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2 MANITOBA PUBLIC UTILITIES BOARD
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6 Re: MANITOBA HYDRO
7 2004 GENERAL RATE APPLICATION
89
10 Before Board Panel:11 Graham Lane - Board Chairman
12 Len Evans - Board Member
13 Robert Mayer - Board Member
1415
16
17 HELD AT:18 Public Utilities Board
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25

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1 --- Upon commencing at 9:08 a.m.

2

3 THE CHAIRPERSON: Good morning, everyone.
4 We're returning to our -- our regular schedule, so to speak,
5 now. We're going to be back to the Panel of Cost of Service.
6 And first up is CCEP, and, Mr. Feldschmid, if you want to
7 begin?

8 MR. JURGEN FELDSCHMID: Thank you, Mr. Chair.
9 I expect I'll be directing the majority, if not all of my
10 questions to Mr. Wiens, so the rest of you can relax.

11 MR. ROBERT MAYER: You're not that scary.

12

13 CROSS-EXAMINATION BY MR. JURGEN FELDSCHMID:

14 MR. JURGEN FELDSCHMID: Mr. Wiens, let me just
15 sort of set the groundwork of where I want to go with this.
16 Obviously, sort of officially before the Board in this
17 Proceeding, Manitoba Hydro has one (1) Prospective Cost of
18 Service Study that it is pro -- that it's not promoting, but
19 it's sort of indicating should be the basis to attribute
20 costs and rates among the various classes, correct?

21 MR. ROBIN WIENS: We filed a Cost of Service
22 Study as part of our Application, but it was also in response
23 to certain directives in Order 7/03.

24 MR. JURGEN FELDSCHMID: I guess -- I guess
25 what I'm getting at is there are -- there's the NERA Study,

1 and there are other indications from Manitoba Hydro, some of
2 the other parties, about some ideas as to how to improve cost
3 of service.

4 But those are really you know, some ideas
5 about improving it, you know sort of for the record, fo this
6 round, there is one (1) cost of service approach that
7 Manitoba Hydro is suggesting its Cost of Service '04,
8 incorporating some of the directions from the PUB previously;
9 is that correct?

10 MR. ROBIN WIENS: That is correct. I mean, we
11 -- we have said that we do have some reservations about the
12 results of that Cost of Service Study, but that is indeed the
13 study that we've filed in support of this Application.

14 MR. JURGEN FELDSCHMID: And in -- in the -- in
15 amongst the other scenarios or other approaches that are
16 being suggested by Hydro in -- in the NERA -- NERA Report and
17 elsewhere, there are variations in terms of results; is that
18 correct?

19 MR. ROBIN WIENS: Yes.

20 MR. JURGEN FELDSCHMID: And what I'm going to
21 suggest to you is that if it's the case that you have -- well
22 let me back up for a second.

23 We've heard a lot and -- and it seems to me
24 for certainly in -- in '02, for the Status Update, we heard a
25 lot from the large class of -- of industrial customers, that

1 they over-contribute in relation to their costs; is that
2 correct?

3 MR. ROBIN WIENS: They have said that a few
4 times, yes.

5 MR. JURGEN FELDSCHMID: Well, would you agree
6 with me that there are a number of methodological changes
7 that are proposed, or that are within the material, that
8 suggest that perhaps they're not truly over contributing,
9 that in fact, it - it may be just a weakness or an -- or
10 something that ought to be modified in terms of the costs of
11 service. That -- that makes it look as if they're over-
12 contributing but in fact they're really not; is that correct?

13 MR. ROBIN WIENS: No, I wouldn't say that. I
14 mean, depending on your perspective, their -- their revenue
15 cost coverage might differ from what was shown in the 2004
16 Perspective Cost of Service Study.

17 But it -- it -- the variation tends to be
18 above 100 percent. So, I'll -- I -- I wouldn't say that
19 they're entirely wrong. My -- my instinct is that they -- my
20 instinct is that they -- that they may be over-stating the
21 case but it's not that they're wrong.

22 MR. JURGEN FELDSCHMID: And I guess, in -- in
23 particular, when I -- when I say that there are methodologies
24 that show that perhaps they're not over-contributing, some of
25 those methodologies may not get them to 100 percent or unity,

1 but they -- they get them close to or within this them close
2 to or within the ZOR, potentially, correct?

3 MR. ROBIN WIENS: Possibly.

4 MR. JURGEN FELDSCHMID: But if there was a --
5 a class of customers that, looking at a bunch or -- or
6 looking at the range of reasonable modifications that might
7 be made to the cost that consistently that class shows to be
8 outside the zone of reasonableness.

9 Would you not agree that, that then lends
10 itself to the suggestion that perhaps that it's not a
11 methodological problem? We have a class here that is truly
12 over-contributing?

13 MR. ROBIN WIENS: I -- I would tend to agree
14 with that, yes.

15 MR. JURGEN FELDSCHMID: And I -- I make -- I
16 was going to make this analogy. I was -- I was set on making
17 this analogy prior to the results last night in the election.
18 But -- but maybe I'll go for it anyway.

19 It -- it's similar to a -- to -- to polls
20 before an election. If you have one (1) poll that shows a
21 particular result, you might say, well, maybe the range of
22 error is too big or maybe it's that twentieth time from the
23 nineteen (19) times out of twenty (20) that this pole is
24 wrong.

25 But, if you have a series of polls showing

1 roughly the same results, that -- that reinforces you
2 confidence that, that in fact might be the -- the result in
3 the end, correct?

4 MR. ROBIN WIENS: Well, Mr. Diefenbaker, I
5 think was the one (1) who said the only poll that counts is
6 the last one (1), and I think this time he was right.

7 MR. JURGEN FELDSCHMID: But getting back to
8 costs -- getting back to Costs of Service Study. I knew I
9 should have jettisoned that analogy after last night but
10 anyway.

11 But, getting back to Cost of Service Study
12 rather than polls prior to elections. If you had a number of
13 results -- looking at a range of -- of reasonable
14 modifications to cost of service, and they all tend to show a
15 particular class is either above or below, that would lend
16 greater confidence to you that, that class is in fact over or
17 under contributing in reality, correct?

18 MR. ROBIN WIENS: I think that's what we said
19 two (2) years ago at the Status Update Proceeding.

20 MR. JURGEN FELDSCHMID: I'm not sure
21 specifically at what point you said that, but certainly, it
22 certainly -- it rings a bell. It seems reasonable to -- to
23 me and I'm take it that you indicate -- you -- you're
24 comfortable to say that, that is reasonable?

25 MR. ROBIN WIENS: Yes, I am.

1 MR. JURGEN FELDSCHMID: Switching gears
2 slightly from that -- that sort of opening. I'm wondering if
3 you could -- first of all, I'll direct you to CCEP-MH-II-2A,
4 please.

5

6

(BRIEF PAUSE)

7

8 MR. BOB PETERS: Mr. Feldschmid, for those of
9 us across the room, could you just give me the binder
10 reference again?

11 MR. JURGEN FELDSCHMID: Yes, that's in Volume
12 XV.

13

14

(BRIEF PAUSE)

15

16 Maybe to assist everybody in the room, the
17 majority of what I'm going to be referring to I guess, will
18 be in Board Counsel's Book of Documents from -- from a couple
19 weeks ago, and the volumes that contain the CCEP IRs, which
20 is Volume XV, for the second round IRs and Volume -- Volume
21 VI for the first round IRs.

22

23

So, if you can all have that handy, it'll probably help.

24

25

But getting back to CCEP-MH-II-2A and B, Mr. Wiens, do you have it before you?

1 MR. ROBIN WIENS: Yeah.

2 MR. JURGEN FELDSCHMID: And what I was trying
3 to get at in -- in that question, and I'll -- and I'll come
4 back to it again now is, as you will recall, in -- in '02 for
5 the Status Update Cost of Service -- the Cost of Service
6 Study for 2002, initially Hydro had come forward with a
7 marginal cost base methodology for dealing with generation
8 cost, and then classified transmission to 100 percent demand;
9 is that correct?

10 MR. ROBIN WIENS: It is.

11 MR. JURGEN FELDSCHMID: And that became
12 problematic, because the information related to marginal cost
13 was commercial -- commercially sensitive and could not be
14 reviewed by the other parties in -- in an open forum; is that
15 correct?

16 MR. ROBIN WIENS: Well, the information we
17 presented obviously was not. But the information that the --
18 the parties -- and I think reasonably believe was required to
19 support it, we -- we did have some concerns with making that
20 public, yeah.

21 MR. JURGEN FELDSCHMID: And so then the matter
22 was resolved by somewhat of a compromise by introducing the
23 Cost of Service Study that was presented on March 27, 2002,
24 which had a -- a method of dealing with generation and
25 transmission costs, which I attempt to -- or CCEP attempts to

1 summarize at number 2(b) of that IR, and it's indicated as
2 confirmed.

3 So, we -- we presume we got it essentially
4 correct, and perhaps if -- could you just summarize what that
5 is in -- you know, thirty (30) words or less, in terms of how
6 that cost is handled?

7 MR. ROBIN WIENS: Yes, essentially what --
8 what it works out being is that we combine generation and
9 transmission costs and classify the sum total on the basis of
10 system load factor.

11 And I mean, if you want to go through the
12 other part of the calculation where we then set the -- the
13 transmission cost that's wholly classified to demand, the --
14 the remaining cost -- the remaining demand cost is assigned
15 to generation and the rest is energy.

16 MR. JURGEN FELDSCHMID: Right. And I'm going
17 to preface my next question by saying it -- using system load
18 factor to classify generation costs to demand versus energy,
19 or transmission costs to demand versus energy, independently
20 of each other or for that matter, using marginal costs for
21 generation, I -- I would suggest has some intuitive logic to
22 it. I'm just wondering, what is the intuitive logic, or
23 theory behind this particular calculation, because it seems a
24 bit odd.

25 MR. ROBIN WIENS: Well, it's simply what we

1 did in the Cost of Service Study -- what Manitoba Hydro did
2 in its Cost of Service Study for many years prior to 2002.
3 And when we determined that we were unable to support what --
4 what we thought was at least the conceptually superior
5 approach to the generation classification, based on marginal
6 cost, we simply reverted to what we had been doing for the
7 past ten (10) years.

8 MR. JURGEN FELDSCHMID: But prior to 2002, it
9 was my understanding, and I might have this wrong, in which
10 case it's a good opportunity for you to clarify it -- my
11 understanding was that system load factor was used to
12 classify both generation and transmission, between energy and
13 demand. That demand was not classified 100 percent -- or
14 sorry, transmission was not classified 100 percent demand,
15 prior to 2002; is that correct?

16 MR. ROBIN WIENS: That is correct, but the end
17 result was the same.

18 MR. JURGEN FELDSCHMID: Can you explain how --
19 how that is, in terms of the end result being the same?

20 MR. ROBIN WIENS: Because the -- the initial
21 -- the initial classification in both cases is to combine
22 generation and transmission, and apply the system load
23 factor.

24 And nothing that is done thereafter to
25 accommodate the 100 percent demand classification of

1 transmission changes the fact that generation and
2 transmission combined are classified on the basis of system
3 load factor; were prior to 2002 and were in the March 27th
4 variation or revision that we did in 2002.

5 MR. JURGEN FELDSCHMID: But there's -- are
6 you saying then that there is no impact on the result by
7 doing the calculation that was done in March of 2002 versus
8 just a simple application of system load factor to both
9 generation and transmission as we done prior to that?

10 MR. ROBIN WIENS: That is what I'm saying.

11 MR. JURGEN FELDSCHMID: Thank you. If I can
12 refer you to the Book of Documents provided by Mr. Peters at
13 Tab 32 please. And this is a copy of the TREE RCM IR MH-II-
14 13 and as I understand it, Mr. Wiens, this is a recalculation
15 of the summary of the revenue cost coverage analysis
16 implementing the preferred alternatives recommended in the
17 NERA study; is that correct?

18 MR. ROBIN WIENS: It is.

19 MR. JURGEN FELDSCHMID: I'm wondering at the
20 same time if I could refer you to PUB -- this is actually not
21 one of the volumes I mentioned at the beginning but it's PUB-
22 II-3(a) I believe? It's in Volume XIII. Do you have it
23 before you, sir?

24 MR. ROBIN WIENS: I do.

25 MR. JURGEN FELDSCHMID: I'm just wondering --

1 I wasn't entirely clear but perhaps it's obvious in the raw
2 there, but could you just run through which of these
3 recommendations that are set out in the PUB IR that are
4 incorporated in the TREE IR?

5 MR. ROBIN WIENS: Recommendation number 1,
6 recommendation number 2, recommendation number 3,
7 recommendation number 4, recommendation number 5,
8 recommendation number 6, recommendation number 7,
9 recommendation number 8, recommendation number 9,
10 recommendation number 10 and recommendation number 11. In
11 fact, they all are.

12 MR. JURGEN FELDSCHMID: They all are. Thank
13 you. And you'll agree with -- focus -- focusing on general
14 service small demand and non-demand, the RCC results are
15 108.1 percent and 110.2 percent respectively; is that
16 correct?

17 MR. ROBIN WIENS: Yes.

18 MR. JURGEN FELDSCHMID: And you'll agree with
19 me that this is an example of here's an incorporation of --
20 the reasonable modifications that might be made to the cost
21 of service study and the result is that these two (2) sub-
22 classes are, in fact, further outside the zone of
23 reasonableness than they were before, correct?

24 MR. ROBIN WIENS: I think that's correct,
25 yes.

1 MR. JURGEN FELDSCHMID: And just for
2 comparison, if you flip back to Tab 30 of Mr. Peter's book of
3 documents, that's the original revenue cost coverage summary
4 out of Schedule A1 from the Cost of Service; do you recognize
5 that, sir.

6 MR. ROBIN WIENS: Yeah.

7 MR. JURGEN FELDSCHMID: And there, general
8 service small non-demand is just at the very tip top of the
9 zone of reasonableness at 104.9 percent, correct?

10 MR. ROBIN WIENS: Yes.

11 MR. JURGEN FELDSCHMID: And general service
12 small demand is 109.7 percent, significantly outside of --
13 that is to say above zero (0), correct?

14 MR. ROBIN WIENS: Yes.

15 MR. JURGEN FELDSCHMID: And then just to
16 recapitulate, perhaps, slightly repetitious, but if we were
17 to incorporate the NERA recommendations, which I would
18 characterize as a -- a set of reasonable modifications that
19 might be made, certainly Hydro's on record that they
20 generally agree with what NERA is suggesting.

21 If those were all incorporated, general
22 service small, both demand and non demand are -- are further
23 out of ZOR, correct?

24 MR. ROBIN WIENS: Yes.

25 MR. JURGEN FELDSCHMID: And then is this not

1 an example, as -- as well; you have your current method
2 showing general service small demand or non-demand are either
3 barely in ZOR in the case of non demand, I believe, and
4 significantly outside for demand. And then you -- you'd make
5 some reasonable modifications that we have reason to believe
6 are going to be an improvement on cost of service, and
7 they're even further out.

8 Does this not tend to reinforce the suggestion
9 that this is not just a methodological issue, that we have a
10 class here that is clearly and consistently outside the zone
11 of reasonableness?

12 MR. ROBIN WIENS: We have a class here that I
13 could say under most -- most reasonable approaches to
14 allocating cost of service is above 100 percent. And the
15 number of reasonable modifications would show that it's above
16 105 percent.

17
18
19

(BRIEF PAUSE)

20 MR. JURGEN FELDSCHMID: Comparing the NERA
21 recommendation summary at Tab 32, versus the original summary
22 at Tab 30, I notice that the total costs and total revenue in
23 the NERA recommendation version, are about -- I'm not sure if
24 that's million or billion, I guess it's billion, 1.39
25 billion, whereas in the original it's 1.29 billion, or

1 thereabouts.

2 I would have thought that this would be
3 revenue neutral in terms of this calculation. Why are the
4 totals different?

5 MR. CHIC THOMAS: The reason for that is the
6 export class of service that we implemented, as you'll recall
7 in the PCOSS-04 that we submitted, all we do is we subtract
8 the variable portion from exports, by adding the export class
9 as a class of service. All those variable costs and fixed
10 costs remain in the generation function.

11 So, there's no deduction in the generation
12 function for the variable cost of the export sales.

13 MR. JURGEN FELDSCHMID: Okay, thank you for
14 that.

15 I'd like to turn to the issue of uniform rates
16 for a second, and it's impact on general service small.
17 We've heard a lot from CAC in this Proceeding, and the prior
18 proceeding in which I was involved, about the issue of
19 uniform rates and how it's affected the residential class.

20 But uniform rates also -- there were
21 previously three (3) zones for general service small or in
22 fact general service medium, prior to uniform rate
23 implementation. Is that correct, Mr. Wiens?

24 MR. ROBIN WIENS: Yes, it is.

25 MR. JURGEN FELDSCHMID: And as much to refresh

1 me as anything else, the uniform rates were implemented
2 precisely when?

3 MR. ROBIN WIENS: November the 1st, 2001.

4 MR. JURGEN FELDSCHMID: And in a nutshell, the
5 -- the policy thrust of uniform rates was to make sure that
6 -- first of all, there are -- there are three (3) zones. The
7 first zone being the densest zone, mostly in urban zone,
8 second -- Zone 2, being more rural, less dense, therefore
9 greater costs in terms of distribution, particularly in
10 serving those people. And then three (3) would be the most
11 disbursed, again, greater costs in terms of disposition --
12 distribution to serve those people as well, correct? Is that
13 correct?

14 MR. ROBIN WIENS: That's generally correct.
15 Zone 1 actually was defined by the boundary of the City of
16 Winnipeg. Zone 2 was defined as those areas outside the City
17 of Winnipeg which had a line -- more than a hundred (100) --
18 more than a hundred (100) services and a line density of at
19 least fifteen (15) services per kilometre. And Zone 3 was
20 everything else.

21 So it -- what it meant in practice. Zone 1
22 was Winnipeg. Zone 2, cities, towns, and some villages. And
23 Zone 3 was the rest.

24 MR. JURGEN FELDSCHMID: Thank you. And then
25 uniform rates that essentially legislated that people in Zone

1 2 and Zone 3 would pay the same as people in Zone 1.
2 Correct?

3 MR. ROBIN WIENS: Yes.

4 MR. JURGEN FELDSCHMID: And Mr. Wiens, have
5 you had an opportunity to review the evidence of Mr. Harper
6 on behalf of the CAC?

7 MR. ROBIN WIENS: Yes.

8 MR. JURGEN FELDSCHMID: I'm wondering if you
9 could pull out his pre-filed evidence. Particularly at page
10 49 though 51.

11

12

13

(BRIEF PAUSE)

14

15 MR. ROBIN WIENS: I have page 49 here.

16 MR. JURGEN FELDSCHMID: Thank you. And
17 starting at line 12. I'll just read a little section out of
18 it. It says,

19

20

21

22

23

"In the context of uniform rates, simple
use of the RCC's by customer class to test
the reasonableness of the residential
consumer class as revenues will lead to the
perverse results ..."

24

Sorry.

25

"... will lead to perverse results in that

1 simply moving the overall class RCC up to
2 within the ZOR could lead to RCC's for Zone
3 1 and Zone 2 customers in excess of 100
4 percent.

5 And (B), moving the RCC for residential
6 class to 100 percent could lead to RCC's
7 for Zone 1 and Zone 2 customers in excess
8 of 105 percent."

9 Now, after my sobbing subsided and I dried my
10 -- my eyes with kleenex, I realize that looking for instance
11 -- let me see if I can find a good document for us to look
12 at.

13
14 At Tab 34 of Mr. Peters' Book of Documents,
15 PUB/MH-I-38-), you'll notice that in Zone 1 and Zone 2 for
16 general service, small non-demand and demand. We have really
17 the cost ratios that are by and large above ten (10) and in
18 some cases significant -- sorry, one hundred and ten (110)
19 and in some cases significantly above one hundred and ten
20 (110). Is that correct?

21 MR. ROBIN WIENS: Yes.

22 MR. JURGEN FELDSCHMID: So, in other words,
23 what Mr. Harper so -- with such great concern talks about is
24 a possibility for Zone 1 and Zone 2 customers on the
25 residential side is already happening and has been happening

1 for a number of years, for general service small customers.

2 Is that correct?

3 MR. ROBIN WIENS: Yes.

4 MR. JURGEN FELDSCHMID: In fact, it's even
5 worse because they're talking about, you know, perhaps being
6 above one hundred (100) or perhaps being somewhere around the
7 top of ZOR or one hundred and six (106), something like that.
8 And we've got people here at one fifteen (115), one seventeen
9 (117), one twelve (112), et cetera.

10 MR. ROBIN WIENS: Yes, this is true.

11 MR. JURGEN FELDSCHMID: I'm wondering, and
12 this may be something that you can't just -- you might -- you
13 might have to take this as undertaking. But roughly how many
14 general service small customers are in Zone 1 and Zone 2 in
15 -- in total? If you need to get back to me on that, that's
16 fine.

17 MR. ROBIN WIENS: I can't give you that right
18 away, but it won't take us very long to get it.

19 MR. JURGEN FELDSCHMID: If you could.

20

21 --- UNDERTAKING NO. 42: Response to how many General
22 Service Small Customers are in
23 Zone 1 and Zone 2.

24

25 MR. JURGEN FELDSCHMID: I just want the Board

1 to be clear on -- on how many Manitobans are in fact paying
2 significantly above what it is to -- what it costs to serve
3 them.

4 MR. ROBIN WIENS: The numbers we have for
5 actual in the year 2003/2004, general service small non-
6 demand Zone 1, twenty-two thousand three hundred (22,300).
7 Zone 2, seventeen thousand two hundred (17,200). Zone 3,
8 thirteen thousand five hundred (13,500).

9 MR. JURGEN FELDSCHMID: That's for the entire
10 small class?

11 MR. ROBIN WIENS: Small, non-demand.

12 MR. JURGEN FELDSCHMID: The twenty-two
13 thousand (22,000) was Zone 1?

14 MR. ROBIN WIENS: Yes.

15 MR. JURGEN FELDSCHMID: And the seventeen (17)
16 was the Zone 2?

17 MR. ROBIN WIENS: Yes.

18 MR. JURGEN FELDSCHMID: So just maybe the best
19 way to handle it if I could just get an undertaking and have
20 that -- maybe just a little written chart from you later, but
21 just so we can get a sense of -- of the number of people
22 involved here, number of ratepayers involved here. Just
23 looking at -- was that non-demand you said?

24 MR. ROBIN WIENS: That was non-demand.

25 MR. JURGEN FELDSCHMID: So, just for -- on the

1 non demand side you've got about thirty-nine thousand
2 (39,000), almost forty thousand (40,000) customers in Zone 1
3 and Zone 2, contributing -- over contributing at the rate
4 indicated in the document at Tab 34, correct?

5 MR. ROBIN WIENS: The numbers are correct.

6 MR. JURGEN FELDSCHMID: Thank you.

7

8 (BRIEF PAUSE)

9

10 MR. JURGEN FELDSCHMID: I have to confess, my
11 -- my little sarcastic remark about dabbing tears, I thought
12 that would get a bigger laugh than -- I guess not. Some of
13 the Hydro Panel's laughing, but unfortunately not Mr. Wiens.

14

15 (BRIEF PAUSE)

16

17 MR. JURGEN FELDSCHMID: Mr. Wiens, I'd like to
18 turn over now the issue of looking at revenue to cost
19 coverage, both before and after the attribution of net export
20 revenue.

21

22 And it's -- is it fair to say, sir, that this
23 -- this approach, while perhaps not sort of part of the --
24 the firm methodology of the Cost of Service Study, it
25 certainly seems to be a mechanism that -- that your
department has some aspiration to kind of use as a check to

1 -- to see if what comes out of the Cost of Service Study,
2 after net revenues are added, to see if that in fact is
3 really reasonable?

4 MR. ROBIN WIENS: Well, I think if you have
5 any concerns about the attribution of the net export
6 revenues, it seems to me that one (1) easy check is to look
7 at what the revenue cost coverages were before that
8 attribution.

9 MR. JURGEN FELDSCHMID: And in fact, in the
10 initial application itself, prior to any probing or prodding
11 by the Board or any of the parties, Hydro itself volunteered
12 this analysis, as a sort of check on the overall voracity of
13 the approach, when at Table 10.2 on page 4 of Tab 10, Volume
14 I, you set out the RCCs prior to the inclusion of net export
15 revenue, correct?

16 MR. ROBIN WIENS: Well, in fact we've always
17 provided that information as part of the Cost of Service
18 Study. In this case we -- we decided to highlight it in the
19 -- in the text of the Application.

20 MR. JURGEN FELDSCHMID: And -- and I agree
21 with what you're saying, because for instance in the RCC
22 summary, as you go across that chart, there is a column where
23 you're looking at the RCCs prior to the adding of the net
24 revenue -- or net export revenue, correct?

25 MR. ROBIN WIENS: Yes.

1 MR. JURGEN FELDSCHMID: And that's been part
2 of the format for cost of -- cost of service presentation for
3 a number of years, as you've just said, correct?

4 MR. ROBIN WIENS: As long as I can remember.

5 MR. JURGEN FELDSCHMID: But this is the first
6 time that in your, you know, Volume I, general presentation
7 section, you've -- you've come up with a specific chart
8 saying, here are the RCCs and what they look like prior to
9 the adding of net revenue?

10 MR. ROBIN WIENS: That could be true.

11 MR. JURGEN FELDSCHMID: Is Tab 10 of Volume I,
12 I take it that's one (1) of the portions of Volume I, that
13 your department, in particular, has a significant role in
14 producing, correct?

15 MR. ROBIN WIENS: Yes.

16 MR. JURGEN FELDSCHMID: And at some point, did
17 you either on your own, or did someone come to you and say,
18 Mr. Wiens, should -- should we have a table that specifically
19 looks at RCCs prior to the inclusion of net export?

20 MR. ROBIN WIENS: I believe that I determined
21 that we should provide that information explicitly.

22 MR. JURGEN FELDSCHMID: And why did you make
23 that decision in this particular Application, I -- I don't
24 think you've provided it in 2002?

25 MR. ROBIN WIENS: Well, I -- I guess, Mr.

1 Feldschmid, I think you're familiar with some of the
2 discussions that -- that have gone on during 2002 and -- and
3 subsequently, when Manitoba Hydro made an Application to vary
4 the Orders that came out of the Status Update Proceeding.

5 And as I think you're aware, we had -- we had
6 expressed some concern about the methodology that has been
7 directed to us for the allocation of net export revenues.

8 And consequently, we made a determination that
9 if there was some readily available other benchmarks that we
10 could provide to assist the Board that we would do that. And
11 that was one (1) of the ones that was most readily available
12 to us.

13 MR. JURGEN FELDSCHMID: Is it fair to say that
14 you have significant confidence in this measure, that is
15 revenue to cost ratios prior to inclusion of net export as --
16 as a useful and -- and legitimate benchmark?

17 MR. ROBIN WIENS: Well, I think -- I think it
18 is a legitimate benchmark, it's not a definitive benchmark,
19 it is a legitimate benchmark, if you have some concern or --
20 or any issues with what's being displayed in the other
21 benchmarks.

22 If you were totally confident that what we
23 were doing in the final results of the Cost of Service Study,
24 were fairly and reasonably reflective of cost causation and
25 fair treatment of export revenues. Then we would not want to

1 give as much significance to other possible benchmarks. But
2 where we have some concerns, and we want to go through and
3 say, well, does this look reasonable relative to some
4 possible other standards.

5 I think it's reasonable to present those
6 possible other standards, and give people the opportunity to
7 review it and come to some conclusions themselves.

8 MR. JURGEN FELDSCHMID: You've -- you've
9 mentioned a couple times now that there -- you have
10 misgivings about what you've been -- directed to do in terms
11 of Cost of Service, and I think maybe it might be a good
12 point for me to give you an opportunity to maybe just run
13 down at least the highlights of what those are.

14 Obviously I think the treatment or the
15 crediting back -- how -- how you credit back, net export
16 revenue is -- is a big part of that. But perhaps I'll let
17 you just do that.

18 MR. ROBIN WIENS: Well, it -- it's simply
19 really that we are providing a significant weight to embedded
20 costs and the design of rates affecting all the ratepayers,
21 electric ratepayers of Manitoba.

22 And one (1) of the factors that has entered
23 into the determination and allocation of embedded costs is
24 the treatment of export revenues. Now, back in the 1970s and
25 the 1980s, most export sales were made on an opportunity

1 basis. In most cases the revenue received from those sales
2 was less than the embedded cost of -- of the generation to
3 domestic customers.

4 In that context it did not seem unreasonable
5 to -- to take a method which in effect, distributed those
6 revenues on the basis of -- on the same basis as we allocated
7 generation and transmission costs.

8 As we proceeded through into the 1990s, a
9 greater portion of the sales out of the surplus capability of
10 the system were being made on a firm basis. We had some
11 significant upward movement in the market, into which we were
12 making sales such that sometime around the mid 1990s, the --
13 certainly the firm prices, and in many cases, the opportunity
14 prices that were being received, were in excess of the
15 embedded costs of the generation and transmission resources,
16 that I think parties here have, and quite reasonably said,
17 make possible, the export sales.

18 We get to the prospective year of 2003/2004,
19 we're looking at a situation where some -- using the -- using
20 the -- the method by which we prepared and filed 2004
21 prospective Cost of Service Study, we were looking at
22 somewhere over \$400 million in net export revenues, being
23 attributed back against something less than \$900 million of
24 generation and transmission costs.

25 We've heard -- we've had some discussion in

1 these proceedings about some of the issues and problems of
2 trying to mix marginal costs with an embedded cost situation.
3 But the fact is, when you are attributing export revenues in
4 this way, you're already in the mixing marginal and embedded
5 costs. You're taking a low embedded cost and you're
6 assigning a high and growing marginal cost against that.

7 So, we said that you have got a situation
8 where you are earning, on the export sales, some substantial
9 economic rents relative to what was invested in those
10 facilities to begin with.

11 And now we're going to attribute those back to
12 the customer classes on the traditional basis which is
13 according to use.

14 And we believed, by about the mid-1990s,
15 specifically once we had completed the 1996/1997 rate
16 application, that what we were seeing was -- that this
17 methodology for applying or for allocating export -- net
18 export revenues back to customer classes was creating some
19 distortions. And they didn't seem reasonable to us.

20 And so when we came back before this Board in
21 2002, we proposed a method which, again, we never said was
22 optimal but -- but what we -- we argued at the time was that
23 it at least reduced those distortions at that time.

24 I don't think that what we proposed then was
25 the -- necessarily the be all and end all for the treatment

1 of export revenues but it -- it limited those distortions.
2 It spread the export revenue on a basis which was now
3 different than usage. It was on the basis of the overall
4 cost of the system.

5 MR. JURGEN FELDSCHMID: Would you say that --
6 so, clearly you feel that the crediting back of the net
7 exports is distorting the -- the cost of service study.
8 Correct?

9 MR. ROBIN WIENS: Well, you're crediting back
10 something that you're getting market value for which is in
11 excess of the embedded costs and it looks like that's going
12 to be -- I may be wrong, but it looks like that's going to be
13 more or less a long term fixture.

14 When you look at the alternative energy costs
15 that drive the price of electricity and the export markets
16 into which we're selling power, that that is a permanent
17 fixture that market prices are higher than embedded costs in
18 Manitoba.

19 And until we invest substantially in more
20 generation at today's costs, I think that that is a -- that
21 is a fixture that we're looking at -- that we're looking at
22 and that it's -- in that context it's no longer appropriate
23 to credit back net export revenues on the basis of -- of
24 class usage, or on the basis -- on the basis which is
25 effectively the same as the generation and transmission

1 embedded costs.

2 MR. JURGEN FELDSCHMID: Would you agree that
3 in a situation where you have -- at this point Hydro is
4 somewhat stuck with a mechanism within the cost of service
5 study that I'm speaking of, the crediting back of the net
6 export revenue -- stuck with something that Hydro believes is
7 distorting.

8 That the, sort of, double check of looking at
9 RCC's prior to net exports being credited back, becomes more
10 important as -- as a check to the overall cost of service
11 study.

12 MR. ROBIN WIENS: I think it's more important
13 now than say it was, ten (10), or twelve (12), or fifteen
14 (15) years ago.

15 MR. JURGEN FELDSCHMID: And -- looking, for
16 instance, at page 4, at tab 10, of Volume I.

17

18 (BRIEF PAUSE)

19

20 MR. ROBIN WIENS: Yes.

21 MR. JURGEN FELDSCHMID: You have a situation
22 where -- as -- as we -- well in fact you've got the two (2)
23 tables there. You've got the -- the after allocation of net
24 exports and the prior to allocation of net export. So, for
25 instance, looking at the proposed 2004 RCCs from the 2004

1 Prospective Cost of Service Study.

2 General service, small, non-demand is, as
3 we've indicated before, just slightly above -- or just
4 slightly within ZOR hundred and four point six (104.6),
5 demand is a hundred and nine (109), which indicates, well, it
6 could be argued that small non-demand is within ZOR, so
7 that's fairly close, so there's perhaps nothing wrong with
8 that. That would be one (1) interpretation, correct?

9 MR. ROBIN WIENS: Sure.

10 MR. JURGEN FELDSCHMID: And general service
11 small is a hundred and nine (109), it's outside ZOR, but you
12 know, perhaps it's not as -- as much outside as some of the
13 larger sub-classes in general service large, correct?

14 MR. ROBIN WIENS: Well, it's very definitely
15 outside the zone of reasonableness.

16 MR. JURGEN FELDSCHMID: But if we go down to
17 the bottom table, Table 10.2, and we look at the revenue to
18 cost coverage prior to net export credit, we see a situation
19 where general service small, non-demand and demand, is at
20 seventy-six point four (76.4) and seventy-four point eight
21 (74.8), and they are -- just looking quickly, I think they're
22 at least five (5) or 6 percent higher than any other class in
23 that -- in that column; is that correct?

24 MR. ROBIN WIENS: That does appear to be so.

25 MR. JURGEN FELDSCHMID: And would you agree

1 with me that this variation in the analysis after net
2 exports, versus before net exports, where non -- non-demand
3 at least looks like it's within ZOR, but then suddenly looks
4 like it's significantly over contributing prior to net
5 exports being added, and a similar situation could be said
6 for demand.

7 This is a reflection of the distortion that
8 you're talking about in the system. That if there wasn't
9 this distortion -- let me put it to you this way; if there
10 wasn't this distortion, you would expect the Cost of Service
11 -- sorry, the RCCs prior to export, to be similar in their
12 range to each other, to what they are after export.

13 But here, we see there's a significant
14 variation. Is this not a manifestation of the distortions
15 you're concerned about?

16 MR. ROBIN WIENS: Well, if -- if you were to
17 look back as I think we did in my direct evidence, if you
18 were to look back to the year 1992, where we already were
19 experiencing some considerable growth in export revenues, but
20 not to the degree that we experienced by the mid to late
21 1990s, you would see -- and I think if you refer back, you
22 will see it's in the transcript and the exhibit that we
23 produced with my direct evidence that in 1992, that the
24 revenue cost coverage after the application of net export
25 revenue, did -- did have some affect on -- the application of

1 analogous to each other, than for instance, the situation
2 with general service small; would you agree with that?

3 MR. ROBIN WIENS: I -- I'm not quite sure how
4 -- how you're casting this analogy, so I'd ask you to
5 rephrase the question --

6 MR. JURGEN FELDSCHMID: That's --

7 MR. ROBIN WIENS: -- and I hope --

8 MR. JURGEN FELDSCHMID: -- that's fine, let me
9 try --

10 MR. ROBIN WIENS: -- I'm going to understand
11 what you're getting to.

12 MR. JURGEN FELDSCHMID: -- let me try this
13 again.

14 When I look at these two (2) charts, I look at
15 general service small and I say, okay, with the net revenue
16 export there, non-demand is sort of barely in, demand is
17 significantly out. And then I look at -- I -- I look at --
18 without the net exports and I say, you know, seventy-six
19 point four (76.4) for non-demand, well it was kind of in ZOR
20 before, now it's the highest by far.

21 When I -- when I -- by comparison when I look
22 at residential, ninety-one point four (91.4). Okay, it's
23 almost 5 percent below ZOR. But then when I look at sixty-
24 five point two (65.2), I'm also saying, well that's also on
25 the low end of the RCC's but it's not the lowest. I think,

1 for instance, general service large, less than thirty (30) Kv
2 is -- is lower.

3 So, I -- I guess what I'm saying is, if the
4 distortion is, because we're crediting export revenue to
5 transmission and generation only, and so therefore for the
6 classes that have more sub -- sub -- transmission and
7 distribution and things like that, they're -- they're getting
8 less credit.

9 Why would we not see similar effect for
10 residential that we see for general service small?

11 MR. ROBIN WIENS: I'm going to try this Mr.
12 -- Mr. Feldschmid and I'm hoping it will answer your
13 question.

14 If you look at the sum of export -- net export
15 revenues that's allocated to the classes and you compare that
16 with the overall cost of the system that we allocate in the
17 cost of service study, you're going to see that the net
18 export revenue account for about one (1) third. So, that for
19 the classes overall, when you allocate that export revenue,
20 you're basically assigning 33 percent. You're -- you're
21 taking a factor of about 33 percent of the cost and adding it
22 to their revenue.

23 But that difference among the classes and
24 generally as you go down the chart, starting with residential
25 through general service small non-demand and onward that

1 percentage starts smaller, below average and rises.

2 I'm not going to remember the exact
3 percentages but for the residential classes, about 24
4 percent. For the very largest class, about 47 percent.

5 General service small non-demand is most like
6 the residential class in terms of the allocation of export
7 revenue. You have a large -- or fairly large component of
8 your total costs that is sub-transmission distribution
9 customer service, more similar to the residential class than
10 to the largest customers.

11 As you move up, general service small demand,
12 which you see has a lower revenue cost coverage before
13 attribution of export revenues than the non-demand group but
14 when you go up after the allocation, it has a higher revenue
15 cost coverage than the non-demand group. And that is because
16 a greater portion of its costs are off-set by export
17 revenues. Because it has a smaller portion of distribution
18 sub-transmission costs than the non-demand class.

19 Have I come close to -- to responding to your
20 question?

21 MR. JURGEN FELDSCHMID: I'm sort of caught
22 between trying to figure out all on the fly here and maybe
23 this is not a good idea but it -- it may be in fact that, you
24 know, the difference between ninety-one point (91.4) with net
25 exports versus sixty-five point two (65.2) without them, you

1 know, is the -- is the variation that you would expect with
2 that change.

3 The only thing that gives me pause on that is
4 that you've got general service large at thirty (30) Kv, or
5 less than thirty (30) Kv at 100 percent or 100.3 percent,
6 with the net exports. But then it goes down to sixty-three
7 point nine (63.9) and -- and is it not -- is not the case
8 that -- and I -- I understand what you're saying.

9 Theoretically you're -- you know, the -- when
10 you're crediting the net exports just against transmission
11 and generation for the smaller customers, they're going to
12 get less of the benefit. But I just don't understand -- I
13 guess it's particularly this -- this case of general service
14 large, less than thirty (30) Kv, that's sort of got me
15 pondering.

16 MR. ROBIN WIENS: Because it's the lowest RCC
17 prior to the allocation of export revenues and then it gets
18 up to 100 percent. But this is part of -- part of the same
19 -- same issue that I've been talking about.

20 Let -- let me try this. If you look at the --
21 we don't show it here, but I've shown it somewhere else in
22 the Application --

23 MR. JURGEN FELDSCHMID: Actually, if I can
24 just stop me there, because I think I may be able to help you
25 by referring you to CCEP/MH-I-1(a). If you're looking for a

1 percentage of credit of net export?

2 MR. ROBIN WIENS: Yes, I recall that. I
3 recall that.

4 MR. JURGEN FELDSCHMID: And it's got the
5 numbers there if that would help you?

6 MR. ROBIN WIENS: What -- what I'm going to
7 try to do here the -- the revenue cost coverage of all the
8 classes combined prior to the allocation of exports is, and I
9 think I'm recalling this accurately, is 67.7 percent.

10 MR. JURGEN FELDSCHMID: Yes.

11 MR. ROBIN WIENS: It's 67.7 percent. So, if
12 you took the residential revenue cost coverage prior to
13 allocation of export revenues, it's 65.2 percent. And you
14 translated that to a base of one hundred (100) so that the
15 sixty-seven point seven (67.7) was set at a hundred, then the
16 revenue cost coverage of the residential class would be 96
17 percent.

18 But because they get a lower than average
19 allocation of export revenues once you allocate the export
20 revenues to them they drop from ninety-six (96) to 91
21 percent. Similarly, the general service small non-demand
22 76.4 percent if we translate that to a base of 100 percent
23 we're at 113 percent.

24 But again, because it's a smaller than average
25 proportion of export revenues when you get to the final

1 number it's 105 percent. So, the -- the small demand, 74.8
2 over six (6) -- seventy-seven (77), that's 110 percent. Now,
3 we're getting pretty close to them having about an average
4 allocation of export revenues.

5 So, at 110 percent becomes 109 percent after
6 the allocation of export revenue. Now, we've got to the
7 cross-over point in terms of the percentage of export
8 revenues that's allocated.

9 With general service medium, they're at 102
10 percent prior to allocation of export revenue once you
11 translate to a base of a hundred. They're at 104 percent
12 after. So, do you see the pattern now.

13 MR. JURGEN FELDSCHMID: Yeah. In fact, it
14 might be useful if we could have an undertaking to, sort of,
15 do a little chart replicating what you were just, sort of,
16 doing on the fly there in terms of translating that up to an
17 equivalent base one hundred (100).

18 MR. ROBIN WIENS: We will undertake to do
19 that for all -- for all the classes that appear on page 4 of
20 Tab 10 of Volume I.

21
22 --- UNDERTAKING NO. 43: Provide a chart translating the
23 figures on page 4 of Tab 10,
24 Volume I up to an equivalent base
25 one-hundred (100).

1 MR. JURGEN FELDSCHMID: Yes, thank you, that
2 would -- that would be very helpful. Thank you.

3 But subject to getting that undertaking, it
4 seems to me that one of the things that can be taken from all
5 of the discussion we've just had, Mr. Wiens, is that when you
6 see a class like general service small demand and non-demand
7 and there are RCC's prior to allocation of net export revenue
8 significant -- significantly above the others like they are
9 here, this is yet another indication that this class is truly
10 over-contributing, correct?

11 MR. ROBIN WIENS: They are outside the zone
12 of reasonableness, yes.

13 MR. JURGEN FELDSCHMID: And being outside the
14 zone of reasonableness means that you are paying more in
15 rates than what the Cost of Service Study suggests it -- it
16 costs to serve you?

17 MR. ROBIN WIENS: That's what it's defined
18 as.

19 THE CHAIRPERSON: Mr. Feldschmid, if I may, I
20 think the Board has the point. You've raised a significant
21 issue in the distortion attributable to export revenue and
22 the growth and variations in the impact of the cost
23 allocations, how it all comes around and I'm not if further
24 probing is going to add to our awareness of it.

25 So, I'm just asking whether you have some

1 related points to make or when will you be moving on?

2 MR. JURGEN FELDSCHMID: Thank you, Mr. Chair.

3 THE CHAIRPERSON: I'm not saying that we
4 didn't follow you, I'm saying that we are.

5 MR. JURGEN FELDSCHMID: No, I -- I appreciate
6 that. I guess the only thing I would -- I would add to, sort
7 of, tie this all up is that I'm, at this point, I would say
8 counting three (3) possible variations of -- of looking at
9 Cost of Service that all come roughly to the same conclusion
10 with respect to general service small.

11 We've got the official, if I may say it, cost
12 of -- prospective Cost of Service Study for '04, that says
13 that the least small demand is above ZOR. We've got an
14 analysis including the NERA recommendations, which says both
15 classes -- both sub-classes are even significantly more
16 above ZOR.

17 And if we look at an analysis of RCCs prior to
18 the allocation of net export revenue, again they're
19 significantly above ZOR, and I return to my previous theme,
20 and ask if you would agree with it, that we now have
21 confirmation and reinforcement of -- of strong evidence,
22 that this class truly is over contributing, correct?

23 MR. ROBIN WIENS: I think I've agreed with
24 you.

25 MR. JURGEN FELDSCHMID: Thank you.

1 (BRIEF PAUSE)

2

3 MR. JURGEN FELDSCHMID: I'm wondering, Mr.
4 Wiens, if you could turn to page 16 and 17 of Hydro's
5 rebuttal evidence?

6

7 (BRIEF PAUSE)

8

9 MS. TAMARA McCAFFREY: Sorry, what page was
10 that, Mr. Feldschmid?

11 MR. JURGEN FELDSCHMID: Page 17 of Hydro's
12 rebuttal -- rebuttal evidence, please.

13

14 (BRIEF PAUSE)

15

16 CONTINUED BY MR. JURGEN FELDSCHMID:

17 MR. JURGEN FELDSCHMID: Do you have it, sir?

18 MR. ROBIN WIENS: Yes, I do.

19 MR. JURGEN FELDSCHMID: Okay. And I'm just --
20 down at the bottom you indicate the type of year over year
21 increases, or in some cases, decreases that would be required
22 for the various classes to achieve unity within seven (7)
23 years, unity within five (5) years, unity within three (3)
24 years and ZOR within five (5) years; do you see that?

25

MR. ROBIN WIENS: Yes, I do.

1 MR. JURGEN FELDSCHMID: I'm wondering if you
2 could, for general service small non-demand and demand,
3 indicate for the -- for the two (2) years, which Hydro is
4 currently applying, what -- what the revenue impact would be
5 if we were to follow those four (4) different scenarios in --
6 in comparison to what we're looking at now, given the -- the
7 current request?

8 MR. ROBIN WIENS: I'm not sure I'm following,
9 could you -- could you ask the question specifically?

10 MR. JURGEN FELDSCHMID: You're currently --
11 one (1) moment.

12

13 (BRIEF PAUSE)

14

15 MR. JURGEN FELDSCHMID: You're currently
16 asking for -- for '04/'05, 2.15 percent increase for
17 non-demand, two point nine (2.9) for demand, in the following
18 year, one point five two (1.52) for demand -- for non demand,
19 and one point four nine (1.49) for demand.

20 Obviously that has revenue implications in
21 terms of those increases of the extra revenue you're going to
22 get out of those sub-classes, correct?

23 MR. ROBIN WIENS: Yes.

24 MR. JURGEN FELDSCHMID: I'm wondering if you
25 could provide us with revenue numbers for the various

1 scenarios of increases indicated at the bottom of page 17,
2 for the two (2) years that we're -- you're currently applying
3 for?

4 MR. ROBIN WIENS: Okay. Which of these do you
5 want us to do this for?

6 MR. JURGEN FELDSCHMID: Just -- just for
7 general service small demand and non-demand, would be the
8 only one (1) that I'm interested in. But for all four (4)
9 scenarios.

10 MR. ROBIN WIENS: Well, we would have to
11 undertaking to provide that.

12 MR. JURGEN FELDSCHMID: Yeah, no, I'm -- I'm
13 asking for that. I don't expect you to do it quite on the
14 fly here, thank you.

15
16 --- UNDERTAKING NO.44: Provide the revenue numbers for
17 the general service small demand
18 and non-demand, in all four (4)
19 scenarios of increases indicated
20 at the bottom of page 17, for the
21 two (2) years that Hydro is
22 currently applying for.

23
24 THE CHAIRPERSON: Mr. Feldschmid, I'm just
25 curious, what do you intend to do with it?

1 MR. JURGEN FELDSCHMID: I would like, in final
2 argument, to be able to indicate to the Board the increases
3 that revenue -- sorry, general service small ought to have,
4 and what the revenue implications of that might be for
5 Manitoba Hydro overall.

6 THE CHAIRPERSON: Okay.

7 MR. VINCE WARDEN: Recognizing, Mr.
8 Feldschmid, that to do that we would -- to maintain the
9 revenue increases that we're requesting in our Application
10 we'd have to get the revenue elsewhere

11 MR. JURGEN FELDSCHMID: Yes, I -- I
12 understand that, thank you. I guess the implication might be
13 that perhaps it might be acceptable in -- in the case of this
14 class for Manitoba Hydro just simply to have less revenue
15 than it's seeking?

16 The other possibility is it might be
17 attributable -- there might be an adjustment within classes
18 that at least then we would know the magnitude that we're
19 dealing with in -- in rough terms.

20 THE CHAIRPERSON: Mr. Feldschmid, by your
21 last remark, are you saying to them that you would accept
22 approximate numbers?

23 MR. JURGEN FELDSCHMID: Well, the numbers
24 that I'm -- I'm seeking are -- are -- seems to me should be
25 fairly easy to come up with hard numbers. Depends on the

1 application.

2 If we're talking about the increases should
3 not be what they're currently asking they should be something
4 less for this class and it should not be attributed, there
5 should be no effect on other classes, then those numbers
6 pretty much are what they are.

7 If there's going to be some -- if the Board
8 were to accept some argument from CCEP that perhaps our --
9 the classes we represent should go down but perhaps others
10 should go up it -- it may be that those numbers are -- are
11 most just an indication of the magnitude of movement that
12 there has to be between the classes to re-balance them, shall
13 we say.

14

15 CONTINUED BY MR. JURGEN FELDSCHMID:

16 MR. JURGEN FELDSCHMID: I actually only have
17 one final question and it's this: if I could refer you to
18 Volume IV, PUB/MH-I-4(b)(I) and (ii). This is the issue of
19 the implement -- the implementation of the -- of the -- of
20 the short year to collect the full revenue for the year
21 ending 2005.

22 MS. PATTI RAMAGE: Mr. Feldschmid, could you
23 repeat the reference for me?

24 MR. JURGEN FELDSCHMID: Yes, in Volume I,
25 Round I, PUB 4(b) small 'I' and small double 'I'.

1 CONTINUED BY MR. JURGEN FELDSCHMID:

2 MR. JURGEN FELDSCHMID: Do you have it before
3 you, sir?

4 MR. ROBIN WIENS: Yes.

5 MR. JURGEN FELDSCHMID: And I'm just -- I
6 just want to raise with you obviously all of the customer
7 classes are concerned about what could be -- perhaps it's --
8 it's overstating it slightly, but potential rate shock,
9 particular if the Board's decision doesn't come down until
10 significantly later in this year and therefore the intention
11 of Hydro to collect all the revenue it was anticipating to
12 collect for the year ending '05 were to be crammed into, say,
13 six (6) months or four (4) months or something like that; you
14 understand what I'm getting at on that on that?

15 MR. ROBIN WIENS: Yes.

16 MR. JURGEN FELDSCHMID: And I'm just
17 wondering -- I seem to recall from the comments of Mr. Lazar
18 talking about a scenario where in -- in -- given today's
19 inflation rates of roughly in the area of 2 percent that
20 something -- a rate increase that might approach somewhere in
21 the area of 7 or 8 percent might be getting into the zone of
22 what some might consider to be a rate shock; do you remember
23 him making a comment to that effect?

24 MR. ROBIN WIENS: Well, I recall the
25 discussion about it, yes.

1 MR. JURGEN FELDSCHMID: And I'm just pointing
2 out to you that with respect to -- from the -- from the
3 classes that we seek to represent with respect to general
4 service medium, if there were to be implementation as of
5 December 1 of this year, the effective rate increase for the
6 remainder of the year to collect all the revenue Hydro is
7 seeking would be 7.2 percent; is that correct?

8 MR. ROBIN WIENS: Yes.

9 MR. JURGEN FELDSCHMID: And would you not
10 agree with me that that is a significant increase and could
11 be -- certainly is approaching the -- the range that Mr.
12 Lazar, at least, suggested might be termed as rate shock?

13 MR. ROBIN WIENS: Well, you know, rate --
14 rate shock, different people have different opinions on it
15 and I -- I'm not sure that you could necessarily characterize
16 that as -- as rate shock.

17 You know, what we are asking for is for
18 relatively modest overall 3 percent in one (1) year, overall
19 increase for the year, and 2 + percent overall increase for -
20 - for the year 2005. And I would not characterize those
21 numbers as rate shock, particularly since we have had no rate
22 increases for customers of Manitoba Hydro since 1997.

23 And for some customer groups, considerably
24 before that.

25 If you're starting to look at numbers like 7

1 percent for December the 1st, and I'm really hopeful that
2 we're not going to be looking at a December 1st scenario, but
3 even if --

4 MR. ROBERT MAYER: We will be if this doesn't
5 hurry up.

6 MR. ROBIN WIENS: I'll -- I'll do my part, Mr.
7 Vice-Chair.

8 MR. JURGEN FELDSCHMID: And I'm on my very
9 last question.

10 MR. ROBIN WIENS: If -- if -- when we're
11 looking at a number like that, I -- I think I can say with
12 reasonable confidence that if this were to happen, that you'd
13 probably be, when we get -- when we get to the -- and again,
14 assuming the Board approves our -- our overall request.

15 When you get to April the 1st of 2005, that
16 the 7.2 percent is probably going to wind up being a
17 reduction in April the 1st of 2005, because the -- the
18 combined request is -- is under 4 percent for the two (2)
19 years for that class.

20

21 CONTINUED BY MR. JURGEN FELDSCHMID:

22 MR. JURGEN FELDSCHMID: But you'd agree with
23 me too -- and I know Hydro, and it's commendable that Hydro
24 has been able to give to its rate customer -- its ratepayers,
25 no increase for -- for many years going back.

1 Having said that, if you're going along and
2 you're thinking, boy life in Manitoba is great, I've had no
3 Hydro increases for X number of years, and all of a sudden
4 slam, for three (3) or four (4) months I've got to pay a 7
5 percent increase. Would you not characterize that as
6 disruptive or perhaps something that -- that might be akin to
7 rate shock?

8 MR. ROBIN WIENS: Well, I mean, you know, it's
9 -- it's going to depend I guess on the customer, it's going
10 to depend on -- on the situation that they find themselves in
11 at that time. For some customers, yes, I think they might
12 find it somewhat disruptive. For others possibly not.

13 Most of -- for most of our customers,
14 electricity is a relatively small portion of their overall
15 cost of doing business.

16 MR. JURGEN FELDSCHMID: Let me -- and I think
17 that's a good point, I mean as opposed to some of the very
18 large users, electricity is a small component, certainly if
19 I'm thinking about my house, even it goes up to 7 or 10
20 percent, it's not really going to make much difference to me.

21 But I'm thinking about particularly in the
22 medium class. A community hockey arena, would that be an
23 example of somebody -- of an operation that might come under
24 medium?

25 MR. ROBIN WIENS: Some of them might be

1 medium.

2 MR. JURGEN FELDSCHMID: And I'm just thinking
3 that, you know, if -- if you're thinking about a community
4 club that's got a hockey arena, or some -- some similar
5 facility it's medium, and all of a sudden they're hit with a
6 7 percent increase, I'm thinking for them, their elect --
7 electrical utility costs may be a significant enough portion
8 of their budget, that it -- that it could have a significant
9 impact; would you not agree?

10 MR. ROBIN WIENS: Nobody likes to get an
11 increase even a two (2) or 3 percent increase, and a 7
12 percent increase is outside of the experience that these
13 customers have had for some time, and -- and I guess if
14 you're not prepared for it, it's -- it's not the most
15 pleasant of surprises.

16 But it's not outside the magnitude of price
17 increases that they may have seen for other commodities or
18 other services that they receive.

19 And again, it's -- in this case it would be a
20 short lived phenomena, because come April the 1st of 2005, if
21 we're looking at this situation, most of the classes of
22 service are going to see a decrease rather than an increase,
23 when they get to April the 1st, '05.

24 MR. JURGEN FELDSCHMID: Thank you, Mr. Wiens,
25 and to the Panel, and thank you, Mr. Chair, those are all my

1 questions.

2 THE CHAIRPERSON: Thanks very much, Mr.

3 Feldschmid.

4

5

(BRIEF PAUSE)

6

7

THE CHAIRPERSON: I think the discussion on
8 the different perceptions of rate shock was interesting.

9 We're moving on now to CAC/MSOS. Mr. Williams, are you ready
10 to go?

11

You might want to move up to the...

12

13 MR. BYRON WILLIAMS: Mr. Chair, I'm ready to
14 proceed. But if I might suggest, I have -- it's going to
15 take a few minutes to set up in terms of the book of
16 references and some exhibits that we're going to be sharing.

17

THE CHAIRPERSON: We'll have our break now.

18

19 MR. BYRON WILLIAMS: Yeah, and also if I
20 might, there are a couple of things from Mr. Feldschmid's
21 cross-examination which I've been monitoring next door, which
22 may enable me to slightly reduce my cross. So -- rather than
23 the standard fifteen (15) minutes, if perhaps the Panel could
24 allow us a few more minutes we would -- might save us a bit
25 of time at the end.

24

THE CHAIRPERSON: I'll encourage your effort.

25

Thank you.

1 MR. BYRON WILLIAMS: I'm not making
2 representations.

3

4 --- Upon Recessing at 10:20 a.m.

5 --- Upon Resuming at 10:45 a.m.

6

7 THE CHAIRPERSON: Okay, welcome back. Mr.
8 Williams ...? Mr. Harper ...? Do you want to begin?

9 MS. PATTI RAMAGE: Mr. Williams, before you
10 begin, there was two (2) more undertakings that are in the
11 process of being distributed right now and if I could maybe
12 -- before you start, speak to them and then --

13 THE CHAIRPERSON: Please.

14 MS. PATTI RAMAGE: Mr. Williams could keep
15 going.

16 The first of which is in response to
17 Undertaking No. 18. And it was a request to updated Table 2
18 in CAC/MSOS/MH-I-37A and -- I got on the mic before I checked
19 my exhibit numbers.

20

21 --- EXHIBIT NO. MH-54: Response to Manitoba Hydro
22 Undertaking NO. 18.

23

24 THE CHAIRPERSON: Fifty-four (54).

25 MS. PATTI RAMAGE: I believe we're at fifty-

1 four (54). Secondly is a -- in response to Manitoba Hydro
2 Undertaking No. 45, this was with respect to the cost of
3 mitigation paid in -- in response to some queries, I believe,
4 of MKO and then the Board asked a few questions to -- to tie
5 things together.

6 And I would just bring to your attention in
7 terms of what is in this answer that Mr. Anderson had been
8 dealing specifically with York Factory, and the answer does
9 contain the -- the evidence that Manitoba Hydro paid
10 compensation to York Factory of one hundred seventy-eight
11 thousand hundred and fifty-seven dollars and ninety-one cents
12 (\$178,157.91) under contract, but a further one hundred and
13 sixty-three thousand and five hundred dollars (\$163,500)
14 outside of its specific contract obligations, which I had
15 dealt with Mr. Anderson specific concerns.

16 THE CHAIRPERSON: Thank you for elaborating.
17 So that will be Exhibit No. 55.

18

19 --- EXHIBIT NO. MH-55: Response to Manitoba Hydro
20 Undertaking No. 45.

21

22 MS. PATTI RAMAGE: Yes, thank you.

23 THE CHAIRPERSON: Thank you. Mr.

24 Williams ...?

25 MR. BYRON WILLIAMS: Yes, good morning, Mr.

1 Chair, and Members of the Panel.

2 Before starting, a few preliminary matters.

3 One (1) is that in the -- in the water cooler section in the
4 back row are some of my clients. Ms. Eileen Cruden from the
5 Manitoba Society of Seniors, Mr. Chuck Cruden, from the
6 Manitoba Society of Seniors, who is recovering from sore feet
7 from election day, I believe.

8 Mr. Mike Silver who's Executive Director of
9 the Manitoba Society of Seniors and Ms. Gloria Desorcy who is
10 the Executive Director of the Consumers Association.

11

12 THE CHAIRPERSON: Welcome. We are pleased to
13 have you here with us.

14 MR. BYRON WILLIAMS: Moving up two (2) rows,
15 Mr. Chairman, there's also a couple of people from our
16 office, students, who will be assisting us this morning and
17 perhaps into the afternoon as well, where I expect into the
18 afternoon, Ms. Katherine Rogozinski who is a student at the
19 University of Toronto, who is joining us for the Summer. And
20 Ms. Aimee Craft who is an articling student at law.

21 THE CHAIRPERSON: Welcome.

22 MR. BYRON WILLIAMS: And Mr. Harper, you've
23 all met before.

24 Just for the benefit of the Board and for
25 individuals in the room. We've provided a book of

1 References, that's CAC/MSOS Book of References on Costs.

2 In the course of the cross-examination this
3 morning, as well as this afternoon, we will also be
4 introducing some exhibits through Manitoba Hydro, those have
5 been shared with them in advance but rather than burden you
6 with paper all at once, we thought we would introduce those
7 at a more gradual pace in the course of the morning and
8 afternoon.

9 And, Mr. Singh, for your benefit, I think the
10 first three exhibits that we're planning to present are on
11 your table, so I'll let you know when I'd appreciate you
12 distributing them. I'm trusting that's satisfactory, Mr.
13 Chair?

14 THE CHAIRPERSON: Yes.

15 MR. BYRON WILLIAMS: And finally, my last
16 preliminary remark is just to note that the cross is somewhat
17 out of order just looking at the time. So, I've, kind of,
18 skipped subjects one (1) and two (2) and moved into three
19 (3), four (4) and five (5) and we'll hit the other two (2)
20 later today.

21 Where the -- for the Panel's benefit, I want
22 to talk first of all for a little while on the subject of
23 uniform rates and then to the issue of bill impacts or rate
24 impacts on customers and then to the subject OF DSM. So, I'm
25 hoping to get through those perhaps not by the -- by 12:00

1 but that would -- but some time in the early afternoon.

2 MR. ROBERT MAYER: How bit a fight are you
3 looking for on uniform rates?

4 MR. BYRON WILLIAMS: Mr. Mayer, I'm glad you
5 raised that question and I -- I think it's helpful and Mr.
6 Feldschmid, by the -- I do wish to express my appreciation
7 because I believe we cut out our -- one area of cross due to
8 his work -- in terms of uniform rates, we're not looking for
9 any fight whatsoever.

10 What we are trying to do is underline the
11 implications of the policy directive of the province and, I
12 think, speaking on behalf of my clients, they were
13 appreciative, certainly on behalf of Zone 3 customers, of the
14 uniform rates policy. It's something that they're supportive
15 of.

16 What they're not so appreciative of is the
17 current method of implementing uniform rates and the impact
18 that it has had on Zone 1 and Zone 2 customers. So, I do
19 appreciate you asking that question because my clients have
20 asked me to make it clear that they don't want to -- they're
21 not attacking the policy, that's certainly none of their
22 business; The Government has chosen to implement a policy.

23 What -- what they have to see is -- is whether
24 the application of that policy by Manitoba Hydro is
25 consistent with the original intent. So, that's certainly

1 where we're -- where my clients have asked me to go and I
2 hope that helps, Mr. Mayer. And I hope it covers my flank as
3 well.

4

5 CROSS-EXAMINATION BY MR. BYRON WILLIAMS:

6 MR. BYRON WILLIAMS: Mr. Wiens, in your
7 discussion with Mr. Lazar yesterday, and you don't need to
8 turn to it but I think it was at page 1232 of the transcript,
9 you noted that Hydro has some degree of sympathy with the
10 perspective put forward by CAC/MSOS on the subject of uniform
11 rates; do you recall that comment?

12 MR. ROBIN WIENS: Actually, no, but if you
13 say it was there I can find it and we can proceed.

14 MR. BYRON WILLIAMS: Well, I thought it was
15 going to be a relatively pain free clever segue but if it's
16 not, Mr. Wiens, it's at page 1232, lines 11 through 14 and
17 you're responding to a question from Mr. Lazar?

18 MR. ROBIN WIENS: I see you're right.

19 MR. BYRON WILLIAMS: I usually am; you'll
20 agree with me?

21 MR. ROBIN WIENS: This time.

22 MR. BYRON WILLIAMS: And realizing there has
23 been some discussion on this subject but also realizing the
24 importance to my clients, I want to back up a step and just
25 put -- put a bit of context around this issue and as I

1 understand it the uniform rate policy was -- the uniform
2 rates was -- was legislation implemented by the Province of
3 Manitoba that essentially did -- did away with the rate
4 differential between the old or former Zones 1, 2 and 3; is
5 that right?

6 MR. ROBIN WIENS: Yes.

7 MR. BYRON WILLIAMS: And certainly to the --
8 the pleasure of Zone 3 customers, it did so by reducing rates
9 to the lowest rate among those three (3) zones; is that
10 right?

11 MR. ROBIN WIENS: That's right.

12 MR. BYRON WILLIAMS: And, again, covering my
13 flank here just for a second without meaning to attack the
14 policy, the rates were changed through equalization but the
15 average cost to serve the various zones didn't change as a
16 result of that policy?

17 MR. ROBIN WIENS: No.

18 MR. BYRON WILLIAMS: And so just using
19 residential customers as one and perhaps the -- the most
20 obvious example of the impact, the revenues being received by
21 the residential class were reduced with one stroke of the
22 legislative pen, but the cost to serve these customers were
23 not reduced, correct?

24 MR. ROBIN WIENS: Yes.

25 MR. BYRON WILLIAMS: And again, perhaps for

1 your reference, because you -- you seem so suspicious of me
2 quoting you today, I'm very hurt by that, you might turn to
3 Tab 15 of the CAC/MSOS book of references, which is a two (2)
4 page excerpt from Manitoba Hydro's rebuttal evidence.

5 And I'm drawing your attention to the last
6 paragraph. In terms of uniform rates, as it impact --
7 impacts 2004/'05, my understanding is that Hydro experienced
8 a \$14.9 million revenue reduction, as a consequence of the
9 uniform rates for that year; is that correct?

10 MR. ROBIN WIENS: Yes.

11 MR. BYRON WILLIAMS: And if you flip over one
12 (1) tab to CAC/MSOS-I Interrogatory 106, you see of that
13 almost \$15 million dollars, the biggest hit was experienced
14 by residential customers being slightly over 13 million or
15 about 88 percent of the total decline in revenue; is that
16 right?

17 MR. ROBIN WIENS: Actually the biggest hit was
18 experienced by Manitoba Hydro.

19 MR. ROBERT MAYER: I thought -- I thought the
20 rate reduction wasn't experienced.

21

22 CONTINUED BY MR. BYRON WILLIAMS:

23 MR. BYRON WILLIAMS: And, Mr. Wiens, perhaps I
24 was imprecise, but in terms of the -- the allocation of cost
25 revenues, the residential class; the experience of that was

1 that their -- on the -- on the numerator, in terms of the
2 revenue cost coverage, they lost in terms of that
3 calculation, \$13.2 million dollars approximately?

4 MR. ROBIN WIENS: That's right.

5 MR. BYRON WILLIAMS: And that amounts to
6 about --

7 MR. ROBIN WIENS: Yeah, in the -- in the
8 2003/'04 year, which is the prospective Cost of Service
9 Study, it's just a little less than that, but it's -- that's
10 close enough.

11 MR. ROBERT MAYER: Mr. Wiens, I -- I'm having
12 a little trouble with this. I thought that the equalization
13 rates applied only to the residential class. Obviously I'm
14 wrong?

15 MR. ROBIN WIENS: The equalization of rates
16 apply to any of the classes that were differentiated by
17 zones. So, the residential class was certainly the most
18 significant in terms of the impact of uniform rates, but
19 general service small, both demand and non-demand, as well as
20 general service medium, were previously affected by zones and
21 area and roadway lighting; not -- not to forget the
22 Municipalities.

23

24 CONTINUED BY MR. BYRON WILLIAMS:

25 MR. BYRON WILLIAMS: Mr. Wiens, thank you for

1 your answers.

2 In terms of the -- the \$14.9 million dollar
3 reduction forecast for '04/'05, Hydro's calculated that fully
4 88 percent of it is accounted for by residential customers;
5 is that right?

6 MR. ROBIN WIENS: Now, that number sounds
7 familiar.

8 MR. BYRON WILLIAMS: I don't mean to sidetrack
9 the -- the discussion -- the direction we're heading in, to
10 any great degree, but Mr. Harper and myself were curious as
11 to how the calculation was performed in terms of the revenue
12 loss with respect to Hydro's estimates for CAC/MSOS-I-106,
13 which is at Tab 16.

14 And I wonder if way by writ -- of written
15 undertaking -- you don't need to do it now, Mr. Wiens -- you
16 could provide to CAC/MSOS, an explanation of how the estimate
17 of revenue loss by rate class was calculated for -- for this
18 Interrogatory Response.

19 And -- and in particular, some of the -- the
20 variables we're interested in is kind of the number of
21 customers per year that was estimated, how Hydro dealt with
22 things such as change of use, year by year, and also changes
23 in rates, year over year. Would you be able to do that, sir?

24 MR. ROBIN WIENS: Well, we'll certainly
25 undertake to provide you with some sort of a spreadsheet,

1 which will -- which will depict that. But I can tell you in
2 general, that this is done in the same way that we always do
3 our revenue forecast, which is we -- we developed -- first of
4 all, we develop forecasts of where the number of customers,
5 the number of kilowatt hours in each of the relevant blocks,
6 and then we -- we run one (1) scenario, which is the -- the
7 old -- for example, Zone 3 rate, and then we run the new
8 uniform rate. And that -- that allows us to come up with
9 these estimates.

10 We do not take into account elasticity
11 effects. In this case we think they're -- if they're present
12 at all, they would be relatively modest, and would not have
13 much impact on the order of magnitude of the result.

14 I'm advised it's based on the May 2003 load
15 forecast.

16 MR. BYRON WILLIAMS: Mr. Wiens, you can
17 probably scratch that request for an undertaking. I think
18 that's -- that's enough, so -- and I see Ms. Ramage has done
19 so as well. She doesn't look too bitter about that though.

20 Mr. Wiens, turning back to Tab 15 of the
21 CAC/MSOS Book of Reference, and the first page which is page
22 11 of 38 of Hydro's rebuttal evidence, you -- at lines 20 and
23 21, you quote -- you note that Mr. Harper suggests that the
24 impact on the rev -- on the revenues of the residential
25 class, is such as to reduce the class as RCC by two point six

1 seven (2.67).

2 And without trying to get into the nuts and
3 bolts of Mr. Harper's calculation, would you agree with me
4 that that figure is a fairly reasonable estimate?

5 MR. ROBIN WIENS: I think so.

6 MR. BYRON WILLIAMS: It's in the ballpark?

7 Mr. Wiens, I wonder, just flipping on to Tab
8 17 of the Book of References, which is an excerpt from Board
9 Order 7/03, page 48, and you can see that it's a -- that this
10 is a -- an excerpt from the Public Utilities Board Report,
11 Revenue to Cost Coverages, by Various Customer Classes,
12 between 1992 to 2002, with the caveat that the 2002 figures
13 include some methodologies, which were not accepted by the
14 Board; is that right, sir?

15 MR. ROBIN WIENS: Yes.

16 MR. BYRON WILLIAMS: And I just want to turn,
17 starting at 1995, to the residential Zone 2, the former
18 residential Zone 2 sub-group. And would you agree with me
19 that from 1995 onward, up to 2001, this sub-group was within
20 the Zone of Reasonableness, or ZOR, Z-O-R, for all years
21 between 1995 and 2001, according to this table; is that
22 right?

23 MR. ROBIN WIENS: Yeah, you're defining the
24 Zone of Reasonableness as ninety-five (95) to one oh five
25 (105). I believe, back through that period we may have had

1 some different definitions, but I'll accept your statement.

2 MR. BYRON WILLIAMS: And I appreciate that --
3 that qualification. Again, defining the Zone of
4 Reasonableness is ninety-five (95) to one oh five (105).
5 Would you agree with me that as we move up to residential
6 Zone 1, it was also within that ZOR for all the -- Z-O-R for
7 all years, except for one (1); is that right?

8 MR. ROBIN WIENS: Yes.

9 MR. BYRON WILLIAMS: And if we move down to
10 line -- to the former Zone 3, we see that for the period
11 between '95 and 2001, it was not within the ZOR for any of
12 those periods; is that right?

13 MR. ROBIN WIENS: That's right.

14 MR. BYRON WILLIAMS: Mr. Chairman, just for
15 the benefit of the Panel and Hydro, I'm going to ask my
16 friends, Ms. Rogozinski and Ms. Craft, as well as Mr. Singh,
17 to distribute three (3) exhibits, which were previously
18 provided to Manitoba Hydro.

19

20 (BRIEF PAUSE)

21

22 THE CHAIRPERSON: Do you have the proposed
23 numbers?

24 MR. BYRON WILLIAMS: You aim too high, Mr.
25 Chair. I'm not sure. I'm guessing six (6), but I'm not sure

1 anymore.

2 THE CHAIRPERSON: Mr. Singh, do you know the
3 next number for CAC/MSOS?

4

5 (BRIEF PAUSE)

6

7 THE CHAIRPERSON: So, we'll start with number
8 six (6). Six (6) would be Residential Cost of Service
9 Results.

10 MR. BYRON WILLIAMS: Mr. Chair, just -- and
11 just so for -- for -- I'll read them in and just --

12 THE CHAIRPERSON: Please.

13 MR. BYRON WILLIAMS: -- to assist you and make
14 sure I have them in the right order.

15 Number 6 would be Residential Cost of Service
16 Results, PCOSS-04.

17

18 --- EXHIBIT NO. CAC/MSOS-6: Residential Cost of Service
19 Results, PCOSS-04.

20

21 MR. BYRON WILLIAMS: I would suggest or
22 recommend that number 7 be Residential Cost of Service
23 Results, RCC equals 95 percent.

24

25 --- EXHIBIT NO. CAC/MSOS-7: Residential Cost of Service

1 Results, RCC equals 95
2 percent.

3

4 MR. BYRON WILLIAMS: And that number eight (8)
5 be residential cost of service results, RCC equals 100
6 percent.

7 THE CHAIRPERSON: That's fine.

8

9 --- EXHIBIT NO. CAC/MSOS-8: Residential cost of service
10 results, RCC equals 100 percent.

11

12 CONTINUED BY MR. BYRON WILLIAMS:

13 MR. BYRON WILLIAMS: And Mr. Wiens, just
14 perhaps we can expedite things somewhat, in terms of CAC/MSOS
15 Exhibit 6, that was shared with you this morning and you'll
16 agree with me that it's simply a replication of Hydro's
17 response to MIPUG-I-21(a); is that right, sir?

18 MR. ROBIN WIENS: Yes.

19 MR. BYRON WILLIAMS: And so Hydro has
20 confidence in it as -- in terms of its accuracy and its
21 source, coming from you, so you're prepared to accept it as
22 -- as an exhibit?

23 MR. ROBIN WIENS: And, of course, we are
24 always right.

25 MR. BYRON WILLIAMS: You're certainly always

1 right when you agree with me, Mr. Wiens. And the Exhibit 7,
2 residential cost of service results RCC equals 95 percent,
3 that was shared with you yesterday; you had an opportunity to
4 replicate the calculation and you have no -- no problems with
5 the source or accuracy of the data and are prepared to accept
6 it?

7 MR. ROBIN WIENS: We will accept it.

8 MR. BYRON WILLIAMS: And likewise, CAC/MSOS
9 Exhibit 8, Residential Cost of Service Results, RCC equals
10 100 percent you are prepared to accept it in terms of its
11 accuracy and -- and source?

12 MR. ROBIN WIENS: Yes.

13 MR. BYRON WILLIAMS: Now, as I understand,
14 turning back to CAC/MSOS-6 which is the residential cost of
15 service results for PCOSS/04, I understand that this is the
16 RCC for the total residential classes as well as the former
17 sub-groups at current rates prior to rate change; is that
18 right?

19 MR. ROBIN WIENS: That is right.

20 MR. BYRON WILLIAMS: And so this is from the
21 most recent Cost of Service Study?

22 MR. ROBIN WIENS: From the 2003/2004
23 prospective study that we filed with the Application.

24 MR. BYRON WILLIAMS: So, if we just look at
25 this, we see that the -- for the total residential the -- the

1 class, as a whole, is at 90.6 percent which would be almost
2 five (5) percentage points below the zone of reasonableness
3 bottom limit of 95 percent; is that right?

4 MR. ROBIN WIENS: Yes.

5 MR. BYRON WILLIAMS: Moving up to the RCC for
6 residential zone 1, we see that the RCC for that former group
7 is at 96.3 percent or within the ZOR as currently defined by
8 the Public Utilities Board, correct?

9 MR. ROBIN WIENS: Yes.

10 MR. BYRON WILLIAMS: And Zone 2, as well is
11 within the ZOR being nin -- being ninety-eighty point seven
12 (98.7) and it's fairly close to unity, correct?

13 MR. ROBIN WIENS: Yes.

14 MR. BYRON WILLIAMS: And Zone 3, of course,
15 is fifteen point four (15.4) percentage points below the zone
16 of reas -- reasonableness bottom limit; is that correct, sir?

17 MR. ROBIN WIENS: Yes.

18 MR. BYRON WILLIAMS: So, if we were to look
19 at the experience of someone in Zone 2 who, in all cost of
20 service studies between 1995 and 2001 would have been within
21 the zone of reasonableness.

22 A customer -- a residential customer from Zone
23 2, all other things being equal, would be making the same
24 relative contribution in terms of revenue to cover the same
25 relative magnitude of costs but that customer would find that

1 the RCC of the class to which they belong would be reduced by
2 a considerable degree; is that fair, sir?

3 MR. ROBIN WIENS: For the class overall it --
4 it has been reduced, Mr. Williams, I -- I --

5 MR. BYRON WILLIAMS: Let me --

6 MR. ROBIN WIENS: That's -- that's a matter
7 of judgment. My quick calculation says about 2 1/2 percent.

8 MR. BYRON WILLIAMS: Let me put it another
9 way, when the Public Utilities Board was looking at the
10 reasonableness of rates prior to the implementation of
11 uniform rates, they would have looked at the sub-group Zone 2
12 and said, geez, it's pretty close to -- to unity.

13 Now, they will look to the class that's --
14 Zone 2 now belongs, and find out that it's almost ten (10)
15 percentage points below unity; would that be fair?

16 MR. ROBIN WIENS: Yes, I think that's fair.

17 MR. BYRON WILLIAMS: And so would another way
18 to -- to state that customers prior to the implementation of
19 uniform rates, such as those in Zone 2, who would have been
20 within ZOR, now find themselves outside of ZOR; would that be
21 fair, all other things being equal?

22 MR. ROBIN WIENS: Well, I can't speak for
23 what the Board -- how the Board would have evaluated those
24 numbers. It - it may be true. That -- that may have been
25 their perspective.

1 MR. BYRON WILLIAMS: And I'm not asking you
2 to elaborate on this, Mr. Wiens, but I wonder if you'd agree
3 with me that since the residential RCC is -- is below 95
4 percent, would you agree with me that the uniform rate
5 shortfall and the lower RCC, may contribute to the upward
6 pressure on rates for the entire residential class?

7 MR. ROBIN WIENS: Well I think that's one (1)
8 possible conclusion that could be drawn from it, yes.

9 MR. BYRON WILLIAMS: And again, I don't need
10 a -- an elaboration, but would you agree with me that the --
11 from Hydro's perspective, at least, and I'm not admitting
12 that you're always right, but from your perspective, the
13 justification for rate increase is above the general consumer
14 average lies in part in the fact that the residential class
15 lies below the -- the 95 percent limit of the -- of the zone
16 of reasonableness. Would you agree with that?

17 MR. ROBIN WIENS: Well, it -- it -- that
18 certainly plays a role in it. But I think all the parties
19 here are aware there's only one (1) class of any substantive
20 size, and it's below a hundred (100).

21 So, I think even the fact that the class is
22 below a hundred (100) would have a role to play in
23 determining how we're going to look at portioning rate --
24 rate increases.

25 MR. BYRON WILLIAMS: Do -- I thank you for

1 that answer and I knew that was coming. But you would agree
2 that the -- the fact that it's outside the ZOR now is one (1)
3 of the -- the factors?

4 MR. ROBIN WIENS: Again, I -- I cannot speak,
5 or I cannot try to divine in what -- how the -- how the Board
6 would interpret that, but it's possible that being below 95
7 percent, or below 92 percent, or below 91 percent, may -- may
8 contribute to the sense -- any sense of urgency that there
9 was with respect to realigning revenue cost coverage ratios.

10 MR. BYRON WILLIAMS: I wonder if I could turn
11 you now, Mr. Wiens, to CAC/MSOS Exhibit No. 7, which provides
12 the residential cost of service results -- or which is titled
13 -- excuse me -- Residential Cost of Service Results RCC
14 Equals 95 percent. Do you have that Sir?

15 MR. ROBIN WIENS: Yes, I do.

16 MR. BYRON WILLIAMS: And just to describe
17 this table to a certain degree, to assist the Panel, you'll
18 agree with me that the column under Total Cost for the
19 various sub -- sub-groups is just a panel taken from the
20 previous CAC/MSOS Exhibit No. 6; is that right?

21 MR. ROBIN WIENS: Yes, I can see that.

22 MR. BYRON WILLIAMS: And skipping over class
23 revenue to the column, Net Export Revenue, you'll agree with
24 me as well that, that is a simply taken from the previous
25 exhibit CAC/MSOS Exhibit 6 and -- and comes from Manitoba

1 Hydro?

2 MR. ROBIN WIENS: Yes.

3 MR. BYRON WILLIAMS: So, if we were to
4 compare CAC/MSOS in Exhibit 6 and CAC/MSOS, Exhibit 7, the
5 difference would be first of all in the column, Class
6 Revenues, and then secondly in the RCC's. Would you agree
7 with that Sir?

8 MR. ROBIN WIENS: Yes, I would.

9 MR. BYRON WILLIAMS: And you'll agree with me
10 that -- that what's been done and I -- you understand that
11 what's -- that's what has been done is in Exhibit 7 to
12 achieve the total residential RCC of 95 percent, there's been
13 a mathematical calculation inlc -- increasing class revenue
14 by six point eight-four (6.84) percent in order to yield an
15 overall RCC of 95 percent. Is that right Sir?

16 MR. ROBIN WIENS: Yes, I see that.

17 MR. BYRON WILLIAMS: And you'll agree with me
18 that revenue for each class is increased by the same amount,
19 Correct? For each subgroup?

20 MR. ROBIN WIENS: Yes.

21 MR. BYRON WILLIAMS: And so, if we look at
22 the impact of bringing residential rates with -- within the
23 Zone of Reasonableness, being the 95 percent, we can see that
24 that's been achieved in the bottom right hand column, Total
25 Residential RCC, 95 Percent; is that right, sir?

1 MR. ROBIN WIENS: Yes.

2 MR. BYRON WILLIAMS: And raising the revenues
3 from all classes by the same percentage, we see that the
4 impact of that is that for Zone 3 it's at 83.3 percent,
5 correct?

6 MR. ROBIN WIENS: Yes.

7 MR. BYRON WILLIAMS: And for Zone 2 it's above
8 unity, being 103.5 percent, correct?

9 MR. ROBIN WIENS: Yes.

10 MR. BYRON WILLIAMS: And for Zone 1 it's
11 slightly above unity, being 101 percent, correct?

12 MR. ROBIN WIENS: Yes.

13 MR. BYRON WILLIAMS: So, under this scenario
14 at least, increasing rates to achieve the 95 percent bottom
15 limit of ZOR will push the Zone 1 and Zone 2, the former
16 sub-groups, above unity, correct?

17 MR. ROBIN WIENS: Yes.

18 MR. BYRON WILLIAMS: Mr. Wiens, I wonder if we
19 can turn now to CAC/MSOS Exhibit 8, which is titled
20 Residential Cost of Service Results, RCC equals 100 percent.
21 Do you have that, sir?

22 MR. ROBIN WIENS: And if it'll be of any
23 assistance, we can agree in advance that these numbers are --
24 that we've checked them.

25 MR. BYRON WILLIAMS: I appreciate that, and I

1 just wanted to -- we don't need to explain the table. I
2 think you'll agree with me that the description is fairly
3 well set out in -- in footnote 2 for this as well, in terms
4 of the difference between this table and the previous two
5 (2); would you agree with that, sir?

6 MR. ROBIN WIENS: Yes.

7 MR. BYRON WILLIAMS: So, what we see, and I
8 thank you for expediting this process, is that achieving
9 unity, RCC of 100 percent, leaves the residential former Zone
10 3 sub-group at 87.6 percent, or about 13 + percentage points
11 below unity, would that be right?

12 MR. ROBIN WIENS: Yes.

13 MR. BYRON WILLIAMS: And to achieve unity,
14 Zone 1 customers of the former sub-group, are now outside the
15 -- the ZOR, being 106.4 percent; is that right?

16 MR. ROBIN WIENS: Yes.

17 MR. BYRON WILLIAMS: And they're at one oh
18 eight point nine (108.9) percentage points, correct?

19 MR. ROBIN WIENS: Yes.

20 MR. BYRON WILLIAMS: So, the impact under
21 this scenario of increasing the residential or directing the
22 residential class as a whole to unity, would be to leave the
23 former class sub-group three (3) -- Zone 3 outside -- below
24 the target of 95 percent, and the former Zones 1 and 2, above
25 the target range of 105 percent, correct?

1 MR. ROBIN WIENS: Yeah, this is true.

2 MR. BYRON WILLIAMS: And again, in your
3 rebuttal evidence, Mr. Wiens, which is at Tab 15, page 19 of
4 38, and specifically lines 7 and 8, I wonder if you would
5 agree with me that there is -- there is some risk that Zone 1
6 and Zone 2 residential customers will bear a disproportionate
7 share of the burden, of implementing this aspect of
8 Provincial policy, being uniform rates?

9 MR. ROBIN WIENS: No, I -- without -- I -- I
10 don't want to -- I don't want to say I disagree with you, Mr.
11 Williams, but I will say, yes, but subject to this; that
12 let's assume we were able to, for whatever reason, or wanting
13 to, for whatever reason, sub-classify beyond these three (3)
14 zones, and say take Zone 2, and look at different strata
15 within Zone 2.

16 And believe me, one (1) of the benefits that
17 we see of uniform rates at Manitoba Hydro, is we go in the
18 opposite direction, and that at some point, hopefully we can
19 begin to stop talking about zones.

20 But just bear with me for a minute --

21 MR. ROBERT MAYER: I've been trying to
22 encourage that for two (2) years.

23 MR. ROBIN WIENS: -- if -- if we were to look
24 at strata within a zone, we would find similar types of
25 differences.

1 So, if you know you're focusing on Zone 2 and
2 say, well, they're bearing a disproportionate part of the
3 burden of uniform rates, and I think I'm sympathetic to that
4 viewpoint. But let's not forget that within Zone 2, there
5 are people or customers or groups of customers who have
6 revenue cost coverages that are higher than what's shown
7 here, and some that no doubt have revenue cost coverages that
8 are lower.

9 MR. BYRON WILLIAMS: And I appreciate the --
10 the discussion of averaging, Mr. Wiens. And I guess why this
11 is an important thing, and we would certainly like to close
12 it for the Public Utilities Board as well, but if -- if we
13 turn to Tab 18 of the Book of References, being page 3603 of
14 -- of the transcript from the Status Update, you'd agree with
15 me that we see Mr. Warden saying at pages 8 through 12 --
16 lines 8 through 12, was that the directive, or the intent
17 conveyed to Manitoba Hydro is that there not be other rate
18 increases to offset the reduction revenues that Manitoba
19 Hydro would incur because of the introduction of uniform
20 rates?

21 MR. ROBIN WIENS: I'm just a little slow here,
22 can you give us a page number, as well as the line numbers?

23 MR. BYRON WILLIAMS: Maybe I'm too quick, page
24 3603, specifically lines 8 to 12, and I'm specifically
25 referring only to my speaking pattern.

1 MR. ROBIN WIENS: Okay, I see that.

2 MR. BYRON WILLIAMS: And you'd agree with me
3 that it's certainly arguable that -- and certainly from the
4 perspective of Zone 1 and Zone 2, residential customers, that
5 they could look at the analysis that you and I just
6 performed, and conclude that part of the pressure -- upward
7 pressure on their rates is coming from the pol -- the policy
8 decision to implement uniform rates; would you agree with me?

9 MR. ROBIN WIENS: Well, the policy decision
10 combined with the approach that's taken in developing the
11 Cost of Service Study, yeah.

12 MR. BYRON WILLIAMS: And -- and I appreciate
13 that -- that distinction.

14 And so, certainly you'd agree with me that if
15 we want to -- it's arguable that if we want to stay true to
16 the directive given to Hydro, we might want to look at
17 innovative ways of addressing the impact of uniform rates.

18 And I guess one (1) of the ones that you
19 suggest in your rebuttal evidence, is that it may be
20 appropriate to make an initial allocation of export revenues,
21 to compensate for the affect of uniform rates; is that right,
22 sir?

23 MR. ROBIN WIENS: Well, it's true, we did
24 suggest that.

25 MR. BYRON WILLIAMS: And that would be

1 consistent in terms of the understanding that individuals
2 like Mr. Salinger seemed to be conveying about uniform rates
3 in the -- in the Standing Committee Proceedings, sir?

4 MR. ROBIN WIENS: I'm not going to speak for
5 Mr. Salinger.

6 MR. BYRON WILLIAMS: Okay. And that's fair
7 enough, sir.

8 With that note, and My Friend may want me to
9 strike Tab 19 of my Book of References, where Mr. Salinger
10 speaks for himself. Although I would note that I think we
11 established the reliability of those documents in my
12 discussion with Ms. Murley -- Murphy in the Status Update
13 Hearing.

14 Mr. -- Mr. Wiens, just a few last questions on
15 this subject; namely five (5) or six (6).

16 In his discussion with Mr. Peters yesterday,
17 Mr. Lazar testified that the decision to use export revenues
18 to support uniform rates is independent of the decision to
19 create a separate expert class. Do you recall that
20 conversation?

21 MR. ROBIN WIENS: Yes.

22 MR. BYRON WILLIAMS: And from your
23 perspective, can we -- are those two (2) issues, at least to
24 a certain degree, separate? Can you do one (1) without
25 necessarily doing the other?

1 MR. ROBIN WIENS: Well methodologically, yeah,
2 separate.

3 MR. BYRON WILLIAMS: During the IR process,
4 Hydro asked Mr. Harper or ECS to perform a calculation,
5 whereby a portion of export revenues was specifically
6 allocated to offset the uniform rate revenue loss by a
7 customer class, and I'm wondering whether methodologically
8 Hydro considers that a reasonable, appropriate way to address
9 the problem?

10 I'm not asking for your views on the merits,
11 but just whether methodologically, you consider it an
12 appropriate way?

13 MR. ROBIN WIENS: Well, it -- it's certainly
14 one (1) way -- it's certainly one (1) way of addressing the
15 problem, and I'm -- in -- in our opinion, not an
16 inappropriate way of doing it.

17 MR. BYRON WILLIAMS: Are there any others that
18 Hydro might have on their methodological checklist that they
19 might -- might suggest?

20 MR. ROBIN WIENS: Well, they're all going to
21 have the same effect.

22 MR. BYRON WILLIAMS: I'm moving on, Mr.
23 Chair, and just mindful of the time, I'm going to jump to --
24 to DSM and we'll try and get Mr. Kuzcek to his cabin as
25 quickly as possible.

1 THE CHAIRPERSON: Mr. Williams, I'm just
2 going to take a one minute break. I just want to get
3 something.

4

5

(BRIEF PAUSE)

6

7

THE CHAIRPERSON: Mr. Williams, you can
8 recommence.

9

10 MR. BYRON WILLIAMS: Mr. Chair, I'm quite
11 confident I'll finish this section before lunch and then I
12 guess the next section which follows is a longer one so
13 probably at about ten (10) or -- ten (10) to or quarter to
14 I'll seek your direction in terms of whether you -- we'll see
15 how you're feeling at the time and your Panel Members.

15

16 CONTINUED BY MR. BYRON WILLIAMS:

17

18 MR. BYRON WILLIAMS: Mr. Kuzcek, I wonder,
19 and it's been a while so it's nice to see you again, I wonder
20 if you could turn to Tab 13 of the CAC Cost of Service Book
21 of References which is an excerpt, I believe, from Volume I
22 of Manitoba Hydro's Application, Tab 8 and dealing with
23 Demand Side Management; do you have that, Mr. Kuzcek?

23

MR. LLOYD KUZCEK: Yes.

24

25 MR. BYRON WILLIAMS: And specifically just to
-- just to direct your attention, quite briefly without

1 elaborating, to -- to the third part of this excerpt from the
2 Hydro book of references, you'll see that at the -- there are
3 two (2) figures on this tab -- table being Figure 8.1 and
4 Figure 8.2; is that right?

5 MR. LLOYD KUZCEK: Yes.

6 MR. BYRON WILLIAMS: And, again without
7 elaborating, you'll agree that figure 8.1 depicts the energy
8 or Gigawatt Hours savings to date of Manitoba Hydro as a
9 result of DSM versus the 2011/2012 plan; is that right?

10

11

(BRIEF PAUSE)

12

13 MR. LLOYD KUZCEK: Mr. Williams, what it
14 actually depicts is what we formally recorded as savings to
15 date. Both Figure 8.1 and 8.2 show the savings to date of
16 the gigawatt hours and the megawatt saved to date. The
17 actual savings are larger in that and we report those in our
18 annual report and an estimate of what that is to date. And
19 if you look at our last annual report, you'll actually have
20 those updated numbers.

21 I could provide them for you. I have them
22 here.

23 MR. BYRON WILLIAMS: We'll get -- we'll get
24 there just in a -- in a second.

25 Just so I understand, the Figure 8.1 relates

1 to energy savings and that's measured in gigawatt hours. Is
2 that right?

3 MR. LLOYD KUZCEK: Correct.

4 MR. BYRON WILLIAMS: And figure 8.2 relates
5 to capacity or demand savings and that's recorded in terms of
6 megawatts. Is that right?

7

8 MR. LLOYD KUZCEK: Correct.

9 MR. BYRON WILLIAMS: If you'll excuse me for
10 one (1) sec.

11 Mr. Kuzcek, perhaps you could -- you indicated
12 that you have other data. So, perhaps you could start with
13 what is this data in terms of recorded savings. And how does
14 it compare to the information from the annual report? What's
15 the difference?

16 MR. LLOYD KUZCEK: Sorry. The difference is
17 -- is -- well first of all, this is the savings that we've
18 achieved through incentive based programs. It doesn't
19 include all our efforts.

20 And it measures -- it's the detailed
21 assessment of what we've achieved from those programs. It
22 includes an assessment of the impact of free riders, free
23 drivers, persistency effects.

24 And -- and that -- those -- the latter three
25 (3) things that I had mentioned are the difference between

1 what we would initially estimate and what the final numbers
2 would be.

3 MR. BYRON WILLIAMS: So, would another way to
4 phrase this be that this measures the direct effect of your
5 program account and...

6 MR. LLOYD KUZCEK: I see you need a little
7 force on this one (1). I -- I think that's true given the --
8 in the context of what else I mentioned.

9 MR. BYRON WILLIAMS: And so what you're
10 essentially doing is looking at your plan and then evaluating
11 how you've done against your plan based upon your measure of
12 how the programs have performed in these figures. Is that
13 right?

14 MR. LLOYD KUZCEK: Correct.

15 MR. BYRON WILLIAMS: And the data in your
16 annual report would reflect externalities, or free riders, or
17 other factors. Is that right?

18 MR. LLOYD KUZCEK: Actually, the reverse.
19 The annual report doesn't reflect the assessment due to free
20 riders and free drivers.

21 MR. BYRON WILLIAMS: Sorry, I misspoke. I
22 think we're -- we're talking at the same page. On the
23 same...

24 So, Mr. Kuzcek, I'm interested in -- in your
25 program evaluation and I note from page 2 of 9, lines 24

1 through 26, you indicate that Figures 8.1 and eight (8) two
2 (2), depict the energy and demand savings realized during the
3 past decade.

4 And then you go on to indicate that the
5 savings realized during '02/'03 are currently being
6 addressed. We'll put a -- a strike out the is. And are
7 expected to be available by March 2004. You see that
8 statement, sir?

9 MR. LLOYD KUZCEK: No, but I was listening to
10 you read it.

11 MR. BYRON WILLIAMS: Okay. Do you -- do you
12 have the -- the statement which the -- the figures for
13 '02/'03 that would be comparable to the figures reflected in
14 Figure 8.1 and Figure 8.2?

15 MR. LLOYD KUZCEK: No, we have the estimates
16 that we provide in the -- the annual reports and the work
17 that's currently being done to -- to do the detailed
18 analysis, to see what the impacts are due to free riders and
19 free drivers.

20 MR. BYRON WILLIAMS: So you have the figures
21 from the Annual Reports, but they're not apples to apples, in
22 terms of what we have in Figure 8.1, and Figure 8.2?

23 MR. LLOYD KUZCEK: That's correct, but we
24 wouldn't -- I don't expect we're going to see significant
25 changes to those numbers, but there -- there will be some

1 changes for sure.

2 MR. BYRON WILLIAMS: And the changes would
3 probably be downwards, sir?

4 MR. LLOYD KUZCEK: Not always.

5 MR. BYRON WILLIAMS: Okay, could you provide,
6 with your kind of high level figure from your Annual Report,
7 for both the gigawatt hour savings for '02/'03 and the
8 megawatt savings for '02/'03, please?

9 MR. LLOYD KUZCEK: The gigawatt hours for
10 '02/'03 are five ninety-six (596). The megawatt savings for
11 '02/'03 are two forty-one (241).

12 Did I give you five ninety-six (596) for
13 gigawatt hours?

14 MR. BYRON WILLIAMS: Yes, you did.

15 Now, can you -- before we go into these
16 figures in a bit more detail, can you explain to me why the
17 -- the updated figure 8.1 and 8.2 promised by March 2004, is
18 not yet available, although I have my suspicions as to why?

19 MR. LLOYD KUZCEK: I'm not going to say you.
20 At Manitoba Hydro, we're -- we're struggling with trying to
21 ramp up our DSM Programs, and so we're trying to balance
22 achieving a number of things.

23 One (1) of the things we're trying to put a
24 priority on is achieving all those economic DSM opportunities
25 that are available out there. The other thing we're trying

1 to do is try to monitor how well we're doing with the
2 programs, and so that's the assessment side.

3 The third thing that we're trying to do is
4 formalize a plan. We have an internal plan and we know where
5 we're going with that, and I'm verbalizing what that plan is
6 right now, and I've talked about it previously.

7 So, in trying to balance achieving all of
8 these objectives, and the priority that was placed on those,
9 we've set aside achieving the -- or formalizing the -- the
10 review.

11 And so -- but we're not uncomfortable with
12 that, because we know what the general results of the -- of
13 our programs are, as indicated with the results I gave you.
14 And the result -- we also have the results for '03/'04, the
15 preliminary results. So, I could also provide you with that
16 as well.

17 MR. BYRON WILLIAMS: Yes, we'd like those
18 please.

19 MR. ROBERT MAYER: Mr. Kuzcek, are Figure 8.2,
20 and at least on the copy I have, shows two (2) different
21 shadings, what do those represent?

22 MR. LLOYD KUZCEK: The -- the light shade on
23 the top is the rate programs, curtailed rates, Mr. Wien's --
24 Wien's programs; the results of those programs. And the --
25 the bottom darker shade is the efficiency programs, the

1 incentive based efficiency programs.

2 MR. ROBERT MAYER: And there's no similar
3 shading on eight point one (8.1)?

4 MR. LLOYD KUZCEK: That's correct. There's no
5 energy savings with -- from Mr. Wiens.

6

7 CONTINUED BY MR. BYRON WILLIAMS:

8 MR. BYRON WILLIAMS: Mr. Kuzcek, perhaps if
9 you can provide the preliminary results for '03/'04 and
10 again, this would be not quite an apples to apples
11 comparison, if I'm might?

12 MR. LLOYD KUZCEK: For '03/'04, the gigawatt
13 hour savings preliminary estimates are six hundred and
14 thirty-one (631) gigawatt hours, and the megawatt savings are
15 two hundred and ninety-two (292) megawatts.

16 MR. BYRON WILLIAMS: In terms of evaluating
17 the effectiveness, or the value added to Manitoba Hydro of
18 the DSM Program, I believe you mentioned in your conversation
19 with Mr. Lazar yesterday, that the primary value that Hydro
20 derives from DSM at present, is the energy savings realized;
21 is that right?

22 MR. LLOYD KUZCEK: I think when I was talking
23 about the primary -- and I'm not sure what the descriptive
24 word was that I was using, but the primary drivers --

25 MR. BYRON WILLIAMS: And in fairness, Mr.

1 Kuzcek, maybe that would be more fair. I'm quoting you from
2 page 1234 of the transcript, and I apologize:

3 "We're an energy driven company
4 right now, so there's
5 significantly more value in
6 energy for Manitoba Hydro, than
7 there is capacity."

8 Is that correct?

9 MR. LLOYD KUZCEK: In that context, clearly
10 that's true.

11 MR. BYRON WILLIAMS: Mr. Wiens, I wonder if
12 you could turn now to CAC/MSOS-I-88, which is at tab 14 of
13 the Book of References. Do you have that Sir?

14 Not Mr. -- excuse me -- Mr. Kuzcek, I
15 apologize.

16 MR. LLOYD KUZCEK: You're going to have to
17 repeat that. I took that as a break.

18 MR. BYRON WILLIAMS: Well, it's not too much
19 of a grilling anyways Mr. Kuzcek. But, CAC/MSOS, tab 14 in
20 the Book of References, CAC/MSOS-I-88.

21 MR. LLOYD KUZCEK: Okay, I'm there.

22 MR. BYRON WILLIAMS: Now, as I understand
23 Manitoba Hydro's current -- the existing plan calls for about
24 five hundred and ninety-eight (598) additional gigawatt hours
25 for the year 2017/'18. This isn't based upon the -- the

1 report, it's your existing plan, which was last published in
2 2001. Is that right, Mr. Kuzcek, subject to check?

3 MR. LLOYD KUZCEK: That sounds correct.

4 MR. BYRON WILLIAMS: And if I totaled the --
5 the achievable potential most likely for this -- this
6 response which is from your most recent DSM market potential
7 study, I get four eighty-two (482) in terms residential, five
8 oh seven (507) in terms of commercial, and about one nineteen
9 (119) gigawatt hours in terms of industrial. Would that be
10 right, Sir?

11 MR. LLOYD KUZCEK: Correct.

12 MR. BYRON WILLIAMS: So, compared to your
13 current target, the recent DSM market potential study shows
14 that if you total the -- that there's about eleven hundred
15 and eight (1108) gigawatt hours in terms of the most likely
16 achievable. Would that be right?

17 MR. LLOYD KUZCEK: That's correct.

18 MR. BYRON WILLIAMS: And so we can see from
19 your most recent study, that the most likely achievable based
20 upon this recent study is almost twice what your current plan
21 is. Would that be fair?

22 MR. LLOYD KUZCEK: One point eight-five
23 (1.85) times.

24 MR. BYRON WILLIAMS: That's very good, Mr.
25 Kuzcek. Seems like you have it right on the top of your

1 head.

2 So, that would suggest that there's plenty of
3 potential to do more in terms of DSM, then what we have in
4 our current targets. Would that be correct, Sir?

5 MR. LLOYD KUZCEK: That's true. But if you
6 look at 2011/'12 and compare the numbers that we have in our
7 current plan, to what the DSM market potential study says,
8 it's actually one point three three (1.33) times, as opposed
9 to the one point eight five (1.85) times.

10 So I -- I think what we had in our current
11 plan was the DSM program was actually slowing down beyond
12 2011/'12 and with the updated information from the market
13 potential study we see that, that's not the case. And it's
14 actually -- there is more potential than we've had in those
15 future years.

16 MR. BYRON WILLIAMS: Mr. Kuzcek, just a final
17 couple of questions.

18 Now, you mentioned some -- that you hadn't
19 completed the assessment -- the final assessment of DSM for
20 '02/'03. And I wonder if one (1) of the other factors that's
21 slowing down your work and your -- enhancing your struggle to
22 try and wrap up DSM, is the other conflicting demands that
23 you have within your departments, particularly in -- in the
24 context of major capital projects like Wuskwatim?

25 MR. LLOYD KUZCEK: That certainly did have an

1 impact, yes.

2 MR. BYRON WILLIAMS: So as Hydro tries to
3 achieve it's objectives in terms of DSM, one (1) of the
4 struggles you have to resolve is the balance between the
5 energies devoted to major capital projects like Wuskwatim and
6 the energies devoted to actual programming. Would that be
7 fair?

8 MR. LLOYD KUZCEK: Well the resources that we
9 use for Wuskwatim were at the higher level. The people doing
10 the designs were still back in the office working on the
11 designs.

12 So, in -- in that context those -- those
13 resources were still moving forward and even during the
14 Hearings we -- we did launch few programs and we're
15 continuing to -- or we plan to launch more programs as we go
16 forward and that's because of the work that was ongoing
17 during the Wuskwatim Hearings.

18 Having said that, staff, instead of working
19 forty (40) hours a week, ended up working many more hours a
20 week that they wouldn't have otherwise. So, I'm not sure
21 what the end result was with or with out Wuskwatim.

22 MR. BYRON WILLIAMS: So, when you were --
23 when you told Mr. Mayer last Wednesday at page 1185 of the
24 transcript that you could have gotten a lot more done if it
25 wasn't for the CEC hearings; you were just joking?

1 MR. LLOYD KUZCEK: That would be correct.

2 MR. BYRON WILLIAMS: Okay, Mr. -- Mr. Chair,
3 I'm moving on to a new subject area that will take, I'm
4 guessing forty-five (45) minutes to -- to an hour and I leave
5 it up to -- there are -- are some advantages in -- in
6 standing down now. We have one exhibit that we'd like to
7 retype some errors in -- or some -- some --

8 MR. ROBERT MAYER: Take errors out, I assume?

9 MR. BYRON WILLIAMS: Yes. That -- that as
10 well, Mr. Mayer.

11 THE CHAIRPERSON: Ms. McCaffrey, if I may
12 ask, how much time are you estimating for your
13 cross-examination, if you've made an estimate?

14 MS. TAMARA MCCAFFREY: Somewhere around three
15 (3) hours I would think.

16 MR. BYRON WILLIAMS: Mr. Chair, that's just
17 the next section. I have two (2) others after that so...

18 THE CHAIRPERSON: Well, we'll stand down now
19 and resume at 1:30, thank you.

20

21 --- Upon recessing at 11:45 a.m.

22 --- Upon resuming at 1:32 p.m.

23

24 THE CHAIRPERSON: Ms. Ramage, are we ready to
25 go?

1 MS. PATTI RAMAGE: Yes, we've filed what we've
2 labeled, Manitoba Hydro Undertaking Number 47, which is in
3 response to Mr. Feldschmid's question this morning, regarding
4 the customers by zone.

5 THE CHAIRPERSON: This is Exhibit number 56?

6 MS. PATTI RAMAGE: That's what I have, yes.

7
8 --- EXHIBIT NO. MH-56: Response to Manitoba Hydro
9 Undertaking Number 47.

10
11 THE CHAIRPERSON: Mr. Williams, are you about
12 ready to go? I just say before beginning that for the Panel
13 Members, we greatly appreciate the efforts that are being
14 made. Our understanding is gradually growing and becoming
15 deeper, and we -- we appreciate the effort.

16 Mr. Williams...?

17 MR. BYRON WILLIAMS: Well, I'm hopeful we can
18 carry on in that -- that experience, Mr. Chair. I'm not
19 making any representations on that.

20
21 CONTINUED BY MR. BYRON WILLIAMS:

22 MR. BYRON WILLIAMS: Just for the Panel's
23 information, the next subject I want to cover on behalf of my
24 clients is in terms of rate and bill impacts.

25 And we'll be working primarily out of the Book

1 of Reference, but I am going to ask Mr. Singh to distribute
2 three (3) potential exhibits on this subject, that we've
3 shared with Hydro yesterday. And -- and they've had an
4 opportunity to review it.

5 So, maybe I'll wait for a couple of seconds,
6 while he does.

7

8

(BRIEF PAUSE)

9

10 THE CHAIRPERSON: Ms. Ramage -- Mr. Williams,
11 do you want to start with the numbering?

12 MR. BYRON WILLIAMS: Mr. Chairman, the number
13 nine (9), subject to any comments of My Learned Friend,
14 although I don't think they'll have any objection would be
15 titled, Residential Bill Impact Analysis Based on
16 September 1, 2004 Implementation.

17

18 EXHIBIT CAC/MSOS NO.9: Residential Bill Impact Analysis
19 Based on September 1, 2004
20 Implementation.

21

22 THE CHAIRPERSON: How did you get this table?
23 It's not on here from the Appendix. Ms. Ramage do you have
24 any problems with this?

25

MS. PATTI RAMAGE: No we don't.

1 THE CHAIRPERSON: Mr. Williams ...?

2 MR. BYRON WILLIAMS: And -- and Mr. Chair,
3 when I do my cross, I'll lay a foundation for -- for this,
4 just a very brief one (1). But my understanding is that
5 Hydro doesn't have concerns now that -- in -- in terms of the
6 -- the tables themselves. They may have in terms of the
7 conclusions but not with the tables, subject to check from
8 Ms. Ramage.

9 THE CHAIRPERSON: I appreciate that.

10 MR. BYRON WILLIAMS: CAC/MSOS Exhibit 10
11 would be a table titled, Number of Residential Bills,
12 2002/'03.

13
14 EXHIBIT CAC/MSOS NO.10: Table Titled, Number of
15 Residential Bills, 2002/'03.

16
17 MR. BYRON WILLIAMS: And propose CAC/MSOS
18 Exhibit 11 is titled April 1, 2005 Residential Bill Impact
19 Analysis Based on September 1, 2004 Implementation.

20
21 --- EXHIBIT CAC/MSOS NO.11: April 1, 2005 Residential Bill
22 Impact Analysis Based on
23 September 1, 2004 Implementation.

24
25 THE CHAIRPERSON: Thank you.

1 MR. BYRON WILLIAMS: I was going to start out
2 with a joke about wanting to discuss uniform rates for the
3 next half an hour or so but I don't think I'm that brave.

4 So, Mr. Wiens, we'll get to those tables in
5 just a few minutes but I wonder -- I'm assuming the questions
6 will be directed to you. If you could turn to the CAC/MSOS
7 Book of References, Tab 1.

8

9

(BRIEF PAUSE)

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 MR. BYRON WILLIAMS: And this will be a
familiar document to you and we'll come back to it a little
bit later on but this is a -- what is marked as Exhibit 1 to
this -- to the Pre-Hearing Conference, I believe, which is
the Notice of Application and Pre-Hearing Conference. Is
that right Sir?

 MR. ROBIN WIENS: Yes.

 MR. BYRON WILLIAMS: And very quickly, and
some of this has been gone over before, I just want to draw
your attention to the -- the Notice of Application, and in
the first paragraph it indicates that general consumer
revenue -- that we're looking at an increase of general
consumer revenue of 3 percent for the '04/'05 year. And --
and I -- for the 2.5 percent for the fiscal year ended

1 March 31, 2006. Is that right?

2 MR. ROBIN WIENS: Yes.

3 MR. BYRON WILLIAMS: And if we go down to the
4 -- under the heading, Class, we'll see that the proposed rate
5 increase is 4.01 percent for residential in '04/'05 and 3.51
6 percent in '05/'06. Is that right, sir?

7 MR. ROBIN WIENS: Yes.

8 MR. BYRON WILLIAMS: And, just the last
9 paragraph I'd like to draw to your attention at this point in
10 time.

11 If we go under the -- the table which
12 concludes with the overall average, there's also a note which
13 indicates that if annual revenue increases are approved after
14 April 1, 2004, the Board will be asked to adjust the proposed
15 rate increases in order to recover the requested revenue over
16 a shorter time period. Is that right, sir?

17 MR. ROBIN WIENS: Yes.

18 MR. BYRON WILLIAMS: Very quickly again. I
19 wonder if you can turn to T-ab 9 of this Book of References.
20 And you'll see a document in the top left-hand corner with
21 the heading, Manitoba Hydro. And you'll -- and underneath
22 you'll see it's -- indicated to be a release of January 15,
23 2004, Electricity Rate Increase Sought.

24 And would this be a document that Manitoba
25 Hydro would be familiar with, sir?

1 Ms. Ramage, it's right from -- from your
2 website.

3 MR. ROBIN WIENS: Yes. We -- we obviously
4 had some input into this document but this is not a document
5 that we prepared.

6 MR. BYRON WILLIAMS: Okay. And I don't --
7 I'm not looking for a -- a detailed discussion but presumably
8 this would be a document designed to inform the -- the media
9 as well as the public about the impacts of -- of the proposed
10 rate increases. Would that be right?

11 MR. ROBIN WIENS: I -- I believe at this
12 point, although we had not filed our application with the
13 Board, we had fully determined what we would be filing and --
14 and this was intended, yes, to provide some advance warning
15 to the media and the public of what we were intending to file
16 and what we would be seeking.

17 MR. BYRON WILLIAMS: Okay, thank you very
18 much. And we may come back to that a little bit later on.

19 Now, just moving over to Tab 2 of the Book of
20 References, and this was an interrogatory response to
21 CAC/MSOS-I-4.

22 Hydro was asked to confirm that under the
23 current schedule, which is set out in Volume I, Tab 1,
24 Manitoba Hydro plans to implement any 2004/05 increases
25 approved by the PUB, effective August 1st, 2004; is that

1 right?

2 MR. ROBIN WIENS: Yeah, that's true. I mean,
3 looking at the schedule that was our best guess at when we
4 might be able to get an order in to implement it.

5 MR. BYRON WILLIAMS: And just flipping over,
6 and I appreciate that, and we'll -- we'll get to that in just
7 a minute. Just flipping over to Tab 3, we see a reference
8 from the transcript and in particular, I would -- of this
9 Hearing, day one (1), and in particular, I would draw your
10 attention to the bottom right hand corner, page 81, lines 21
11 to 25, where Hydro ind -- indicates that based upon an August
12 1st, 2004 implementation, we would be looking at an average
13 increase of approximately 4.3 percent, instead of an average
14 of 3 percent; is that right, sir?

15 MR. ROBIN WIENS: Yes, that's right.

16 MR. BYRON WILLIAMS: Now, we didn't see
17 anywhere on -- on the record from Manitoba Hydro in terms of
18 the August 1st, '04 implementation date an indication of the
19 average impact upon residential customers, but Mr. Harper has
20 calculated that to be, assuming of an August 1st
21 implementation date, to be about 5.5 percent. And I wonder
22 if you would agree that that figure is reasonable?

23 MR. ROBIN WIENS: I think I can do you one (1)
24 better than that, Mr. Williams, if I can find the document
25 that I'm looking for. We actually put on the record this --

1 MR. BYRON WILLIAMS: I may have missed that.

2 MR. ROBIN WIENS: -- pardon me, last
3 Wednesday, what we expected the increases would be to the
4 individual classes, if we had an implementation date of
5 August the 1st.

6 And for the residential class, that was 5.52
7 percent.

8 MR. BYRON WILLIAMS: So, Mr. Harper was being
9 somewhat conservative?

10 MR. ROBIN WIENS: I'm sorry, I didn't hear the
11 number that you quoted from Mr. Harper.

12 MR. BYRON WILLIAMS: That's okay, I'm just
13 joking, it was 5.5 percent. As usual, you're both right.

14 Now, and again, if we turn to Tab 4, which is
15 the impact which -- which is a response to CAC/MSOS-I-47, and
16 we see that based upon an August 1st implementation, the
17 impact on the various levels of residential usage; is that
18 right, sir?

19 MR. ROBIN WIENS: Yes, that's right.

20 MR. BYRON WILLIAMS: And we see just -- well,
21 the average is five point five two (5.52), the impact range
22 is from about a one point three eight (1.38) percentage
23 change for the two hundred and fifty (250) kilowatt per hour
24 month usage, up to -- for those using two thousand (2,000)
25 kilowatt hours per month, about a six point one one (6.11)

1 percent increase, if the proposed rate increase is approved
2 and implemented August 1st, '04, in terms of residential; is
3 that right, sir?

4 MR. ROBIN WIENS: Yeah, that's right. That --
5 that basically follows along the type of rate design we were
6 proposing for April the 1st, and -- and simply extends it to
7 August the 1st.

8 MR. BYRON WILLIAMS: Now, I have to admit that
9 under the stress of Hydro hearing after Hydro hearing, my
10 memory is starting to go on me. But if -- if my memory
11 serves me right, it seems to me that the original schedule
12 for this Hearing did -- did not contemplate us having closing
13 arguments on July 16th, 2004. Would you agree with me with
14 that?

15 MR. ROBIN WIENS: Well, I can sympathize with
16 your -- your problem in keeping everything in the various
17 pigeon holes, after the various hearings.

18 But I believe you're quite correct, Mr.
19 Williams, the original schedule contemplated, I believe that
20 we would be done by tomorrow.

21 MR. BYRON WILLIAMS: That may have been a
22 tactical error on my part for reminding everyone. But with
23 the extension of the Hearing time, you'll agree with me that
24 there's a possibility that the actual time-frame in which the
25 decision is rendered will also be extended. Would that be

1 fair, Mr. Wiens?

2 MR. ROBIN WIENS: We -- we really don't know
3 that. It -- obviously the later you go, the more difficult
4 it becomes but we cannot make a definitive response to that.

5 MR. BYRON WILLIAMS: And we don't want to
6 speak for the Board obviously, but given -- given that
7 possibility and you'll agree that it is a possibility?

8 MR. ROBIN WIENS: Again, I'm -- I'm not going
9 to -- I'm not going to try to anticipate how the Board
10 chooses to handle that.

11 MR. BYRON WILLIAMS: Okay. Well would you --
12 I'd -- I'd like to -- I was trying to give kind of a clever
13 segue, but we'll got to a less clever segue, I'd like you to
14 -- to just anticipate that possibility and -- and move to the
15 -- the impact upon residential customers, if there was a
16 September 1st, 2004 implementation date. Is that
17 satisfactory for you, Mr. Wiens?

18 MR. ROBIN WIENS: Yes.

19 MR. BYRON WILLIAMS: If you just would have
20 went along with me, that would have been so much more smooth.

21 MR. ROBIN WIENS: But -- but we got there
22 anyway, didn't we.

23 MR. BYRON WILLIAMS: If you turn to Tab 5 --

24 THE CHAIRPERSON: For the length of time that
25 Mr. Wiens has had to answer all -- everyone's questions, I

1 think he's doing pretty good.

2 MR. BYRON WILLIAMS: We consider him a very
3 reputable witness, especially when he supports our positions.

4

5 CONTINUED BY MR. BYRON WILLIAMS:

6 MR. BYRON WILLIAMS: If you turn to Tab 5, you
7 see that in the response to PUB-MH -- this is of the CAC book
8 of references, you'll see that in response to PUB-MH-I-
9 4(b)(1), Hydro recalculated the required increase in the
10 billed amount over current rates by customer class, assuming
11 the requested rate increase of April 1st, 2004, came into
12 effect September 1st, 2004, is that right, sir?

13 MR. ROBIN WIENS: That's right.

14 MR. BYRON WILLIAMS: And if we flip over under
15 the -- if we go down to the answer and to the fourth numbered
16 column, we see now that as opposed to a 4.01 percent increase
17 as of April 1st, we're looking at a difference in revenue of
18 6.1 percent for residential; is that right, sir?

19 MR. ROBIN WIENS: Yeah, that's right.

20 MR. BYRON WILLIAMS: And that you -- you would
21 calculate -- or you calculated this basically by taking the
22 difference of revenue of 14.3 million for the residential
23 class, over the revenue at current rates of approximately 237
24 hundred million; is that right, sir? And that yielded 6.1
25 percent?

1 MR. ROBIN WIENS: Yes.

2 MR. BYRON WILLIAMS: So, if I wanted to
3 perform a similar calculation in terms of the overall
4 difference in revenue, percentage difference in revenue for
5 all classes, I would take as the numerator, the difference of
6 revenue at the bottom of this column, being twenty-seven
7 point zero five seven three eight eight (27.057388) and
8 divide it by the sum of the revenue at current rates set out
9 in the -- the first column; would that be right, sir?

10 MR. ROBIN WIENS: Yes.

11 MR. BYRON WILLIAMS: And so, the -- assuming a
12 -- a September 1st implementation date, as -- as requested
13 and approved, you'll accept, subject to check, that the
14 overall rate increase effective September 1st, 2004 for all
15 classes, would be 4.8 percent?

16 MR. ROBIN WIENS: Yes.

17

18 (BRIEF PAUSE)

19

20 MR. BYRON WILLIAMS: Now, Mr. Wiens, keep --
21 if you would, keep your thumb on Tab 5, and also turn to the
22 CAC/MSOS Exhibit Number 9, being the Residential Bill Impact
23 Analysis Based on September 1st, 2004 Implementation. Do you
24 have that, sir?

25 MR. ROBIN WIENS: I do.

1 MR. BYRON WILLIAMS: And, Mr. Wiens, I said
2 I'd lay a foundation for this, it will be a very brief one
3 (1), but you'll accept you've had an opportunity to review
4 both the sources and the calculations, and with the exception
5 of a few rounding differences, you'll agree that the numbers
6 on this table are reliable; is that correct, sir?

7 MR. ROBIN WIENS: Version of the table, yes.

8
9 (BRIEF PAUSE)

10
11 MR. BYRON WILLIAMS: You had to say that
12 didn't you, Mr. Wiens?

13 MR. ROBIN WIENS: It just slipped out.

14
15 (BRIEF PAUSE)

16
17 MR. BYRON WILLIAMS: And if we look at this,
18 and I'm not going to take you through the columns, although
19 I'd dearly love to do that when we introduce tables, if we go
20 to the percentage change for someone with a monthly use of a
21 1,000 kilowatt hours, you'll agree with me that the
22 percentage change from the rates that are current -- from
23 their current bill would be 5.65 percent; is that right, sir?

24 MR. ROBIN WIENS: Yes.

25 MR. BYRON WILLIAMS: And for someone with the

1 monthly use of two thousand (2,000) kilowatt hours, assuming
2 a September 1st implementation, the percentage change from
3 their current bill would be 6.67 percent, correct?

4 MR. ROBIN WIENS: Yeah. And I think the best
5 way to look at that is for the one thousand (1,000) or two
6 thousand (2,000) is to say they had a thousand (1,000)
7 kilowatt hours of use in August, and the same thousand
8 (1,000) kilowatt hours of use in September, that would be the
9 impact of the change; September 1st.

10 MR. BYRON WILLIAMS: And I appreciate that.
11 And -- and just for five thousand (5000) kilowatt hours,
12 although I suspect we're getting into pretty large properties
13 at -- at that level, we're looking at a 7.35 percent --
14 percentage change.

15 MR. ROBERT MAYER: Some of us think the
16 people who have used five thousand (5000) kilowatt hours can
17 afford roughly the equivalent of a dozen Fort Gary Dark Ale.

18 MR. BYRON WILLIAMS: Which is why I'll
19 probably focus on the two thousand (2000) kilowatt hours, Mr.
20 Mayer.

21 MR. ROBERT MAYER: That'll only get you one
22 (1) beer at the Elephant and Castle.

23 MR. BYRON WILLIAMS: But it might mean a lot
24 to someone on social assistance, right?

25 MR. ROBERT MAYER: I thought -- I thought it

1 was your turn.

2 MR. BYRON WILLIAMS: I was just getting all
3 excited.

4

5 CONTINUED BY MR. BYRON WILLIAMS:

6 MR. BYRON WILLIAMS: I wonder now, if you
7 could turn to Tab 6 which is -- being that it's my turn. And
8 which is Interrogatory from Manitoba Hydro to TREE/RCM 4.

9 And in the -- in the question posed to TREE,
10 Manitoba Hydro suggests that the average residential
11 customers without electric heat uses eight hundred and twenty
12 (820) kilowatt hours per month. And the average customer,
13 with electric heat, uses about twenty-two hundred (2200)
14 kilowatt hours per month.

15 Would you consider that a -- a fairly
16 representative or accurate statement, sir?

17 MR. ROBIN WIENS: Yes, bearing in mind that
18 this is an average over the course of the year and that they
19 will tend to vary from month to month, particularly for the
20 electric heat customer.

21 MR. BYRON WILLIAMS: See, we're doing so much
22 better on our segues now, because that's where I was trying
23 to go.

24 Would you agree for this, the electric heat
25 customer, that they would tend to use considerably more than

1 twenty-two hundred (2200) kilowatt hours in the winter
2 months? And tend to use considerably less than twenty-two
3 hundred (2200) in the summer months, sir?

4 MR. ROBIN WIENS: Yes.

5 MR. BYRON WILLIAMS: And if I was trying to
6 get a rough feel for how much they used -- sorry am I
7 interrupting, Mr. Wiens?

8 If I were trying to get a rough feel for how
9 much they would use during the winter months, would it be
10 closer to four thousand (4000) kilowatt hours, or three
11 thousand (3000) kilowatt hours?

12 MR. ROBIN WIENS: You know, we -- we did
13 this. And I -- when we were -- when we were reviewing this
14 material. And my recollection is -- I don't have the -- I
15 don't have the sheet with me but my recollection is that it's
16 about thirty-three hundred (3300) kilowatt hours.

17 MR. BYRON WILLIAMS: Now, he wasn't under
18 oath yesterday when he did this but in his discussion with
19 Mr. Lazar, I believe, Mr. Mayer suggested that for many of
20 those electric heat customers living north of the 53rd para
21 -- parallel, winter starts in October, not November. Would
22 you agree with that suggestion, in terms of their usage?

23 MR. ROBIN WIENS: Mr. Mayer is not the first
24 person who has suggested that to us.

25 MR. BYRON WILLIAMS: And that's something

1 you'd accept?

2 MR. ROBIN WIENS: Yes. You know, I don't
3 have -- I don't have the details of the -- of the degree days
4 in front of me, but it's -- it's not difficult to accept that
5 winter starts three (3) or so weeks earlier when you get up
6 to fifty-three (53), fifty-four (54) degrees parallel.

7 MR. BYRON WILLIAMS: Especially when he's on
8 the Panel, right?

9 MR. ROBIN WIENS: Yeah.

10 MR. ROBERT MAYER: For what it's worth, Mr.
11 Harper, we can count on a snow that happens at Halloween to
12 last the rest of the year and we will have had several before
13 Halloween.

14

15 CONTINUED BY MR. BYRON WILLIAMS:

16 MR. BYRON WILLIAMS: I wonder if you would
17 agree with me, and I believe this was a -- another
18 suggestion, not under oath by Mr. Mayer to Mr. Lazar, that
19 for many of these customers, north of the 53rd parallel,
20 there are not many competitive alternatives to electricity
21 other than heating fuel such as propane or -- or diesel;
22 Would that be correct, Sir?

23 MR. ROBIN WIENS: Those -- those are the
24 options and really in the south there they are the same with
25 the one (1) major exception.

1 MR. BYRON WILLIAMS: And that major exception
2 in the south, in terms of competitive options, would be
3 natural gas?

4 MR. ROBIN WIENS: That's right.

5 MR. ROBERT MAYER: Wood stoves and
6 supplemental wood heat are used fairly extensively, not only
7 in the cities but significantly in the remote communities.

8

9 CONTINUED BY MR. BYRON WILLIAMS:

10 MR. BYRON WILLIAMS: In -- in terms of fuel
11 oils, Mr. Wiens, would you agree that compared to prices in
12 the south, there would also be additional prices involved in
13 terms of trans -- transporting them north? Would you agree
14 with that, Sir?

15 MR. ROBIN WIENS: You know, I don't -- I
16 don't have anything that would corroborate that but I have no
17 doubt of it that they would be different.

18 MR. BYRON WILLIAMS: Mr. Wiens, I wonder if
19 you can turn to the CAC/MSOS Exhibit Number 10, I believe,
20 which is Number of Residential Bills, 2002/2003; do you have
21 that, sir?

22 MR. ROBIN WIENS: Yes.

23 MR. BYRON WILLIAMS: And again, subject to the
24 caveat that -- that the table is currently presented is
25 accurate, you don't have any concerns with the source or

1 reliability of the calculations in this table, sir?

2 MR. ROBIN WIENS: Yeah, we're okay with them.

3

4

(BRIEF PAUSE)

5

6

MR. BYRON WILLIAMS: Mr. Wiens, I'd like to
7 just spend a couple minutes exploring this table with you.

8 And the first column is monthly usage and it basically just

9 sets out a range of kilowatt hours used per month from --

10 starting at the -- the lowest range being zero (0) to a

11 thousand (1,000) and at the highest range, being five

12 thousand (5,000) plus; is that right?

13 MR. ROBIN WIENS: Yes.

14 MR. BYRON WILLIAMS: And the second column

15 represents the number of residential bills in '02/'03 for

16 customers of the former Zone 1 and Winnipeg Hydro or WH; is

17 that right, sir?

18 MR. ROBIN WIENS: Yes.

19 MR. BYRON WILLIAMS: And what this shows, if

20 we go down to the -- the bottom, to the total, is that in the

21 2002/'03 year, there were almost \$2.8 million billed to

22 residential -- bills distributed to residential customers in

23 Zone 1 and Winnipeg Hydro; is that right, sir?

24 MR. ROBIN WIENS: Yes.

25 MR. BYRON WILLIAMS: And just, you know, if I

1 -- that sounds like in the range of about two hundred and
2 thirty thousand (230,000) per month, if -- if one ever --
3 took an average of it?

4 MR. ROBIN WIENS: Yeah, that's approximately
5 the number of customers in --

6 MR. BYRON WILLIAMS: Now, if I -- if I -- I'm
7 sorry to interrupt, Mr. Wiens. If I -- if I look at this
8 range of usage, you'll agree with me that most of the bills
9 for the Zone 1 and Winni -- Winnipeg Hydro occur in the
10 monthly usage range of zero (0) to one thousand (1,000)
11 kilowatt hours; is that right, sir?

12 MR. ROBIN WIENS: It looks like about 75
13 percent.

14 MR. BYRON WILLIAMS: And that's -- yes, thank
15 you, sir. If we move over to the second -- under Zone 2, we
16 can see again that at the bottom, the total number of bills
17 for this former zone is about 1.4 million; would that be
18 right, sir?

19 MR. ROBIN WIENS: Yes.

20 MR. BYRON WILLIAMS: And again, you'll agree
21 with me that if we look to the monthly usage range, for the
22 range between zero (0) and one thousand (1,000) kilowatt
23 hours, a little over half of those or seven hundred and three
24 thousand (703,000) are at or below one thousand (1,000)
25 kilowatt hours per month, in terms of usage; would that be

1 right, sir?

2 MR. ROBIN WIENS: Yes.

3 MR. BYRON WILLIAMS: Moving to the third
4 column, or the third -- the column under Zone 3, again, we
5 see at the bottom that there's about eight hundred and fifty
6 thousand (850,000) bills, correct?

7 MR. ROBIN WIENS: Yes.

8 MR. BYRON WILLIAMS: And again, if we just
9 were to perform the simplistic calculation of dividing that
10 by twelve (12), that would be -- amount to about seventy-one
11 thousand (71,000) per month, subject to check?

12 MR. ROBIN WIENS: That would be about the
13 number of customers in that former zone.

14 MR. BYRON WILLIAMS: And if -- if we look at
15 this total and specifically for Zone 3 customers at the
16 monthly usage of zero (0) to one thousand (1,000), you'll
17 agree with me that un -- that there's a far lower percentage
18 of Zone 3 customers who are in the range of monthly usage
19 from zero (0) to one thousand (1,000) kilowatt hours per
20 month; is that right, sir, percentage wise?

21 MR. ROBIN WIENS: Yeah, it looks to be about
22 30 percent.

23 MR. BYRON WILLIAMS: And you'd agree with me
24 that there is a -- when we -- when we look at the -- the
25 figures in their entirety, there's a considerable number of

1 these customers who are using over two thousand (2,000)
2 kilowatt hours per month, and perhaps at least in the range
3 of 40 percent; would you agree with that, subject to check?

4 MR. ROBIN WIENS: Sorry, say again please?

5 MR. BYRON WILLIAMS: Yeah, that was not very
6 poetically worded was it?

7 Of the total of eight hundred and forty-nine
8 thousand four hundred and fifty-two (849,452) terms of bills,
9 when we look to the monthly usage over two thousand (2,000),
10 you'll agree with me that there's a considerable number and
11 subject to check, about 44 percent?

12 MR. ROBIN WIENS: The cumulative total above
13 two thousand (2,000)?

14 MR. BYRON WILLIAMS: Yes, Mr. Wiens.

15 MR. ROBIN WIENS: You're looking at eight
16 fifty (850) -- you're looking at easily over half of them are
17 over two thousand (2,000).

18 MR. BYRON WILLIAMS: That's even better. I
19 just want to draw your attention to the third -- or the final
20 column, which is Zone 3, as a percentage of total. And I
21 believe you understand, Mr. Wiens, that that's calculated by
22 taking the number of residential bills for Zone 3 for a
23 particular monthly usage range, and dividing it by the total
24 number of bills for that monthly usage range; is that
25 correct, sir?

1 MR. ROBIN WIENS: Yes.

2 MR. BYRON WILLIAMS: So, we see at the -- at
3 the lower level of monthly use -- usage, Zone 3's percentage
4 of the total -- of the range between zero (0) and one
5 thousand (1,000) kilowatt hours, is about 8 percent; is that
6 right, sir?

7 MR. ROBIN WIENS: Yes.

8 MR. BYRON WILLIAMS: And as we move up into
9 that magic 2,000 kilowatt hour range, we can see that Zone 3
10 is amounting to the range between two thousand (2,000) and
11 three thousand (3,000) kilowatt hours, Zone 3 is about 36.5
12 percent of the total number of bills within that range; is
13 that right, sir?

14 MR. ROBIN WIENS: Yes.

15 MR. BYRON WILLIAMS: And finally, just in the
16 three thousand (3,000) to four thousand (4,000), we're at --
17 Zone 3 is at 44.16 percent, sir; is that right?

18 MR. ROBIN WIENS: Yes.

19 MR. BYRON WILLIAMS: And many of those bills
20 would be related to winter usage, presumably given the
21 average of thirty-three hundred (3300) kilowatt hours; is
22 that right?

23 MR. ROBIN WIENS: That -- that would be a big
24 part of it, yes.

25 MR. BYRON WILLIAMS: And just to summarize,

1 and I apologize if -- if you feel like we've gone over this
2 before, but of the higher use categories, being those of over
3 two thousand (2,000) kilowatt hours per month, relative to
4 the total as a whole, a higher proportion of these are Zone
5 3, as opposed to Zone 1 or Zone 2?

6 MR. ROBIN WIENS: Yes.

7 MR. BYRON WILLIAMS: And you'll agree with me
8 that in terms of the percentage increase, it's customers in
9 this usage range who are likely to feel the greater impact of
10 the proposed rate increases by Manitoba Hydro?

11 MR. ROBIN WIENS: Yes.

12 MR. BYRON WILLIAMS: And assuming that the
13 increases start in September or October and that cold winter
14 wind starts blowing north of the 53rd parallel at about those
15 same time, those individuals using thirty-three hundred
16 (3300) kilowatt hours per month in winter usage will be
17 facing a pretty significant rate increase at about that time;
18 sir, would you agree?

19 MR. ROBIN WIENS: Yeah, I believe we've gone
20 over those numbers.

21 MR. BYRON WILLIAMS: Thank you, Mr. Wiens.

22 MR. ROBERT MAYER: Mr. Wiens, the -- when we
23 talk about residential usage in excess of five thousand
24 (5,000) kilowatt hours a month, are we talking apartment
25 buildings, or -- or could a single family dwelling use that

1 kind of power?

2 MR. ROBIN WIENS: We're talking, in Zone 3, we
3 are talking these could be single family homes. A lot of
4 these -- a lot of these points of delivery are farms, so
5 there could be outbuildings that are included along with the
6 family home.

7 And as far as apartment buildings, only if
8 we've got -- only if we've got a situation where you may have
9 up to four (4) households being served by a single meter. If
10 we've got multiple meters or we've got more than four (4)
11 households served by a single meter, those would tend to be
12 put in the general service class.

13

14 CONTINUED BY MR. BYRON WILLIAMS:

15 MR. BYRON WILLIAMS: Mr. Wiens, I wonder if
16 you could turn to CAC/MSOS Exhibit Number 11, being the April
17 1st, 2005 Residential Bill Impact Analysis, Based on
18 September 1st, 2004 Implementation. Do you have that, sir?

19 MR. ROBIN WIENS: Yes.

20 MR. BYRON WILLIAMS: And again, the table in
21 the -- in its current form is something you're confident of
22 in terms of its sources and its calculations; is that right,
23 sir?

24 MR. ROBIN WIENS: Yes.

25 MR. BYRON WILLIAMS: And you'll recall in your

1 conversation with Mr. Feldschmid this morning, he raised the
2 scenario with you of material increase in terms of rates in
3 December of 2004, and you suggested to him that for the class
4 he represents, the rates that those classes paid in 2000 --
5 effective April 1st, 2005, might actually decrease; do you
6 recall that, sir?

7 MR. ROBIN WIENS: Yes, I recall we were
8 talking about a December the 1st, 2004 implementation of --
9 of this year's rate increase, and that was referring to the
10 class average.

11 MR. BYRON WILLIAMS: I appreciate that, thank
12 you.

13 Just, if we took the example of the monthly
14 use of the two thousand (2,000) kilowatt hours, if I'm
15 reading Exhibit 9 and Exhibit 11 kind of consistently, if the
16 monthly use -- if the -- for a customer using two thousand
17 (2,000) kilowatt hours per month, if they experience a
18 percentage change of 6.67 percent effective September 1st,
19 2004, as a result of -- or what Table 11 shows us is that
20 that same customer would experience an additional 1.81
21 percentage increase, effective April 1st, 2005; is that
22 right, sir?

23 MR. ROBIN WIENS: Yes.

24 MR. BYRON WILLIAMS: So, for these customers
25 there will be, despite a September implementation there --

1 and assuming that the application as applied for, is
2 approved, there will be successive rate increases and not a
3 decrease, at least at the range of two thousand (2,000)
4 kilowatt hours per month, correct?

5 MR. ROBIN WIENS: If you're talking about a
6 September 1st, 2004 implementation, and I believe the
7 calculations are correct here, yes, that's what you're doing.

8 MR. BYRON WILLIAMS: Mr. Wiens, just looking
9 at this Exhibit Number 11, and we see that the percentage
10 change actually ranges from two fifty (250) kilowatt hours,
11 reducing somewhat to -- increased slightly over two point
12 zero eight (2.08) cents for five (5) -- or for 2.08
13 percentage -- percent for five thousand (5,000) kilowatt
14 hours would you agree that it's -- it would appear that the
15 average impact on residential customers of this additional
16 increase as of April 1st, 2005, would be less than 2 percent?

17 MR. ROBIN WIENS: Sorry, I'm going to have to
18 ask you to repeat that?

19 MR. BYRON WILLIAMS: Sorry. We've looked at
20 fairly substantial rate increases of about 6.1 percent on
21 average for residential customers in September 1st, 2005.
22 Would you agree that the additional increases over and above
23 that for Sept -- April 1st, 2005 would be about -- or below 2
24 percent on average, for residential customers?

25 MR. ROBIN WIENS: Well, the range is -- the

1 range here is from minus three (3) to 2 percent. Probably at
2 or around a thousand (1,000) kilowatt hours, more or less, is
3 going to be fairly comparable with -- with what the class is
4 experiencing.

5 So, yeah, you're looking at maybe 1.4/1.5
6 percent additional increase April the 1st of '05.

7 MR. BYRON WILLIAMS: Mr. Wiens, I guess one
8 (1) of the things that my clients find troubling about the
9 Application as it's currently framed, is the -- the quite
10 substantial increase that they may be contemplating,
11 effective September 1st, '05, and -- '04, excuse me, in the
12 range of 6 percent on average and the gap between that on the
13 -- the -- the likely increase of April 1st, '05.

14 And I wonder if -- if you would agree with me
15 that it might be more reasonable, assuming that these -- this
16 Application is -- the revenue requirement is approved to
17 approach this on a more gradual basis, in terms of customer
18 impacts, instead of a sharp drop -- jump in September '04?

19 MS. PATTI RAMAGE: Mr. Williams, as you're
20 aware, Mr. Warden was unable to be here this afternoon. But
21 I think that might be a question better put to Mr. Warden,
22 than Mr. Wiens, who must answer to Mr. Warden, and myself for
23 that matter, too.

24
25

(BRIEF PAUSE)

1 CONTINUED BY MR. BYRON WILLIAMS:

2 MR. BYRON WILLIAMS: Well, okay, Mr. -- Mr.
3 Wiens, we'll -- we'll go about this not -- we won't put you
4 on the -- on the spot.

5 I wonder if you would accept or assist me with
6 the calculation of, instead of Manitoba Hydro seeking a rate
7 increase of -- an average rate increase overall of 4.8
8 percent, on September 1st, 2004.

9 I wonder if you'd assist me with the
10 calculations, it consid -- sought a overall rate in --
11 increase of -- of 3.05 percent, September 1/'04? You'd be
12 prepared to help me the calculations for that, sir?

13 MR. ROBIN WIENS: I think the way, if you
14 wanted us to do that, would -- you would -- I think it would
15 be better perhaps to lay out a series of assumptions, perhaps
16 even off-line. And we'd endeavor to respond back to you.

17 MR. BYRON WILLIAMS: Yes, and I appreciate
18 that and perhaps at the break, Mr. Wiens, we can -- and -- we
19 can agree on an undertaking that we could put on the record
20 after the break. Is that agreeable, Ms. Ramage?

21 MS. PATTI RAMAGE: Yes.

22 THE CHAIRPERSON: Mr. Wiens, before Mr.
23 Williams begins again, I got a question.

24 If -- if -- if the space heat was by gas, what
25 percent would the bill increase be year -- year over year for

1 residential customers, say February 2004 compared to 2003?
2 In other words, would a natural gas customer for space heat
3 -- what type of -- of increase would they have dealt with for
4 the year over year, February '04 as compared to February '03?

5 MR. ROBIN WIENS: And this is -- this is what
6 -- what change in the gas rates would have occurred between
7 February '03 --

8 THE CHAIRPERSON: Yes.

9 MR. ROBIN WIENS: -- and February '04?

10 THE CHAIRPERSON: Yes.

11 MR. ROBIN WIENS: And I cannot give you a
12 ready answer to that. I don't have those numbers at my
13 fingertips.

14 But as a general answer I could say that gas
15 rates, even with the hedging program that we have, and the
16 fact that the commodity is only a part of the overall rate
17 that a residential customer sees, tend to be quite a bit more
18 volatile than the rate changes that we ask for on the
19 electric side.

20 THE CHAIRPERSON: Could you -- could you
21 provide us with that comparison?

22 MR. ROBIN WIENS: I think we can do that.

23 THE CHAIRPERSON: Thank you.

24

25 --- UNDERTAKING NO.45: Show the change in the gas rates

1 My question to you, Mr. Wiens, is -- is there
2 anywhere in the notices to the public provided by Manitoba
3 Hydro, is there any indication of the fact that the rate
4 increase will be entirely in the second block of consumption?

5 MR. ROBIN WIENS: No.

6 MR. BYRON WILLIAMS: And as we've discussed
7 before, even if there's an overall average residential
8 increase of six (6) -- 6.1 percent, that will vary based upon
9 usage; is that right, Sir?

10 MR. ROBIN WIENS: Yes.

11 MR. BYRON WILLIAMS: So, a customer reading
12 this notice, or other, you know, or similar notices would --
13 would assume that there was going to be a -- a rate increase
14 and that it might even be back-dated some but there wouldn't
15 be any communication to the customer that the -- the impact
16 would depend upon their level of usage. Would you agree with
17 that, Sir?

18 MR. ROBIN WIENS: Yes.

19 MR. BYRON WILLIAMS: And you may want to --
20 I'll just refer to Tab 11 of the CAC/MSOS Book of References,
21 which is a -- a Notice of Public Hearing by the -- and it's
22 relating to the Applicant, the Manitoba Public Insurance
23 Corporation.

24 And I'll draw your attention, Mr. Wiens, to
25 the fact that under the percentage increase by major use

1 categories, they also discuss the fact that the impact --
2 that -- that certain vehicles will be receiving a rate
3 decrease, and some will be receiving a rate increase.

4 And then on the -- the next page, they go on
5 to note that the actual changes to an individual's premium
6 will vary, depending on the owner's claim experience, et --
7 et cetera.

8 And I wonder, I'm not sure if this is a
9 question for you or Mr. Warden, but I wonder if you would
10 agree that when Manitoba Hydro was communicating increases or
11 changes in rates such as this, that it might be useful to,
12 especially when there's a chang -- a change, such as
13 increasing one (1) -- the second block, whether you might
14 agree that it might be useful to provide indication that an
15 average increase doesn't necessarily mean that the increase
16 expected will be experienced the same by all within a class?

17 You'll have to excuse me for the -- for the
18 mumbled question, but hopefully you could consider that.

19 MS. PATTI RAMAGE: Mr. Williams, it's -- it's
20 maybe appropriate given the length of the question, that I
21 ask it be deferred to Mr. Warden tomorrow, and we can
22 actually read that paragraph. And I'll ask him to provide
23 that answer tomorrow.

24 MR. BYRON WILLIAMS: I'm -- I'm getting a
25 little tired with the election coverage, so the -- and I'll

1 try and put it perhaps to you better over -- off-line as
2 well, thank you.

3 MR. ROBERT MAYER: Just a question. I noticed
4 at Tab 1, which was in Exhibit 1 in these Proceedings, and
5 the other tab you referred us to are both on PUB letterhead.
6 It appears to be on PUB notices anyway.

7 I'm wondering, do we do that, or does Hydro do
8 that?

9 MS. PATTI RAMAGE: Manitoba Hydro prepares --
10 my office prepares a -- a notice and it is submitted to the
11 Public Utilities Board and then edited as deemed appropriate.
12 That's correct.

13 MR. ROBERT MAYER: Thank you.

14 MR. BYRON WILLIAMS: Mr. Chairman, through you
15 to Manitoba Hydro, I just learned with reference to CAC/MSOS
16 Exhibit Number 10, there appears to be one (1) typographical
17 error, which I'll -- we'll review and bring to the Panel's
18 and Hydro's consideration tomorrow. So, I just want to put
19 you on -- on notice.

20 THE CHAIRPERSON: That's fine. Mr. Williams,
21 does it change the sense of the exhibit?

22 MR. BYRON WILLIAMS: I don't think so at all,
23 Mr. Chairman. I'm not even sure it changes any of the
24 calculations, but I just want to double check on that.

25 THE CHAIRPERSON: Thanks.

1 MR. BYRON WILLIAMS: And we would apologize
2 for any inconvenience, obviously.

3
4 CONTINUED BY MR. BYRON WILLIAMS:

5 MR. BYRON WILLIAMS: To Mr. Wiens, and also to
6 the Panel, I will be referring to the CAC/MSOS Book of
7 References, but in the -- the next few minutes, I will also
8 be referring to a study which is not in the book of
9 references, which is the -- the NERA Report dated February
10 11th, 2004. So, you may wish to have that on hand as well.

11
12 (BRIEF PAUSE)

13
14 THE CHAIRPERSON: Mr. Williams, are you
15 talking about the report Classification Allocation Methods
16 For Generation Transmission?

17 MR. BYRON WILLIAMS: Yes, I am indeed, Mr.
18 Chairman.

19 MR. ROBIN WIENS: Yes, we have it.

20
21 CONTINUED BY MR. BYRON WILLIAMS:

22 MR. BYRON WILLIAMS: Thank you. Mr. Wiens, I
23 want to get to the NERA Study in a -- in a few minutes, but I
24 wonder if first of all you can turn to Tab 20 of the CAC/MSOS
25 Book of References, because I want to take a brei -- a brief

1 look at Manitoba Hydro's rate making objectives and the
2 principles that may underline that -- those objectives,
3 before we turn to the NERA Report; do you have that, sir?

4 MR. ROBIN WIENS: Yes.

5 MR. BYRON WILLIAMS: And at Tab 20 is a
6 reference from the Status Update Hearing, being PUB/MH-I-82.
7 And Hydro was asked to discuss its rate design objectives,
8 and, Mr. Wiens, perhaps I might summarize them -- them to
9 you, and you can confirm that I've fairly summarized them.

10 Number one (1) is to achieve Manitoba Hydro's
11 full revenue requirement for domestic consumers.

12 Number two (2) is to collect revenue from each
13 customer class, which bears a reasonable relationship to cost
14 allocated to serve that class, using acceptable cost of
15 service methods.

16 Number three (3), and I'm going to shorten
17 that a little bit. To establish rate structures which are
18 reasonably reflective of the underlying costs.

19 Number four (4), to provide to the extent
20 pract -- practicable, incentives to use energy in a manner
21 which reflects the real value of that energy.

22 Number five (5) is to have rate structures and
23 accompanying processes -- and I'll skip a little bit here --
24 of applications, et cetera, which provide for equitable
25 treatment of customers both between and within classes of

1 service.

2 And number six (6) is to have the practical
3 attributes of stability and continuity of rates, in brackets,
4 (gradualism of change and minimum unexpected adverse change
5 and enhancing revenue stability and predictability).

6 Subject to my short-cuts, did I summarize that
7 fairly, sir?

8 MR. ROBIN WIENS: Yes.

9 MR. BYRON WILLIAMS: And these were your
10 objectives in nineteen (19) -- in terms of the Status Update
11 and I believe a similar summary is provided in the NERA
12 Report. But could you confirm that these still continue to
13 be the underlying objectives of Manitoba Hydro?

14 MR. ROBIN WIENS: Yes.

15 THE CHAIRPERSON: Mr. Miens -- Wiens, were
16 these objectives set or approved by the Board?

17 MR. ROBIN WIENS: By this Board?

18 THE CHAIRPERSON: The Board of Hydro. Are
19 they administrative guidelines?

20 MR. ROBIN WIENS: The Board reviews -- when
21 we prepare a rate application, the Board does review the rate
22 application prior to Manitoba Hyd -- or reviews, pardon me,
23 they don't necessarily always review the full application but
24 they will review the major components of it.

25 The rate increases being requested, the rate

1 increases for the various classes, the impact on revenue cost
2 coverage and so on are reviewed prior to the filing of every
3 rate application.

4 These rate design objectives typically do find
5 their way into the application. Can I say with confidence
6 that the Manitoba Hydro Board has studied them carefully and
7 asked questions on them and so on? No, I can't say -- I
8 cannot say that. But -- but they are -- certainly the end
9 result of them is approved by the Board of Manitoba Hydro.

10 THE CHAIRPERSON: Have they been in -- in
11 existence for several -- many, many years?

12 MR. ROBIN WIENS: In one (1) form or another
13 they have been around for quite a long time. Certainly, if I
14 can go back to the 1996 General Rate Application, we would
15 have these or some similar variant of them included in that
16 application.

17 THE CHAIRPERSON: Thank you. Sorry Mr.
18 Williams.

19
20 CONTINUED BY MR. BYRON WILLIAMS:

21 MR. BYRON WILLIAMS: And Mr. Chairman,
22 perhaps Mr. Wiens could confirm, subject to check, that the
23 actual rate making objectives that were present in the 1995
24 Rate Application are set out in the NERA Report at page 12.

25 Could you confirm that, Mr. Wiens?

1 MR. ROBIN WIENS: They're very similar.

2 MR. BYRON WILLIAMS: Now -- now Mr. Wiens,
3 when I look at -- at the objectives you set out there's two
4 (2) or three (3) themes that -- that seem to be spoken to by
5 these objectives.

6 And one (1) of those themes I would suggest to
7 you is fairness and -- in -- by that, I mean to the extent
8 that it can be reasonably determined, an underlying objective
9 is that customers should be paying about the costs -- be
10 paying about the costs that they bring to the system. Would
11 you agree with that, sir?

12 MR. ROBIN WIENS: To the extent practicable,
13 yes.

14 MR. BYRON WILLIAMS: And that extends not
15 just to individual customers, but to classes as well. And to
16 the extent practicable we don't want one (1) class paying for
17 the costs of another class. Would that be fair, sir?

18 MR. ROBIN WIENS: Yeah, to the extent
19 practicable.

20 MR. BYRON WILLIAMS: And we'll get to that in
21 a -- in a few minutes.

22 And if I look at the objectives set out at --
23 in the response of PUB 1-82, in terms of the fairness
24 objective, it would seem to me that, that's spoken to by
25 number two (2), revenues from a class bearing a reasonable

1 relationship to cost. By number three (3), establishing rate
2 restructures -- structures which are reasonably reflective of
3 the underlying costs. And in number five (5), providing for
4 equitable treatment of customers. Would you agree with me,
5 sir?

6 MR. ROBIN WIENS: Yes.

7 MR. BYRON WILLIAMS: And another --

8 MR. ROBERT MAYER: Would you also agree that
9 those last two (2) could be contradictory or conflicting with
10 each other; the fairness and equity, as opposed to the
11 bearing a relationship to the actual cost?

12 MR. ROBIN WIENS: Well, traditionally fairness
13 refers to the relationship between the rates and the costs.
14 I know there may be other definitions of fairness or other
15 considerations of fairness, but in classic rate making,
16 fairness refers to equal treatment of customers, causing
17 equal costs.

18

19 CONTINUED BY MR. BYRON WILLIAMS:

20 MR. BYRON WILLIAMS: Mr. Wiens, another theme
21 as I -- I look at these rate making objectives, seems to be
22 that of efficiency, and -- and by that I mean that an
23 objective is to be sending people messages about an efficient
24 choice in terms of their consumption choices; would you agree
25 with that?

1 MR. ROBIN WIENS: Yes.

2 MR. BYRON WILLIAMS: And I believe we may have
3 had this actual same conversation during the diesel hearing,
4 or it might have been Mr. Hildebrand, but that's just an
5 aside.

6 And why the objective of -- you'll agree with
7 me that if we look at the -- the -- the objectives number 2
8 again, charging rates that bear -- base -- bear a reasonable
9 relationship to costs, it's also spoken to by number 3, and
10 as well by objective number 4, to provide to the extent
11 practicable, incentives to use energy in a manner, which
12 reflects the real value of that energy. Those three (3)
13 objectives speak to the objective of efficiency, or the theme
14 of efficiency; you'd agree with that?

15 MR. ROBIN WIENS: Well, particularly number 4.

16 MR. BYRON WILLIAMS: And we want to optimize
17 efficiency for a few reasons, one (1) of which would be that
18 it's -- it's good for the overall economy, if we're making
19 efficient choices, in terms of our consumption choices,
20 correct?

21 MR. ROBIN WIENS: Well, I -- I'm not sure I
22 would use your choice of words to optimize efficiency, we
23 want -- what we're doing in rate making is we're balancing
24 among these number of objectives, and so certainly we want to
25 consider efficiency and because of the reasons that you've

1 stated.

2 MR. BYRON WILLIAMS: And not just for the --
3 yes, and I -- I accept the balancing act, and that leads me
4 to another segue in a couple of minutes. But I guess a third
5 theme that emerges from these objectives, relates to the
6 objective of stability.

7 And I guess I got into that discussion a
8 little bit with Mr. Lazar yesterday, we talked about the --
9 even if you need to change, you want to change gradually, and
10 you'll agree with me that the theme of stability and
11 predictability of -- of change is also an important part of
12 the balancing act that you just described?

13 MR. ROBIN WIENS: It's part -- yes, it is part
14 of the balancing act.

15 MR. BYRON WILLIAMS: And when we think of that
16 balancing act, one (1) example of that is the move to --
17 towards a reasonable approximation of cost based pricing, and
18 the Corporation has chosen to do that through aiming first to
19 achieve rates that are within a zone of reasonableness, as a
20 long term objective; is that right, sir?

21 MR. ROBIN WIENS: Yes.

22 MR. BYRON WILLIAMS: And staying with that
23 theme of gradualism, the Corp -- Corporation also aims to
24 gradually achieve unity; is that right?

25 MR. ROBIN WIENS: Target toward unity, yes.

1 MR. BYRON WILLIAMS: And that we can see is a
2 balancing act between the objective of -- of fairness, and to
3 the extent that we don't want customers cross-subsidizing one
4 another, but also the objective of gradualism and change --
5 predictable change, is that fair, sir?

6 MR. BYRON WILLIAMS: Yeah, I would say that
7 certainly Manitoba Hydro, for most of the time that I've been
8 aware of that is, has -- has treated it that way, yes.

9 MR. BYRON WILLIAMS: And as we look at the use
10 of a Zone of Reasonableness, instead of moving directly to
11 unity, I wonder if you would agree with me that one (1) of
12 the reasons that we use in -- in Hydro regulation, a Zone of
13 Reasonableness, rather than just striving directly for unity,
14 is because cost -- cost of service method -- methodology is
15 not an exact science? Would you agree with me, sir?

16 MR. ROBIN WIENS: Yes.

17 MR. BYRON WILLIAMS: And I'll get into this a
18 little bit later in the discussion of the NERA Report, but
19 this is especially the case, I think you'd agree with me, in
20 terms of cost of service methodology, when a substantial
21 portion of the costs are capital costs, which are joint and
22 must be allocated between cust -- customers in some fashion,
23 rather than directly assigned.

24 Would you agree with me?

25 MR. ROBIN WIENS: Yes.

1 MR. BYRON WILLIAMS: Now, in Mr. Lazar's
2 discussion with Mr. Peters yesterday, there was a brief
3 discussion about deviations between costs and revenues, and
4 Mr. Lazar suggested -- I don't have the actual page number,
5 but I can provide it to you, but he suggested that those
6 exist for a variety of reasons, including the limited
7 precision of cost of service analysis.

8 And would you agree, generally, with that
9 proposition, that one (1) of the reasons we don't strive for
10 an exact match as kind of the be all and end all is because
11 there isn't perfect -- precision in the methodology?

12 MR. ROBIN WIENS: Yes, that's one (1) reason.

13 MR. BYRON WILLIAMS: And another reason Mr.
14 Lazar cited was gradualism in moving towards the results of a
15 cost study, and the desire not to overshoot the target, and
16 you would accept that those would be valid reasons suggesting
17 caution, in terms of an approach?

18 MR. ROBIN WIENS: Well, I don't know about the
19 word caution, the word gradualism is one (1) that we've
20 accepted in the past. You know, I'd also add that given
21 certainly the uncertainty about -- insofar as the allocation
22 of common costs or large capital expenditures, it's certainly
23 a factor generally.

24 But I would say that if you can come to some
25 agreement through a regulatory process like this, involving

1 the stakeholders, that while you may still recognize that
2 you're imprecise, you've come to a measure that you can agree
3 on. And that makes it a little easier to accept a narrowing
4 of revenue cost coverages.

5 MR. BYRON WILLIAMS: So, a narrowing,
6 recognizing that there is imprecision so that -- that unity
7 may -- may be something that we can't agree upon, because we
8 can't agree upon the -- the perfect measure?

9 MR. ROBIN WIENS: Well, we may never arrive at
10 the perfect measure, and my point that I was just trying to
11 make is that we may arrive at a measure that's generally
12 agreeable to all of us.

13 MR. BYRON WILLIAMS: Mr. Wiens, I'm going to
14 -- the next step is to move to the NERA Report, but before I
15 do, I want to clarify a -- a few definitions with you, and
16 also clarify why they matter.

17 If I suggested to you that marginal costs or
18 the costs of producing additional kilowatt or kilowatt hour
19 of electricity or alternatively the savings from producing
20 one (1) less kilowatt hour or kilowatt, would you agree with
21 that, sir?

22 MR. ROBIN WIENS: In theory, I would agree
23 with that. There's some practical concerns around measuring
24 that, but in theory, yes, I would agree with that.

25 MR. BYRON WILLIAMS: Okay. And sometimes I

1 hear the word "avoided cost" used, almost as a replacement
2 for marginal costs. Is that a word that -- that you're
3 familiar with, and would accept as a -- a substitute?

4 MR. ROBIN WIENS: Well, I am -- I have --
5 certainly have heard the term. "Avoided cost" tends to be
6 used in situations where you're talking about a load that
7 might be saved, and what cost is avoided by not having to
8 serve that load. It's not a strict definition of marginal
9 cost, but it is an approximation.

10 MR. BYRON WILLIAMS: Now, you mentioned some
11 hesitation, how marginal costs are measured, and just for --
12 to clarify my understanding, short run marginal costs relate
13 to costs or savings in the short term, and in the Hydro
14 context.

15 Typically those would be additional fuel --
16 fuel and OM&A, would you agree with that, sir?

17 MR. ROBIN WIENS: Variable cost. That
18 certainly may involve fuel if the -- if the plant on the
19 margin is -- is a plant that burns fuel, OM&, some of it may
20 be variable, some of it may not be variable in the short run.
21 And particularly with reference to Manitoba Hydro is the
22 effect of imports and exports.

23 MR. BYRON WILLIAMS: And I guess another would
24 be -- probably be, water rentals?

25 MR. ROBIN WIENS: Yes.

1 MR. BYRON WILLIAMS: Long run refers to the
2 fact that over time additional kilowatt hours will trigger
3 additional plant and capacity needs. So, long run marginal
4 costs will also factor in additional capacity costs.

5 Would you agree with that?

6 MR. ROBIN WIENS: Yes. If the long run is
7 long enough.

8 MR. BYRON WILLIAMS: I hope that wasn't a hint
9 on how long my cross-examination is taking -- taking, Mr.
10 Wiens.

11 MR. ROBIN WIENS: Not at all.

12 MR. BYRON WILLIAMS: I want to contrast for a
13 moment, marginal costs versus historical or embedded costs
14 and then go back to our discussion about fairness and
15 efficiency. Just to let you know where I -- where I'm going
16 but...

17 Would you agree that marginal costs are
18 usually -- usually forward looking and consider the impact of
19 changes?

20 MR. ROBIN WIENS: Yes.

21 MR. BYRON WILLIAMS: While historical or
22 embedded costs are the average costs incurred to produce all
23 of the output that a utility supplies, and they're typically
24 calculated using accounting costs.

25 Would you agree with -- with me?

1 MR. ROBIN WIENS: Yes.

2 MR. BYRON WILLIAMS: And I want to go back,
3 as I said, to a couple of themes I spoke of before. One (1)
4 being fairness and -- and we've, I think, agreed that, that's
5 usually interpreted as charging people what it costs to serve
6 them.

7 Is that correct, Sir?

8 MR. ROBIN WIENS: Equal treatment of equals.

9 MR. BYRON WILLIAMS: And that's your
10 definition, not Mr. Mayer's. Joking, just --

11 MR. ROBIN WIENS: It's not just my
12 definition, but it may not be Mr. Mayer's.

13 MR. BYRON WILLIAMS: I'm just playing with
14 you.

15 And in this context, embedded or historical
16 costs are often thought to be more appropriate as this is
17 what the utility has spent and its actuary recording on its
18 books as a cost.

19 You'll agree with me? In the context of
20 fairness?

21 MR. ROBIN WIENS: It -- it is one (1) measure
22 of fairness. It's -- it's -- it's not necessarily the only
23 measure. And some jurisdictions do, in fact, use marginal
24 costs as a measure of fairness.

25 MR. BYRON WILLIAMS: That's fair enough, Sir.

1 And we've agreed, I think, that efficiency is
2 usually interpreted as signaling to users what the impact
3 implications of their consumption decision will be.

4 Is that right?

5 MR. ROBIN WIENS: Yes.

6 MR. BYRON WILLIAMS: And certainly in this
7 context, marginal costs are -- are more appropriate in terms
8 of signaling efficiency signals, than -- MR. ROBIN
9 WIENS: Yes.

10 MR. BYRON WILLIAMS: So, in designing a rate
11 structure, one (1) of the balancing acts that you have to
12 perform is this -- arguably may have to perform, is the
13 balancing act between conceptions of efficiency and
14 conceptions of fairness.

15 And one (1) of the questions that arises from
16 that is whether the signal is more appropriately sent by
17 marginal costs or embedded costs.

18 Is that right, Sir?

19 MR. ROBIN WIENS: Well, I - I don't think
20 there's any doubt that -- that the signal is more
21 appropriately set by marginal costs. Some of the issues
22 involved in dealing with that are when marginal costs differ
23 from embedded costs.

24 There's also some concern that you can usually
25 identify with a pretty good degree of precision what your

1 embedded costs are. You may not always be able to do the
2 same thing with marginal costs. And marginal costs for some
3 purposes may be different from marginal costs for other
4 purposes.

5 MR. BYRON WILLIAMS: Mr. -- Mr. Wiens, you
6 don't need to turn there, but you -- you don't seem very
7 trusting of my quotes, as I noted this morning.

8 At page 1162 of the transcript, you noted, I
9 believe what you said was a -- a problem when -- with short
10 -- with the -- in terms of the short run marginal costs of
11 electricity, particularly from largest users.

12 Do you recall that conversation at all?

13 MR. ROBIN WIENS: I think the concern was
14 that we're -- we may be dealing with a situation in some
15 cases, and not only large users, but all customer classes of
16 Manitoba Hydro where at certain times of the year, the
17 embedded -- the rates based on embedded costs are actually
18 below -- are actually below the short marginal costs.

19 And that tends to be a bit more of an issue
20 than if you're deviating from long term marginal costs.
21 Because in the short term, that kilowatt hour is actually
22 worth more somewhere else. Or worth more, if you're talking
23 about a closed thermal system, worth more not being produced.

24 MR. BYRON WILLIAMS: Mr. Wiens, do you have a
25 ballpark figure for what you -- without revealing

1 confidentiality, what you consider to be short run marginal
2 costs?

3 MR. ROBIN WIENS: I, you know, I -- I don't.
4 But I think if you want to -- if -- if you're looking for
5 some sort of a rough measure, I don't think you need to look
6 any further than the discussion that one (1) of you had with
7 Mr. Lazar yesterday. And he talked about his not so recent,
8 but still a review of prices and MAP.

9 MR. BYRON WILLIAMS: And do you have a
10 ballpark figure just for -- again, without -- for -- without
11 revealing any confidences, just to -- to give us some sense
12 of where it is directionally.

13 MR. ROBIN WIENS: Well, we try to --

14 MR. BYRON WILLIAMS: Sixth sense.

15 MR. ROBIN WIENS: You know, we do also try to
16 reflect this in our surplus energy program prices and, you
17 know, they -- they do vary depending on the season, depending
18 on the availability of water, but three (3) to four (4) to
19 five (5) cents for generation is pretty common.

20 MR. BYRON WILLIAMS: Now, when -- when I look
21 at that figure, whether, you know, just in the ballpark three
22 (3) to five (5) cents, actually -- just one (1) second. I
23 think My Friend may be handing -- handing out the wrong --
24 the wrong.

25 MR. ROBERT MAYER: I thought you had this so

1 well coordinated, --

2 MR. BYRON WILLIAMS: Well, I got to the point
3 I'm trying to get at a little quicker than I expected, so,
4 Ms. Kraft, if you could hold off on that one (1), I am going
5 to ask you to distribute a different excerpt from the record.
6 And I apologize for not having that in the book of
7 references.

8 Could I have one (1) of those?

9 MR. LEN EVANS: Mr. Weins, I wonder, while
10 we've got a bit of an interval here, I'd like to ask you as
11 an economist, do you ever consider the question or the issue
12 of marginal revenue? And we're always talking about -- we've
13 been talking about marginal costs here for some time. But
14 what about marginal revenues, are those calculations made, or
15 are they practical to be made by Manitoba Hydro?

16 MR. ROBIN WIENS: Well, by marginal revenue,
17 you mean what we get from the sale of a kilowatt hour from --
18 into the domestic market?

19 MR. LEN EVANS: Yeah, it's the -- the
20 additional revenue you get from the sale of an additional
21 unit, whatever that is? It's the old economics. I talk to
22 you as an economist, you know --

23 MR. ROBIN WIENS: It's defined by our price
24 schedule, so an additional kilowatt hour sold to a
25 residential customer is going to provide five point one six

1 (5.16) cents a kilowatt hour today.

2 An additional kilowatt hour sold to a large
3 industrial customer, if it results from an improvement in
4 that customer's load factor, will provide us about two (2)
5 cents a kilowatt hour. If it is simply an expansion of the
6 customer's load, both demand and energy, then it will result
7 in somewhere around three (3) cents a kilowatt hour.

8 MR. LEN EVANS: Thank you. That's fine, but
9 do you ever, in your calculations, try to relate these types
10 of numbers with marginal costs, in your operations?

11 MR. ROBIN WIENS: Well, I think, yes, we have.
12 Some of the material that we reviewed during the course of
13 the status update proceeding a couple years ago, I tried to
14 review in some of my evidence how often the marginal revenue
15 received from different customer groups, exceeded or fell
16 short of what the marginal cost was. And we tried to -- we
17 tried to provide some of that -- well, we did provide some of
18 that evidence on the record.

19 And -- and what we were showing was for all
20 customer classes, there are significant times during the
21 year, where marginal revenue is less than marginal cost.

22 MR. LEN EVANS: Just a final observation, or
23 would you agree that at least theoretically, you maximize
24 your position, you maximize your profit, where marginal
25 revenue equals marginal cost.

1 MR. ROBIN WIENS: I do remember that from a
2 long ways back, Mr. Evans. Yes, I do. We're a regulated
3 utility, so our -- our ability to do that is constrained. I
4 think you know the model that relates to that as well.

5 MR. LEN EVANS: Yes, thanks.

6

7 CONTINUED BY MR. BYRON WILLIAMS:

8 MR. BYRON WILLIAMS: Mr. Wiens, I'm showing
9 you an excerpt from the Hydro Application, I think it's
10 Volume III, Appendix 9.3, page 5, and I appreciate the
11 assistance of Board Advisors in copying this for me.

12 Oh, I guess we're just awaiting Mr. Singh to
13 hand it out. Sorry, Mr. --

14 THE CHAIRPERSON: Mr. Williams, do you have a
15 time for sort of a natural five (5) or ten (10) minute break?

16 MR. BYRON WILLIAMS: This would be it, in
17 about five (5) minutes, sir.

18 THE CHAIRPERSON: Very good.

19

20

(BRIEF PAUSE)

21

22

THE CHAIRPERSON: We have it now.

23

24 CONTINUED BY MR. BYRON WILLIAMS:

25 MR. BYRON WILLIAMS: Mr. Wiens, you spoke of

1 instances where the short term -- where the -- where the
2 rates don't recover the short term marginal costs, and you
3 gave me a range between three (3) and five (5) cents, is that
4 correct, sir?

5 MR. ROBIN WIENS: Yes.

6 MR. BYRON WILLIAMS: If I turn my attention to
7 the bottom of this table, the bill comparisons, I look at
8 general service large over a 100 kV, would one (1) of the
9 examples of which you spoke, be a -- the charge as of April
10 1st, 2003, for a 75 percent load factor, being 2.961 percent,
11 would that be correct, sir?

12 MR. ROBIN WIENS: Well, that is -- that is the
13 average revenue per kilowatt hour received from a customer in
14 that class at that 75 percent load factor.

15 MR. BYRON WILLIAMS: And would that be an
16 example of, in certain circumstances, of where the rates
17 charged are -- are lower than short term marginal costs?

18 MR. ROBIN WIENS: It certainly could be, yes.

19 MR. BYRON WILLIAMS: And if I go down to the
20 100 percent load factor, and we see the rate of two point
21 seven one five (2.715) cents per kilowatt hour, that would be
22 another example, would it not, sir?

23 MR. ROBIN WIENS: Yes.

24 MR. BYRON WILLIAMS: Now, when I look at the
25 residential end rate of five point one six (5.16) cents, I'm

1 struggling for an example of where that would be lower than
2 the short term marginal costs of which you spoke.

3 MR. ROBIN WIENS: Well, Mr. Williams, I -- I
4 would have to refer back to the evidence that I provided
5 during the status update, where I actually went through a
6 year's worth of information. And assuming that our surplus
7 energy rate more or less reflected short run marginal costs,
8 and looking at the number of weeks in which that would have
9 been greater than the residential end rate. And there
10 certainly were, I don't -- thirty (30) or 35 percent, of the
11 weeks that -- that that was indeed the case.

12 And you know, not forgetting, although we are
13 somewhat mixing concepts here. The residential end rate is
14 also intended to recover some costs which the general service
15 large end rate does not have to recover.

16 MR. BYRON WILLIAMS: Fair enough, sir. Mr. --
17 or, Mr. Chairman, this would be a convenient time for a
18 break.

19 THE CHAIRPERSON: Thank you. So, we'll come
20 back in about ten (10) minutes.

21

22 --- Upon recessing at 2:48 p.m.

23 --- Upon resuming at 3:05 p.m.

24

25 THE CHAIRPERSON: Paging Len Evans.

1 (BRIEF PAUSE)

2

3 THE CHAIRPERSON: Okay, Mr. Williams, we don't
4 have a lot more time, which is not your fault today. Do you
5 want to return to the task at hand?

6

7

(BRIEF PAUSE)

8

9 MR. BYRON WILLIAMS: Shall -- shall we join
10 each other? I guess not.

11

12 CONTINUED BY MR. BYRON WILLIAMS:

13 MR. BYRON WILLIAMS: Mr. Wiens, I wonder if
14 you can turn to the -- the NERA Report, the report dated
15 February 11, 2004, into the Classification and Allocation
16 Methods for Generation and Transmission in Costs of Service
17 Studies.

18

Do you have that, Sir?

19

MR. ROBIN WIENS: Yes.

20

21 MR. BYRON WILLIAMS: And as I understand it,
22 this report flowed from the -- the direction of the Public
23 Utilities Board to Manitoba Hydro, to carry out a review of
24 generation cost classification methodologies.

24

Would that be right, Sir?

25

MR. ROBIN WIENS: Yes.

1 MR. BYRON WILLIAMS: And in the course of
2 providing the answers -- or providing that review, NERA also
3 N-E-R-A also examined another issue which is the issue
4 surrounding the creation of an export class and -- and
5 alternative ways to identify export costs and to allocate net
6 export revenues.

7 Is that right, Sir?

8 MR. ROBIN WIENS: Yes. As we were organizing
9 to carry out this study, it became apparent through our
10 discussions that we had some inter-related issues that we
11 needed to deal with and so we -- we scoped the study
12 accordingly.

13 MR. BYRON WILLIAMS: And I wonder if you can
14 discuss just in brief detail, what led Manitoba Hydro to
15 select NERA or National Economic Research Associates for
16 these important studies?

17 MR. ROBIN WIENS: Simply that we have worked
18 with NERA in the past and I believe we -- we found their work
19 to be satisfactory.

20 MR. BYRON WILLIAMS: I'm not trying to get
21 into the CV's of the organization but can you describe for me
22 very generally, why one (1) would look to NERA to -- to
23 perform work like this, Sir?

24 MR. ROBIN WIENS: Well, there -- there are a
25 number of organizations that one -- that one could go to and

1 -- and put out a request for proposal. I was familiar with
2 NERA, I knew at least a couple of the principals, I knew
3 their reputation. And I thought that we could turn this work
4 around fairly quickly if we worked through them.

5 MR. BYRON WILLIAMS: And you knew the -- the
6 principals, would that be Doctor Parmasano (phonetic) and
7 Doctor Rankin, sir?

8 MR. ROBIN WIENS: Principally, Doctor
9 Parmasano.

10 MR. BYRON WILLIAMS: And you knew of her
11 reputation. I wonder if you can describe your perception of
12 her reputation?

13 MR. ROBIN WIENS: That -- that she and her
14 organization do quality work.

15 MR. BYRON WILLIAMS: I want to turn -- I'm
16 going to get to the details here and the recommendations of
17 the NERA Report in a couple minutes. But I -- I want to turn
18 your attention to page 1 of that report. Specifically the --
19 the first paragraph and the last sentence in that paragraph.

20 Do you have that, Sir? Page 1, first
21 paragraph.

22 MR. ROBIN WIENS: Yes.

23 MR. BYRON WILLIAMS: And it indicates that,
24 "Cost of -- COS studies are undertaken with
25 the goal of creating an equitable

1 allocation of historical total costs to
2 various customer groups and individual
3 customers without cost subsidies."

4 Do you see that quote, Sir?

5 MR. ROBIN WIENS: Yes.

6 MR. BYRON WILLIAMS: And I'd like to address
7 your -- you to address your mind to the footnote to that
8 quote. And I want to explore that with you for just a couple
9 of minutes and get your views on it.

10 I'm going to read it in and -- and then we'll
11 break it down into small pieces, if that's satisfactory with
12 you, Mr. Wiens?

13 MR. ROBIN WIENS: Your show.

14 MR. BYRON WILLIAMS: Footnote 1 reads, that,
15 "The issue of cross-subsidy avoidance is
16 complicated. A cross-subsidy exists when
17 one (1) class of customers pays a portion
18 of the costs -- attributable to another
19 class. But since difference COS methods
20 produce different estimates of class costs,
21 there is no unambiguous measure of class
22 cost of service. Furthermore, cross
23 subsidies can also be -- defined in terms
24 of the marginal, rather than historical
25 costs of serving --serving various

1 customers."

2 And, Mr. Wiens, we'll go into the specifics in
3 a minute, but when I read this quote it seems to me that it's
4 suggesting that there are two (2) ways of defining cross-
5 subsidization; would you accept that?

6 MR. ROBIN WIENS: Yes.

7 MR. BYRON WILLIAMS: And one (1) of those
8 means is based upon cost of service type of analysis, which
9 is the basis for the second sentence in the footnote,
10 suggesting a cross-subsidy exists when one (1) customer pays
11 a portion of the costs attributable to another class; you'd
12 agree with that.

13 MR. ROBIN WIENS: Or attributable to other
14 classes.

15 MR. BYRON WILLIAMS: Fair enough, thank you.
16 NERA goes on in the next sentence to suggest that -- that
17 cost of service is not an exact science, and that there are
18 different methodologies used with the consequence that
19 there's no unambiguous measure of cost of class cost of
20 service; would you agree with that?

21 MR. ROBIN WIENS: Well, I would agree with it
22 to the extent that it is difficult to come up with a one (1)
23 set of cost of service results that you can say definitively
24 ascribe the costs absolutely correctly to each class.

25 So, there is -- there are boundaries of

1 uncertainty, but Mr. Williams, I -- you know, I would also --
2 I would also like to say that -- I mean, that's why we have
3 these proceedings, and that's why we discuss these issues,
4 and that's why the regulators have to wrestle with these.
5 They're wrestling with something that is not absolutely, 100
6 percent, bang on correct.

7 But they have to look at the different levels
8 of plausibility, and that's why sometimes it's useful to look
9 at differing plausible approaches to a similar problem.

10 MR. BYRON WILLIAMS: Thank you for that, Mr.
11 Wiens, and --

12 MR. LEN EVANS: Excuse me, I wonder if I could
13 ask just an interjection question here on cross-
14 subsidization? Does -- I would like to ask Mr. Wiens, if the
15 Hydro thinks of cross-subsidies in terms of geographical
16 areas.

17 I mean, transportation companies do, airlines
18 are involved in cross-subsidies, heavy use areas often are
19 more profitable, and they can be used to subsidize more
20 remote areas of the -- that are served by the airlines.

21 And I'm just wondering whether Manitoba Hydro
22 takes that into consideration, or do you even think in those
23 terms?

24 MR. ROBIN WIENS: Well, we are pretty much in
25 this jurisdiction, we're pretty much focused on an embedded

1 cost of service approach. We don't price on the basis -- you
2 know, try to extract value, by pricing on the basis of value
3 of service, in order to -- you know, to recover more from
4 some customers than -- and less from others, in the same way
5 that airlines do.

6 But if you look at it from the perspective of
7 the embedded cost of service up until very recently, when the
8 Provincial Government directed us to provide postage stamp
9 rates, we did look at the cost of service on an embedded cost
10 basis of serving different geographic zones, and those -- to
11 the extent that you accepted those results, show that there
12 was some cross-subsidy.

13 MR. LEN EVANS: Thanks.

14

15 CONTINUED BY MR. BYRON WILLIAMS:

16 MR. BYRON WILLIAMS: Mr. Wiens, accepting that
17 the -- the limits of reasonableness that you suggested, and I
18 don't mean to dwell on this to any great degree, but would
19 you agree with me that when we get to the issue of joint
20 costs, that's a particularly difficult area to disassemble?

21 MR. ROBIN WIENS: With certainty it is, yes.

22 MR. BYRON WILLIAMS: And I just refer you to
23 Tab 21 of the CAC/MSOS book of references, Mr. Wiens, where
24 we come to one (1) of your favourite authors, I believe, Mr.
25 Bonbright; is that correct?

1 MR. ROBIN WIENS: I was afraid this was going
2 to happen.

3 MR. BYRON WILLIAMS: Mr. Wiens, Tab 21, of the
4 CAC/MSOS book of references. And again, I won't dwell on
5 this, but I do recall you saying in the diesel hearing, that
6 you'd spent many happy hours in the -- in the company of Mr.
7 Bonbright; is that right, sir?

8 MR. ROBIN WIENS: I was trying to sound upbeat
9 that day.

10 MR. BYRON WILLIAMS: It is -- he is someone
11 you have some familiarity with, and you regard his opinions
12 with some degree of respect, if not reverence?

13 MR. ROBIN WIENS: Well, Mr. Williams, Mr.
14 Bonbright has a long history of recognition as -- as
15 providing one (1) of the beacons to the process of regulating
16 natural monopolies, and I respect him for that.

17 MR. BYRON WILLIAMS: We're just waxing poetic
18 now, aren't we, Mr. Wiens?

19 MR. ROBIN WIENS: You've inspired me, Mr.
20 Williams.

21 MR. BYRON WILLIAMS: If you go to page 391 of
22 Mr. Bonbright's learned tome, just above Excessive complexity
23 of cost relationships, the sentence above that, Mr. -- Mr.
24 Bonbright suggests,

25 "The problem of joint and common costs

1 makes it impossible to allocate, at least
2 on a cost basis, the costs attributable to
3 specific classes and units of service."

4 Is that a position that you would give some
5 weight to?

6 MR. ROBIN WIENS: We know that we have
7 difficulties with cost attribution, when you're dealing with,
8 for example, a function like generation. We know that,
9 because we've done -- we've spent numerous hours and days in
10 Proceedings like this, discussing some of the issues
11 associated with that.

12 So, yes, we know that it's difficult, but yet
13 we manage to -- we manage to get by and to have a reasonable
14 degree of -- of acceptability of our results.

15 MR. BYRON WILLIAMS: Mr. Wiens, just going to
16 the second part of -- of the footnote, where it indicates
17 that cross-subsidies can also be defined in terms of the
18 marginal rather than historical costs of service.

19 And you'd agree with me that economists define
20 discrimination and cross-subsidies in terms of marginal
21 costs, is that right?

22 MR. ROBIN WIENS: Yes.

23 MR. BYRON WILLIAMS: And a clear example of
24 that would be, when one (1) customer pays less than marginal
25 cost, while another one (1) pays more, is that correct?

1 MR. ROBIN WIENS: You're assuming that the
2 customers are equal.

3 MR. BYRON WILLIAMS: That's the basic premise.

4 MR. ROBIN WIENS: Okay.

5 MR. BYRON WILLIAMS: Mr. Wiens, thank you for
6 that. I wonder if you can turn now to page 5 of the NERA
7 Report? Do you have that, sir?

8 MR. ROBIN WIENS: Yes.

9 MR. BYRON WILLIAMS: And in the first sentence
10 under heading B, NERA suggests that,

11 "The classification allocation method used
12 in a cost study, are key factors in
13 determining final rates and jurisdictions
14 in which embedded costs are used to set
15 class revenue requirements."

16 Do you agree with that statement, sir?

17 MR. ROBIN WIENS: Yes.

18 MR. BYRON WILLIAMS: If we turn over to page
19 6, under heading C, NERA also paused, it said,

20 "There is no universally accepted method of
21 classifying and allocating embedded costs.
22 There's also no specific economic or
23 engineering theory to guide the choice of
24 allocation and classification methods."

25 Do you agree with that suggestion?

1 MR. ROBIN WIENS: Well, I certainly agree that
2 there's no universally accepted method for classifying and
3 allocating embedded costs. If there were, again, a lot of
4 these discussions we wouldn't be having.

5 There's also no specific economic or
6 engineering theory to guide the choice of the allocation and
7 classification methods. There are -- there are some
8 theories, but there is no unique particular theory that is
9 going to give you the -- the final answer, if you will.

10 MR. BYRON WILLIAMS: Would you agree with me
11 and I guess NERA at page 5, that,

12 "Since generation costs are usually the
13 largest functional cost..."

14 This is the second paragraph, and I apologize
15 for that, Mr. Wiens, the last sentence,

16 "Since generation costs are usually the
17 largest functional cost component, revenue
18 allocations are particularly sensitive to
19 the methods used for classifying and
20 allocating generation costs."

21 MR. ROBIN WIENS: Where there are alternatives
22 available, yes. Yes. In the case of Manitoba Hydro that's
23 certainly true. The largest part of our -- of our embedded
24 costs is related to generation.

25 Where you're talking about another operation,

1 and a good example may be Centra Gas, the output is all
2 purchased, so there's very little controversy about how you
3 deal with this cost.

4 MR. BYRON WILLIAMS: I appreciate that answer,
5 Mr. Wiens, and it was a good shortcut.

6 When we look at some of the difficulties
7 associated with generation costs, and I wonder if you can
8 turn to page 6 of the NERA Report under the heading, "D -
9 Range of Generation Classification Methods." Do you have
10 that Mr. Wiens?

11 MR. ROBIN WIENS: Yes, I do.

12 MR. BYRON WILLIAMS: What NERA seems to
13 suggest in the first paragraph and then under number "D" and
14 then in the -- in the sentence in the next paragraph, which
15 follows is that,

16 "Variable costs associated with operating
17 generation plants are clearly a function of
18 energy produced and are nearly always
19 classified as energy related."

20 Would you agree with that statement, Sir?

21 MR. ROBIN WIENS: Well, that's because their
22 defined as being variable with energy produced, so it
23 follows.

24 MR. BYRON WILLIAMS: Would you agree, as NERA
25 suggests, in the second -- first sentence of the second

1 paragraph, that,

2 "The fixed costs of generation are more
3 difficult to classify -- classify."

4 MR. ROBIN WIENS: Yes, I would agree with
5 that.

6 MR. BYRON WILLIAMS: And NERA goes on at page
7 9 of its report -- and I'm referring to the first full
8 paragraph, to suggest that,

9 "Manitoba Hydro's huge investment hydro
10 facilities adds a number of complexes --
11 complexities to the choice of COS methods."

12

13 Would you agree with suggestion, Sir?

14 MR. ROBIN WIENS: Yeah, generally the more
15 capital intense your mode of production -- it may not -- it
16 may not be anymore difficult, but the consequences of making
17 a difficult choice are great.

18 MR. BYRON WILLIAMS: Would it be more
19 difficult to the extent that clearly not all of the fixed
20 costs of such facilities are demand related, as they provide
21 energy at a very low cost compared to thermal units or energy
22 purchases?

23 Would that make it more difficult?

24 MR. ROBIN WIENS: Well, if you -- if you take
25 perhaps a -- a very simple system, where you've got one (1)

1 generating plant serving a local population without
2 transmission, and it is a low capital cost plant, some would
3 say that you could fairly readily apportion your costs.

4 It's -- if we're talking about say, a diesel
5 generating system, that -- that the capital costs associated
6 with that would be demand related and all of the operating
7 costs would be energy related. You're still not 100 percent
8 correct, but -- but you're pretty close.

9 Now you're making with -- with a much larger
10 population to serve over a much wider area, now you're making
11 decisions about optimizing costs by looking at making major
12 capital investments not just that produce capacity available
13 to customers, but to substitute for the fuel.

14 So it becomes a little more difficult to make
15 a choice between what of those -- what portion of those costs
16 is going to be related to the energy use of the customers
17 that are served by it. And what portion of it is going to be
18 related to the demand.

19 And I think the more capital, typically -- the
20 more capital intense it is, the more you're using capital to
21 substitute for fuel.

22 MR. BYRON WILLIAMS: Just referring you to
23 the fourth bullet, under the initial suggestion, another
24 factor in terms of the complexity relating to Manitoba Hydro
25 is the -- relates to the variability of water conditions from

1 year to year which affects the amount of energy that can be
2 counted on.

3 Would that be fair, Sir?

4 MR. ROBIN WIENS: Well, yes. Because now
5 you've got some added issues that you have to deal with as to
6 -- as to how much of your investment is producing energy and
7 how much is producing capacity.

8 MR. BYRON WILLIAMS: And in fact the driving
9 force behind many generation investment power contracting
10 decisions is energy requirements. Correct?

11 MR. ROBIN WIENS: Well, because of the nature
12 of this -- of this system, it is energy constrained. And
13 when choices have to be made about expanding the system,
14 they're usually made because there's a concern that it's not
15 going to be able to produce enough energy. That's a factor
16 of the variability of water flow.

17 In other systems, that's not true. In other
18 systems they are also concerned with capacity.

19 MR. ROBIN WIENS: Thank you for that answer.

20 I just want to turn to my second last subject
21 under the NERA Report.

22 Mr. Wiens, I'm going to direct you to keep a
23 thumb on page 10 of NERA and also turn to page 58 of NERA.
24 If you keep both in hand.

25 Mr. Wiens at -- we'll just wait one (1) second

1 if you would.

2 Mr. Wiens, if you turn to page 58 of the NERA
3 report, under the top five (5) bullets, the first paragraph
4 under that, NERA suggests in the second sentence in that
5 paragraph,

6 "It's important to recognize that
7 Manitoba's Hydro situation has changed
8 dramatically over the past decade or so,
9 and its rates much change to remain fair
10 and cost based."

11 Is that a proposition that you would agree
12 with, sir?

13 MR. ROBIN WIENS: If you'll just give me a few
14 seconds, I'd like to review the context of that.

15
16 (BRIEF PAUSE)

17
18 MR. BYRON WILLIAMS: The bullets above may
19 give you some assistance, sir.

20 MR. ROBIN WIENS: Generally, yes, I would
21 agree with that.

22 MR. BYRON WILLIAMS: And would you agree that
23 the dramatic differences in the allocation of benefits of
24 exports, among the classes under current methods, highlights
25 that need for change?

1 MR. ROBIN WIENS: Well, you -- you were here
2 when I gave my direct evidence, and I think I stated that.

3 MR. BYRON WILLIAMS: Yes, Mr. Wiens, and I
4 guess what I wanted to just turn your attention to, to page
5 10 of the NERA Report now, which hopefully your other thumb
6 is on.

7 And you'll agree with me, and you -- we don't
8 need to rehash your direct evidence, or the first full
9 paragraph under this page 10. But you'll agree with me that
10 both you, in your direct evidence, and NERA at page 10,
11 highlight the fundamental changes in -- in the significance
12 of export revenues to Manitoba Hydro over the -- the last
13 decade since 1992, is that right?

14 MR. ROBIN WIENS: Yes.

15 MR. BYRON WILLIAMS: Would you agree with me
16 that one (1) thing that has changed since the status update,
17 would be that now there's more -- we have more certainty in
18 terms of Manitoba Hydro's plans for future expansion, related
19 to export sales, for example, Wuskwatim?

20 MR. ROBIN WIENS: I'm not sure we have
21 certainty on -- on that issue yet.

22 MR. BYRON WILLIAMS: And I apologize for that,
23 but we're farther along the road, certainly from the
24 perspective of Manitoba Hydro, where back in 2002, Wuskwatim
25 was -- wasn't a definite commitment and -- and it's much -- a

1 much stronger commitment from Manitoba Hydro now, than it was
2 in 2002, is that right?

3 MR. ROBIN WIENS: I think it would be fair to
4 characterize it that way, yes.

5 MR. ROBERT MAYER: Mr. Wiens, just -- not just
6 Wuskwatim though, I mean, when we heard proposals, we talked
7 about, and we heard commitments made to, especially
8 Aboriginal -- potential Aboriginal employees, talking about
9 Wuskwatim, yes. Bi-Pole 3, almost for sure.

10 Then Gull or Conawapa, depending upon a power
11 sale to Ontario. It -- I got the impression that Hydro
12 appears at least to be relatively committed to -- to future
13 construction, within the relatively near future?

14 MR. ROBIN WIENS: Well, I'm -- I'm treading
15 outside my area of primary knowledge in responding to this,
16 but Wuskwatim and Gull and Conawapa have -- Manitoba Hydro
17 has been working on and sharpening plans for all of those for
18 some considerable time.

19 Are we closer to commitment, I think we are
20 quite a bit closer to commitment on Wuskwatim. I think
21 there's been a recognition for some time, that we need to
22 look at Bi-Pole -- Bi-Pole 3 for reasons of reliability, so
23 possibly since 2002, we've come a little bit closer to those
24 projects. The others I think we're still involved in some
25 fairly general discussions.

1 Somebody can come along and clean up the
2 record afterwards, if they think that I've gone out on the
3 wrong limb on this, but it's -- it's true, I mean, we are --
4 we are continuing to look at these opportunities, but we have
5 been looking at them in the past as well.

6 MR. LEN EVANS: Mr. Wiens, I wonder if I could
7 just interject with a very brief question. On page 58 of the
8 NERA Report that Mr. Williams just referred to -- referred us
9 to, page 58, the fifth bullet, one (1), two (2), three (3),
10 four (4), five (5), the fifth.

11 We were talking a moment ago about -- or I was
12 asking a question about marginal revenues, compared to
13 marginal costs. And would you agree that this is what NERA
14 is recommending here, in bullet five (5), and I'm quoting,
15 "Test the profitability of export sales, by
16 comparing incremental costs, namely marginal
17 costs with incremental revenues -- marginal
18 revenues, not using embedded costs or some
19 combination of embedded and -- incremental
20 costs."

21 Unquote.

22 MR. ROBIN WIENS: Well, I think that
23 recommendation was put in there, not because it's something
24 that Manitoba Hydro doesn't do now. It is what Manitoba
25 Hydro does now and has always done in evaluating export

1 opportunities.

2 But it is to say, we're making some
3 recommendations about how you treat an export class in an
4 embedded cost of service study. We -- we are not suggesting
5 that you carry that over into your evaluation of export
6 opportunities. That's what -- that's what that
7 recommendation is saying.

8 MR. LEN EVANS: Fine, thank you. I just
9 brought this to your attention because it's -- it's an
10 interesting approach in economics. I know you would agree.

11 MR. ROBIN WIENS: Oh, absolutely.

12 MR. LEN EVANS: Thanks.

13

14 CONTINUED BY MR. BYRON WILLIAMS:

15 MR. BYRON WILLIAMS: I'm not sure if this
16 goes to Mr. Wiens or Mr. Thomas, but at page 1173 of the
17 transcript, Hydro seemed to indicate that it -- it supports
18 the recommendation of the NERA study in principle, and that
19 the -- that pending the decision of this Board during the
20 current proceedings, some or all of these recommendations may
21 be included in future COS studies.

22 Did I paraphrase you accurately?

23 MR. ROBIN WIENS: I think that's pretty well
24 word for word, is it not?

25 MR. BYRON WILLIAMS: It's really darn close.

1 But I didn't have quotation marks around it all, Mr. Wiens,
2 so I wanted to be careful.

3 And one (1) of those recommendations relates
4 to the creation of a export class. Is that -- that right?

5 MR. ROBIN WIENS: Yes.

6 MR. BYRON WILLIAMS: And in the 2002 status
7 update, if I recall, the -- the evidence correctly, Manitoba
8 Hydro was not particularly keen on the concept of a -- a
9 export class. Would that be fair?

10 MR. ROBIN WIENS: I think -- I think that's
11 fair and possibly during the next few minutes I may have an
12 opportunity to elaborate on -- on that as well as the reasons
13 for our -- our change in position.

14 MR. ROBERT MAYER: I'm surprised you didn't
15 point out that a person is even more vehemently opposed to it
16 than the Manitoba Hydro was -- was CAC/MSOS.

17 MR. BYRON WILLIAMS: Mr. -- Mr. Wiens --

18 MR. ROBIN WIENS: Well, I'll let the record
19 speak for itself.

20

21 CONTINUED BY MR. BYRON WILLIAMS:

22 MR. BYRON WILLIAMS: Mr. Wiens, you'll --
23 you'll address that issue and perhaps you'll discuss in the
24 course of it, how this conception of export classes differs
25 from the status update. But go ahead, feel free, I rarely

1 ask open-ended questions, but take it away.

2 MR. ROBIN WIENS: Well, Mr. Williams, in --
3 in the -- during the course of the status update, our -- our
4 thinking along the lines of what we would have to do for an
5 export class.

6 We were thinking in terms quite a lot more
7 complicated than what has been recommended in -- in this
8 study.

9 We -- we know, for example, that a much -- not
10 most of our export sales, whether they're made on a firm or
11 an opportunity basis are made out of resources that are --
12 were put in place and committed to serve domestic load.

13 So the real marginal cost associated with
14 those is exactly as we have stated in past cost of service
15 studies and which we have been somewhat criticized for here.
16 It is the variable cost associated with those exports.

17 The water rentals, if -- if we happen to be
18 importing off-peak to facilitate exporting on-peak, the
19 import costs, the fuel costs associated with any thermal
20 generation that's done for export. Because those plants were
21 needed anyway. So the real marginal cost is the -- is the
22 variable cost.

23 So, you know, we were reasonably satisfied for
24 most of the history of these types of discussions over the
25 last ten (10) years, that we had captured the cost of the

1 export class, or the export of selling into the export
2 market.

3 Things are -- are changing. We have, you
4 know, we have put together a -- we have put together a unit
5 within Manitoba Hydro that operates on a regular basis in
6 both the short and the long term markets.

7 We put in another tie-line to connect us with
8 North Dakota. We have had some lengthy discussion, some in
9 this form, but mostly in another form, about putting in place
10 a plant that would be primarily dedicated towards exports.

11 So, and -- and finally we had I -- what I
12 believe was a -- a desire on the part of this Board to assure
13 itself, or to be reasonably assured that what we were talking
14 about as next -- net export revenues, was indeed really net
15 export revenues.

16 So, given that there seem to be some appetite
17 for looking at an export class, but without wanting to try to
18 get into the inevitable complexities of trying to decide
19 which plants were put in place to do what, and over what
20 different periods of time.

21 We thought an approximation, which in my
22 opinion was a conservative approximation, in that it
23 allocated more costs to the export class, than such a
24 detailed analysis would demonstrate, was to say let's just
25 treat them for the purposes of simplicity and to have some

1 notional idea of what the net value of exports is.

2 Let's just say that they have to recover costs
3 in the same way as a domestic customer class has to recover
4 costs. And we'll treat them in the cost of service study in
5 exactly the same way as we treat a domestic customer class.

6 That's not without its own complications, but
7 it -- it boils them down to a relatively few, and it's a
8 relatively easy type of allocation that we can make. And if
9 we thought -- if -- if that makes it easier to understand
10 that we're dealing with a situation in which we're getting
11 market revenues that are well in excess of embedded costs,
12 let's present this. And it's not perfect, but let's present
13 it and -- and hope that it does shed some light on -- on the
14 -- on the costs that need to be recovered by the domestic
15 classes.

16

17 CONTINUED BY MR. BYRON WILLIAMS:

18 MR. BYRON WILLIAMS: Just -- just so perhaps I
19 can summarize, one (1) of the reasons that Hydro is more open
20 to -- to the -- the NERA approach, than the approach that was
21 presented in the status update, relates to the -- the fact
22 that this -- this is a much less complex and labour intensive
23 approach to trying to -- to disentangle export costs, is that
24 part of it?

25

 MR. ROBIN WIENS: It's -- it's highly

1 simplified, it's saying let's at least assure the parties
2 here, the Board and the parties here, that this export
3 revenue that we're calling net export revenue, is at least
4 capable of recovering the embedded cost to the system, in the
5 same way that the domestic classes are.

6 And you know, that wouldn't have always been
7 the case, if you go back ten (10) or twelve (12) years, most
8 of the sales were opportunity sales, the -- the market was
9 less buoyant for us, and typically what we were recovering
10 were -- were residuals.

11 MR. BYRON WILLIAMS: So another factor in the
12 -- your approach in this Hearing is what you would consider
13 to be more responsive to the -- to the regulator?

14 MR. ROBIN WIENS: It was an attempt to be more
15 responsive, without having to undertake a lot of complicated
16 and detailed work, in terms of identifying what resources
17 were serving where.

18 MR. BYRON WILLIAMS: And the third kind of
19 factor that I glean from your response was the fact that
20 there are some investments that Hydro is now undertaking that
21 are much more -- easily tied to export revenues, whether
22 that's the -- the marketing function, or the -- the tie line,
23 or Wuskwatim.

24 MR. ROBIN WIENS: I have to say, they're all
25 pretty relatively small, relative to the overall quantum of

1 export revenues. But directionally, that's where we're
2 going.

3 MR. BYRON WILLIAMS: Just a few more
4 questions, Mr. Wiens, and I promise you we will be done
5 before four o'clock.

6 In your -- in -- and I guess just for ease of
7 reference in CAC -- in the book of references, Tab 22,
8 Hydro's, in its Interrogatory Response PUB-MH-II-3, provides
9 its response to the general recommendations of NERA, is that
10 correct?

11 MR. ROBIN WIENS: Well, both to the general
12 and to the specific actually.

13 MR. BYRON WILLIAMS: Thank you. And I want to
14 kind of broad stroke this, if -- if I were to summarize the
15 areas where Hydro has noted a number of places where further
16 work is needed, they would be the allocation of net revenues
17 from exports at page 2, the classification and time
18 differentiation of generation costs at page 3, and the
19 classification of transmission lines, using a line specific
20 approach at page 3 as well.

21 Would those be three (3) of the big ones?

22 MR. ROBIN WIENS: Well, the classification of
23 transmission costs using the line specific approach, I
24 wouldn't -- I wouldn't say is one (1) of the big ones. The
25 -- the impact of that is very, very small.

1 So, I -- I would not -- I would not say that's
2 one (1) of the major issues.

3 In my opinion, the most significant one (1) is
4 how do we get to a -- if we're going to adopt a relative
5 marginal cost basis, of assigning -- of assigning costs.

6 And what -- what this does -- you'll -- let me
7 -- let me try to clarify this. Is classification of the
8 generation resource, is typically taken to mean and has been
9 here for many, many years, determining what is driven by or
10 estimating, or approximating, what is driven by energy and
11 what is driven by capacity.

12 And this classification approach would be
13 somewhat different. Although it -- it's capable of taking
14 other forms.

15 But for the purposes of analysis, what we did
16 was to say, what portion of the generation resource should be
17 classified as winter season on-peak, winter season off-peak,
18 summer season on-peak and summer season off-peak.

19 And the way that would be done would be by
20 simply weighting the consumption, the domestic consumption,
21 and the export costs. Weighting that consumption if -- if
22 you happen to be in what, I believe we set -- I believe we
23 set the summer off-peak equal to a weight of one (1).

24 And the relative marginal cost in the summer
25 on-peak would be around two (2). So, on-peak summer

1 consumption would get a weight of two (2). And -- and
2 similar weights were attributed to the -- the winter on-peak
3 and the winter off-peak.

4 So that is how we arrived at that particular
5 type of classification. And there is some -- an implicit
6 capacity classification in the sense that the on-peak is
7 always valued at considerably higher than the off-peak.

8 So -- so that's the approach that was taken.
9 Now what was used to derive those weights were an index of
10 pricing based on the north map -- market sales in the north
11 map region as reported by what we believe to be a reliable
12 source for reporting price information.

13 The concern that our internal people, and
14 particularly our generation planning people, was -- these are
15 the prices that are out there, but they aren't necessarily
16 always the prices that Manitoba Hydro achieves.

17 In some cases we are able to modify those
18 price differences because we can -- we can arbitrage between
19 the on-peak and the off-peak so, in so doing, we're going to
20 narrow the differences.

21 In some cases we don't have access to one (1)
22 or the other because our tie-lines are fully loaded. So, we
23 need -- we needed to do some more work to be able to say, are
24 these prices -- these prices are representative of what's
25 going on in the market, but they are -- are they

1 representative of the prices that Manitoba Hydro can access
2 on a regular basis.

3 So that -- to me -- that is, before we could
4 apply this methodology and have some degree of confidence in
5 it, that's the major step that we have to take.

6 MR. BYRON WILLIAMS: And how far along is
7 Manitoba Hydro in terms of that major step?

8 MR. ROBIN WIENS: Well, we're actually not
9 all that far along it because -- partly because the people
10 that have to be involved have had other duties to perform and
11 haven't been able to focus their minds on this.

12 But another concern is that our current
13 modeling does not easily allow us to come up with some -- a
14 -- a long-term firm basis for looking at diurnal price
15 differences that are available to Manitoba Hydro.

16 We know they're there. We know -- you -- you
17 heard Mr. Cormie talk about them in -- in the earlier part of
18 the Hearing. But we have not got the capability to
19 effectively model them so that we could forecast them. So
20 that -- that's an issue we have to deal with.

21 Plus we have to -- we have to get our -- our
22 folks who know this the best, to get focused on it and get
23 their minds around it. And we simply haven't had the
24 opportunity to do that yet.

25 MR. BYRON WILLIAMS: If -- if you got your

1 folks' minds addressed to it, do you have any kind of time-
2 frame in mind in terms of how long it would come -- take to
3 get some more confidence in -- in this -- this specific
4 issue?

5 MR. ROBIN WIENS: Well, I'd like to be able
6 to say with a high degree of confidence what that is. What
7 -- what I will say is that as part of the -- the work that we
8 are doing to comply with the Board Order 703, regarding
9 inverted and time of use rates, we are trying to get that
10 type of a focus into that work so that we could have some
11 greater confidence in -- in this type of a recommendation.

12 MR. BYRON WILLIAMS: And that would be year
13 end?

14 MR. ROBIN WIENS: Year end.

15 MR. BYRON WILLIAMS: And by that we mean
16 December '04?

17 MR. ROBIN WIENS: December 31/04, calendar
18 year end.

19 MR. BYRON WILLIAMS: Okay. Mr. Wiens, in
20 particular, I'd like to thank you for your assistance and Mr.
21 Chairman, subject to maybe a question or two (2) to Mr.
22 Warden, those are all my questions. Thank you.

23 THE CHAIRPERSON: Thank you, Mr. Williams.

24 MR. BYRON WILLIAMS: Oh, Mr. Chairman, I -- I
25 forgot. There was one (1) potential undertaking that we had

1 -- that we were going to provide to Hydro in writing and we
2 have not yet done that. So we'll try and meet at the end of
3 today and see if we can come up with something for Mr. Wiens.

4 THE CHAIRPERSON: Thank you again, Mr.
5 Williams, and thank you again, Mr. Wiens, and the Panel.

6 I think that perhaps we might as well close
7 down for today and open up with Ms. McCaffrey tomorrow
8 morning, is that best for you?

9 MS. TAMARA McCAFFREY: That's fine, Mr. Chair.
10 I have a couple of exhibits that we were going to distribute.
11 If you like, I could pass them around now to everybody, and
12 then we'll have that, everyone will have a chance to have a
13 look before -- before tomorrow.

14 THE CHAIRPERSON: That's a good idea, please
15 do so.

16 MS. TAMARA McCAFFREY: Thank you very much.

17
18 (BRIEF PAUSE)

19
20 MR. ROBIN WIENS: Sorry, sir, I didn't hear
21 that.

22 THE CHAIRPERSON: Well, maybe I could try to
23 work around that.

24
25 (BRIEF PAUSE)

1 MS. TAMARA McCAFFREY: ... and that would be
2 the table that's being passed around, that summarizes the
3 NERA results. And I think, Mr. Chair, that the next MIPUG
4 Exhibit number would be 9, MIPUG 9. This is a two (2) page
5 document, and it summarizes the NERA results on page 1,
6 exports allocated equally to all energy and demand, which is
7 the current practice for allocating export revenues.

8 And then looking at the different approaches
9 that NERA took, you can see that the results have been
10 summarized in this table. And the appropriate references are
11 cited at the far right hand column of the page, for
12 everybody's review, if anyone needs to actually go to the
13 source.

14 On page 2, again, this is MIPUG Exhibit 9,
15 we're summarizing the NERA results, but this time we're
16 looking at exports being allocated on the basis of
17 generation, transmission, and distribution, i.e. the total
18 allocated cost approach.

19 And again, the references are provided for the
20 source of the information, all of the information on the
21 table is already part of the record. This table essentially
22 just tries to summarize some things, to make it a little
23 easier to follow.

24 The other document that's being passed around,
25 I don't think needs an exhibit number, because it's simply a

1 page from Manitoba Hydro's rebuttal evidence.

2 And the reason why we're passing it around is
3 just because we're going to refer to it briefly, so that
4 nobody has to go and start turning frantically their pages,
5 but it's page 15 of Hydro's rebuttal evidence, and so it's
6 not too much homework. Thank you.

7 THE CHAIRPERSON: Subject to check, Ms.
8 Ramage, are you all right with this being MIPUG-9?

9 MS. PATTI RAMAGE: Yes, we'd like to take a
10 look at it over the evening, but...

11 THE CHAIRPERSON: That's fine, I wish you all
12 a good night, and we'll see you tomorrow.

13

14 --- EXHIBIT NO. MIPUG-9: Two (2) page document summarizing
15 NERA results.

16

17 (PANEL RETIRES)

18

19 --- Upon adjourning at 3:47 p.m.

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1 Certified Correct,

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6 Carol Wilkinson, Ms.

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