Some of the
23 residents were affected by those movements from the original
24 York Factory, Shamattawa descendants and ancestry are a part
25 of that. But not only Shamattawa, Split Lake, York Landing

1 and other of those communities in line there -- railroad
2 line, Lake Gillam, also and War Lake, they are part of that
3 from the York Factory.

4 So, there is movement from those people from
5 that ancestry.

6 MR. ROBERT MAYER: I am aware -- I was -- I
7 wasn't aware that Split Lake as well, I was certainly aware
8 that York Landing was part of the number of people who were
9 moved.

10 But am I correct in assuming that the majority
11 of people or the -- the predecessors of the majority of
12 people who reside in Shamattawa were in fact moved down from
13 York Factory?

14 GRAND CHIEF SYDNEY GARRIOCH: The issue
15 whether they were arbitrarily or unilaterally moved by
16 Federal Government or the people, voluntarily to reside in
17 Shamattawa, that is unclear to me. I can't get that
18 statement to confirm it. But certainly there are some
19 residents that moved into Shamattawa.

20 MR. ROBERT MAYER: Thank you very much, I
21 appreciate that.

22 THE CHAIRMAN: Thank you very much, Grand
23 Chief Garrioch, we certainly appreciate you taking the time
24 and the effort, sir, to be with us today and give us your
25 views with respect to this Application, thank you very much,

1 sir.

2 GRAND CHIEF SYDNEY GARRIOCH: Thank you very
3 much.

4

5

(BRIEF PAUSE)

6

7 THE CHAIRMAN: Mr. Williams, are you ready to
8 continue, sir?

9 MR. BYRON WILLIAMS: Mr. Byron is ready, sir.
10 Just before I proceed, my client, Ms. Desorcy, from the
11 Consumers Association was here this morning, but had to step
12 out. She's back to watch over me like a hawk.

13 And in the back row of the -- of the massive
14 spectator section is another student from the University of
15 Manitoba Faculty of Law, a Madeline Low, and so she's here to
16 -- because I told her that the Public Utilities Board was
17 just the best way to get a sense for administrative practice
18 in Manitoba.

19 MR. ROBERT MAYER: She's here to watch you
20 perform; right?

21 MR. BYRON WILLIAMS: Actually, Mr. Mayer, it's
22 you I told her to keep her eye out for.

23

24 CONTINUED CROSS-EXAMINATION BY MR. BYRON WILLIAMS:

25 MR. BYRON WILLIAMS: Mr. Hildebrand, the -- in

1 your evidence, particularly with respect to the criteria for
2 a sound rate structure, you make reference to Bonbright's
3 eight (8) criteria; is that correct?

4 MR. DALE HILDEBRAND: Yes.

5 MR. BYRON WILLIAMS: And I'm referring to
6 pages 2 and 3 of your -- of your pre-filed evidence. Do you
7 have that?

8 MR. DALE HILDEBRAND: Yes.

9 MR. BYRON WILLIAMS: And I'm not going to go
10 through an exhaustive itemization of them, but I -- if you
11 can bear with me I -- I wish to discuss items number 1, which
12 for shorthand I'll say, administrative simplicity, item
13 number 6, fair -- fairness of the apportionment within the
14 total rates of -- total cost of service, and number 8,
15 efficiency of the rate classes; okay, sir?

16 MR. DALE HILDEBRAND: Sure.

17 MR. BYRON WILLIAMS: And within the context
18 of those three (3) criteria, I wonder if we could discuss, to
19 a certain -- for a little while actual versus average costs
20 and actual versus average pricing; is that fine with you?

21 MR. DALE HILDEBRAND: Okay.

22 MR. BYRON WILLIAMS: And I want you to assume
23 for a moment, assume a perfect world for economists, and that
24 it was actually possible to determine actual cost -- the
25 actual cost to serve every customer.

1 You'll agree with me that within the context
2 of this analysis, from a pure perspective of efficiency, if
3 we could actually know their costs, it would be desirable to
4 charge each customer the actual cost to serve them; would
5 that be fair?

6

7

(BRIEF PAUSE)

8

9

10 MR. BYRON WILLIAMS: Mr. Hildebrand, if it'll
11 help you, I'm speaking purely from the criteria of
12 efficiency. From that criteria, it would be -- be very
13 desirable to charge each customer the actual cost to serve
14 them; would that be fair?

15 MR. DALE HILDEBRAND: If you wanted to ignore
16 the other rate design principles.

17 MR. BYRON WILLIAMS: That's exactly what I'm
18 trying to get at, sir. And, again, operating solely from the
19 cost of service perspective, you'd agree that if we could
20 determine the actual costs to serve each customer, it would
21 be very desirable for each customer to pay the exact costs
22 they bring to the system; is that fair?

23 MR. DALE HILDEBRAND: Sure.

24 MR. BYRON WILLIAMS: Now, you'd agree with
25 me, though, that it's difficult, in fact in some cases
impossible, to precisely determine the costs of providing

1 utility service to each specific customer; is that correct?

2 MR. DALE HILDEBRAND: Absolutely.

3 MR. BYRON WILLIAMS: And one of the reasons
4 it is is because of the inability to precisely determine the
5 usage of shared infrastructure; correct?

6 MR. DALE HILDEBRAND: When you're allocating
7 costs of shared infrastructure it is, by definition, an
8 allocation and there is no precise way to allocate those
9 costs. They're all based on some other measure.

10 MR. BYRON WILLIAMS: And another reason it's
11 difficult to -- to use actual costs, besides the allocation
12 of shared infrastructure, relates to matters of efficiency,
13 for example, having a meter that registered the time of use
14 in each residential customer's home might be expensive.
15 You'd agree with that?

16 MR. DALE HILDEBRAND: I'm not so sure I agree
17 that time of use metering is as expensive as it once was.
18 Those costs are coming down considerably.

19 But even if you had a time of use meter, it'd
20 only -- would help you towards your goal of greater
21 efficiency if you had a time of use rate that could also then
22 be based on some allocation of those costs that are more
23 precise than average.

24 MR. BYRON WILLIAMS: Okay. Just -- let's
25 assume a customer base of five hundred thousand (500,000)

1 customers and within that customer base there might be some
2 residential customers, people living in single dwelling
3 homes, there might be some large industrial units and there
4 also might be some -- some small business -- business people.

5 Again, going to the perfect world, from the
6 perspective of efficiency and fairness in terms of sharing
7 costs of service, it might be desirable to charge all five
8 hundred thousand (500,000) of those customers their actual
9 cost of service, from those two (2) objectives; would that be
10 fair?

11 MR. DALE HILDEBRAND: Sure.

12 MR. BYRON WILLIAMS: But in the real world,
13 that's not possible. So, depending on the jurisdiction, we
14 attempt to group these classes, do we not, in general
15 regulatory practice, based upon criteria such as similar
16 activities, the level of voltage and, in some jurisdictions,
17 location; would that be fair?

18 MR. DALE HILDEBRAND: In some jurisdictions
19 by location, that's fair.

20 MR. BYRON WILLIAMS: And in the other -- but
21 the other criteria which I mentioned, similarity of activity
22 and voltage are other criteria that are used; correct?

23 MR. DALE HILDEBRAND: Sure. And there's
24 others.

25 MR. BYRON WILLIAMS: So, the objective is to

1 place in the same class, customers who have the same average
2 cost to serve, is a general objective -- objective; you --
3 you'd accept that?

4 MR. DALE HILDEBRAND: Are we still talking
5 only about criteria number eight (8)?

6 MR. BYRON WILLIAMS: No we're talking about
7 general rate making criteria now. And I apologize for the
8 confusion.

9 MR. DALE HILDEBRAND: Okay. I'm -- I'm sorry,
10 could you please repeat for me?

11 MR. BYRON WILLIAMS: Yes, and we've agreed
12 that in a perfect world, we might want to look at actual
13 costs. In the real world there's a certain degree of
14 averaging that's involved; is that correct?

15 MR. DALE HILDEBRAND: Sure.

16 MR. BYRON WILLIAMS: And in terms of
17 averaging, what we try to do is group -- cla -- individual
18 customers into classes, with the objective of putting in that
19 class customers, who have the same average cost to serve
20 correct?

21 MR. DALE HILDEBRAND: Well, that's one (1)
22 classification. We just talked about other classifications,
23 like end use, location, homogeneity, historical practice.

24 MR. BYRON WILLIAMS: Sorry and I apologize
25 that. To -- for the purposes of grouping customers into a

1 class, we'll want to take into account those factors that
2 you've just discussed, end use, homogeneity, factors like
3 that?

4 MR. DALE HILDEBRAND: Sure. Government
5 policy, there's a number of different factors on how you'd
6 create different customer classes.

7 MR. BYRON WILLIAMS: Once we get those
8 customers into the class, as I understand the principle of --
9 we -- we wish to determine the rates for that class, based on
10 the average cost of serving that class; is the correct?

11 MR. DALE HILDEBRAND: The rate design process
12 is typically an allocation of costs to various rate classes
13 and then the design of a tariff to collect those costs. And
14 in the tariff design you could be collecting those costs
15 uniformly or by consumption patterns within that class, for
16 each -- each customer within that class.

17 MR. BYRON WILLIAMS: In -- often in tariff
18 design the pattern is to determine the average cost and then
19 spread that uniformly -- the average cost per kilowatt hour
20 and then spread that uniformly throughout the class.

21 For example, residential customer, that would
22 be the process, correct?

23 MR. DALE HILDEBRAND: Yes, Mr. Williams, I'm
24 agreeing with you, with -- with the additional comment that
25 the end price on a per dollar per kilowatt hour basis, may

1 not be the same for every customer within the class, due to
2 the structure of the tariffs.

3 It may have either economies of scale or dis-
4 economies of scale, depending on how the tariff is
5 structured, rate blocks, for example.

6 MR. BYRON WILLIAMS: And -- and just so we're
7 not talking at cross purposes, I believe, we're talking along
8 the same lines, within the class though with a uniformly
9 applied average cost, the cost per kilowatt hour would be the
10 same, the -- the rate per kilowatt hour would be the same?

11 MR. DALE HILDEBRAND: The tariff would be the
12 same, the end price may differ.

13 MR. BYRON WILLIAMS: Fair enough. And the
14 tariff would be the same, even though for each individual
15 customer within the class, the -- the actual cost to serve
16 might differ, correct?

17 MR. DALE HILDEBRAND: And may differ
18 significantly, correct.

19 MR. BYRON WILLIAMS: And in terms of rate
20 making principles that's generally accepted as long as the
21 definition of the class is -- is reasonable and it's based
22 upon reasonable criteria; would that be fair?

23 MR. DALE HILDEBRAND: I think that's fair.

24 MR. BYRON WILLIAMS: Now, at again another
25 element of Bonbright's eight (8) criteria you cite, is number

1 seven (7), which is the avoidance of undue discrimination and
2 rate relationships, correct?

3 MR. DALE HILDEBRAND: Correct.

4 MR. BYRON WILLIAMS: And just by way of less
5 than clever segue, in the -- in the course of your evidence
6 and I'm not asking you to highlight specifically where are
7 the subjects, but, in the course of your evidence you do
8 comment that certain elements of the Manitoba Hydro
9 application you suggest that they may be discriminatory or
10 unduly discriminatory. Is that a fair statement?

11 MR. DALE HILDEBRAND: Yes.

12 MR. BYRON WILLIAMS: And I want to elaborate,
13 if I might, on that concept by way of a couple of examples,
14 okay, Mr. Hildebrand?

15 MR. DALE HILDEBRAND: Sure.

16 MR. BYRON WILLIAMS: Item -- the first
17 example, I'd like you to discuss and -- is a situation in
18 which we have a utility with only two (2) customers, and they
19 exist side by side.

20 And the cost to serve customer 'A', who uses
21 one (1) kilowatt hour per month is ten (10) cents per
22 kilowatt hour; are you with me so far, sir?

23 MR. DALE HILDEBRAND: Yes, sir.

24 MR. BYRON WILLIAMS: And the cost to serve
25 customer B, who uses only one (1) kilowatt hour per month is

1 also ten (10) cents per kilowatt hour.

2 Is that fine so far, Mr. Hildebrand? Are you
3 with me?

4 MR. DALE HILDEBRAND: Yes, sir.

5 MR. BYRON WILLIAMS: Okay. Now, assume that
6 the rate charged by the utility to customer A is three (3)
7 cents a kilowatt hour, that will leave a shortfall on a
8 monthly basis of seven (7) cents per kilowatt hour, correct?

9 MR. DALE HILDEBRAND: Correct.

10 MR. BYRON WILLIAMS: And so if my math is
11 right, that would amount to -- customer A would be paying in
12 his or her rates, 30 percent of their costs, correct?

13 MR. DALE HILDEBRAND: Correct.

14 MR. BYRON WILLIAMS: Assume as well, that in
15 order to recover that shortfall, the utility chooses to
16 charge customer B, the full cost of providing its service,
17 being ten (10) cents, as well as the additional seven (7)
18 cents, to recover the shortfall in terms of customer A. Are
19 you following me, sir?

20 MR. DALE HILDEBRAND: Yes, sir.

21 MR. BYRON WILLIAMS: By my calculation,
22 customer B is paying his costs plus an additional seventy
23 (70) cent -- 70 percent more than his costs; would you agree?

24 MR. DALE HILDEBRAND: Yeah.

25 MR. BYRON WILLIAMS: So, we have one (1)

1 customer paying 30 percent of her costs, and a second
2 customer paying 170 percent of his or her costs, correct?

3 MR. DALE HILDEBRAND: Correct.

4 MR. BYRON WILLIAMS: So, just to put that in
5 another way. Of the total costs of the utility customer A --
6 excuse me, of the total cost, utility customer A causes 50
7 percent of the costs, but pays only 15 percent of the
8 revenues, correct?

9 MR. DALE HILDEBRAND: Correct.

10 MR. BYRON WILLIAMS: And customer B causes 50
11 percent of the costs, but provides 80 percent of the
12 utilities revenue, correct? Eighty-five (85), excuse me, I
13 misspoke.

14 MR. DALE HILDEBRAND: Thank you.

15 MR. BYRON WILLIAMS: And I'd like to thank My
16 Colleague from Manitoba Hydro for that assistance.

17 MR. DALE HILDEBRAND: I almost had to get out
18 my calculator.

19

20 CONTINUED BY MR. BYRON WILLIAMS:

21 MR. BYRON WILLIAMS: All other things being
22 equal, would that be -- would customer B be paying a
23 discriminatory rate, in your view?

24 MR. DALE HILDEBRAND: If I could just take you
25 to my evidence, which is MKO-2, page 3, lines 23 and 24:

1 "Bonbright states that if two (2)
2 residential customers, for example, were
3 charged significantly different prices for
4 the same service, unjust discrimination
5 would exist."

6 I would agree with that.

7 MR. BYRON WILLIAMS: And just to explore
8 further why, in your view, unjust discrimination would exist.
9 One (1) of the factors would be that customer B is being
10 asked to pay not only her costs, but the costs of -- a
11 percentage of the costs of customer A; is that correct?

12 MR. DALE HILDEBRAND: That's correct, and it's
13 interesting now that their -- their gender has changed and
14 they're both female, but --

15 MR. BYRON WILLIAMS: I was trying not to be
16 sexist all the way through, sir, I could see your eyes
17 twitching at that though. That's one (1) of the factors and
18 -- and another factor would be the -- the percentage of the
19 dis -- difference in the -- in -- to the degree that it would
20 appear disproportionate; would that be fair?

21 MR. DALE HILDEBRAND: Based on your example
22 that the -- these customers are essentially identical, then
23 it would appear to be discriminatory.

24 MR. BYRON WILLIAMS: I'd like to take you to a
25 second example, and let's go back to that world of five

1 hundred thousand dollar (\$500,000) customers, which are --
2 five hundred (500) -- excuse me, I misspoke.

3 Let's go to the world of five hundred thousand
4 (500,000) customers, and they're grouped into various
5 classes, residential, general service small, general service
6 medium and general service large. And I'd ask you to assume,
7 as well, that the definition of the class is reasonable and
8 based on reasonable criteria.

9 MR. DALE HILDEBRAND: Okay.

10 MR. BYRON WILLIAMS: Okay. And I'd also ask
11 you to assume that to the extent possible, shared costs are
12 fairly allocated, and that the rates for each member of the
13 class are based upon the average cost to serve that class.
14 Are you with me so far, sir?

15 MR. DALE HILDEBRAND: Yes.

16 MR. BYRON WILLIAMS: So, I'll give you an
17 example again of two (2) customers side by side. One (1) --
18 one (1) is a residential customer who pays five point one,
19 six (5.16) cents a kilowatt hour.

20 And I'd ask you to assume that by some miracle
21 of -- of science we actually know that the actual cost to
22 assume -- to serve that customer is five point six (5.6)
23 cents per kilowatt hour; are you with me, sir?

24 MR. DALE HILDEBRAND: Yes.

25 MR. BYRON WILLIAMS: And in terms of the

1 other customer, the other customer I'd ask you to assume is a
2 -- a small business person, I'll call her "she" just so I
3 don't -- hopefully I'll follow that train of gender down the
4 -- down the track, and that customer based upon the average
5 cost to serve her class pays a rate of six point one five
6 (6.15) cents a kilowatt hour; although I'll ask you to assume
7 that the average cost -- or the actual cost to serve that
8 particular premise is five point six (5.6) cents a kilowatt
9 hour; are you with me so far, sir?

10 MR. DALE HILDEBRAND: Yeah.

11 MR. BYRON WILLIAMS: Let's start with the --
12 with the she in the small -- the small store, the general
13 service customer. You'll recall that she's paying a rate of
14 six point one, five (6.15) cents a kilowatt hour where her
15 actual costs are five point six (5.6) cents a kilowatt hour.
16 In your view, would that be a discriminatory
17 rate?

18 MR. DALE HILDEBRAND: Probably not. I mean,
19 given all of the assumptions we've made here about a perfect
20 world and a perfect cost allocation and a cost of service
21 study that can actually allocate costs totally and
22 appropriately to the point that we know that these two (2)
23 customer's real cost is five point six (5.6) cents per
24 kilowatt hour each, all those assumptions which you've asked
25 me to make then if she is paying, you know, some percentage

1 more than the residential customer, yeah, that would appear
2 to be discriminatory.

3 But, in the real world, we can't get there.

4 MR. BYRON WILLIAMS: So, in the real world --
5 and in the real world the rate in your view would not be
6 discriminatory based upon principles of -- of efficiency and
7 administrative simplicity; would that be fair?

8 MR. DALE HILDEBRAND: I think -- I'm -- I'm
9 sorry, in the real world it would not be discriminatory,
10 correct.

11 MR. BYRON WILLIAMS: Would one of the reasons
12 it wouldn't be discriminatory in the real world be that the
13 -- the magnitude of the gap is pretty small between --
14 between her actual costs and the -- and the class costs?

15 MR. DALE HILDEBRAND: Well, I think that's
16 one part of it. The other part is just the accuracy. To me
17 a cost of service study is like a football game where the
18 football player lunges forward and ten (10) guys jump on top
19 of him and the ref comes up and puts his foot down and says,
20 this is where we're going to mark it.

21 Then they get out a measuring device and say,
22 yeah, within a centimetre it's a first down or not, but where
23 the football landed could have been plus or minus three (3)
24 feet.

25 So, you need to have accuracy and precision in

1 rate design because you're charging in use customers. But
2 let's not kid ourselves on how we got there.

3 MR. BYRON WILLIAMS: I appreciate that, sir.
4 I want to take you through one last example and it's a bit
5 longer so I've taken the liberty of rather than making you
6 write this out, we'll type it out.

7 Actually, I'll give it -- I have it right
8 here. I don't think I've provided to you pre -- previously.
9 And perhaps if Mr. Barron could pass it out as well.

10

11

(BRIEF PAUSE)

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MR. MICHAEL ANDERSON: I presume, Mr.
Williams that all these explorations of various hypotheticals
will circle back in some way to the evidence that Mr.
Hildebrand has filed, too?

MR. BYRON WILLIAMS: If that's -- I'm not su-
- well, if -- if you're raising a concern mis -- to the
Chairman, I'd indicate that he's -- the expert witness has
presented himself as an expert on concept of rate structure
and rate design. Through the use of hypotheticals we're --
we're trying to advance the theory as well as to test the
credibility of -- of his evidence and also evidence of -- of
others.

So I think it'll -- it'll all come together in

1 closing argument, yes.

2 THE CHAIRMAN: Mr. Anderson, is that
3 agreeable?

4 MR. MICHAEL ANDERSON: We're content to
5 pursue. I was just asking Mr. Williams --

6 THE CHAIRMAN: We'll --

7 MR. MICHAEL ANDERSON: -- where he was
8 pursuing.

9 THE CHAIRMAN: -- receive this as CAC/MSOS
10 Exhibit Number 8 for illustrative purposes. Thank you.

11

12 --- EXHIBIT CAS/MSOS 8: Handout of hypothetical scenario

13

14 MR. BYRON WILLIAMS: That was exactly my
15 recommendation, Mr. Chairman, I don't think it needs to be
16 part of the record, but, if it's -- if you choose to use it
17 for illustrative purposes that's fine.

18 And perhaps I'll give Mr. Hildebrand a couple
19 of seconds to read through it and then I'll read it to him,
20 just for the sake of the record.

21

22 (BRIEF PAUSE)

23

24 MR. BYRON WILLIAMS: Are you ready to
25 proceed, Mr. Hildebrand?

1 MR. DALE HILDEBRAND: I am. You don't need to
2 read it into the record for my benefit.

3 MR. BYRON WILLIAMS: I think I do for the
4 record, Mr. Chairman.

5 THE CHAIRMAN: Please proceed.
6

7 CONTINUED BY MR. BYRON WILLIAMS:

8 MR. BYRON WILLIAMS: "A mining company wishes
9 to operate a mine which is some distance
10 from the grid. It expects to employ one
11 hundred (100) employees on a year round
12 basis. To attract these employees to the
13 area it builds homes and sells the homes to
14 the employees. The intended mine is some
15 distance from the grid. The mining company
16 approaches the hydro electric utility and
17 asks for a connection to the grid with the
18 understanding that both the mining
19 operation and the residential homes will be
20 charged rates that are equivalent to grid
21 rates for their respective class. The
22 utility applies its standard service
23 extension investment policy. It determines
24 on a net present value basis that the cost
25 of connecting the mining operation is fifty

1 thousand (50,000). The incremental cost
2 associated with the provision of service to
3 residential customers is fifty thousand
4 dollars (\$50,000), for a total cost of one
5 hundred thousand dollars (\$100,000). The
6 utility also determines on a net present
7 value basis that its revenues through rates
8 from the mining operation will be twenty-
9 five thousand dollars (\$25,000) and that
10 revenues through rates from residential
11 customers will be twenty-five thousand
12 dollars (\$25,000). On a net present value
13 basis, the shortfall will be fifty thousand
14 (50,000). In accordance with its standard
15 service extension investment policy, the
16 utility requests a capital contribution of
17 fifty thousand dollars (\$50,000). The
18 utility is indifferent to who pays the
19 capital contribution. Notwithstanding the
20 fact that twenty-five thousand dollars
21 (\$25,000) of the shortfall is associated
22 with the provision of service to
23 residential customers, the mine accepts
24 full responsibility for the fifty thousand
25 dollar (\$50,000) contribution and pays this

1 sum. The mining operation residents are
2 connected to the grid."

3 Now, based on that -- this hypothetical, Mr.
4 Hildebrand, I take it you'd agree with me, that the mining
5 company will be paying, through its rates and upfront capital
6 contribution all of the costs associated with the provision
7 of electric service to its mine, would that be correct?

8 MR. DALE HILDEBRAND: No. And we talked about
9 this a little bit before lunch, where you asked me if a
10 capital contribution could be spread over time and paid
11 either -- in some form or fashion, and just let me elaborate
12 on that a little bit.

13 There are utilities in Canada that I'm aware
14 of that do take capital contributions and charge them back to
15 customers over time at some rate, usually includes interest.
16 But they are typically off tariff if they are identified
17 specifically on the tariff as a rider, they're not blended
18 into the tariff, into the rate.

19 And I think the question you asked me would be
20 that they would be included in the rates. And I -- in my
21 experience, the situation we have for these remote
22 communities, where the capital contribution has been blended
23 into the tariff, is unique.

24 MR. BYRON WILLIAMS: Mr. Hildebrand, I may
25 have mis-spoke. My question to you was, would you agree that

1 the mining company will be paying, through its rates and up
2 front capital contribution, all of the costs associated with
3 the provision of electric service to its mine, you'd agree
4 with that?

5 MR. DALE HILDEBRAND: The utilities investment
6 policy, let me say that the other way. The return of and on
7 capital for the investment made by the utility is part of the
8 utility's cost of service, and those costs would be included
9 in the rate that the customer pays.

10 And therefore you could determine -- you could
11 state that, within the rate that a customer pays, there are a
12 component of that six (6) cents of kilowatt hour per se, part
13 of it is paying back the investment in the specific fa --
14 facilities that serve that customer, part of it's paying the
15 infrastructure of the rest of the grid, the transmission,
16 distribution and generation, to pay for the infrastructure
17 that's required for the -- to provide service to that
18 customer. And part of it's the variable and -- and operating
19 costs.

20 So, within a sixth cent, you could divide it
21 up into some different components and say, yeah, one (1)
22 little component is really paying the investment that was
23 made up front.

24 MR. BYRON WILLIAMS: So, was your answer yes?

25 MR. DALE HILDEBRAND: Yes.

1 MR. BYRON WILLIAMS: And you'll agree with me
2 that through their rates, residential customers will -- will
3 be paying about half the actual costs of providing service to
4 their homes?

5 MR. DALE HILDEBRAND: That doesn't follow for
6 me, I'm sorry.

7 MR. BYRON WILLIAMS: You'll agree with me that
8 the residential customers, the tot -- the utility's expected
9 cost to serve -- the -- the utility's incremental cost to
10 serve the residential customers was fifty thousand dollars
11 (\$50,000), correct?

12 MR. DALE HILDEBRAND: Perhaps we're mixing
13 concepts again. I took from your example, wherein you're
14 calculating the standard service investment policy, where you
15 say it turns on a net present value basis the cost of
16 connecting, the mining operation is fifty thousand dollars
17 (\$50,000), as we discussed this morning. I assume that
18 that's a capital cost.

19 MR. BYRON WILLIAMS: And I may have -- I may
20 have -- I think I can see how we're talking at cross
21 purposes. What I meant to, and -- and perhaps we can -- I
22 think your answer will be -- will be similar to the -- the
23 long winded one (1) I got a -- a couple ago.

24 But what the hypothetical is meant to
25 illustrate is that when the court -- company -- that when the

1 ut -- utility, in determining both the costs of connecting,
2 and the costs over time, of servicing that -- those homes,
3 determines that -- that the rate is fifty thousand dollars
4 (\$50,000).

5 It determines that in -- in terms of its
6 revenues it will collect twenty-five thousand dollars
7 (\$25,000), so that the -- the remainder would have to be co -
8 - collected through an up front capital con -- contribution,
9 does that assist you, sir?

10

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(BRIEF PAUSE)

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MR. DALE HILDEBRAND: I'm not aware of any investment policy where a utility tries to determine all of the costs the customer would incur over the life of the facility, and takes a net present value of those, and then says what's the net present value of all the revenues from that customer, and equates them and says, they don't match, so you have to pay an up front capital contribution.

What I am familiar with, is utilities saying, here's the up front capital cost to connect you to the grid, and then of the revenue they would receive from the rates, what portion of that is related to capital recovery, return of and return on capital. And costs versus net present value of revenues, if they don't match, then there's a capital

1 contribution.

2 And I think the problem I'm having here is
3 that it's really an issue of vintaging. Part of the
4 prospective regulated cost of service model that I mentioned
5 this morning, is that customers come in different vintages.
6 And as a system grows, customers come on the system and when
7 they come on, they're treated like every other customer. We
8 don't have a different rate for an old customer versus a new
9 customer.

10 The new customer that comes on is very
11 expensive to serve, because for things like inflation,
12 capital costs increase over time.

13 But even though he may be a very expensive
14 customer when he comes on to the grid, he gets the average
15 rate. And thirty (30) years later the cost to serve him may
16 be very low, but he still pays the average rate.

17 So there's a -- a vintage substitution. It's
18 a vintage cross-subsidy that's inherent in the rate.

19 So I'm trying to be helpful for your example
20 and if -- if that's how you're assuming this utility has its
21 service extension policy, I'm happy to go down that road with
22 you but it hasn't been my experience.

23 MR. BYRON WILLIAMS: Okay. And just -- just
24 so I'm clear, the process that you experience -- expressed
25 some familiarity with, I'll just refer you to page 3.6 of the

1 -- the ATCO survey found at CAC/MSOS/MKO-7 and just for
2 purposes of my understanding, so I'll see if -- if that's the
3 reference you're -- your experience you're referring to? I'm
4 referring to page 3-6. It's near the front.

5

6

(BRIEF PAUSE)

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8

MR. DALE HILDEBRAND: Yes, I have that.

9

MR. BYRON WILLIAMS: And I'm reading starting

10 at line 19:

11

"The revenue is the rate revenue expected
12 from the customer's load. The incremental
13 cost stream was deducted from the revenue
14 stream and the resulting net margin is
15 discounted for ten (10) years at the
16 weighted average cost of capital for the
17 utility. If the resulting net present
18 value is positive, no contribution is
19 required from the customer. If it is
20 negative, a contribution equal to the net
21 present value is required from the
22 customer."

22

23

Is that the process you were referring to,

24

sir?

25

1 (BRIEF PAUSE)

2
3 MR. DALE HILDEBRAND: It was not. I was
4 speaking more to the examples I've seen in other
5 jurisdictions where the cost stream is really the capital
6 costs and any other incremental costs that may be occurred
7 over time where, although it's not clear, it sounds like from
8 the way this was read or:

9 "the resulting net margin is discounted for
10 ten (10) years."

11 "the incremental cost stream"

12 So, I would interpret that to mean that
13 incremental cost stream is the capital costs up front and
14 whatever marginal costs there may be that are incremental to
15 that specific customer.

16 And in most jurisdictions, those aren't
17 included but if there are some specific incremental costs, I
18 got the sense from your Exhibit 8 for information that you
19 were assuming all costs.

20 THE CHAIRMAN: Mr. Hildebrand, just so that
21 I'm clear, you're dealing with the ones that you're familiar
22 with and those ones, in the main, are Alberta-style
23 approaches?

24 MR. DALE HILDEBRAND: Sure. Saskatchewan,
25 BC.

1 THE CHAIRMAN: And, as far as you're
2 concerned, the extension policies do not include incremental
3 costs in the calculation of whether or not there's a capital
4 up front contribution?

5 MR. DALE HILDEBRAND: No, I'm saying they
6 include the capital cost to connect the customer --

7 THE CHAIRMAN: Yes, I understand that.

8 MR. DALE HILDEBRAND: -- and they would
9 include any incremental costs that are associated with that
10 extension but not any deep system costs that are -- that
11 would then be allocated. But you have to -- I'm sorry.

12 THE CHAIRMAN: Are you familiar, in Manitoba,
13 that we do?

14 MR. DALE HILDEBRAND: You -- you may. But
15 then you would be comparing full revenue versus full costs.

16 THE CHAIRMAN: Exactly.

17 MR. DALE HILDEBRAND: And in the contribution
18 policies I'm familiar with we don't include full revenue and
19 full cost. We include the -- portion of the revenue that's
20 incremental to the portion. So as long as you're comparing
21 apples and apples --

22 THE CHAIRMAN: That's what I was trying to
23 clarify.

24 MR. DALE HILDEBRAND: Okay. Thank you, sir.

25 THE CHAIRMAN: Mr. Williams...?

1

2 CONTINUED BY MR. BYRON WILLIAMS:

3 MR. BYRON WILLIAMS: Just for the purposes of
4 simplicity, would it be sufficient for you if we, again just
5 for the purposes of illustrative purposes, to go full cost
6 versus full cost; is that fine, sir?

7 MR. DALE HILDEBRAND: Sure. I'm happy to try
8 and help.

9 MR. BYRON WILLIAMS: Okay and I appreciate
10 that. I think we've agreed a long, long time ago that the
11 mine would be paying its full costs, through capital and
12 through up -- through up front capital contribution, as well
13 as through its rates, is that correct?

14

15

(BRIEF PAUSE)

16

17 MR. DALE HILDEBRAND: So I understand your
18 example, the mine pays a fifty thousand dollars (\$50,000)
19 contribution and we assume that's up front. And then the
20 mine pays the net present value of revenues of twenty five
21 dollars (\$25,000) over time and residential customers pay the
22 net present value of revenue, equal to twenty five thousand
23 dollars (\$25,000) over time?

24

MR. BYRON WILLIAMS: That's right.

25

MR. DALE HILDEBRAND: Okay.

1 MR. BYRON WILLIAMS: And so based on that the
2 mine is paying its full costs, correct?

3 MR. DALE HILDEBRAND: The mine is paying its
4 full costs and then the mine is making a contribution towards
5 the residential customers' costs, as well.

6 And the residential customers will be paying
7 only a portion of their costs, is that correct, because part
8 of their costs are being contributed by the mine?

9 MR. DALE HILDEBRAND: Correct.

10 MR. BYRON WILLIAMS: Given the fact that this
11 is a voluntary arrangement, would it be your view that the --
12 would you agree with me, that the mining company will not be
13 paying a discriminatory rate?

14 MR. DALE HILDEBRAND: I mean once the capital
15 contribution is paid, then the residential customers are
16 receiving a rate that presumably is just and reasonable for
17 that customer class and the mine is receiving an industrial
18 rate that is just and reasonable for them, so I would not see
19 how those would be discriminatory.

20 MR. BYRON WILLIAMS: Would the fact that the
21 mining company was paying some of the costs of the
22 residential consumers through the capital contribution and --
23 so in effect, paying more than its total costs, be in your
24 view discriminatory, given that it's a voluntary arrangement?
25

1 (BRIEF PAUSE)

2

3 MR. DALE HILDEBRAND: No.

4 MR. BYRON WILLIAMS: Just to change the
5 scenario very slightly and I hesitate to do it, but I will.
6 If the mine instead of paying an up front capital
7 contribution charge, paid it off over time, in the form of
8 five (5) lump sum installments of ten thousand (10,000) a
9 year, plus interest, would that change your answer, at all?

10 So, instead of paying the capital up front it
11 paid it in a lump sum -- it paid it on a time basis, would
12 that change your answer?

13 MR. DALE HILDEBRAND: I don't think it would
14 change my answer, but we're now sliding into a contractual
15 model here.

16 MR. BYRON WILLIAMS: Thank you. Mr. Chair, I
17 just have a few more questions and it relates to Mr. Barron,
18 the document titled Residential Rates, which I provided
19 previously to Mr. Hildebrand. If you could distribute that
20 now, please?

21

22 (BRIEF PAUSE)

23

24 MR. BYRON WILLIAMS: Mr. Hildebrand you've had
25 an opportunity to review this table, at least to a certain

1 degree, is that correct?

2 MR. DALE HILDEBRAND: I have, and thank you
3 for providing it to me.

4 MR. BYRON WILLIAMS: And have you had a chance
5 or have you ventured into checking the calculations?

6 MR. DALE HILDEBRAND: I have checked them.

7 MR. BYRON WILLIAMS: And are the calculations
8 accurate, sir?

9 MR. DALE HILDEBRAND: They appear to be
10 accurate.

11 MR. BYRON WILLIAMS: Just -- just for the
12 purposes of describing the table, you'll agree with me that
13 in the right hand column under the heading, Residential
14 Rates, or excuse me, under the heading, MKO Proposal.

15 This is the proposal advanced by OEMI on
16 behalf of MKO, in terms of a fixed monthly charge and a
17 charge for the first hundred and seventy-five (175) kilowatt
18 hours, the next eight hundred and twenty-five (825) kilowatt
19 hours, the next thousand (1,000) kilowatt hours and the
20 balance; is that correct?

21 MR. DALE HILDEBRAND: With the provisos that
22 were contained in PUB/MKO-22-C, yes.

23 MR. BYRON WILLIAMS: And the middle column
24 represents -- you can confirm for me, the Manitoba Hydro
25 proposal; is that correct?

1 MR. DALE HILDEBRAND: Yes.

2 MR. BYRON WILLIAMS: And perhaps you can
3 confirm for me as well, that up to the two thousand (2,000)
4 kilowatt hour level, the Manitoba Hydro proposal -- the new
5 proposal is the same as the existing structure of the rates;
6 is that correct? Up to two thousand (2,000) kilowatt hours,
7 nothing has changed in terms of the Manitoba Hydro proposal?

8 MR. DALE HILDEBRAND: Correct.

9 MR. BYRON WILLIAMS: And just for comparison
10 purposes, and recognizing that rates in Alberta are higher,
11 the first column under the heading, ATCO, indicates the
12 rates, residential rates in diesel communities charged by
13 ATCO; is that correct?

14 MR. DALE HILDEBRAND: I hate to get into a --
15 any -- another long dissertation, Mr. Williams, but those are
16 the rates that are charged by ATCO to all of its customers in
17 Alberta, regardless of whether they're remote or urban, or
18 rural.

19 And the nine point five two (9.52) cents is
20 based on the regulated rate option that was in place at the
21 time that Manitoba Hydro did their survey and published --
22 filed the results in PUB/MH-4.

23 The nine point five two (9.52) cents contains
24 a component of energy that's based on market prices in
25 Alberta, and those will change from time to time and -- and

1 do change, but directionally nine/ten (9/10) cents, I think
2 is a -- a fair number for the current tariff.

3 MR. BYRON WILLIAMS: And that's fair enough
4 and I appreciate that clarification.

5 Just if you could perform for me, if you go
6 down under typical residential bills, and I would direct your
7 attention to the fifteen hundred (1500) kilowatt hour, and
8 you can confirm for me that the -- under the Manitoba Hydro
9 proposal, the rate charge to residential consumers, using
10 fifteen hundred (1500) kilowatt hours per month would be
11 eighty-four dollars and seventy-four cents (\$84.74); is that
12 right?

13 MR. DALE HILDEBRAND: Sure.

14 MR. BYRON WILLIAMS: And under the MKO
15 proposal for that same level of consumption being one (1) --
16 fifteen hundred (1500) kilowatt hours, the rate charged would
17 be a hundred and twenty-four dollars and five cents
18 (\$124.05); correct?

19 MR. DALE HILDEBRAND: Correct.

20 MR. BYRON WILLIAMS: And if I divided one
21 twenty-four point zero five (124.05) by the -- being the MKO
22 proposal by the Manitoba Hydro proposal of eighty-four
23 dollars and seventy-four cents (\$84.74), you'd agree with me
24 that the MKO proposal -- the customer under that proposal
25 would be paying about 46 percent more; would that be right?

1 MR. DALE HILDEBRAND: Correct.

2 MR. BYRON WILLIAMS: Mr. Chairman, given that
3 the -- the -- there's no question as to the accuracy of the
4 -- the figures, I'd ask -- accepting the caveat that the ATCO
5 rates are only directional, I'd ask that this be marked as an
6 exhibit for CAC/MSOS?

7 THE CHAIRMAN: I've tagged it, Mr. Williams,
8 as CAC/MSOS Exhibit number 8 --

9 MR. BYRON WILLIAMS: Okay.

10 THE CHAIRMAN: -- in -- for illustrative
11 purposes. Number 8.

12 MR. BYRON WILLIAMS: I believe it would be
13 nine (9).

14 THE CHAIRMAN: Oh, number 9, I'm sorry.

15

16 --- EXHIBIT NO. CAC/MSOS-9:Document titled Residential Rates

17

18 MR. BYRON WILLIAMS: Thank you, Mr. Chairman,
19 and, Members of the Panel, I have no further questions.

20 THE CHAIRMAN: Thank you, Mr. Williams.
21 Before I turn over to Mr. Smith, just so that I'm clear. In
22 Alberta, particularly the ATCO utility -- ATCO utility with
23 respect to serving the diesel communities in their cost of
24 service includes all the costs of supplying that service; is
25 that not correct?

1 MR. DALE HILDEBRAND: Not exactly, sir. All
2 of the distribution related costs for serving the remote
3 communities is included in ATCO Electric's distribution cost
4 of service study and revenue requirement.

5 The costs of the generation themselves, the
6 units, are treated as a substitute for transmission and are
7 part of the transmission administration, who is now the AESO,
8 the Alberta Electric System Operators, cost of service study
9 and revenue requirement.

10 And those costs are postage stamped province-
11 wide. So distribution to ATCO, transmission, postage stamp
12 across the province.

13 THE CHAIRMAN: But what I'm trying to get at,
14 Mr. Hildebrand, just for clarification purposes, it's the
15 transmission administrator that, in essence, makes sure that
16 the utility, that is ATCO Utility, is kept whole with respect
17 to their expenses in the diesel community?

18 MR. DALE HILDEBRAND: The transmission
19 administrator receives, in essence, a tariff from ATCO
20 Electric that would include all of -- ATCO Electric's
21 transmission costs. And included in that bundle of costs
22 would be the generation costs at the isolated communities.

23 And that is tested by the Board and approved
24 and then that tariff goes to the transmission administrator
25 who then sets -- includes it in his cost of service study,

1 sets rates and gets that approved by the Board.

2 THE CHAIRMAN: But what I'm trying to make
3 sure is clear on the record, and maybe I am incorrect, but
4 maybe you could help me, it is the transmission, the AESO
5 (phonetic) transmission agency is the one that ensures that
6 the rates are what the rates are but, at the end of the day,
7 ATCO, as a utility, is fully compensated 100 percent for all
8 their expenses associated with serving the diesel
9 communities?

10 MR. DALE HILDEBRAND: You are correct, sir.
11 ATCO Electric, as a utility, operates under prospective cost
12 of service model and they receive revenue from the rates
13 based on forecast costs and forecasts. So do they receive it
14 all? It depends on whether they meet their forecasts.

15 But, given that caveat, and I'm sorry the
16 other -- little bit of a problem I was having with some of
17 your words is it's the transmission administrator sets a
18 tariff but it's actually the Board that approves it. But
19 directionally, you're correct, sir.

20 THE CHAIRMAN: Thank you. Mr. Smith, do you
21 have any questions?

22 MR. RANDAL SMITH: Just two (2) questions,
23 Mr. Chairman.

24 THE CHAIRMAN: Do you feel comfortable
25 sitting there or would you like to see the Board?

1 MR. RANDAL SMITH: This is fine. I'll just
2 be very brief.

3 THE CHAIRMAN: Thank you.
4

5 CROSS-EXAMINATION BY MR. RANDAL SMITH:

6 MR. RANDAL SMITH: Now, Mr. Hildebrand,
7 regarding your recommendations, and keeping in mind that the
8 jurisdiction of this Board is expressly limited by statute to
9 the fixing of rates and, in any event, the Board's orders are
10 not binding on INAC, do you personally have any experience in
11 using mediation to attempt to settle issues such as
12 responsibility for stranded costs and or surcharges? You or
13 your company?
14

15 (BRIEF PAUSE)
16

17 MR. DALE HILDEBRAND: I'm sorry, you said
18 stranded costs, and what was the last part of your question?

19 MR. RANDAL SMITH: Surcharge?

20 MR. DALE HILDEBRAND: Surcharges.

21 MR. RANDAL SMITH: And or surcharges?

22 MR. DALE HILDEBRAND: To -- to collect those
23 stranded costs?

24 MR. RANDAL SMITH: To use mediation?

25 MR. DALE HILDEBRAND: Yeah. Yes. In

1 Alberta, because of the significant amount of regulatory work
2 in the electric utility industry, and actually in gas and
3 pipelines as well that has come about from industry
4 restructuring and deregulation on the generation side,
5 probably more out of necessity there have been a number of
6 negotiated settlements that have taken place.

7 I think the number is probably over twenty
8 (20) now since 1997. And, yes, I have been involved in
9 probably fifteen (15) of those negotiated settlements
10 representing clients.

11 And if -- I'll just describe briefly the
12 process that typically takes place, is the utility would file
13 a full application, so that the record is clear on what
14 they're asking for.

15 And typically a round of IR's would take place
16 so that there is a full record. They would almost take a
17 break in the process and have a negotiated settlement, it
18 typically has Board oversight, or I'm sorry, it typically has
19 a Board observer, but the person from the Board that's
20 observing would not be involved in the formal proceeding, if
21 it went to a Hearing.

22 And the parties try to negotiate. They would
23 come up with a settlement. And if they do reach an
24 agreement, it is then taken back to the Board for review and
25 approval.

1 It's been quite effective in minimizing the
2 amount of regulatory work that the Board has had to go
3 through and -- and significantly reducing the cost, as well.
4 So, those are related to all kinds of things, all the way
5 from full GRA's to specific applications could be utilities
6 seeking to recover costs for de-commissioning a plant. They
7 could be related to a dispute over who is responsible for
8 some costs.

9 The reason I was hesitating is I don't -- I
10 can't immediately think of a situation where it was actually
11 a stranded cost like we have in this instance. But, there
12 have been cases where there's been significant disputes
13 between interveners and the applicant over who is responsible
14 for those costs and we have gone to negotiated settlements to
15 try and resolve that.

16 MR. RANDAL SMITH: So based on what you've
17 heard here over the past few days, Mr. Hildebrand, would you
18 recommend that the parties here consider the services of a
19 mediator to attempt to resolve their differences on stranded
20 costs and surcharges?

21 MR. DALE HILDEBRAND: I think that's almost
22 like the comment about hurting your wife, isn't it? Yeah, of
23 course, yeah, of course, Mr. Smith. Although it's -- you
24 know -- some people often criticize me for it's not in my
25 best interest, but I am a strong advocate of negotiated

1 settlements.

2 They reduce regulatory costs significantly.
3 They reduce regulatory lag and it can be very effective in an
4 alternate model or to supplement a model for reaching just
5 and reasonable rates.

6 Although I would just comment that it appears
7 to me that a negotiated settlement in this instance probably
8 would be more effective, after the Board has rendered its
9 decision on this Application and it might provide some
10 significant guidance to the parties.

11 And I might even go so far as to suggest, in
12 my own opinion, that might be why Manitoba Hydro's brought
13 this Application.

14 MR. RANDAL SMITH: That is why they said they
15 brought the Application. Thank you those are my questions,
16 Mr. Chairman.

17 THE CHAIRMAN: Thank you, Mr. Smith, just to
18 clarify, Mr. Hildebrand, just in the record, in those ones
19 that you've been involved in, the mediation or the
20 negotiation, when the submission is made to the regulatory
21 Board for -- for its approval or whatever, in most instances,
22 it's a take it or leave it approach?

23 MR. DALE HILDEBRAND: I think that's a fair
24 categorization, sir. Most of the negotiated settlements that
25 I've been involved in, specifically contain clauses that say,

1 the Board will either approve a negotiated settlement
2 document in its entirety, or not approve it at all in its
3 entirety.

4 And the reason, of course, being is people
5 don't want to be cherry picked. If I could just maybe
6 elaborate a little bit further, if this might be helpful.

7 There are a number of those negotiated
8 settlements where there may be ten (10) issues before the
9 Board, eight (8) of them may get encapsulated in a negotiated
10 agreement and then the parties would agree to come back to
11 the Board and ask leave to resolve the other two (2) issues.

12 THE CHAIRMAN: Thank you for that, sir.
13 Manitoba Hydro...?

14 MS. PATTI RAMAGE: Yes, Mr. Chair. Mr.
15 Bedford will be conducting the cross-examination, however, I
16 thought -- we're going to do a little chair shuffling with
17 your consent, and while we do that I would -- I have another
18 undertaking to hand out, and I thought I could do that.

19 THE CHAIRMAN: Thank you.

20

21 (BRIEF PAUSE)

22

23 THE CHAIRMAN: Ms. Ramage, while you're there,
24 we'll receive your undertaking as Manitoba Hydro Exhibit
25 number 20.

1 --- EXHIBIT NO. MH-20: Answer to undertaking by Mr. Williams

2

3 MS. PATTI RAMAGE: Thank you, Mr. Chair, and
4 for the record, this is a -- undertaking didn't appear on the
5 transcript list of undertakings, but it is contained at page
6 -- or transcript page 377, and it was in answer to an
7 undertaking requested by Mr. Williams.

8 THE CHAIRMAN: Thank you. Mr. Bedford, are
9 you ready, sir?

10 MR. DOUG BEDFORD: I am, Mr. Chairman. It may
11 be of some assistance to this Board to know that I anticipate
12 I will be perhaps one (1) hour. In my experience, Mr. Peters
13 is always less long winded than I am, so I think there's a
14 strong prospect we will finish in timely fashion this
15 afternoon.

16 THE CHAIRMAN: Mr. Bedford, since this is your
17 first opportunity to appear before us, I will note your --
18 your forecast, and I'll rate you accordingly.

19

20 CROSS-EXAMINATION BY MR. DOUG BEDFORD:

21 MR. DOUG BEDFORD: Good afternoon, Mr.
22 Hildebrand, we have not been formally introduced to this
23 point. My name is Doug Bedford, and I am the junior counsel
24 for Manitoba Hydro at this Hearing.

25 And I understand that today constitutes two

1 (2) firsts, Mr. Hildebrand, in your life, the first time that
2 we have had the pleasure of having you testify before the
3 Public Utilities Board of Manitoba, and secondly, the first
4 time in your life that you have been called upon specifically
5 to provide expert evidence with respect to rates in remote
6 communities; am I correct?

7 MR. DALE HILDEBRAND: I have testified on
8 ATCO's rates in general, which include the remote communities
9 in Alberta, but a specific application like this, I would
10 sure -- you can classify it as a first.

11 MR. DOUG BEDFORD: Given the time that you
12 have now had to spend in your life coming to understand the
13 diesel zone in Manitoba, is it fair for me to suggest to you
14 that the diesel zone in Manitoba is in fact unique?

15 MR. DALE HILDEBRAND: Sure.

16 MR. DOUG BEDFORD: You'll be assisted as will
17 we all, if you have ready to hand, MKO Exhibit 2, which is
18 your direct written evidence, together with the answers and
19 responses to Information Requests that you authored?

20 MR. DALE HILDEBRAND: Sure, I have them here.

21 MR. DOUG BEDFORD: I'd like you to turn,
22 firstly in Exhibit 2, your direct evidence, to page 7, lines
23 35 to 39. And I was particularly taken, and I quote, by your
24 words

25 "Because isolated generation is a

1 substitute for transmission interconnection
2 and isolated customers should have a right
3 to receive electricity service. The
4 treatment of the isolated generation costs
5 should be no different than what the
6 treatment of the costs to build a
7 transmission line to interconnect the
8 isolated system would be."

9 And I haven't heard you say anything this
10 afternoon in your oral testimony which would suggest to me
11 that you've changed your opinion on that particular subject
12 and I can tell you I found the words interesting because, to
13 me, they seem to capture the essence of the opinion that you
14 offer in your written direct testimony; am I correct that you
15 haven't changed your opinion on the subject that is captured
16 in those two (2) sentences?

17 MR. DALE HILDEBRAND: I have not and I
18 believe that that's consistent with a prospective regulatory
19 cost of service model.

20 MR. DOUG BEDFORD: Subsequent to reading
21 Exhibit 2, your direct evidence, I had the opportunity to
22 then read the answers you authored in response to a number of
23 Information Requests and I observed when I read through them
24 what I call a new theme being introduced into the advice that
25 you're giving us all regarding how to treat the costs a

1 utility incurs when it provides service.

2 And I'd like to take you, for a few moments,
3 through those portions of your words that I have in mind and
4 I firstly go to PUB/MKO-3-A which is at page 3 of the
5 responses given to the questions posed by the Public
6 Utilities Board?

7 MR. DALE HILDEBRAND: Okay.

8 MR. DOUG BEDFORD: Almost in the middle of
9 the page, last sentence in the second full paragraph, and I
10 quote:

11 "However, the provision of service should
12 have an economic test in the form of
13 service extension investment policy."

14 Unquote. I move only one (1) page further on.
15 And I'm reading now towards the bottom of page 4 and I quote

16 "In general, OEMI is ..."

17 And I believe you need the word "of" in there
18 but

19 "... is ..."

20 And I'll insert "of".

21 "... of the view that most regulated
22 utilities have a service extension
23 investment policy that provides for a
24 certain level of investment in electricity
25 related assets to serve a new customer. If

1 the cost of an extension to serve a new
2 customer is greater than the maximum --
3 maximum amount the utility is willing to
4 invest, then the new customer pays a
5 capital contribution. These investment
6 policies tend to place an economic
7 limitation on the amount of -- on the
8 amount a more remote customer is willing to
9 pay to receive electricity service from a
10 regulated utility. In most jurisdictions
11 that we have studied, the service extension
12 investment policy is an integral part of a
13 utility's tariff, is included in the
14 utility's terms and conditions of service
15 and is approved by the utility's regulator.
16 Service extension investment policies are
17 consistent with the utility's obligation to
18 provide service. These policies are also
19 consistent with the objective of providing
20 service to as many customers as
21 economically possible."

22 And then at the bottom of the same page where
23 I just finished, page 5, you wrote:

24 "Even if the Manitoba Hydro Act were
25 confirmed to be of general application to

1 remote communities, the obligation to serve
2 would be balanced with a service extension
3 investment policy subject to review and
4 approval by the PUB."

5 I next turn to PUB/MKO-7-C which is at page 9,
6 only a few pages further on. Again, I read from the
7 commencement of the last paragraph on that page, are you with
8 me?

9 MR. DALE HILDEBRAND: Yes, sir.

10 MR. DOUG BEDFORD: You wrote,
11 "In general OEMI does not believe that a
12 regulated utility should invest in assets
13 to serve new customers without some form of
14 a government or regulator approved service
15 extension investment policy."

16 I move now to CAC/MSOS/MKO response to 3C.

17

18 (BRIEF PAUSE)

19

20 MR. DOUG BEDFORD: I read the second

21 paragraph on that page:

22 "For generation related expansion costs,
23 OEMI is of the view that remote generation
24 is a substitute for transmission and
25 Manitoba Hydro service extension policy for

1 transmission should be applied to remote
2 generation when remote generation is a
3 cheaper alternative than transmission."

4 I go now to CAC/MSOS/MKO 7A, page 7, so we are
5 only about four (4) pages further on. And I read the last
6 sentence in what is arguably the third paragraph:

7 "However, the economic expansion of the
8 grid should be governed by a service
9 extension investment policy."

10 I turn now to page 16, which is CAC/MSOS/MKO
11 15(d), and you wrote in the last paragraph which appears just
12 below the mid-portion of the page, I would assume, drawing
13 upon your experience during your employment with ATCO
14 Electric, and I quote:

15 "In summary, ATCO Electric, is required to
16 provide service to customers in its service
17 area, subject to the economic expansion as
18 dictated by regulated service extension
19 investment policies. The process would be
20 the same regardless if the new customer was
21 to be serviced from the grid or from remote
22 generation."

23 And finally, I turn to the response to MH/MKO
24 3C. Have you been able to keep up with me Mr. Hildebrand?

25 MR. DALE HILDEBRAND: I'm sorry -- I just lost

1 the last one.

2 MR. DOUG BEDFORD: The response to MH/MKO 3C,
3 appears at page 3 in the general series of responses to the
4 questions posed by Manitoba Hydro.

5 MR. MICHAEL ANDERSON: That's MKO -- MH/MKO
6 3C, page three (3) of that set of Interrogatory responses.

7 MR. DOUG BEDFORD: Thank you. You wrote:

8 "In OEMI's experience utilities use a
9 service extension investment policy to
10 collect a capital contribution from
11 customers or costly extensions."

12 I'd like now to go back where we began to page
13 7 of MKO Exhibit 2, your direct evidence --

14 MR. DALE HILDEBRAND: Sorry, Mr. Bedford, I
15 run -- I ran out of fingers --

16 MR. DOUG BEDFORD: Your direct evidence --

17 MR. DALE HILDEBRAND: -- I have it, thank you.

18 MR. DOUG BEDFORD: -- page 7, lines 35 to 39,
19 which are the same lines that I visited with you a short
20 while ago.

21 And again, the words that caught my attention
22 were starting at line 35, because isolated generation is a
23 substitute for transmission interconnection. And isolated
24 customers should have a right to receive electricity service,
25 the treatment of the isolated generation costs should be no

1 different than what the treatment of the cost to build a
2 transmission line to interconnect the isolated system would
3 be.

4 Now, having read what you subsequently wrote
5 in your responses to Information Requests, is it not fair of
6 me to add at line 39, this following further sentence:

7 "Isolated customers must expect to pay
8 capital contributions for costly
9 extensions."

10 And I merely adapted, some will recognize, the
11 words in the answer you wrote to MH/MKO-3-C?

12 MR. DALE HILDEBRAND: Mr. Bedford, I think
13 that's a fair categorization, when we wrote the words in line
14 38:

15 "Treatment of costs."

16 We fully intended that those costs would be
17 treated with a customer extension service policy.

18 And I just want to be clear, when you took me
19 to CAC/MSOS/MK0-15-D, that you made the comment that based on
20 my experience that this is how ATCO Electric does it. It's
21 not based on my experience, it's based on legislation.

22 MR. DOUG BEDFORD: Thank you, my assumption
23 was incorrect.

24 I noted your several references to Mr.
25 Bonbright's text, and I recognize that only one (1)

1 individual in this room has to this point admitted actually
2 reading Mr. Bonbright's text from cover to cover.

3 But I found at page 520 of the 1988 edition,
4 and I can tell you that page 520 is the one (1) Mr. Byron
5 Williams stayed up late one (1) night this week to read, I
6 did so as well.

7 And I was equally attracted as he was, to the
8 following statement --

9 MR. MICHAEL ANDERSON: Excuse me, Mr. Chair, I
10 -- I have a copy of that relevant page, I'd just like to
11 provide it to Mr. Hildebrand.

12 MR. DOUG BEDFORD: Certainly.

13 MR. MICHAEL ANDERSON: So he can -- thank you.

14 MR. DALE HILDEBRAND: Is this the correct page
15 reference?

16
17 CONTINUED BY MR. DOUG BEDFORD:

18 MR. DOUG BEDFORD: Page 520 of the 1988
19 edition, if what Mr. Anderson has handed to you is a copy of
20 what Mr. Williams circulated earlier. I think we're reading
21 from the same text.

22 MR. DALE HILDEBRAND: I hope that's not right,
23 because there is no page 520 here.

24

25

(BRIEF PAUSE)

1 MR. DALE HILDEBRAND: For other folks in the
2 room, I believe it was in Mr. William's suite of materials
3 under Tab 9.

4 MR. MICHAEL ANDERSON: Thank you, Mr.
5 Hildebrand.

6

7 CONTINUED BY MR. DOUG BEDFORD:

8 MR. DOUG BEDFORD: Now, Mr. Bonbright's
9 statement's going to be familiar to all of us, because we've
10 touched on it before. And the copy I'm looking at; I'm
11 reading from the middle of the page. Mr. Bonbright wrote:

12 "Economists generally define price
13 discrimination as occurring when the prices
14 of goods are sold at prices which are
15 disproportionate to their marginal
16 production, distribution, delivery,
17 storage, risk and uncertainty costs."

18 Now, when you tell us, Mr. Hildebrand, that
19 remote customers must pay more for costly extensions, you are
20 saying the same thing as Mr. Bonbright, are you not, when he
21 suggests that when marginal costs are different it is fair to
22 charge more?

23 MR. DALE HILDEBRAND: Mr. Bradford, when you
24 apply rate design principles, you need to -- to provide a --
25 a view and look at all of them. And if you want to just

1 apply this one (1) principle, yes. If you want to apply all
2 of them, you've got some trade-offs. And that's the point
3 that we were trying to make, and as every rate design person
4 in the world will know, they end up not sleeping at nights
5 trying to determine which of the principles to give more
6 weight. And that's the art part of the art and science that
7 the -- Mr. Chair alluded to.

8 MR. DOUG BEDFORD: That's what crossed my
9 mind too when someone suggests that the exercise is part
10 science and part art. It's balancing various principles that
11 is the art but it's principles, such as Mr. Bonbright
12 describes in the sentence I just read which is the science?

13 MR. DALE HILDEBRAND: Sure.

14 MR. DOUG BEDFORD: And can -- I observe that
15 you weren't here on Tuesday this week when the rest of us
16 heard a presentation from Northern Stores, specifically
17 addressing, among many things, the price of milk that people
18 have to pay for in the four (4) communities that remain in
19 the diesel zone.

20 Can I suggest to you that it's not price
21 discrimination when Northern Stores tells us that they charge
22 a lot more for the jug of milk that's sold in the North than
23 what I pay for in Winnipeg but they charge more because their
24 costs proportionately are greater for such things as
25 distribution, delivery, storage, and the risk and uncertainty

1 they face in transporting products to the North?

2 MR. MICHAEL ANDERSON: Mr. Bedford, if it's
3 helpful, I just would like to let you know that Mr.
4 Hildebrand's had an opportunity to review the transcript from
5 that particular day, has been able to review the comments
6 made by Northern Stores.

7 MR. DOUG BEDFORD: Thank you.

8 MR. MICHAEL ANDERSON: You're welcome.

9 MR. DALE HILDEBRAND: As we mentioned in our
10 evidence, in addition to the eight (8) or how many ever rate
11 design principles that you may want to subscribe to, there's
12 typically also an over-arching principle which is government
13 policy.

14 And in some jurisdictions the price of milk
15 may be regulated. It may be regulated at the wholesale
16 level, it may be regulated at retail level. It's -- it
17 appears obvious to me that in Manitoba it's not regulated at
18 a retail level and, therefore, it would not be
19 discriminatory.

20

21 CONTINUED BY MR. DOUG BEDFORD:

22 MR. DOUG BEDFORD: I understand that the
23 recommendation you're making to this Board for what, in your
24 opinion, would be an appropriate rate structure appears at
25 PUB/MKO-22?

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(BRIEF PAUSE)

MR. DALE HILDEBRAND: Yes, I think the words rate structure, are a -- a good categorization.

MR. DOUG BEDFORD: Your response to that particular question is long. I'm at page 30 where you have a small chart that sets out what the price per kilowatt hour would be in the various energy blocks for the three (3) different classes; are you there?

MR. DALE HILDEBRAND: Yes, sir.

MR. DOUG BEDFORD: As I read this, and it's not difficult to read, the recommended variable cost rate per kilowatt hour in the third block under residential remote, that you're recommending is twenty-five (25) cents a kilowatt hour?

MR. DALE HILDEBRAND: Yes. If I can just take you back one (1) page to the third bullet is where there's a quick little discussion on how we came up with that. I'll just read it quickly. It might be helpful:

"Similar to other jurisdictions, the price for consumption in the variable cost box should be priced at or above the variable cost of production, say, twenty-five (25) cents per kilowatt hour."

1 That was the thinking on what that last block
2 should be.

3 MR. DOUG BEDFORD: And in fairness to you, if
4 I have correctly divined what's, perhaps, occurred since you
5 wrote the answer and what's subsequently developed is that
6 you were not aware when you wrote this that the variable cost
7 of fuel alone in the diesel zone is twenty-seven (27) cents a
8 kilowatt hour?

9 MR. DALE HILDEBRAND: I had surmised that
10 from the cost of service study and twenty-five (25) cents,
11 twenty-five (25) -- twenty-seven (27) cents, directionally
12 the same place.

13 MR. DOUG BEDFORD: Okay. Can you --

14 MR. DALE HILDEBRAND: Sorry, compared to other
15 jurisdictions that have winter roads, that seems to be in the
16 range.

17 MR. DOUG BEDFORD: Okay. Can you clarify for
18 my client then, whether what you are, in fact, recommending
19 to the Board is that at least variable costs of service
20 should be recovered in the rate?

21 MR. DALE HILDEBRAND: No, I'm not.

22 MR. DOUG BEDFORD: Okay.

23 MR. DALE HILDEBRAND: What I'm recommending is
24 that, for these communities, where the cost to serve them is
25 so high that you need to provide a strong price signal that

1 energy consumption and -- should be governed by some strong
2 energy management type principles.

3 And I guess what struck me when we did the
4 comparison with all other jurisdictions, was that all or
5 nearly all had a rising tail-block, where there was some very
6 strong price signal suggesting that consumers should limit
7 their consumption within some level.

8 And when you looked at the existing Manitoba
9 Hydro tariff, we see that that didn't exist. And I think
10 that may be part of the problem that we're faced with here,
11 is that those residential customers have not seen an
12 appropriate price signal for how ever long.

13 And we then also looked at the proposal of
14 taking them to seventy-nine (79) cents or two dollars
15 (\$2.00), I guess under the full cost -- is it -- seventy-nine
16 (79) cents is the proposal, is it not? Thank you.

17 That that was pretty harsh. And perhaps
18 something more in line with other jurisdictions made more
19 sense to us. Hope that's helpful.

20 MR. DOUG BEDFORD: I'd like -- like to bring
21 to your attention, what I think is an oversight in the work
22 that you've presented to us.

23 If you'll turn to PUB/MKO 10.

24
25

(BRIEF PAUSE)

1 MR. DOUG BEDFORD: Now, I observed in reading
2 your answers that, in particular, with respect to PUB/MKO 10,
3 you returned to Mr. Bonbright's work and you cite him as
4 support on subjects of fairness and fair return in rate
5 making.

6 What puzzled me enormously, is that at PUB/MKO
7 10, you cite, the 1961 edition of Mr. Bonbright's work and
8 not the 1990 -- 1988 edition that you cited in the direct
9 evidence that you presented.

10 And I have to tell you, I could not, when I
11 read the answers to PUB/MKO 10 and compared them to the
12 edition of Bonbright that I've been using, I could not find
13 the quotations that you use in support of the opinion that
14 you extend in MKO 10.

15 My impression on reading, not cover to cover,
16 Mr. Bonbright, but, a fair portion of Mr. Bonbright's book,
17 in and around the areas where you were quoting the 1961
18 edition, is that that part of the Bonbright work was
19 extensively revised as of 1988, primarily, I think to take
20 into account developments in financial theory which became
21 current in the financial world, through the 1960's and
22 1970's.

23 So, with that preliminary, am I correct that
24 what's happened here is just a mere oversight on your part,
25 as the author of the answer to MKO or PUB/MKO 10?

1 MR. DALE HILDEBRAND: Could very well be. I
2 actually am not the author of this response. It was done by
3 one (1) of my economists. Unfortunately, I'm not that old
4 and Bonbright is out of print, it can't be purchased and when
5 we went to the library, we got the first edition, the '88 --
6 edition, and then when we were answering the IR responses, we
7 went to the library again, and got the '61 edition.

8 So, yes, I guess we did do an oversight.
9 Unfortunately that was the materials we had to work with.

10 MR. DOUG BEDFORD: Okay. My concern, and it's
11 not something I'm going to ask you to undertake to do,
12 because it would be a tiresome exercise. But my concern is I
13 think some of the quotations you're relying upon may have
14 vanished from the 1988 edition, because the author no longer
15 thinks they can be supported by developments in financial
16 theory.

17 And in one (1) case I noticed, being a lawyer
18 with great interest, reference to a United States Supreme
19 Court decision, which had rejected something that had been
20 advanced, I believe in the earlier text.

21 Can you help me out and provide the name of
22 the individual who actually authored PUB/MKO-10?

23 MR. DALE HILDEBRAND: We provided that in
24 response to CAC/MSOS/MK -- MKO-1-B. That -- have two (2)
25 analysts that work with me, Mr. Glen Rogers and Ms. Carrie

1 Haines.

2 MR. DOUG BEDFORD: I have to reveal to you
3 that I accepted your invitation, which was extended in
4 Exhibit 2, and I visited the OEMI website, and I looked at
5 the background biographical data for your associates.

6 And in fairness to Mr. Rogers, what I believe
7 I read was that he's recently employed by OEMI 2002, that his
8 training and background is as a financial analyst, and I came
9 to the conclusion, looking at his resume, that he is
10 relatively junior in your field of consulting work?

11 MR. DALE HILDEBRAND: Mr. Rogers has five (5)
12 years of fairly direct regulatory experience.

13 MR. DOUG BEDFORD: Being a lawyer, and being a
14 lawyer now employed by Manitoba Hydro, albeit in a junior
15 capacity, I was most taken with your several references to
16 our legislation in Manitoba.

17 MR. DALE HILDEBRAND: Mr. Bedford, I would
18 offer though, if you think that it would be of assistance to
19 this Board, we would be more than happy to go back and review
20 the 1988 edition of Bonbright, and provide an amendment to
21 PUB/MKO-10.

22 MR. DOUG BEDFORD: Well, the Board can speak
23 for itself. My passing impression is that it may only be
24 myself who would be greatly interested in the comparison.

25 THE CHAIRMAN: Indeed, you are correct.

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CONTINUED BY MR. DOUG BEDFORD:

MR. DOUG BEDFORD: Could you turn on the subject of legislation, Mr. Hildebrand, to CAC/MSOS/MKO-9-D, and your response thereto.

(BRIEF PAUSE)

MR. DALE HILDEBRAND: Yes.

MR. DOUG BEDFORD: You wrote:

"OEMI notes that the Manitoba Hydro Amendment Act has set Government policy to provide uniform rates in Manitoba.",
period, unquote.

This is not the only place I know in your work that we have had similar references to what the Manitoba Hydro Act apparently states, and I wanted to read for your benefit and that of others, obviously, Section 39.2.1 of the legislation.

MR. DALE HILDEBRAND: I have that.

MR. DOUG BEDFORD: Which reads:

"The rates charged for power supplied to a class of grid customers within the Province, shall be the same throughout the Province."

1 Now, returning to what you wrote at page 10 in
2 response to CAC/MSOS/MKO-9-D, what you wrote needs to be
3 qualified does it not, so as to say the following:

4 "OEMI notes that the Manitoba Hydro
5 Amendment Act has set government policy to
6 provide uniform rates in Manitoba on the
7 grid." Unquote.

8
9 (BRIEF PAUSE)

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11 MR. DALE HILDEBRAND: Mr. Bedford, I'm not
12 qualified to weigh in with a legal opinion here by any
13 stretch of the imagination, but I would accept that that was
14 the intent when we wrote that sentence.

15 MR. DOUG BEDFORD: Thank you. I identified
16 another theme in your work when I read through your answers
17 to various questions that were put to MKO and I'd like you
18 now to turn to those responses and I'll identify for you what
19 I think is a theme in your work.

20 Firstly, would you go to PUB/MKO-3-B. I'm at
21 page 5 and I'm reading from the --

22 MR. DALE HILDEBRAND: Sorry, Mr. Bedford. We
23 may have a pagination problem. When you're saying page
24 numbers I'm not always with you. If you could maybe be
25 descriptive.

1 MR. DOUG BEDFORD: The last page of the
2 response to PUB/MKO-5 -- or 3B.

3 MR. MICHAEL ANDERSON: Could you repeat the
4 reference again please, Mr. Bedford?

5 MR. DOUG BEDFORD: PUB/MKO-3-B.

6 MR. MICHAEL ANDERSON: Thank you.

7

8 CONTINUED BY MR. DOUG BEDFORD:

9 MR. DOUG BEDFORD: The last page of the
10 response. And I'm reading from the second paragraph on that
11 page and I quote:

12 "It is our understanding that many remote
13 communities in Canada initially received
14 service through a capital contribution from
15 a provincial or the federal government."

16 Unquote. I'd now like you to turn to your
17 response to PUB/MKO-7-A. I'm on the second page of the
18 response and there are a list of number mid-page and my eyes
19 have caught, for government policy and I read, quote

20 "In many jurisdictions there are direct
21 government subsidies and ..."

22 MR. MICHAEL ANDERSON: Excuse me, Mr.
23 Bedford, Mr. Hildebrand doesn't have your reference.

24 MR. DOUG BEDFORD: I'm sorry.

25 MR. MICHAEL ANDERSON: Could you repeat it

1 again?

2 MR. DOUG BEDFORD: PUB/MKO-7-A.

3 MR. MICHAEL ANDERSON: And the -- the
4 response in my book spans pages 10 and 11.

5 MR. DOUG BEDFORD: I'm at page 8. So
6 obviously our pagination is different.

7 MR. DALE HILDEBRAND: Under A there are roman
8 numerals I through IV; is that where you're at, sir?

9 MR. DOUG BEDFORD: Yes.

10 MR. DALE HILDEBRAND: Okay.

11

12 CONTINUED BY MR. DOUG BEDFORD:

13 MR. DOUG BEDFORD: And I'm at IV with the
14 sub-heading government policy. And I was quoting and I'll do
15 so again:

16 "In many jurisdictions there are direct
17 government subsidies, example Northwest
18 Territories, or indirect government
19 subsidies, example Alberta, use of
20 provincial coal and water to generate
21 electric energy, inherent in the price of
22 electric energy."

23 And on the same theme, I find at PUB/MKO-18-A.

24

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1 (BRIEF PAUSE)

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3 MR. DOUG BEDFORD: Have you found it?

4 MR. DALE HILDEBRAND: Yes, sir.

5 MR. DOUG BEDFORD: I am on the second page of
6 the response, third paragraph. Again I quote what you have
7 written:

8 "For example, during the development of
9 remote areas, direct government funding is
10 typically required for facilities to be
11 initially installed and ongoing government
12 support is maintained." Unquote.

13 And finally, I turn to the response to
14 Manitoba Hydro MH/MKO 8-D.

15

16 (BRIEF PAUSE)

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18 MR. DOUG BEDFORD: Are you with me?

19 MR. DALE HILDEBRAND: Yes, sir.

20 MR. DOUG BEDFORD: And here I see that you
21 write, and in fact, you quote something provided to your
22 company, OEMI, by ATCO. So I'm quoting, in fact, what I
23 believe ATCO wrote to you and said,

24 "ATCO Electric's research indicates that in
25 most cases, a department of the Federal

1 government that had general authority in
2 the area requested for service, for
3 instance, Indian and Northern Affairs,
4 would fund the construction of housing and
5 infrastructure on Indian Reserves and
6 provision of infrastructure included the
7 provision of electric service."

8 Mr. Hildebrand, can I fairly suggest to you
9 that it was no surprise to you, when you were asked to review
10 rates in the diesel zone, in the Province of Manitoba, that
11 in remote parts of Manitoba, you discovered as we all knew
12 here, that the government and I include federal and
13 provincial, played and continues to play, a critical role in
14 the funding for electric service?

15 MR. DALE HILDEBRAND: I'll give you the
16 continued -- or initially played a critical role. I think
17 they're continuing role is under debate.

18 MR. DOUG BEDFORD: Someone once wrote with
19 respect to the provision of electric service in the diesel
20 zone in the Province of Manitoba, that the costs were, and I
21 quote, "prohibitively high", unquote.

22 And that when one (1) takes into account that
23 fact of life, together with the very difficult economic
24 circumstances of the peoples who live in these communities,
25 and we have heard something about that in the last four (4)

1 days, I suggest to you that there is no practical alternative
2 to paying for the costs of electric service, other than
3 through some form of heavy subsidization, am I not correct?

4 MR. DALE HILDEBRAND: I think that's the
5 genesis of our proposal, is that charging the full cost rate
6 to these First Nations customers on some of these general
7 service accounts, and for residential accounts over two
8 thousand (2000) kilowatt hours, is just not palatable and --
9 and to me it will result, in what I call the death-spiral.

10 MR. DOUG BEDFORD: And when I speak of
11 subsidization and obviously my keen interest is in government
12 subsidization, is that not why we here in Manitoba, have
13 learned through this particular process, that in the
14 Northwest Territories, and in the Province of Ontario, there
15 is easily identifiable government subsidies to assist people
16 who live in the north paying their electric bills?

17 MR. DALE HILDEBRAND: In Northwest
18 Territories, there is a government subsidy from that
19 government. In Ontario likewise.

20 In other jurisdictions they've moved away from
21 those types of programs, where the Governments have been
22 subsidizing them, to programs where they're subsidized by the
23 Utility. In essence, the Provincial -- the Province or
24 Territory has taken over that responsibility, and that's what
25 I call sort of a maturing over time, of a regulatory system,

1 and utility taking on the additional obligation.

2 In Alberta, it's full. In
3 Labrador/Newfoundland, it's a full obligation from the
4 ratepayers. And although it was -- they tried recently to --
5 to change that, I understand the Government struck it down.

6 So, there -- there is a mix in Canada, and I'm
7 suggesting, as I did in my direct evidence, that perhaps it's
8 time that Manitoba consider moving in that direction as well.

9 MR. DOUG BEDFORD: Well, it didn't escape my
10 attention, your occasional references to the subject of
11 maturity.

12 And we have learned in this process that in a
13 fashion, perhaps not entirely clear to all, that in 1987
14 there was a transfer of some sort of responsibility, or at
15 least a transfer of the addresses on accounts, that
16 previously were sent to the Federal Government, were then
17 sent to First Nations, because the company I work for had
18 been asked even years earlier, and had by contract purchased
19 diesel generation assets, or had by contract provided diesel
20 generation assets in northern communities.

21 But on the subject of maturity, one (1) of the
22 things I've learned in this process is that the Federal
23 Government and the person of Indian and Northern Affairs,
24 continues to own and operate to this day, diesel generation
25 in certain parts of Northern Quebec. And I gather through

1 some of the information you've presented, in the Province of
2 Newfoundland and Labrador.

3 Now, would you suggest to me that they are
4 even less mature in northern Quebec and Newfoundland and
5 Labrador, because the Department of Indian and Northern
6 Affairs continues to this day to actually own and operate the
7 diesel generation?

8 MR. DALE HILDEBRAND: Well, Not sure -- I'm
9 not sure I like the word maturity anymore, because it has
10 other connotations.

11 But let's just say that it is an evolution,
12 and when I've -- in thinking about this Application, I go
13 back and think about there was probably a time when the City
14 of Manitoba was an isolated community, or I'm sorry, yeah,
15 the City of Winnipeg rather, I'm sorry.

16 I mean, that's how the system developed, every
17 urban centre had its own little generator, and eventually
18 economies of scale, we put in bigger generators and we
19 interconnected them, and a distribution system evolved, and a
20 transmission system evolved, and we're getting pretty close
21 to the end of that development cycle, where we just have a
22 few urban centres left that have not been electrified to the
23 greater grid.

24 And through that evolutionary process, yeah, I
25 think there's still the full mix, there appears to be some

1 sites in Canada that are still funded directly and owned by
2 the Federal Government, there are some that are owned by
3 Provincial Governments, there are some that are owned by
4 utilities, and some have full cost, some have Government
5 surcharge and some have uniform rates. There's -- there's a
6 whole spectrum there.

7 And when you look at that full spectrum and
8 look at the situation we're in, as I said in my direct
9 evidence, considering where Manitoba is in its development,
10 and that we're only down now to four (4) communities, given
11 the dispute, perhaps it's time for Manitoba to consider
12 moving from one (1) end of the spectrum, maybe a little
13 closer to the middle.

14 Just trying to be helpful, sir.

15 MR. DOUG BEDFORD: I know you are. So am I.
16 If I take you back to the references to which I drew your
17 attention in your work, regarding the involvement of
18 Government and the provision of electrical service in remote
19 areas in this country, can I fairly suggest to you that
20 perhaps we could all agree that it is part of the
21 responsibility of government to treat the provision of energy
22 in remote communities as desirable social policy?

23 MR. DALE HILDEBRAND: I'm -- I'm sorry, Mr.
24 Bedford, I was just looking at the clock realizing that I'm
25 going to miss my flight home, and that's fine and I trust

1 we're going to make -- have a break, Mr. Chairman, in a
2 little while so I can make alternate arrangements.

3 So could you please repeat your question, I
4 didn't -- I missed the middle part.

5 MR. DOUG BEDFORD: Well, I now feel very
6 badly.

7 MR. DALE HILDEBRAND: That's fine.

8 MR. DOUG BEDFORD: Mr. -- Mr. Chair --

9 MR. ROBERT MAYER: He's going to feel a lot
10 worse if I'm still here at 6:30.

11 MR. DOUG BEDFORD: Well, I'm on track to
12 fulfill my promise but this may be a convenient time to call
13 a break.

14 THE CHAIRMAN: Certainly, Mr. Bedford. Give
15 Mr. Hildebrand also an opportunity. The Board will stand
16 down. May I suggest we just take a ten (10) minute or
17 whatever time Mr. Hildebrand really requires and then try to
18 reconvene.

19 MR. DOUG BEDFORD: Yes.

20 THE CHAIRMAN: Thank you.

21

22 --- Upon recessing at 3:20 p.m.

23 --- Upon resuming at 3:30 p.m.

24

25 THE CHAIRMAN: Mr. Bedford, are you waiting

1 for support?

2 MR. DOUG BEDFORD: I think they were last seen
3 leaving the building, Mr. Chairman, but I'm ready to finish.

4 THE CHAIRMAN: We'll note the time then, sir,
5 if you're ready to continue, I'd ask you to please do so.

6 MR. DOUG BEDFORD: Yes.

7

8 CONTINUED BY MR. DOUG BEDFORD:

9 MR. DOUG BEDFORD: Mr. Hildebrand, just before
10 we broke for a few moments, you had asked me to repeat my
11 last question and you and I were reviewing the subject of the
12 reality that subsidies in some form have to be provided to
13 cover the cost of provision of energy in remote communities,
14 at least these four (4) remote communities in Manitoba.

15 And I had asked you, whether or not, it was
16 fair for me to suggest, that it is a part of the
17 responsibility of government to treat the provision of energy
18 in remote communities as desirable social policy.

19 MR. DALE HILDEBRAND: I would agree with that
20 and I would also say that -- that social policy has also been
21 provided by electric utilities both investor owned and
22 publicly owned, towards that same goal.

23 MR. DOUG BEDFORD: And given your concession,
24 I'll concede, it's a grudging one (1), that government does
25 have a responsibility to play here. I am surprised that you

1 have ignored the history of remote generation, I think in
2 Canada, but, especially in northern Manitoba, when you are
3 recommending to this Board that it fix rates for the diesel
4 zone.

5 Which, if this Board accepted your
6 recommendation would have the immediate and practical result
7 of transferring the main burden of subsidization from
8 government to the ratepayers of Manitoba Hydro.

9 MR. DALE HILDEBRAND: And you are making the
10 assumption, sir, that your negotiations with Canada would not
11 be fruitful and I have not made that assumption.

12 I am simply making the recommendation that for
13 just and reasonable rates for these communities, you should
14 be setting the tariff such that it provides the right
15 incentive, but, also provides them with service at reasonable
16 cost.

17 And if it turns out that the shortfall -- and
18 I'm recommending that the shortfall would then be on Manitoba
19 Hydro's cost of service study, but, I haven't said whether
20 there would be any offset to that revenue requirement from
21 funding from other governments or other government agencies.

22 MR. DOUG BEDFORD: Well, with respect, Mr.
23 Hildebrand, I'm not making any assumptions, pessimistic or
24 optimistic about what may or may not transpire, in the future
25 between Manitoba Hydro and Her Majesty the Queen in Right of

1 Canada.

2 My reference to the history of remote
3 generation in northern Manitoba, was not made without
4 forethought. I suggest to you, that it is unjust and unduly
5 discriminatory to use words which have become common currency
6 during this Hearing, to take an amount of money that for
7 twenty (20) years has been paid and or funded by the Federal
8 Government, which we all know means that it's a burden that's
9 been borne by the 30 million citizens of Canada.

10 And now to compel the 1 million citizens of
11 the Province of Manitoba, or rather the ratepayers of
12 Manitoba Hydro, which is something less than 1 million
13 people, to pay that amount. That is discriminatory and
14 unjust, is it not?

15 To take a burden that for twenty (20) years if
16 not longer, has been borne by 30 million and now to compel 1
17 million to accept that burden?

18 MR. DALE HILDEBRAND: Well, sir, I'm not -- I
19 don't want to wade into a debate with you around public
20 policy funding in Canada and the provinces, but I would
21 suggest that there are a great many things in this country
22 where different governments pay for services to their
23 citizens at different levels and different amounts, and if
24 you want to classify this transfer to Manitoba Hydro, which
25 in essence then would either be a transfer back to the

1 due to administrative, historical, and
2 business reasons, rather than to social
3 reasons.

4 Indeed, if the social considerations
5 were to become dominant, the enterprises to
6 which they apply would cease to be public
7 utilities in the accepted sense of the
8 term. They would then become socialized
9 like the public schools, the tax financed
10 or endowed universities, and to a greater
11 degree, the police, the courts, the
12 military and the city street departments."

13 Do you agree with Mr. Bonbright's suggestion?

14 MR. DALE HILDEBRAND: I'm sorry, I couldn't
15 follow you with that, I didn't have that page.

16 MR. DOUG BEDFORD: Page 169, but I -- I
17 appreciate it's not available to you. What Mr. Bonbright is
18 suggesting is that if in rate making the dominant purposes in
19 fixing the rates become social concerns, the public
20 utilities, subject to the rates, cease to become and cease to
21 be understood as public utilities in the general sense, that
22 that word is understood?

23 MR. MICHAEL ANDERSON: Just to -- and just to
24 confirm for Mr. -- that's a direct quote that you were
25 making?

1 MR. DOUG BEDFORD: Yes.

2 MR. MICHAEL ANDERSON: You were reading very
3 slowly, and I appreciate that, given that he doesn't have a
4 copy.

5 MR. DOUG BEDFORD: Yes, I was previously
6 quoting directly. What I have just done now is summarized
7 what I understand the author of the text to be saying.

8 MR. MICHAEL ANDERSON: That's what I was
9 getting at. Is it possible -- is there a passage that you're
10 summarizing that could be read precisely to Mr. Hildebrand?

11 MR. DOUG BEDFORD: I just did, but I can read
12 it again.

13 MR. MICHAEL ANDERSON: No, no, no.

14 MR. DOUG BEDFORD: If you --

15 MR. MICHAEL ANDERSON: That's what I was
16 asking. Are you comfortable with it?

17 MR. DALE HILDEBRAND: Yes.

18 MR. MICHAEL ANDERSON: Thank you, okay.

19 MR. DALE HILDEBRAND: Again, Mr. Bonbright,
20 with the great respect to him, has put forward a number of --
21 of rate design concepts and principles in his text, and they
22 have been adopted and refined by utilities in North America,
23 and perhaps even around the world.

24 And as I mentioned earlier, there's also a --
25 an over arching rate design principle, if you will, and

1 that's Government policy and Government directions.

2 And perhaps I can answer your question and --
3 and the Vice-Chair's at the same time, when he asked me if
4 Manitoba Hydro is a public utility. Yes, they are a public
5 utility, they're owned by the Crown.

6 There are other -- utilities, for example,
7 Newfoundland and Labrador Hydro, and if I can quickly take
8 you to CAC/MSOS/MKO-13-D which is the press release that was
9 filed with my direct evidence earlier this afternoon, it
10 talks about how the utility provides a direct subsidy to the
11 remote communities.

12 And I won't go through it in a lot of detail
13 but second paragraph it talks about, you know, a change in
14 the Provincial Government direction from moving away from
15 their old approach where they provided the subsidy through
16 the utility to full cost rates.

17 And the Provincial Government struck that down
18 and said, no, we're going to go back to providing the subsidy
19 through the rates.

20 Third bullet -- or second bullet, in the
21 middle of the page, it talks about an average 7.4 percent
22 increase which may or may not be appropriate but -- and,
23 again, that's just part of their application. On the -- the
24 second page, at the very bottom, it talks about government
25 departments but specifically excludes hospitals, churches,

1 schools, community halls, municipal buildings, and like
2 facilities which sound a lot like the facilities that the
3 First Nations provide in their communities.

4 Third page at the top:

5 "Hydro owns twenty-four (24) isolated
6 system serving approximately forty-four
7 hundred (4400) customers."

8 And then in the other bullets, say fourth one
9 down, it talks about:

10 "The real deficit was funded directly by
11 the government. However, as a result of
12 change in policy the real deficit is funded
13 by means of a cross-subsidy from other
14 ratepayers."

15 And this is the maturing that I spoke of in
16 this jurisdiction. And finally, on the last page, last
17 bullet:

18 "Average subsidy in 2004 is forecast forty-
19 six hundred dollars (\$4600) for each
20 isolated real customer."

21 I mean, that's a significant subsidy from one
22 set of ratepayers to another and it's probably about seven
23 (7) times what Manitoba Hydro has proposed. So, yes, Mr.
24 Vice Chair, they are a public utility but there are other
25 utilities who provide service to remote communities through

1 cross-subsidization.

2 MR. ROBERT MAYER: And wasn't I correct in
3 hearing you respond to Mr. Bedford's question that
4 Newfoundland and Labrador is one of the -- one of the
5 provinces where the feds are still actually operating
6 generation services?

7 MR. DALE HILDEBRAND: There are, our
8 understanding from our research, a couple of very remote ones
9 that INAC still owns and operates but the vast majority of
10 them are under this program or at least the vast majority of
11 the consumption.

12 THE CHAIRMAN: But, Mr. Hildebrand, as I
13 understand in the Newfoundland experience as well as the
14 Alberta experience, in both of those instances the way the
15 utility is functioning inside their jurisdiction is directed
16 by the governments; that is the respective governments of
17 those two (2) provinces; that is, Alberta has legislation and
18 regulations and in Newfoundland it's by specific decree that
19 there was a longstanding subsidy program in existence for
20 many years leading up to 1989 and in 1989, '90, '91 and '92,
21 I believe, it was being phased out and then the utility was
22 directed to put it in place?

23 MR. DALE HILDEBRAND: I believe that's
24 correct, sir.

25 THE CHAIRMAN: Mr. Bedford...?

1

2 CONTINUED BY MR. DOUG BEDFORD:

3

4 MR. DOUG BEDFORD: Can I suggest to you, Mr.
5 Hildebrand, that if this Board were to accept holus bolus the
6 recommendations that you're making to it, that the Board
7 would, in effect, be doing, as Mr. Bonbright says, making
8 social considerations dominant.

8

9 And that one of the consequences of doing that
10 would be that Manitoba Hydro would cease to be, as Mr.
11 Bonbright says, a public utility in the accepted sense of the
12 words?

12

13 MR. DALE HILDEBRAND: I wouldn't agree with
14 that. I believe the legislation has -- this has already been
15 contemplated by the lawmakers of this province and they have
16 provided the opportunity for Manitoba Hydro to provide
17 uniform rates to all customers if they so chose.

17

18 MR. DOUG BEDFORD: That would take me back to
19 my earlier question of you where I observed that the
20 legislation, in fact, makes reference to uniform rates for
21 customers on the grid; is that what you had in mind?

21

22 MR. DALE HILDEBRAND: Well, my understanding
23 is that the legislation also provides the opportunity for
24 Manitoba Hydro to extend grid rates beyond the grid. And
25 that if the Government of Manitoba, has thought that far
ahead to giving -- giving you the option, then I don't think

1 it was the intent of the Manitoba government that if you took
2 that option, that you would no longer be a public utility.

3 MR. MICHAEL ANDERSON: And as I recall, just
4 if it's of any assistance, Mr. Bedford, that Mr. Peters had
5 asked and Hydro had answered that that aspect was permissive
6 to the Corporation, in respect of the opportunity. I'm just
7 wondering if that's a helpful reference to make.

8

9 CONTINUED BY MR. DOUG BEDFORD:

10 MR. DOUG BEDFORD: I certainly recognize Mr.
11 Hildebrand your acknowledgement of the obvious, which is
12 you're not trained in law and -- and I'm not sure it's
13 fruitful for us to embark on questions that I almost
14 instinctively am inclined to begin asking about where in the
15 legislation do you find the permissive.

16 So, in the interest of time, frankly, I'd like
17 to move on to --

18 MR. MICHAEL ANDERSON: Mr. Bedford, I don't
19 mean to interrupt, but, it was -- I precisely was speaking to
20 Mr. Peters comments and this was Mr. Peters that used the
21 word permissive in his question, to which Manitoba Hydro
22 agreed, as I recall.

23 MR. DOUG BEDFORD: And I -- and I think, Mr.
24 Anderson, we will find the permissive was a transitory
25 provision in the 1997 amending statute, which you will search

1 for in vain to find, in the current legislation.

2 But, we're --

3 THE CHAIRMAN: Gentlemen --

4 MR. DOUG BEDFORD: -- drifting into argument
5 rather than -- and I'd like to finish the questions I have
6 for Mr. Hildebrand, because I know he's anxious to return to
7 Alberta.

8 MR. MICHAEL ANDERSON: Everyone would like to
9 -- thank you.

10 THE CHAIRMAN: Please do, Mr. Bedford.

11

12 CONTINUED BY MR. DOUG BEDFORD:

13 MR. DOUG BEDFORD: Could you turn, Mr.
14 Hildebrand, please to your response at PUB/MKO-6A?

15

16 (BRIEF PAUSE)

17

18 MR. DALE HILDEBRAND: Thank you Mr. Bedford.
19 I'm not anxious to get back to Alberta, I'm happy to stay
20 here for as long as it takes, that I can be of assistance to
21 the Board.

22 MR. DOUG BEDFORD: Thank you. I'm at page 2,
23 of the response to PUB/MKO-6. You wrote, and I quote again:
24 "In OEMI's experience the person or entity
25 that is listed as the customer of record on

1 an account or a service contract is the
2 customer. Typically any agreements between
3 the customer of record and other third
4 persons or entities are not relevant to the
5 regulated utility."

6 Unquote. Now, I would like you to engage with
7 me, for a -- a minute or two (2), in an exercise that all
8 historians undertake from time to time.

9 Come with me back to the spring of 1987, I'd
10 like you to bring your experience with you and the advice
11 that you have written here, that I have just quoted. In the
12 spring of 1987, the customer of record on a number of
13 accounts with Manitoba Hydro was the Federal Government,
14 specifically INAC.

15 In some fashion, the Federal government in
16 1987 entered into, we can call them agreements with third
17 parties or entities, to use your words, in this case, First
18 Nations. And the subject of these agreements with these
19 entities was self-government.

20 Now, my understanding having read your advice
21 is that had you, in 1987, been available for us all to
22 consult, that your advice particularly to Manitoba Hydro
23 would have been that whatever agreements were being created
24 between the Federal government and the First Nations, were to
25 use your words, quote, "not relevant", unquote to Manitoba

1 Hydro? Am I correct?

2 MR. DALE HILDEBRAND: Well, firstly in 1987, I
3 was pretty wet behind the ears, and probably wouldn't have
4 given you this advice. But, Mr. Bedford --

5 MR. DOUG BEDFORD: I was more of a junior
6 Counsel in 1987.

7 MS. PATTI RAMAGE: I beg to differ.

8 MR. DOUG BEDFORD: Please continue.

9 MR. DALE HILDEBRAND: So what you're saying is
10 you really haven't gone very far in your career there.

11 MR. DOUG BEDFORD: Many people say that.

12

13 CONTINUED BY MR. DOUG BEDFORD:

14 MR. DOUG BEDFORD: Please continue.

15 MR. DALE HILDEBRAND: Thank you. When we
16 wrote that statement we were suggesting that in our
17 experience that it really is the -- the customer of record
18 that has the -- and I'll call it a -- a contractual, but it
19 really is a -- a form of a contract with the utility. The
20 utility has terms of service, terms of conditions of service,
21 and some customers actually sign a service agreement or a
22 contract when they take service.

23 And so there is a contractual relationship
24 between the utility and that contract. And that's who the
25 contract with, or the service agreement is with.

1 And if, like many contracts, if the customer
2 changes, the contract would typically go with the change.
3 And when you asked me if in this IR our First Nation's
4 accounts, Government accounts, based on our experience, if
5 the Government isn't a customer of record, then they're not
6 Government accounts.

7 Whatever happened in 1987, I don't know, I
8 don't understand what relationships there were between the
9 three (3) parties, what other contracts or agreements may be
10 in place between those three (3) parties outside of the
11 regulated service, and I don't feel I'm qualified to go into
12 that, even though I've read a lot of material on that and
13 heard some testimony the last few days.

14 MR. DOUG BEDFORD: That's fair enough of you.
15 I do understand from listening to you and reading what you've
16 written, that you are urging that the surcharge be
17 eliminated, I am correct in understanding that?

18 MR. DALE HILDEBRAND: I'm suggesting that the
19 surcharge should no longer be on tariff.

20 MR. DOUG BEDFORD: And indeed, I recall
21 somewhere in the material that you've written that you
22 recommend that if there is to be a continuing Federal
23 Government responsibility, it is far more desirable from the
24 view of the rate maker, that whatever payments are made by
25 the Federal Government to Manitoba Hydro, be outside the

1 rates?

2 MR. DALE HILDEBRAND: That is what I mean when
3 I said off tariffs, thank you.

4 MR. DOUG BEDFORD: There is another
5 alternative that I noticed you have not commented upon, and
6 that is in fact the alternative that seems to have transpired
7 for some seventeen (17) years now. What about the
8 alternative that the Federal Government provides funds to
9 First Nations who then pay for the service? What is your
10 opinion on the wisdom and efficacy of that arrangement?

11 MR. DALE HILDEBRAND: As I discussed with --
12 with Mr. Williams earlier, that if there is a capital
13 contribution that relates back to some contractual obligation
14 that blending that in with the tariff, in hindsight, appears
15 to have been part of the confusion, and part of the problem
16 or the messes, as he refers to them, that got us to this
17 point today.

18 I'm not suggesting that anybody did anything
19 wrong at the time, it probably seemed like the right and
20 appropriate thing to do. But with the benefit of hindsight,
21 I think you'd look back and say, if you wanted to accommodate
22 the Federal Government and take those capital charges and
23 spread them over time, it should have been done off tariff,
24 or it should have been a separate rider, so at least you
25 could track the dollars. And as we see now, the dollars have

1 gotten much bigger.

2 MR. DOUG BEDFORD: I observed in your work
3 that you use, not surprisingly, Alberta as an example that
4 perhaps ought to be followed in some respects here in
5 Manitoba.

6 Can I suggest to you that when one (1) speaks
7 of remote service in the Province of Alberta, that you too
8 are unique in Alberta, but in a different way, and that's
9 because one (1) community, the community of Jasper, appears
10 to me to account for two thirds (2/3) of the consumption, and
11 as I read your work, service -- energy service in Jasper is
12 met by a combination of hydro-generation and gas turbine
13 generation and diesel?

14 MR. DALE HILDEBRAND: That is correct, with
15 the exception of Jasper which is, very much, a different sort
16 of community being in a national park and with a mandate from
17 the federal government for zero growth. It can continue to
18 be provided by isolated service at a reasonable cost.

19 There are other communities in Alberta that
20 are very much similar to the four (4) communities in Northern
21 Manitoba, in that they are remote, they are served primarily
22 from ice roads that don't always accommodate travel every
23 winter. Some of them actually travel up rivers and if the
24 ice isn't there you can't get there.

25 So there are some similarities to some of the

1 communities, but there are many more in Alberta than there
2 currently are in Manitoba.

3 MR. DOUG BEDFORD: You've stated in reference
4 to the capital costs that Manitoba Hydro has incurred and is
5 incurring in the Shamattawa community for upgrading the
6 diesel service, that they struck you as being, and I think
7 your words were, "quite high".

8 And you found a two (2) year construction
9 period to be excessive. You advise in your material that \$5
10 million of capital costs would have been what you would have
11 expected and would be more reasonable versus the \$16 million
12 that we can all read Manitoba Hydro has incurred and is
13 incurring for those upgrades.

14 Now, when I again revisit when you did your
15 work this last year and when the documents came forward in
16 the process from Manitoba Hydro in response to Information
17 Requests, I divined that the problem here is that you didn't
18 take into account, because, in fairness to you, you didn't
19 know about them, a number of items that were included in
20 Manitoba Hydro's costs; am I correct?

21

22

(BRIEF PAUSE)

23

24 MR. DALE HILDEBRAND: No, sir. I'm still of
25 the view that these costs are significant and I'm not sure

1 what the right adjective is, outstanding, unbelievable.

2 MR. DOUG BEDFORD: Well, in fairness to the
3 company for which I now work, can I not suggest to you that,
4 to begin with, your \$5 million amount doesn't include an
5 amount for the planning studies that were done over a period
6 of ten (10) years exploring various sites that the people in
7 the community asked Manitoba Hydro to explore with respect to
8 setting up new diesel generation; that, in fairness to you,
9 isn't included in your 5 million, it obviously is included in
10 Manitoba Hydro's 16 million; is it not?

11 MR. DALE HILDEBRAND: Sure. Perhaps we could
12 just go to your rebuttal evidence, page 24 of 24.

13 MR. DOUG BEDFORD: I'm there.

14 MR. DALE HILDEBRAND: And I'll just try and
15 be brief and helpful here if I can. Planning studies, \$2
16 million over ten (10) years, unbelievable. Site preparation
17 four hundred thousand dollars (\$400,000), yeah. It's a
18 remote community. Very expensive to get equipment in there,
19 that could be the case.

20 I think the one that I'm still have having a
21 real, real trouble with is electronics and plant for a total
22 of \$8.1 million versus my quote that I received from a
23 supplier in Alberta of \$1.5 million. The other costs
24 identified by MKO-3, the 3.5 million, to me those are -- were
25 the site preparations, the commissioning, other upgrades.

1 And so, to me, the comparison is the 8.1
2 million versus the 1.5 million. And that, I guess, is where
3 I'm having the biggest trouble.

4 And where I'm basing this is at is, providing
5 reliable diesel generation in remote, harsh environments is
6 not new. There are remote communities, remote industrial
7 facilities, offshore production platforms, diamond mines, all
8 over the world that provide -- have service provided by
9 diesel generation.

10 And there are numerous suppliers that build
11 these plants in a fabrication facility and drop them down on
12 skids and can provide service, reliably, cheaply and I just
13 really can't get my mind wrapped around how these costs are
14 five (5) times what I would have expected.

15 And I've even gone so far as to talk to other
16 engineers who build remote generation plants in Canada and
17 what I've been told, is there seems to be two (2) very
18 distinct views on how to build remote generation.

19 There's a view that's taken by some utilities
20 that skid mounted generation units prefabricated and -- and
21 dropped in, are just as reliable and are significantly
22 cheaper and can provide service.

23 And there are other utilities like Manitoba
24 Hydro and Hydro Quebec, that believe you need to go in and
25 build a purpose built building and big concrete floor and

1 blah, blah, blah and -- and build a much more expensive
2 facility.

3 And given the arrangement between Manitoba
4 Hydro, the Government of Canada, and these remote
5 communities, and the issues around cost, I just find it
6 somewhat astounding that Manitoba Hydro did not look at
7 cheaper alternatives, and that was the basis for my comments.

8 MR. DOUG BEDFORD: Mr. Hildebrand, let's look
9 at some of the items. If the peoples who live in the
10 communities express a concern that outages cause not just
11 inconvenience, but severe inconvenience to them, ought not
12 one (1) of the goals of the utility when it upgrade diesel
13 service to be to try and reduce to the barest minimum, if not
14 to zero (0), the potential for outages?

15 And in order to address that concern, do you
16 not build and establish large enough diesel generating units,
17 and I note that's one (1) of the differences you would
18 recommend, smaller units, eight hundred and fifty (850)
19 kilowatt and four hundred and fifty (450) kilowatt, and it's
20 obvious from my company's material, that what they installed
21 in the community was one thousand fifteen (1015) kilowatt
22 units.

23 Do you not put larger units to accommodated
24 larger peak load? Further do you not endeavour to put in a
25 more fully automated set up so that you reduce the

1 requirement to fly people eight (8) or nine (9) hours into a
2 remote community, in order to deal with outage problems?

3 MR. DALE HILDEBRAND: Mr. Bedford, it was
4 Manitoba Hydro's original evidence that they were going to
5 put in smaller units.

6 And the quote I -- provided was for the exact
7 same equipment that was in that quote. And at that time, I
8 believe, Manitoba Hydro in the original estimate had a 10 or
9 \$12 million cost, which is what I based this quote on.

10 It was in the rebuttal evidence that the quote
11 went to \$16 million. And was a result of -- now I understand
12 planning studies may be soil remediation, and upsizing these
13 units.

14 But, the prices quoted are dollars per
15 kilowatt of installed capacity. Your quote is twenty six
16 hundred and sixty two dollars (\$2662) per kilowatt and my
17 quote was five hundred and seventy (\$570) per kilowatt.

18 So, it doesn't matter whether it's eight
19 hundred (800) or four hundred (400) or a thousand (1000).
20 Those are per kilowatt numbers. And so I've tried to do a
21 direct comparison on the capital costs, both include all of
22 the electronic equipment so that they can be started, and
23 stopped, remotely.

24 Include all the equipment so that if one (1)
25 unit fails, another unit will start automatically. The quote

1 I provided was for three (3) units in a remote location to be
2 run unmanned as reliably as possible.

3 So, there may be a few things that Manitoba
4 Hydro's provided to try and increase that reliability, but,
5 the experts in the industry talked to -- I talked to said the
6 quote I provided was for the best possible equipment that's
7 out there.

8 So, I have given this a lot of thought and I
9 don't come to this Board and suggest that these costs may be
10 imprudent lightly. I've done a lot of research here, and I
11 just can't get there, I'm sorry.

12 MR. DOUG BEDFORD: Do you share the same, and
13 I'll concede it's an embarrassing handicap that I do at this
14 Hearing, in that I have never been to the community in
15 Shamattawa.

16 So, when I read that an access road had to be
17 built as part of this project, and hear it's because the
18 people in the community did not want the new diesel
19 generating units placed where the old ones were, partly
20 because I gather, the diesel generating units make a lot of
21 noise, and I can be sympathetic to people not wanting to have
22 to live within the vicinity of a lot of noise.

23 But I haven't been there to assess just what
24 really was appropriate. I'm assuming you haven't been there
25 either, and I make a further assumption that whoever the

1 experts are that you consulted about what may or may not be a
2 reasonable cost to upgrade the diesel generation in
3 Shamattawa, Manitoba, also have never been to Shamattawa, and
4 further, didn't have the opportunity to talk to the engineers
5 that work for Manitoba Hydro, to question them as to why they
6 chose larger storage tanks, instead of the ones you
7 recommend, and to repeat, larger diesel generating units than
8 the ones they and you recommend?

9 MR. DALE HILDEBRAND: So there's three (3)
10 pieces there. My understanding is that the cost of the road
11 to move the generating facility away from the community was
12 in the site preparation cost of four hundred and thirty-five
13 thousand dollars (\$435,000), I don't take issue with that.

14 The -- no, I have not been to Shamattawa. I
15 have been to several communities like Shamattawa where diesel
16 fired generation is provided, both in Alberta and the
17 Northwest Territories, and I have some indication or some
18 idea what it's like, and -- and what it means when you have
19 to fly in people. And it is very expensive.

20 And the third point you made was about the
21 larger units. I think I addressed that. I am comparing
22 costs on a per unit of installed capacity basis. So, whether
23 they're eight hundred (800) kilowatts or fifteen hundred
24 (1500) kilowatts, within that price range it's not relevant.
25 The installed cost on a per kilowatt basis is the comparison

1 I'm making and that's the trouble I'm having with
2 significantly higher costs.

3 MR. DOUG BEDFORD: You will recognize, as I
4 did, when I looked at the numbers, that within the 16 million
5 is a significant portion allocated to labour.

6

7

(BRIEF PAUSE)

8

9 MR. DOUG BEDFORD: How much, I appreciate you
10 can't tell me and I can't tell you either.

11 MR. MICHAEL ANDERSON: We are waiting for an
12 undertaking and a breakdown for all of those, and at that
13 time we might be able to respond to that.

14 MR. DOUG BEDFORD: And that's -- that, Mr.
15 Anderson, is a good way to conclude this line of questioning,
16 because I understand that some of the money in fact was used
17 to employ people in the local community so that they would
18 achieve some of the benefits of new construction in the
19 community, and I'm certain that neither you, Mr. Anderson,
20 nor Mr. Hildebrand, to whom my questions ought to be
21 directed, would take any objection or exception to that?

22 MR. DALE HILDEBRAND: Absolutely not, and I
23 think the -- the policies of Manitoba Hydro to use aboriginal
24 involvement in construction projects is -- is appropriate and
25 consistent with many of the other jurisdictions that I've

1 been involved with in the past.

2

3 CONTINUED BY MR. DOUG BEDFORD:

4 MR. DOUG BEDFORD: Could you please go to
5 Exhibit number 5, Mr. Hildebrand, which was one (1) of the
6 hand outs that was provided to us during your direct oral
7 testimony today.

8 MR. MICHAEL ANDERSON: That's MKO-5, Mr.
9 Bedford?

10 MR. DOUG BEDFORD: Yes.

11 MR. MICHAEL ANDERSON: Thank you.

12 MR. DALE HILDEBRAND: Yes, sir.

13

14 CONTINUED BY MR. DOUG BEDFORD:

15 MR. DOUG BEDFORD: I'm looking at the first
16 page, and my simple understanding of the purpose of this
17 document, and particularly the numbers as they appear in
18 column D, was to illustrate as a helpful guide to the Board
19 that there is a lower revenue requirement, if one uses the
20 RCC applicable to Zone 3, on the grid?

21 MR. DALE HILDEBRAND: If I could just take you
22 to the CAC/MSOS/MH-14.2, Information Response, I may be able
23 to be of more assistance.

24

25

(BRIEF PAUSE)

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MR. DOUG BEDFORD: I have that, Mr. Hildebrand.

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MR. DALE HILDEBRAND: Thank you, Mr. Bedford. If I could get you to flip to the second page which is the, "retail prospective cost of service study, March 31, 2002". Go down to the third line, "Zone 3", go across to the fourth column where it says, "revenue to cost coverage" and I see a number there of 55.5 percent which I understand is the revenue to cost ratio for the Zone 3 residential customers which is the total costs that have been allocated to them of \$185 million dollars and a class revenue that's collected from those customers of 103 million.

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And a hundred and three (103) divided by eighty-five (85) -- a hundred and eighty-five (185) is the 55.5 percent. So, if -- big if, Manitoba Hydro elected to provide the same treatment for these customers as are afforded to grid customers and applied this ratio through the methodology that appeared in Schedule 3 of the application and in response to 14.3, which is just another two (2) pages further on, and calculated the subsidy using the 55.5 percent number versus the 90 percent number which shows in that same line on the right-most column, I've taken 89.6 percent to be rounded to 90 percent; that was the intent.

MR. DOUG BEDFORD: Then I'm -- I'm pleased.

1 I think I did follow what your intent was. You do appreciate
2 that when you make a comparison with numbers that come from
3 Zone 3 that the 55 percentage amount, without me going
4 through the mathematics of how that's involved, but it is
5 driven by the fact that a share of export revenues are
6 allocated to customers on the grid?

7 MR. DALE HILDEBRAND: My understanding is
8 that it's the next column where it says, "net export revenue
9 of \$63.2 million dollars". There is then allocated to that
10 Zone 3 class which then brings the total revenue, the \$102
11 million dollars of rate revenue plus 63.2 million in net, or
12 export revenue that's allocated to that class to \$166.1
13 million and it's the hundred and sixty-one (161) divided by
14 the hundred and eighty-five (185) that provides the revenue
15 to cost ratio -- or, I'm sorry, the revenue cost coverage
16 ratio, as it's called in Manitoba, of 90 percent which the
17 applicant has used in determining the appropriate subsidy to
18 diesel zone customers.

19 MR. DOUG BEDFORD: Can I then suggest to you
20 that if you're endeavouring to convince this Board that
21 something akin to how it works in Zone 3 ought to be applied
22 to the diesel zone, that the task you've set yourself is to
23 convince this Board that some portion of export revenue ought
24 to be allocated to the diesel zone?

25 MR. DALE HILDEBRAND: I have not made that

1 recommendation to this Board. I just simply when I look at
2 the number, nine(9)and half million dollars in costs,
3 assuming that those are appropriate and prudent, and then you
4 take off whatever revenue you think you can garner from these
5 customers in a reasonable manner, you're still short a whole
6 bunch and it's got to come from somewhere.

7 Could come from the Federal Government. It
8 could come, partially, from applying export revenues. Just
9 trying to be helpful.

10 MR. ROBERT MAYER: The term rev -- the export
11 revenue term we used to call it net export revenue. Judging
12 from yesterday's news release from Manitoba Hydro that may be
13 a mythical figure at this point.

14 MR. DOUG BEDFORD: We hope that it's a myth
15 that has a short lifespan.

16

17 CONTINUED BY MR. DOUG BEDFORD:

18 MR. DOUG BEDFORD: Mr. Hildebrand, I do recall
19 that in the three (3) recommendations you made, as you
20 concluded your direct oral testimony today, you suggested or
21 recommended that recovery of the stranded costs in the diesel
22 zone be excluded from the proposed tariff.

23 Having heard that, I'd like you to now listen
24 to something written ten (10) years ago, again about the
25 diesel zone.

1 And I quote:

2 "As the cost of service is prohibitively
3 high [and I earlier this afternoon used the
4 words prohibitively high and I was quoting
5 from this same reference]. Hydro only
6 undertook to provide electrical service to
7 these communities upon the initiative of an
8 financing of the capital structures by the
9 Government of Canada. In the upgrading of
10 service in diesel communities to enhanced
11 sixty (60) ampere capacity extensive
12 capital costs are incurred. These capital
13 costs are no longer borne by direct
14 contributions by the Government of Canada,
15 but, rather are subsumed within the rate
16 structure in the form of the government
17 surcharge. The inclusion of the surcharge
18 in the rates to recover the high costs of
19 servicing these communities is just and
20 reasonable."

21 I suggest to you, Mr. Hildebrand, that when a
22 utility company such as, Manitoba Hydro, has relied for ten
23 (10) years on what I've just read to you, that it would not
24 be reasonable to advocate now, that that direction ten (10)
25 years ago was somehow inappropriate, because Manitoba Hydro

1 has had to govern its affairs based on that direction from
2 ten (10) years ago.

3 And some people in the room may recognize that
4 what I've been quoting is something written on April the 8th,
5 1994 by this Board.

6 MR. DALE HILDEBRAND: Yeah, I recognize the
7 quote as well. And I'm not suggesting that Manitoba Hydro
8 should somehow eat those costs.

9 What I'm suggesting is that those stranded
10 costs need to be reviewed and taken care of as part of the
11 contractual dispute between Manitoba Hydro and the Government
12 of Canada.

13 What I'm suggesting and what I said in direct
14 is that, the standard -- the stranded cost will not be
15 included in the new diesel tariff to remote communities. So
16 what I'm suggesting is don't exacerbate this problem by
17 bringing these prior costs forward to a future tariff.

18 I mean you've applied for a government
19 surcharge that will apply to First Nations accounts of over
20 two dollars (\$2). If then we bring forward these costs and
21 even if you amortize them over five (5) or ten (10) years and
22 there's more depreciation costs coming, and there's site
23 remediation costs coming, two dollars (\$2) is going to become
24 four dollars (\$).

25 I mean the death spiral is going to happen

1 here. These people can't afford to pay and it's not good
2 rate design. It -- at some point you have to say, let's fix
3 the problem. Let's put a tariff in place that's just and
4 reasonable and stop the bleeding.

5 And that's what I'm suggesting here. I'm not
6 saying or giving an opinion or recommendation on who should
7 pay these costs or how they should they should be paid. I'm
8 simply saying, going forward, don't keep lumping them onto
9 the tariff because it would be -- with these smaller customer
10 size and only four (4) communities left, it's not
11 sustainable.

12

13

(BRIEF PAUSE)

14

15

16 MR. DOUG BEDFORD: Mr. Hildebrand, I'm done,
17 may I say that it has been a pleasure to make your
18 acquaintance, how -- however formal this has been. And I
19 think on behalf of all Manitobans, we would be delighted if
20 the remote community of Jasper could somehow be transferred
21 to the Province of Manitoba, thank you.

21

22

22 THE CHAIRMAN: Thank you, Mr. Bedford. Mr.
23 Peters, are you ready with your short cross?

23

24

23 MR. BOB PETERS: Indeed I am, Mr. Chair.

24

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

1 MR. BOB PETERS: Mr. Hildebrand, I'd like to
2 just start with you with a recommendation you're making to my
3 client, the Public Utilities Board, on whose behalf I'll ask
4 you these brief questions, and I trust the answers might be
5 likewise.

6 Your first recommendation is for this Board to
7 give a directive that the tariff that you have constructed in
8 PUB/MKO-20, a form of it be adopted here in Manitoba for the
9 diesel communities; am I correct?

10 MR. DALE HILDEBRAND: Yes, sir.

11 MR. BOB PETERS: Can you tell the Board, if
12 you are married, in my words, to those numbers, as to the
13 dollar amounts, or is this just a general indication that has
14 to be refined yet?

15 MR. DALE HILDEBRAND: The cent per ki -- per
16 kilowatt hour numbers were really intended to be directional.
17 And I think really the incentive block is the one (1) that
18 requires a little bit of explanation. And on -- in response
19 to PUB/MKO-22-C, the second bullet, second last paragraph,
20 "The price for the incentive block should
21 be high enough to encourage energy
22 conservation, but not high enough to place
23 a financial burden on consumers."

24 And finally, the very last sentence of that
25 Information Response,

1 "For residential customers the resulting
2 rates should be as close as possible to
3 revenue neutral."

4 And through the passage of time and the
5 enlightenment that I've received in the last couple days of
6 testimony and in the additional evidence that was filed in
7 the pre-asks, it has become apparent to me that in order to
8 get revenue neutrality, that that twelve (12) cent number is
9 too high, and it will place a financial burden on the
10 existing customers, and it may be appropriate that it's
11 higher than seven point eight (7.8) cents, but twelve (12) is
12 probably still too much.

13 MR. BOB PETERS: Have you refined it to a
14 specific amount that you want to leave with the Board?

15 MR. DALE HILDEBRAND: I have not. But based
16 on the -- the limited billing determinates in these
17 communities, and as I've played with the numbers over the
18 last two (2) weeks, I mean it's just really hard to make the
19 numbers go around, and to collect anywhere near enough
20 revenue.

21 If you make it twelve (12) cents versus six
22 (6) cents, the incremental revenue collect is a few
23 percentage points of the \$9.5 million. So, you say, well, it
24 helps, but it'll -- if it places a significant financial
25 burden on these residential customers, it may not be

1 appropriate.

2 So the answer to your question, directionally
3 it -- it needs to be closer to the -- the six (6) or seven
4 (7) cent number, but even that is going to increase rates.

5 And I might add that that's my recommendation,
6 and that my client does not agree with me.

7 MR. BOB PETERS: I'm sure we'll hear from Mr.
8 Anderson in his submission on that then.

9 Mr. Hildebrand, the twenty-five (25) cent
10 variable cost block amount, again you were asked by my
11 colleague, Mr. Bedford, is -- is that your highest number, or
12 is that set to try to cover some costs that you're aware of?

13 MR. DALE HILDEBRAND: My recommendation was
14 that it should be close to the peer variable costs. And
15 those are essentially fuel costs. So, based on the evidence
16 filed in the Application, it appears that that's twenty-six
17 point nine (26.9) cents, thereabouts.

18 MR. BOB PETERS: All right. Can I take from
19 your answers as well, that the second directive you wanted
20 this Board to -- to write, is that as of the date of the new
21 tariff that you've now recommended, that Manitoba Hydro
22 assumes full responsibility from that day forth to provide
23 energy services and energy management to the four (4)
24 communities?

25 MR. DALE HILDEBRAND: Correct.

1 MR. BOB PETERS: You want the Government of
2 Canada, you want through its agency, INAC, you want MKO, you
3 want everybody right out of the picture, and it's now
4 Manitoba Hydro who has the responsibility and the certainty
5 that it's Manitoba Hydro that has that responsibility?

6 MR. DALE HILDEBRAND: I think we need to break
7 that down just a little bit, sir. It became apparent to me,
8 from reading the Information Responses and some of the
9 transcripts from the Status Update Hearing that Manitoba
10 Hydro, and I'll try and paraphrase this, does not believe it
11 has the same obligation to these customers as it does to its
12 other customers.

13 And -- and this is where I'm having -- I
14 mentioned before about the contractual model versus the
15 regulated cost of service model, in my view, if Manitoba
16 Hydro truly -- felt that these customers were on equal par, if
17 I can, with other customers, then I think it could do a lot
18 more around energy management programs and providing direct
19 technical assistance and audits.

20 Let's face it, these costs are amazingly high
21 to serve these communities and if you apply the expertise
22 that exists in Manitoba Hydro around energy management
23 programs and PowerSmart, I think you could significantly
24 reduce the consumption in some of these remote businesses and
25 homes.

1 And I note that this Board directed Manitoba
2 Hydro to do that ten (10) years ago. And Manitoba Hydro
3 responded in the -- in response, it was a Status Update
4 Hearing I believe, that they didn't have the obligation to do
5 that which I found quite astounding.

6 But, no, I'm not suggesting that the
7 responsibility for these remote communities should be borne
8 solely by Manitoba Hydro. I think all parties have to take a
9 part. There's a role for Manitoba Hydro around providing
10 some education and some DSM services, some direct technical
11 assistance, et cetera.

12 There's obviously st -- a still strong role
13 from the Federal Government and, perhaps, a role from the
14 First Nations themselves.

15 MR. BOB PETERS: Mr. Hildebrand, on your
16 tariff in PUB/MKO-20 you set consumption blocks for
17 residential customers, the first one at a thousand (1,000)
18 going up to two thousand (2,000) and then in the general
19 service you also put fifteen hundred (1500) followed by three
20 thousand (3,000); do you recall that?

21 MR. DALE HILDEBRAND: Yes, sir. In 22C.

22 MR. BOB PETERS: Yes, has anything you've
23 heard through the times you -- through the three (3) or four
24 (4) days you've been here caused you to want to change those
25 consumption blocks or are you comfortable that those are

1 appropriately utilized as -- as you've got them drafted?

2 MR. DALE HILDEBRAND: I think they're still
3 directionally correct. But, again, I would suggest, in my
4 recommendation, that the Board provide Manitoba Hydro with
5 some direction. Let them go back and design a tariff based
6 on those directions and then reapply. I think Manitoba Hydro
7 is the more appropriate party to fine tune this tariff.

8 MR. BOB PETERS: Fair enough. If the -- if -
9 - if the Board followed your second recommendation which was
10 to indicate that Manitoba Hydro was to provide the services
11 and the energy management for these communities going
12 forward, that would always be subject to your qualification
13 that they do so subject to their service extension policy,
14 correct?

15 MR. DALE HILDEBRAND: Yes.

16 MR. BOB PETERS: And you've had a chance to
17 see the service extension policy filed by Manitoba Hydro,
18 have you?

19 MR. DALE HILDEBRAND: No. I saw an excerpt
20 in a -- filed as an undertaking. I haven't seen the full
21 policy.

22 MR. BOB PETERS: You heard the witness panel
23 speak on that matter, I believe, yesterday; did you not?

24 MR. DALE HILDEBRAND: I did.

25 MR. BOB PETERS: And do you have any comments

1 as to your understanding or whether their service extension
2 policy is appropriate for re -- remote diesel communities?

3 MR. DALE HILDEBRAND: Well, my understanding
4 is that their service extension policy for remote diesel
5 communities only applies to the distribution service drop
6 component and what I'm recommending is that future, and
7 perhaps past, but future generation costs be treated and
8 considered as a substitute for transmission and that the
9 transmission extension policy, in whatever form, would be
10 applied.

11 MR. BOB PETERS: And if that transmission --
12 if that transmission provision policy required a contribution
13 similarly calculated to the -- the distribution one (1),
14 you'd have no difficulty with that.

15 MR. DALE HILDEBRAND: Well, I assume, it would
16 be similar, from what I understand the evidence on the
17 record, to the transmission extension policy, although I have
18 not seen it, that was applied in the north central upgrade.

19 MR. BOB PETERS: All right. The third
20 recommendation that you made was that the stranded costs that
21 have been the subject of the dispute that's on the record,
22 stay outside and be settled outside the tariff, correct?

23 MR. DALE HILDEBRAND: Yes, sir.

24 MR. BOB PETERS: And that dispute settlement
25 could be perhaps as Mr. Smith suggested to you, through his

1 cross-examination, through a process of mediation or some
2 other mechanism?

3 MR. DALE HILDEBRAND: Sure.

4 MR. BOB PETERS: And in terms of those costs
5 that are stranded, are you talking about only the -- the
6 accumulated deficit and the unpaid surcharge that you've
7 heard of in this Hearing?

8 MR. DALE HILDEBRAND: Those are the costs I'm
9 referring to.

10 MR. BOB PETERS: What about the costs, Mr.
11 Hildebrand, that are currently -- have been incurred by the
12 Utility for their capital, where the evidence shows that
13 there's approximately \$39 million that has been expended to
14 date, the rates which are supposed to recover some of that
15 currently? What happens to those amounts?

16 MR. DALE HILDEBRAND: The return of and return
17 on the net investment would form part of the revenue
18 requirement for the remote communities, which I understand is
19 included in the nine point five or six million dollars in
20 their total revenue requirement.

21 And I'm recommending that a portion of that
22 would be recovered through rate revenue. And the other
23 portion would be included in Manitoba Hydro's provincial cost
24 of service study, either to be collected from all Manitobans,
25 electric consumers, or offset from whatever negotiations may

1 bear with Canada.

2 MR. BOB PETERS: All right. Just to segue to
3 that point, did you draft the ATCO Electric service extension
4 policy or was that --

5 MR. DALE HILDEBRAND: I did not.

6 MR. BOB PETERS: That was somebody else who
7 did that?

8 MR. DALE HILDEBRAND: ATCO Electric drafted
9 it.

10 MR. BOB PETERS: The -- one (1) of the
11 principles that they were concerned about in that policy, was
12 that when ATCO Electric extended service, they didn't want
13 existing customers to see rates rise unduly, as a result of
14 the addition of new customers.

15 Do you have any knowledge of that or recall
16 that?

17 MR. DALE HILDEBRAND: I recall that
18 succinctly, yes.

19 MR. BOB PETERS: And do you recall the
20 evidence in this proceedings, is that it would be
21 approximately \$8.8 million of additional cost to grid
22 customers, if -- if the diesel community was treated at -- as
23 a -- as grid customers?

24 MR. DALE HILDEBRAND: Yes.

25 MR. BOB PETERS: And that \$8.8 million was

1 just based on the current cost of services, but, did not
2 include assumptions of load growth which could happen if
3 remote customers could now start using electric heat for --
4 sorry electricity for heating purposes, correct?

5 MR. DALE HILDEBRAND: That's correct. I just
6 hate to do this, but, we're -- we're mixing two (2) concepts
7 here. The concept of an investment policy, is to invest up
8 to a level that when that capital cost goes into rate base,
9 it doesn't put undue upward pressure on rates.

10 And the concept is, is that rate bases decline
11 over time, through depreciation. And you're also adding
12 capital to them as you're expanding your system. And you're
13 trying to keep a balance there, so that there isn't undue
14 upward pressure on rates.

15 The concept of taking \$8.8 million or whatever
16 the number is and transferring that to the provincial cost of
17 service study, and increasing rates for all Manitoba Hydro
18 consumers is a different concept.

19 MR. BOB PETERS: I appreciate the concepts are
20 different, but, the principle is the same, is that you don't
21 want to unduly raise the rates, do you, of existing customers
22 by bringing the remote customers on to the provincial cost of
23 service that you've identified?

24 MR. DALE HILDEBRAND: Sure. And I think in
25 one (1) of the responses, if the full cost was transferred,

1 we are talking 1.2 percent increase. If that's unduly, then
2 maybe that's something you don't want to do.

3 MR. BOB PETERS: And if it was as much as \$20
4 million or a 2.7 percent increase, would you consider that
5 unduly for the objectives here?

6 MR. DALE HILDEBRAND: I used to think 8 to 10
7 percent was rate shock, and when I look at my bill for my
8 house in Calgary, over the last four (4) years.

9 THE CHAIRMAN: There's only one (1) advantage
10 though, Mr. Hildebrand, is you get a rebate cheque from the
11 Government of Alberta every once in a while.

12 MR. DALE HILDEBRAND: Not any more, sir, but
13 we did get a few in the first year.

14 THE CHAIRMAN: Mr. Peters...?
15

16 CONTINUED BY MR. BOB PETERS:

17 MR. BOB PETERS: Do you agree, Mr. Hildebrand,
18 that rather than a contribution from a customer, the subsidy
19 can be the proxy for that, or another form of it?

20 MR. DALE HILDEBRAND: I -- I'm sorry, one (1)
21 more time please?

22 MR. BOB PETERS: Do you acknowledge that
23 instead of a contribution up front, for building facilities,
24 a subsidy can be charged through and be the proxy for that
25 contribution?

1 MR. DALE HILDEBRAND: I'm still having trouble
2 distinguishing what the difference might be?

3 THE CHAIRMAN: I think Mr. Peters is talking
4 about a surcharge, not a subsidy.

5 MR. BOB PETERS: I apologize for misspeaking.

6

7 CONTINUED BY MR. BOB PETERS:

8 MR. BOB PETERS: You're a proponent of
9 utilities using a service extension policy --

10 MR. DALE HILDEBRAND: Correct.

11 MR. BOB PETERS: -- before they expand their
12 service, correct?

13 MR. DALE HILDEBRAND: Yes, sir.

14 MR. BOB PETERS: And you'd like the regulator
15 to approve that; and that was your recommendation?

16 MR. DALE HILDEBRAND: Well, I think all
17 utilities should have a service extension policy. I'm not
18 sure I recommended that this Board approve Manitoba Hydro's,
19 I'm not sure they do that.

20 MR. BOB PETERS: Okay. Instead of a surcharge
21 there could be a capital contribution up front, and you've
22 heard that that was a previous part of the history in
23 Manitoba?

24 MR. DALE HILDEBRAND: Correct.

25 MR. BOB PETERS: And for some reason, that

1 seemed to have changed over time, that rather than a capital
2 contribution from the Government of Canada, it evolved into a
3 surcharge provision in a rate?

4 MR. DALE HILDEBRAND: That's my understanding.

5 MR. BOB PETERS: And you tell this Board that
6 that surcharge -- going to that surcharge was a mistake by
7 the utility, if I understood your evidence?

8 MR. DALE HILDEBRAND: Correct.

9 MR. BOB PETERS: The -- you -- you would have
10 preferred this Board not approve that and keep the
11 Government, if they were contractually required to, to keep
12 paying capital contributions as necessary?

13 MR. DALE HILDEBRAND: Either option one (1),
14 keep paying the capital contributions up front, or option two
15 (2), create a surcharge, but make it distinct in that it is H
16 amount that's related solely to those capital contributions,
17 instead of blending it in with the tariff, so that it becomes
18 indistinguishable with all of the other costs of service.

19 MR. BOB PETERS: All right, I -- I thank you
20 for that clarification.

21

22 (BRIEF PAUSE)

23

24 MR. BOB PETERS: Just one (1) last area, Mr.
25 Hildebrand, in your direct evidence and through your oral

1 evidence today -- sorry, through your direct evidence today
2 and your pre-filed evidence, you wanted the Board to
3 understand that your evidence was premised on the assumption
4 that a regulated prospective cost of service study would be
5 the right model to follow; have I got that right?

6 MR. DALE HILDEBRAND: Yes, sir.

7 MR. BOB PETERS: And you also advised the
8 Board that if for any reason there was a contractual
9 regulatory model that was more appropriate, or was in fact to
10 be the case, the way this area was to be regulated in its
11 rates, you might have a different comment; is that also
12 correct?

13 MR. DALE HILDEBRAND: Correct.

14 MR. BOB PETERS: Can you briefly explain in --
15 in light of what your recommendations have been to this
16 Board, how if at all they would change, if the Board
17 determined that the appropriate model was the contractual
18 regulatory model, such that there was a contractual
19 relationship between Hydro and the Government of Canada?

20 MR. DALE HILDEBRAND: Under a contractual
21 regulatory model, as I understand it and define it, you have
22 a situation where a customer requests service from a utility
23 that is outside of their regulated service, either outside
24 their service area, or within a customer's own land or
25 facilities.

1 don't think Mr. Williams asked you the question but can I
2 take from your answers, sir, that when -- when you look at
3 the proposal or the scenarios put forward by CAC/MSOS, your
4 primary objecti -- objection to them is that they contain a
5 differential rate to the -- to the Government's which would,
6 in essence, include the surcharge and that's the part you
7 find objectionable?

8 MR. DALE HILDEBRAND: I'm sorry, can you just
9 take me to their proposal or --

10 MR. BOB PETERS: I have a copy of CAC/MSOS
11 Exhibit 6 in front of me filed January 7th and it was one
12 where there were five (5) scenarios, I believe, and, or --

13 THE CHAIRMAN: Actually three (3) were filed,
14 Mr. Peters.

15 MR. BOB PETERS: And only three (3) of them
16 were reviewed.

17 MR. DALE HILDEBRAND: Thank you, Mr. Peters.

18 MR. BOB PETERS: Correct.

19 MR. DALE HILDEBRAND: Thank you, sir, I have
20 that now.

21

22 CONTINUED BY MR. BOB PETERS:

23 MR. BOB PETERS: And I didn't want to walk
24 you through it and I don't plan to but is your primary
25 objection to these scenarios, the fact that they contain what

1 amount to surcharge rates, for at least, some customer
2 classes?

3 MR. DALE HILDEBRAND: The -- the concern I
4 would have with this tariff design proposal is similar to the
5 concerns I have with the applicant's proposal and that is, if
6 you continue to charge three dollars (\$3) or four hundred --
7 or four dollars and eighty-seven cents (\$4.87) per kilowatt
8 hour to those certain government accounts, it's very likely
9 that the Government may, you know, reduce consumption or
10 cancel the account.

11 And if then you have fewer billing
12 determinants and it now becomes five dollars (\$5) or six
13 dollars (\$6). I mean, at some point I'm not sure it's
14 sustainable.

15 But if you could get the Government to agree
16 that they will pay those then this proposal could work. If
17 you're also going to apply the three (3) or four dollar (\$4)
18 per kilowatt charge to First Nation customers who may not
19 have the funding to pay that very high rate, then the death-
20 spiral will happen there as well and those accounts will just
21 simply be closed, like recreation facilities or Band Offices
22 or whatever or the account just simply won't be paid.

23 I mean, it's -- I'm not sure it's a long-term,
24 tenable solution.

25 MR. BOB PETERS: All right. Mr. Chairman,

1 Board Members, I'd like to thank, Mr. Hildebrand. I believe
2 those conclude my questions.

3 THE CHAIRMAN: Thank you very much, Mr.
4 Peters. Mr. Anderson, do you have any redirect for Mr.
5 Hildebrand?

6 MR. MICHAEL ANDERSON: I do, Mr. Chair.

7

8 (BRIEF PAUSE)

9

10 MR. MICHAEL ANDERSON: I have one (1) item of
11 re-direct that I'd like to clear up.

12 THE CHAIRMAN: Please proceed.

13

14 RE-DIRECT-EXAMINATION BY MR. MICHAEL ANDERSON:

15 MR. MICHAEL ANDERSON: And it's with respect
16 to CAC/MSOS Exhibit 9, illustrative purposes, Mr. Williams --
17 one (1) of them -- one (1) of many of Mr. Williams'
18 scenarios.

19 But, there is a continuation of it I would
20 like to try to pursue. It's the one that says -- says
21 residential rates and then typical residential bills
22 underneath it.

23

24 (BRIEF PAUSE)

25

1 MR. MICHAEL ANDERSON: Everyone?

2 THE CHAIRMAN: We have it.

3

4 CONTINUED BY MR. MICHAEL ANDERSON:

5 MR. MICHAEL ANDERSON: Mr. Hildebrand, further
6 to Mr. Williams' discussion regarding this Exhibit CAC/MSOS
7 9, and to this hypothetical example, if we go to the bottom
8 part of the Exhibit, there typical residential bills, Mr.
9 Williams analysis ends at the fifteen hundred (1500) kilowatt
10 hour per month step, is that correct?

11 MR. DALE HILDEBRAND: Correct.

12 MR. MICHAEL ANDERSON: And if we add an
13 additional step, a two hundred (200) kilowatt hour step --
14 two (2) -- thank you -- a two thousand (2000) kilowatt hour
15 step underneath the column usage per month, beneath the
16 existing fifteen hundred (1500) kilowatt hour step, the
17 corresponding value for ATCO, would be two hundred and
18 thirteen dollars and thirty cents (\$213.30)?

19 MR. DALE HILDEBRAND: Correct.

20 MR. MICHAEL ANDERSON: The corresponding value
21 for the Manitoba Hydro proposal column would be four hundred
22 and eighty dollars and twenty four cents (\$480.24)?

23 MR. DALE HILDEBRAND: Correct.

24 MR. MICHAEL ANDERSON: And the corresponding
25 value for the MKO proposal would be two hundred and forty

1 nine dollars and five cents (\$249.05)?

2 MR. DALE HILDEBRAND: Correct.

3 MR. MICHAEL ANDERSON: Thank you.

4 MR. DALE HILDEBRAND: And for the -- I'll just
5 give you the numbers for the twenty five hundred (2500)
6 kilowatt block as well --

7 MR. MICHAEL ANDERSON: Thank you, sure.

8 MR. DALE HILDEBRAND: For ATCO, two sixty,
9 ninety cents (\$260.90), for Manitoba Hydro, eight hundred
10 seventy five dollars and seventy four cents (\$875.74), and
11 for MKO, three hundred and seventy four dollars and five
12 cents (\$374.05).

13

14

(BRIEF PAUSE)

15

16 THE CHAIRMAN: Is that all the redirect you
17 have, Mr. Anderson?

18 MR. MICHAEL ANDERSON: It is, Mr. Chair, thank
19 you.

20

21 THE CHAIRMAN: Then Mr. Hildebrand, I want to
22 thank you on behalf of the Board for coming forth and giving
23 us your advice with respect to the Application, we have under
24 consideration.

24

25 And I trust, sir, that you have your -- made
your arrangements to fly home and if not, I may be able to

1 find an extra bedroom somewhere to -- to put you overnight.
2 But, I want to sincerely thank you for being here. Thank
3 you.

4 MR. DALE HILDEBRAND: Your welcome, sir. I
5 must -- I'd like to convey that I have very much enjoyed
6 coming here and working on this proceeding. It's a very
7 unique situation and I have found the hospitality of everyone
8 in the room to be top-drawer. I appreciate that.

9

10 (WITNESS STANDS DOWN)

11

12 THE CHAIRMAN: Thank you. Just before I
13 conclude today, Ms. Ramage or Mr. Bedford, we have a number
14 of undertakings that are still outstanding, could you give me
15 an indication when they will be supplied and distributed to
16 parties?

17 MS. PATTI RAMAGE: Well, two (2) of them will
18 be supplied, two (2) of them I have in my hand right now, I
19 will distribute them right of way -- right away.

20 One (1) deals with the billing practice with
21 respect to residential accounts assigned to the Band Office
22 of Social Assistance accounts that was dealt this morning,
23 and I won't have a transcript reference, obviously.

24 The other is -- we have reproduced Manitoba
25 Hydro's customer service policy with respect to diesel

1 accounts. And -- and in this regard, I'd also like to thank
2 the Board's offices themselves, because at some point this
3 afternoon, our photocopier went by that door, and the Board's
4 office has given me access to theirs.

5 THE CHAIRMAN: Thank you, for that, Ms.
6 Ramage. I'll be sure to pass that on to staff, in your
7 normal course of events, I just want to indicate that you'll
8 likely be paying for it any event.

9 MS. PATTI RAMAGE: That's why I didn't feel
10 too bad. Having said that, to answer the other part of your
11 question, and Ms. Harms is -- is distributing those
12 undertakings I just referred to, so that everyone can have a
13 look before we have them -- request they be made exhibits.

14 The balance of questions will -- hopefully
15 we'll be in a position to distribute early -- I'm hoping -- I
16 guess it's as soon as we can do it.

17

18 (BRIEF PAUSE)

19

20 THE CHAIRMAN: Ms. Ramage, may I suggest that
21 we receive the undertaking with respect to billing practices,
22 as Manitoba Hydro Exhibit number 21.

23

24 --- EXHIBIT NO. MH-21: Billing Practices with Respect to
25 Residential Accounts

1 THE CHAIRMAN: And with respect to the next
2 undertaking, this five (5) electricity service in the diesel
3 communities, we'll receive as Exhibit number 22.

4 MS. PATTI RAMAGE: Thank you, Mr. Chair.

5
6 --- EXHIBIT NO. MH-22: Customer Service Policy Re:
7 Diesel

8
9 THE CHAIRMAN: Ms. Ramage, when the other
10 undertakings have been prepared, you can either distribute
11 them directly to those of record in this Proceeding, and it
12 would be convenient if you could do that before we reconvene
13 on the 22nd?

14 MS. PATTI RAMAGE: That's certainly our hope.

15 THE CHAIRMAN: And if there are any questions
16 of clarification with respect to those undertakings, I would
17 ask to have your Panel made available to us at 11:00 a.m., so
18 that that could be dealt with right away, reasonably quickly,
19 and then they can be discharged or re -- and you can have
20 your re-direct and then discharged.

21 MS. PATTI RAMAGE: Certainly.

22 THE CHAIRMAN: Thank you, then with that then,
23 ladies and gentlemen, it's five (5) to 5:00. I just --
24 there'll be some people that probably won't be with us on the
25 22nd, but I did want to sincerely thank the translators, Ms.

1 Jawbone, Philip Michael, and Glen Ranville (phonetic) of
2 Veto's (phonetic) Production, for their support and
3 assistance during this particular Hearing, that is very much
4 appreciated.

5 To others in the room I expect I will be
6 seeing you on the 22nd and following that, I can give out my
7 usual thanks at that particular point in time. In the
8 meantime, I trust all of you have a nice weekend, and those
9 of you who are flying, I hope you have good flights. And to
10 the Vice-Chair, I hope he gets home sometime tonight.

11 MR. MICHAEL ANDERSON: Thank you, Mr. Chair.

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13 --- Upon adjourning at 4:55 p.m.

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15 Certified Correct

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Carol Geehan

22 Court Reporter

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