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MANITOBA PUBLIC UTILITIES BOARD

Re:                               MANITOBA HYDRO  
                                      COST OF SERVICE STUDY

Before Board Panel:

- Graham Lane                   - Board Chairman
- Robert Mayer                 - Board Member
- Kathi Avery Kinew           - Board Member
- Len Evans                     - Board Member

HELD AT:

Public Utilities Board  
400, 330 Portage Avenue  
Winnipeg, Manitoba  
June 2nd, 2006  
Volume XI  
Pages 2418 to 2544

APPEARANCES

1  
2  
3 R.F. Peters ) Board Counsel  
4  
5 Patti Ramage ) Manitoba Hydro  
6 Odette Fernandes )  
7  
8 Bryon Williams ) CAC/MSOS  
9 Myfanwy Bowman )  
10  
11 Doug Buhr ) City of Winnipeg  
12  
13 Peter Miller ) TREE  
14  
15 Tamara McCaffrey ) MIPUG  
16 Patrick Bowman )  
17 Andrew McLaren )  
18  
19 Jurgen Feldschmid ) CCEP  
20  
21 Michael Anderson ) MKO  
22  
23  
24  
25

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4		dealing with demand charges.		2424
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3	27	Manitoba Hydro to comment Section	
4		42(1), which envisions a profit over	
5		and above all costs.	2488
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1 --- Upon commencing at 9:11 a.m.

2

3 THE CHAIRPERSON: Okay. Good morning,  
4 everyone. We've reached the final day of the proceedings  
5 here and that's the closing statement by Manitoba Hydro.  
6 Before we do that I want to call on Mr. Peters, we've got  
7 a few housekeeping and other matters to attend.

8 MR. BOB PETERS: Thank you. Good  
9 morning, Mr. Chairman, Board Members, and ladies and  
10 gentlemen.

11 The first matter of housekeeping that I'd  
12 like to attend to, almost electronically, is this morning  
13 I received a letter from Mr. Anderson who indicated that  
14 there were two (2) corrections on the transcript of his  
15 closing submission that he would like advanced and I'll  
16 just indicate those on the record, excuse me.

17 On the transcript page 2387 on line 2 open  
18 quotes, "consignment" close quotes, should be  
19 "assignment."

20 The second correction is on transcript  
21 page 2416 line 6 open quotes, "to the Applicants," close  
22 quotes should be open quotes, "to the Participants,"  
23 close quotes.

24 And those are the corrections that he  
25 forwarded this morning and I'll now indicate to him that

1 those have been attended on the record.

2                   The second matter of housekeeping comes by  
3 way of an undertaking from Manitoba's Industrial Power  
4 User's Group and it was an undertaking that they -- they  
5 provided to Board Counsel and it specifically dealt with  
6 demand charges. They responded to that in writing and  
7 they have circulated the electronic copy and I propose  
8 that that be marked as MIPUG Exhibit Number 10 and that  
9 will be added to the record of the proceedings.

10

11 --- EXHIBIT NO. MIPUG 10: Response to undertaking  
12 specifically dealing with  
13 demand charges.

14

15                   THE CHAIRPERSON: Mr. Barron, have you  
16 circulated that yet?

17

18   (BRIEF PAUSE)

19

20                   THE CHAIRPERSON: Very good, Mr. Peters.

21                   MR. BOB PETERS: Then the third matter,  
22 Mr. Chairman, of housekeeping deals with a letter dated  
23 May the 30th from Mr. Williams on behalf of the  
24 Intervenor CAC and MSOS.

25                   Mr. Williams' letter of May 30th is in

1 response to a discussion with the Vice-Chair in Mr.  
2 Williams' closing submissions. And in the letter Mr.  
3 Williams provides clarity of his client's position on his  
4 understanding of the questions asked.

5                   There are a couple of brief comments that  
6 I believe Mr. Williams may have on this, also Ms.  
7 McCaffrey and Ms. Ramage. It will be my suggestion  
8 subject to their -- their views that as this letter is  
9 Mr. Williams' efforts to respond to the Vice-Chair it  
10 will become a matter for the Board to review and  
11 determine what if any weight to give to it and in that  
12 regard it should simply be taken as read on the  
13 transcript following the discussion this morning and then  
14 it's available for the Board to review.

15                   So I'll turn it over to Mr. Williams for  
16 his brief comments and then I would suggest you call on  
17 Ms. McCaffrey and Ms. Ramage --

18                   THE CHAIRPERSON: Thank you. Mr.  
19 Williams...?

20                   MR. BYRON WILLIAMS: My comments will be  
21 very, very brief. In reviewing the transcript, in -- in  
22 particular pages 291 to 295 is a brief discussion that I  
23 did have with the -- the Vice-Chair and at -- at the end  
24 of it it appeared to me that there were a question --  
25 there was a question unanswered which is responding to

1 the five (5) -- five (5) points made by Mr. Lazar in his  
2 oral evidence which I happened to miss that day during  
3 the proceeding.

4 I presented this letter to the Board and  
5 asked for its permission for it to be entered upon the  
6 record. I recognize that generally when closing argument  
7 is done, it's done and that certainly would be the  
8 position that I would tend to take. In this case in our  
9 view there was an important matter which is Mr. Lazar's  
10 five (5) -- five (5) points which CAC/MSOS did not  
11 address in -- in their argument and did not respond to  
12 the Vice-Chair's question on that point.

13 So in that regard it's there for the -- at  
14 -- for the Board's pleasure. If it feels it will be  
15 assistance it's welcome to it, and if it feels that it's  
16 -- it doesn't want to go outside its established  
17 procedure that is -- that is fine as well. This letter  
18 is here because my clients don't like to leave an  
19 important issue like that unanswered. To my regret I  
20 didn't answer it in -- in the course of the oral argument  
21 so if the Board wishes to accept it that's fine and again  
22 that -- that would be our position. Thank you.

23 THE CHAIRPERSON: Thank you, Mr.  
24 Williams. Ms. McCaffrey, you wish to speak on this?

25 MS. TAMARA MCCAFFREY: Thank you and good

1 morning.

2                   One (1) thing that I've noticed about Mr.  
3 Williams in the -- the years that I have been involved  
4 with this type of proceeding before the Public Utility  
5 Board is that he's really -- pays a great deal of  
6 attention to -- to detail -- to procedure and proper  
7 procedures. And I think that in terms of this I have no  
8 problem, from a legal standpoint, in terms of addressing  
9 a question of the Panel when you go back and you get the  
10 proper information before you and you can then respond to  
11 it appropriately in terms of assisting the Board. I  
12 don't have a problem with that.

13                   I would just put this caveat on the  
14 record, however, and I know My Friend would -- would  
15 agree with this, you don't want to go beyond that in  
16 terms of rearguing the case. Of course, nobody wants  
17 that precedent to start though. You'd never get to  
18 finish a hearing if us lawyers could finish our closing  
19 argument and come back a little --some written after the  
20 fact and I know Mr. Williams would completely concur with  
21 that.

22                   So I have reviewed this letter and I don't  
23 -- while I don't think there's any prejudice to MIPUG's  
24 position here, from a procedural standpoint I think it's  
25 very important to -- to point out that there are some

1 things in this letter that I believe were actually  
2 already argued before you, quite aptly actually, by Mr.  
3 Williams.

4 And I wouldn't want a perception to be,  
5 certainly for our clients and in terms of a precedent  
6 from a long-term standpoint before this Board, of any  
7 rearguing. And -- and with respect to that on page -- go  
8 ahead, Mr. Williams. Do you want to jump in?

9 MR. BYRON WILLIAMS: Yes, and just  
10 because I've discussed this with My Friend, if you --  
11 what I would suggest and I think it's an appropriate  
12 suggestion I -- is on page 3 of my letter there is a sub-  
13 heading "principles to be applied" and I -- I would -- on  
14 page 3 there is a sub-heading called "principles to be  
15 applied" and I would concur that that is -- that's the  
16 doc -- the material under that heading would be a  
17 repetition of our prior argument.

18 We put it in, so that if that's a concern  
19 for her that would be something I think would be quite  
20 appropriate to strike out.

21 Likewise on page 4 there's a sub-heading  
22 "improve Manitoba Hydro's financial position" and we  
23 certainly spoke of that in terms of our response to the  
24 Manitoba Industrial Power Users Group so I think the  
25 other ones -- sections, I would argue, are responsive to

1 the -- the issues raised by Mr. Lazar which I did not  
2 address before.

3 So -- and we've had that conversation  
4 prior so hopefully that goes a little way to confirming  
5 her -- her concerns about not rearguing what's already  
6 been argued.

7 THE CHAIRPERSON: Ms. McCaffrey, do you  
8 have anything else?

9 MS. TAMARA MCCAFFREY: Just -- just I  
10 think it would be a good idea for the Board, in terms of  
11 dealing with this issue, to make it clear with respect to  
12 what this is being accept -- you've indicated -- or I  
13 think I have a sense that the Board is willing to -- to  
14 accept this and determine what weight to give it.

15 I just would raise that for the Board to  
16 give some consideration to from a -- from a precedential  
17 value you might want to deal with it in a way that  
18 carefully restricts someone wanting to try and use this  
19 as a precedent maybe for -- for getting a second kick at  
20 the cat in argument down -- down the road.

21 And I appreciate My Friend's concession in  
22 terms of excising those portions of the letter that --  
23 that I feel were -- were certainly argued quite ably by --  
24 -- by Mr. Williams from the letters so that you're not  
25 getting that repetition.

1                   So I -- by way of assistance to the board  
2 I -- I -- I leave it with you. But I would suggest that  
3 the Board consider making some reference in some manner  
4 with respect to when this can be done and the specific  
5 use that you are letting it in for. I think that would  
6 be useful, I think, for everybody, from a precedential  
7 point of view.

8                   THE CHAIRPERSON: Thank you.

9                   Ms. Ramage...?

10                  MS. PATTI RAMAGE: Yes, Mr. Chair.

11 Manitoba Hydro, I think, would simply echo Ms.  
12 McCaffrey's concerns. I don't believe there is any  
13 prejudice by this letter, per se, and we don't intend to  
14 object it. However, I don't think there's counsel in the  
15 room who didn't walk out of a hearing saying I shoulda/I  
16 oughta, I -- and we don't want to set the precedent that  
17 we're going to start answering -- or re-answering or re-  
18 replying to our final argument by letter afterwards  
19 because it could be a never-ending proceeding.

20                  But in terms of this letter ourselves --  
21 itself we don't have any concerns but we wanted our --  
22 our view on the record that we don't want a precedent  
23 established.

24                  THE CHAIRPERSON: Mr. Buhr, do you have  
25 any thoughts on this?

1 MR. DOUG BUHR: I have nothing to add,  
2 Mr. Chairman.

3 THE CHAIRPERSON: Professor Miller...?

4 DR. PETER MILLER: I don't know if it's  
5 the next item but I did respond to it.

6 THE CHAIRPERSON: Oh no, in respect of  
7 the specific matter in front of us which is CAC/MSOS'  
8 letter.

9 DR. PETER MILLER: In -- in my further  
10 response I indicated I had no objection to it being there  
11 but if it were then I have an item to add as well.

12 THE CHAIRPERSON: Thank you, Professor  
13 Miller.

14 MR. BOB PETERS: Mr. Chairman, with --

15 MR. ROBERT MAYER: Mr. Chair, if I might.  
16 I recognize that firstly the discussion of weight,  
17 there's no issue of weight to argue. Argument's not  
18 evidence, argument is argument. And I have many times  
19 objected to somebody getting a last kick at the cat;  
20 nobody is having a problem, that isn't an issue.

21 But, I don't think there is any issue of  
22 weight. I think we have to be very clear the issue of  
23 argument is persuasion, it is not evidence. The evidence  
24 is in the record and I think we sitting at this table can  
25 tell the difference.

1 THE CHAIRPERSON: Mr. Williams...?

2 MR. BYRON WILLIAMS: Mr. Chair, just to  
3 conclude, I would put the question quite simply. At the  
4 end of our argument there was a response to an issue  
5 raised by the Vice Chair that my client's position, my  
6 view wasn't fully expressed. If the Board wishes to have  
7 my client's views, it's open to it to accept the letter.

8 If it doesn't wish to have my client's  
9 views, again I recognize that this is a bit outside the  
10 process and that's perfecting well -- fine as well.

11 THE CHAIRPERSON: We'll accept the letter  
12 on the basis of the discussions we've had this morning.

13 Mr. Peters ...?

14 MR. BOB PETERS: Thank you then, Mr.  
15 Chairman. I ask Digitran and Mr. Pickering to have the  
16 record put into the transcript of proceedings. And I  
17 will provide him with the section that Mr. Williams  
18 suggests be excised on the bottom of page 3 and top of  
19 page 4, as well as on the middle of page 4.

20

21 (LETTER ON BEHALF OF CAC/MSOS

22

23 Writer's direct line: (204) 985-8533

24 Email: bwilliams@pilc.mb.ca

25

1 May 30, 2006

2

3 By fax

4

5 Mr. Gerry Gaudreau

6 Executive Director

7 The Manitoba Public Utilities Board

8 400 - 330 Portage Avenue

9 Winnipeg, Manitoba

10 R3C OC4

11

12 Dear Sir:

13

14 Re: Questions/Comments Posed by the Vice Chair at  
15 pages 2191 and 2195 of the Transcript

16

17 In the course of the closing argument by CAC/MSOS on  
18 Monday, May 29, 2006 the Vice Chair posed a series of  
19 questions regarding the positions of Mr. Lazar and of  
20 TREE. In his comments, he:

21

22 i) suggested that counsel for CAC/MSOS had  
23 made a "very unfair representation of Mr. Lazar's  
24 position with respect to the distribution of excess  
25 revenue" (page 2191, lines 21 - 23);

1 ii) questioned whether there was anything on  
2 the record from TREE apart from the evidence of Mr. Lazar  
3 with respect to the distribution of excess revenue (page  
4 2195);

5 iii) provided Counsel for CAC/MSOS with an  
6 opportunity to respond to what he characterized as the  
7 position of Mr. Lazar as set out in his oral evidence.

8

9 As the record will show, counsel's ability to respond  
10 to the Vice Chair's question was hindered by both:

11 a) his sense that the Vice Chair had  
12 inadvertently mischaracterized his argument, as well as;

13 b) the fact he was not familiar with Mr.  
14 Lazar's evidence on this point.

15

16 Speaking on behalf of CAC/MSOS, the results of this  
17 exchange were unsatisfactory.

18

19 First, the record was left quite unclear as to the state  
20 of the evidence. Second, and more importantly, CAC/MSOS  
21 were not in a position to respond to the Vice Chair's  
22 request to respond to the oral evidence of Mr. Lazar.

23 For this, counsel for CAC/MSOS apologizes.

24

25 On a professional level, as someone who regularly appears

1 before this Board, counsel for CAC/MSOS believes it is  
2 important to address any suggestion that he has been  
3 unfair in his characterization of the evidence or  
4 positions of others.

5

6 Having reviewed the transcript of Monday's exchange and  
7 having considered the thrust of Mr. Lazar's oral  
8 evidence, counsel for CAC/MSOS has prepared a written  
9 response to the issues raised by the Vice Chair.

10

11 Given the unsatisfactory state of the record and the fact  
12 that the Vice Chair has asked a question for which he has  
13 not received a response, CAC/MSOS is requesting leave  
14 from this Board to file additional written comments for  
15 the purpose of clarifying the record and responding to  
16 the request of the Vice Chair.

17

18 If the Board deems it necessary, Mr. Williams will be  
19 available to speak to this request on Friday morning when  
20 the hearing resumes.

21

22 Thank you for your consideration of the following  
23 comments.

24

25

1 Response

2

3 a) Was Mr. Lazar's position mischaracterized?

4

5 It is important to understand that Mr. Lazar appears as  
6 an independent witness retained by TREE/RCM. As such,  
7 his evidence is not the position of TREE until it is  
8 adopted in argument.

9

10 During his closing, counsel for CAC/MSOS made reference  
11 to two competing suggestions with regard to the  
12 disposition of export revenues namely, a drought  
13 appropriation and a dividend.

14

15 The purposes of identifying these options was to note  
16 "they flow from fundamentally different conclusions as to  
17 the nature of the net export revenues earned by Manitoba  
18 Hydro."

19

20 This discussion was intended to relate to the submission  
21 by Mr. Williams that "the risk borne by Manitoba Hydro  
22 ratepayers in terms of droughts are borne by all  
23 consumers and when we had to recover from the costs of  
24 droughts, that was borne by a rate increase reflecting an  
25 increase on generation, transmission and distribution."

1 As Mr. Williams was elaborating upon this point, the Vice  
2 Chair posed the suggestion that Mr. Williams was being  
3 "very unfair" to the thrust of Mr. Lazar's evidence.

4

5 However, it is important to note that in discussing the  
6 dividend concept, Mr. Williams did not make reference to  
7 the evidence of Mr. Lazar. At page 2181 (lines 15 - 17),  
8 he merely referenced the suggestion of a dividend. At  
9 page 2182 (line 9/10), he specifically referenced the  
10 intervenor "TREE, T-R-E-E." A careful review of the  
11 record reveals that he did not make reference to the  
12 evidence of Mr. Lazar.

13

14 In the respectful view of CAC/MSOS, it would be  
15 inaccurate to suggest that the evidence of Mr. Lazar was  
16 mischaracterized. The evidence of Mr. Lazar was not  
17 cited.

18

19 b) Is the suggestion by RCM/TREE on the record?

20

21 As noted above, intervenors and their independent experts  
22 exist separate and apart. An intervenor is not obliged  
23 to adopt the advice of their expert. An intervenor also  
24 has independent means by which to put evidence on the  
25 record such as through cross examination or through

1 written information requests.

2

3 Apart from the comments made by Professor Miller during  
4 the course of the pre hearing technical conference, there  
5 are at least two references to the concept of a dividend  
6 on the evidentiary record of this proceeding which can be  
7 related to RCM/TREE.

8

9 In interrogatory RCM/TREE/MH 1 - 11, specific reference  
10 was made to possible allocations of net export revenues  
11 to "dividends to the Province for social investment or  
12 tax relief." RCM/TREE raised similar options in the  
13 course of RCM/TREE/MIPUG 1- 4.

14

15 While counsel for CAC/MSOS is entitled to make reference  
16 to the positions outlined by other Intervenors in  
17 argument, there can be no doubt that issue of a dividend  
18 was raised in the evidentiary portion of this proceeding  
19 by RCM/TREE.

20

21 As an interesting aside, the pre-filed evidence of Mr.  
22 Lazar makes specific reference to the utilization of  
23 Hydro funds for "general government purposes."

24

25 c) Responding to the oral evidence of Mr. Lazar

1 During his Testimony (pages 1575 and 1736), Mr. Lazar  
2 made a number of suggestions regarding how net export  
3 revenues could be treated. These included:

- 4 - Using net export revenues to offset the  
5 impact of the Government's uniform rate legislation;
- 6 - Using net export revenues to enhance MH's  
7 financial position, either by simply building up equity  
8 or creating a segregated drought fund;
- 9 - Using net export revenues to fund energy  
10 efficiency programs;
- 11 - Using net export revenues to fund low  
12 income energy assistance programs; and
- 13 - Using net export revenues to offset the  
14 cost of the basic distribution infrastructure required  
15 regardless of usage levels.

16

17 The following are the positions of CAC/MSOS on the  
18 recommendations posed by Mr. Lazar.

19

20 Comments on Mr. Lazar's Suggested Use of Net Export  
21 Revenues

22 Offset Impact of Uniform Rates

- 23 - As Mr. Lazar noted, this is already being  
24 done. Under all of the COSS options, \$16.8 M of the net  
25 export revenues is directly assigned to customer classes

1 to offset the impact of the uniform rate legislation.

2

3 Funding of Energy Efficiency Programs New Funding

4

5 - MH is currently spending in the order of  
6 \$20 M annually on DSM (see 2004 GRA - CAC/MSOS/MH I-22  
7 a)).

8 - There has been no suggestion in the recent  
9 2004 GRA or the 2002 Status Update that the level of  
10 funding for DSM is a concern to MH, the intervenors or  
11 the PUB - in terms of insufficient funds available given  
12 other Corporate priorities.

13 - Indeed, at the 2004 GRA, MH indicated that  
14 a new plan involving increased spending would be forth  
15 coming and no concerns about funding were raised by the  
16 parties involved or the PUB.

17 - Overall, it does not appear that "funding"  
18 is the issue with MH's DSM activities. It is more a  
19 matter of getting on with the job of identifying  
20 additional opportunities and developing the programs to  
21 deliver the potential savings.

22 - Having said this, the adequacy of DSM  
23 funding and the need to spend more is also a matter for a  
24 GRA-type proceeding. It is beyond the scope of the  
25 current proceeding into COSS methodologies to determine

1 such matters.

2

3 Offset Existing DSM Costs

4

5 - One could also consider just using the net  
6 export revenues to offset the costs of current DSM  
7 programs - as allocated to customer classes. Based on  
8 the PCOSS results filed (Appendix 11.3, pages 6-7) this  
9 would require roughly \$20 M in net export revenues. This  
10 suggestion would appear to be within the scope of this  
11 proceeding.

12 - There is no particular reason why these  
13 program costs should be singled out and specifically  
14 funded by net export revenues. Indeed, the current (and  
15 recommended) method directly assigns DSM costs to the  
16 customer class for which the program is targeted. Given  
17 this direct attribution of costs based on benefits, one  
18 could assert that - from a cost causality perspective -  
19 these costs (and similar costs) are the ones that should  
20 not be offset by any allocation of net export revenues.  
21 Furthermore, given the level of net export revenues  
22 associated with the Recommended Method, their use to  
23 offset DSM costs still leaves a significant quantum of  
24 net export revenues to be dealt with.

25

1                                   Funding Low Income Assistance Programs  
2       -                            The funding of Low Income Assistance  
3 Programs could take place through either:  
4       a)                         Actual programs (e.g. Rebates or Special  
5 DSM activities), or  
6       b)                         Special Rates (e.g. lower and/lifeline  
7 type rates for qualifying low income customers).  
8       -                            Funding through programs would create an  
9 additional "cost" for the Corporation and lead to an  
10 adjustment in the revenue requirement. Again the need  
11 for such programs is outside the scope of the current  
12 COSS methodology review and should be considered within  
13 the context of a GRA. In the case of targeted DSM  
14 programs, this is something that can and should be  
15 specifically addressed through a consideration of DSM  
16 programming activities.  
17       -                            In the case of Special Rates, this  
18 something that has been specifically rejected by the PUB  
19 (and other Canadian regulators) in the past.  
20 Furthermore, consideration of such rates is also outside  
21 the scope of the current proceeding and best left to be  
22 considered along with MH's other rate design proposals -  
23 when they are brought forward for review.  
24       -                            The PUB could use this proceeding to  
25 signal to MH its interest in seeing such proposals in the

1 future if they considered that there was some merit to  
2 them.

3

#### 4 Offset Basic Distribution Costs

5 - This recommendation (along with the first  
6 one to offset uniform rates and the second one, if used  
7 to offset existing DSM costs) are the only one that falls  
8 truly within the scope of the COSS methodology review  
9 proceeding.

10 - Basic distribution costs (that is the  
11 customer portion of the poles, wires and meters installed  
12 to provide basic service regardless of the level of  
13 demand) represent roughly \$75.5 M (see Appendix 11.3,  
14 page 6)

15 - Mr. Lazar's suggestion that net export  
16 revenues be allocated against these costs (i.e., to  
17 effectively zero them out as well as DSM costs) would  
18 still leave just under \$200 M to be "allocated" in some  
19 fashion - based on MH's Recommended Method which yields  
20 \$286 M in net export revenues after the uniform rate  
21 adjustment. As a result, there are still significant  
22 "unallocated" net export revenues.

23

#### 24 Merits of Offsetting Distribution Costs

25

1 -                   There is a need to distinguish cost  
2 allocation issues from rate design issues. Mr. Lazar's  
3 initial recommendations with respect to the treatment of  
4 basic distribution costs was that they should all be  
5 considered as demand related. The premise seemed to be  
6 that since they were "inallocable" and embedded cost were  
7 below marginal costs such a treatment would be more  
8 appropriate from an efficiency perspective. It is  
9 possible to address this in the rate design phase by  
10 deciding that (for efficiency reasons) a portion of the  
11 customer costs will be recovered through the rates  
12 applied to demand and energy use.

13 -                   In terms of using basic distribution costs  
14 as one of the "first" places to allocate net export  
15 revenues and assessing the approach vs. MH's Recommended  
16 G&T&D Method one can look in turn at each of principles  
17 (apart from cost causality) outlined above:

18 -                   Efficiency:

19 -                   Mr. Lazar's approach could be viewed as  
20 better from an efficiency perspective when embedded costs  
21 are less than marginal costs as it allocates a greater  
22 portion of the net export revenues to offset  
23 customer-related costs that make up the monthly customer  
24 charge and typically have minimal effect on customer  
25 usage.

1 - Equity & Comprehensibility:

2 - If there are offsets to be applied, it is  
3 not readily apparent why the costs of distribution should  
4 be singled out for "preferential" treatment and doing so  
5 could be viewed as inequitable. This same observation  
6 would also apply to current DSM program costs. (Note:  
7 In the case of uniform rates, there was government  
8 legislation that implemented the policy and the cost  
9 offset provided by net export revenues can be viewed as  
10 simply a necessary consequence).

11 - Also, this approach (where distribution  
12 gets a preferred call on net export revenues) represents  
13 a polar opposite from the Current Method where all net  
14 export revenues are allocated based on G&T - represents a  
15 more radical shift in allocation.

16 - MH's Recommended Method can be viewed as  
17 providing the least distortion from a fairness  
18 perspective, in that each class bears the same  
19 proportional responsibility for cost before and after the  
20 allocation of net export revenues.

21

22 Conclusion

23

24 Thank you for the opportunity to clarify the record on  
25 this point. Should you have questions or concerns,

1 please feel welcome to contact me at 985-8533.

2

3 Yours truly,

4

5

6 BYRON WILLIAMS

7 DIRECTOR

8

9 (LETTER CONCLUDED)

10

11 MR. BOB PETERS: Mr. Chairman, the excuse  
12 me -- next to last matter of housekeeping is a matter  
13 that Professor Miller has raised to the Board's  
14 attention. And it was his clarification and -- of the  
15 evidence and the position taken on behalf of RCM --  
16 RCM/TREE and he provided that by way of a letter of June  
17 the 1st.

18 And subject to anybody else's comments, I  
19 would suggest it be given the same treatment as we've  
20 just indicated for the other letter.

21

22 (BRIEF PAUSE)

23

24 THE CHAIRPERSON: Ms. Ramage...?

25 MS. PATTI RAMAGE: I would agree with

1 Mr. Peter's comments.

2 THE CHAIRPERSON: Ms. McCaffrey, Mr.  
3 Buhr, any other thoughts? Mr. Williams...?

4

5 (BRIEF PAUSE)

6

7 THE CHAIRPERSON: Very good then. So  
8 the matter is closed. Thank you. Professor Miller.

9 MS. TAMARA MCCAFFREY: I'm just going to  
10 indicate that I haven't actually seen the rec -- the  
11 letter but, for the same purposes -- I don't think there  
12 would be anything to add in terms of comments.

13 THE CHAIRPERSON: Yes.

14

15 (LETTER ON BEHALF OF RCM/TREE)

16

17 133 Riley Crescent

18 Winnipeg, MB

19 R3T 0J5

20 Phone: 452-9017

21 Email: p.miller@uwinnipeg.ca

22

23 June 1, 2006

24 Sent by email

25 Mr. Gerry Gaudreau

1 Executive Director  
2 The Manitoba Public Utilities Board  
3 400 - 330 Portage Avenue  
4 Winnipeg, Manitoba  
5 R3C 0C4

6  
7 Dear Sir:

8  
9 Re: May 30th, 2006 letter from Mr. Byron Williams  
10

11 Mr. Williams writes to clarify and supplement his  
12 response to questions and comments posed by the Vice  
13 Chair at pages 2191 and 2195 of the transcript. His  
14 intention is (1) to clarify the state of the evidence and  
15 (2) to complete his response to the oral evidence of Mr.  
16 Lazar.

17  
18 RCM/TREE have no objection to Mr. Williams putting his  
19 further views on the record and request that, if they are  
20 accepted, in the interest of clarity, these brief  
21 comments on behalf of RCM/TREE regarding the first of Mr.  
22 Williams' points also be accepted. In particular I will  
23 respond to Mr. Williams' discussion on p. 3 of his letter  
24 of b) Is the suggestion by RCM/TREE on the record? I will  
25 not comment on the other points.

1 Mr. Williams is quite right that RCM/TREE raised  
2 questions about the possibility of "dividends to the  
3 province for social investment or tax relief" and that  
4 Mr. Lazar, in his written evidence, included "general  
5 government purposes" as a possible use for enhanced  
6 revenues resulting from the inclusion of CO2 costs in  
7 revenue requirement, as cited in Mr. Williams' letter.

8  
9 What Mr. Williams did not note in his response is (a)  
10 that raising questions or exploring possibilities is not  
11 the same as taking positions or making recommendations  
12 under current legislation, and (b) that Mr. Lazar  
13 explicitly qualified his analysis as subject to other  
14 considerations and to policy determinations involving the  
15 PUB and the Government of Manitoba.

16  
17 With respect to (a), in my opening comments on May 4, I  
18 said:

19  
20 "And similarly, and this is the one (1)  
21 point I'll advocate right at the  
22 outset, the rest will wait 'til the --  
23 the debate and the deliberation takes  
24 place, that full cost accounting is  
25 presented in the Sustainable



1 customers, and slightly higher rates  
2 for large-use general service  
3 customers. However, in my opinion,  
4 cost should be only one element of the  
5 MPUB decisions on cost allocation.  
6 Other factors, including perceptions  
7 of equity and fairness, impacts on the  
8 regional economy, and impacts on  
9 disadvantaged citizens are also  
10 legitimate regulatory considerations,  
11 and I do not make a recommendation on  
12 how these non-cost considerations  
13 should be applied.

14 Q. Should the environmental costs be  
15 collected as part of the MH revenue  
16 requirement?

17 A. This is a policy decision for the  
18 MPUB and the Government of Manitoba. I  
19 believe it would be economically  
20 efficient to do so - to recognize these  
21 elements of cost in setting rates for  
22 MH.

23 Q. If this were included in the  
24 revenue requirement, how should the  
25 revenues be utilized?



1 immediate answer. The transcript did not pick it up and  
2 nor do I believe it was intended to be an undertaking,  
3 but with the time between the last time we gathered and  
4 today, Manitoba Hydro has done some more work and some  
5 more additional information and they would like an  
6 opportunity to respond to Dr. Evan's question of a week  
7 and a half ago.

8 THE CHAIRPERSON: What was his question?

9 MS. PATTI RAMAGE: The question was at  
10 page 932 of the transcript. And he was wondering if we  
11 had any information on what other cities or the treatment  
12 of streetlights by other areas. We had indicated, no,  
13 but our very keen back row went off and found that  
14 information.

15 So if the Board would like that question  
16 answered, we're now able to provide that information.

17 THE CHAIRPERSON: Yes, we would like to.  
18 Thank you very much. Thank you for the research.

19 MS. PATTI RAMAGE: I think Mr. Wiens has  
20 the information.

21 MR. ROBIN WIENS: Yes, Mr. Chairman, it's  
22 not a whole lot of information but, it's more than we had  
23 at the time that the question was asked. And our very  
24 assiduous back row went and had some discussion with four  
25 (4) other Canadian Utilities, those being Saskatchewan

1 Power, New Brunswick Power, Hydro Quebec and BC Hydro.

2 For British Columbia Hydro the information  
3 we got is that they base the street light customer count  
4 on the number of luminaires.

5 For Hydro Quebec, Hydro Quebec allocates  
6 the customer service cost that is on a per customer  
7 account basis and the cost of consumption allocated on  
8 the consumption of the lights. The cost of the poles  
9 associated with street lighting allocated on the number  
10 of poles.

11 Hydro Quebec does differentiate the number  
12 of customers from the number of lights and the number of  
13 poles, but they do factor in the cost of service study  
14 for the allocation of customer related cost.

15 For New Brunswick, we simply have the  
16 information that the cost of service uses the number of  
17 accounts.

18 For Saskatchewan Power, Saskat -- Sask  
19 Power uses both the number of street light accounts and  
20 the number of street lights in its cost of service  
21 modeling. The number of street light accounts is used to  
22 allocate customer service costs which include such items  
23 as billing, account administration and so forth.

24 The number of street light lamps and the  
25 typical number of street lights on a secondary run is

1 used to allocate the customer related costs for 14.4  
2 kilovolt laterals and transformers which is essentially  
3 the customer related costs of the distribution system.

4                   The last information we have is that in  
5 Saskatchewan there are approximately thirty-one (31)  
6 street lights per account.

7                   THE CHAIRPERSON:    Thank you, Mr. Wiens.  
8                   Mr. Peters...?

9                   MR. BOB PETERS:        That brings us, Mr.  
10 Chairman and Board Members, to the purpose of our  
11 gathering today and that was to hear Manitoba Hydro's  
12 closing submissions. And I would suggest it would be  
13 appropriate to call on Ms. Ramage to deliver those  
14 comments.

15                   THE CHAIRPERSON:    Ms. Ramage...?

16  
17 CLOSING COMMENTS BY MS. PATTI RAMAGE:

18                   MS. PATTI RAMAGE:    Yes, thank you.  
19 Before getting to the heart of Manitoba Hydro's  
20 submission I think it might be useful to highlight a few  
21 points which have arisen during this process. Some were  
22 spoken to during the evidentiary portion of the Hearing,  
23 however Manitoba Hydro believes these to be important  
24 matters and I wish to deal with them at the outset.

25                   First, Manitoba Hydro wishes to dispel any

1 notion that the results of this process do not matter to  
2 the Corporation because it collects the revenue  
3 requirement regardless of the allo -- allocation  
4 methodology used. Here I'm referencing an exchange  
5 between Mr. Peters and Mr. Warden at trans -- beginning  
6 at transcript page 176.

7                   The fact is the results of the Cost of  
8 Service Study directly impact Manitoba Hydro's customers.  
9 Manitoba Hydro is a creature of statute established to  
10 provide for the continuance of power adequate for the  
11 needs of its customers and to promote economy and  
12 efficiency in the supply of that power. In order to  
13 perform this mandate it's essential that all customers be  
14 treated equitably and their interests be balanced.

15                   From a bottom line perspective to the  
16 degree that costs allocated under the Cost of Service  
17 impact level of rates consumption will be impacted which  
18 in turn impacts load forecast and resource planning  
19 decisions, and for example the need to invest capital in  
20 plant, purchase power, or make DSM expenditures. The  
21 results of this process are very important to Manitoba  
22 Hydro and we don't want that to be forgotten.

23                   Second, there was a suggestion during  
24 MIPUG's final argument, and that's at transcript page  
25 2284, that Manitoba Hydro came to this Board with a

1 problem, that being in Ms. McCaffrey's words that we have  
2 too much money.

3                   To be clear Manitoba Hydro has never taken  
4 the position that export revenues are a problem and I am  
5 confident that you have never heard and you will never  
6 hear this complaint from the Corporation. We are here  
7 because the historical treatment of export revenues is no  
8 longer appropriate.

9                   The effect of this treatment in the Cost  
10 of Service Study and the fact that it distorts RCCs and  
11 generates an unfair allocation of costs is the issues  
12 we're here to deal with.

13                   We also want to correct any impression  
14 that we may have given or that may be taken from the  
15 discussion on arbitrage between MISO and Ontario markets.  
16 While it is true that these trading opportunities can  
17 enhance export profits they are nevertheless, as noted at  
18 page 1195 of the transcript, responsible for only a small  
19 percentage of Manitoba Hydro's export revenues.

20                   Finally, we've also heard arguments to the  
21 effect that a box ought to be drawn around the Cost of  
22 Service Study and that we dare not use it for any other  
23 purpose than those issues which Ms. McCaffrey and Mr.  
24 Bowman have designated belong inside that box.

25                   The Cost of Service is a tool. It's a

1 tool which provides guidance on the rate setting process.  
2 You'll recall that in past hearings we've heard this  
3 Intervenor argue that this Board is compelled to utilize  
4 this tool. This notion was not accepted by this Board  
5 and it was dispelled by the Court of Appeal.

6 Now we're hearing if you're going to use  
7 the tool, the methodology must be rigidly constrained by  
8 past practice and precedent. This is simply not the  
9 case. If the tool serves the purpose, we should use it.  
10 We should not delay pursuing resolution of this matter in  
11 order to create a new tool if the one we have does the  
12 job.

13 We've heard time and time again from this  
14 Intervenor how we ought to respect precedent and past  
15 decisions. Well, this Board made it absolutely clear why  
16 we're assembled here today.

17 In -- as noted in Order 143/04 this  
18 journey began following -- following the 2002 Status  
19 Update Hearing where, in Order 7/03, the Board was of the  
20 view that due to increasing -- due to increasing  
21 importance of export revenues further study was required  
22 for determination and allocation of net export revenue in  
23 the cost of service study. And you can find that at page  
24 96 of Order 143/04.

25 This Order went on to direct a study of

1 four (4) specific cost of service study models and  
2 indicated that the PUB expected these issues to be  
3 resolved prior to the next GRA. It seems somewhat  
4 disingenuous to now hear that we should be putting off  
5 dealing with all of these issues to yet another day  
6 because of -- the cost of service study isn't the right  
7 tool.

8           Even if you're to accept the notion that a  
9 box ought to be drawn around the cost of service study  
10 is, the fact is the recommended method does not part from  
11 the principles Mr. Bowman has zealously sought to defend.

12           In particular, if it is -- if it has  
13 become apparent that export revenues which are, after  
14 all, an offset not a cost, if it's apparent that they can  
15 no longer appropriately be dealt with on the basis of  
16 generation and transmission cost this does not mean that  
17 there are no other way to deal with them in the cost of  
18 service study or that they should not be dealt with in  
19 the cost of service study.

20           There does not appear to be much  
21 disagreement among the participants in this proceeding as  
22 to the broad purpose of a cost of service study. It's  
23 used to analyse the appropriate costs incurred to provide  
24 service to domestic customer classes and to allocate  
25 those costs to the customer classes on the basis on which

1 costs were incurred.

2 Manitoba Hydro elaborates on its view of a  
3 cost of service study on page 1 of the prospective Cost  
4 of Service Study, 2005/06. And while I won't quote it I  
5 direct you that you can -- you can see a brief statement  
6 of -- of Manitoba Hydro's view of that -- of its use.

7 Mr. Harper, on behalf of CAC/MSOS, has  
8 stated in his direct evidence that the primary purpose of  
9 a cost of service study is to provide guidance with  
10 respect to the fairness objective of rate making. Mr.  
11 Harper went on to say, and I quote here:

12 "It is generally accepted that fairness  
13 in rate setting is achieved when there  
14 is an equal treatment of equals based  
15 on cost causation; that is consumers'  
16 rates are based on the costs incurred  
17 to serve them. So effectively what a  
18 cost of service study does, it analyses  
19 the components of a utility's revenue  
20 requirement, attempts to identify the  
21 cost -- the key cost drivers associated  
22 with each component and then allocates  
23 or directly assigns the costs among the  
24 various customer classes. The results  
25 of this analysis can provide guidance

1 to the Utility and the regulator  
2 regarding the fair apportionment of  
3 total costs among the various customer  
4 classes."

5 And that quote can be found at page 1368  
6 of the transcript.

7 It's clear that Mr. Harper shares Manitoba  
8 Hydro's perspective on the purpose of the cost of service  
9 study.

10 Mr. Bowman, on behalf of MIPUG, has noted  
11 he doesn't disagree with the descriptions of the purpose  
12 provided by Manitoba Hydro and Mr. Harper. And there --  
13 we can find that at transcript page 1838.

14 Mr. Lazar, on behalf of RCM/TREE, does not  
15 take issue with this prospective a cost of service,  
16 although he notes there are some additional perspectives  
17 that could or should be added.

18 Manitoba Hydro does not take issue  
19 generally that cost of service methods should be focused  
20 on the allocation of the embedded costs captured in the  
21 revenue requirement to the different customer classes.

22 However, with regard to the role of  
23 marginal costs in performing that allocation Manitoba  
24 Hydro has a slightly different perspective from that of  
25 Mr. Harper, a significantly different perspective from

1 that of Mr. Bowman and, in fact, is prepared to accept  
2 some of the considerations introduced by Mr. Lazar,  
3 albeit in a limited way. I'll discuss that in greater  
4 detail later in my submission.

5 And I think I've provided you with an  
6 outline so as I'm moving on, and I'm now up to the  
7 heading, if you're keeping score, on the why Manitoba  
8 Hydro's cost of service is no longer achieving its  
9 purpose.

10 While there is not unanimity on this  
11 issue, most participants in this proceeding appear to  
12 agree that the cost of service study is no longer  
13 achieving its purpose and most recognize at the root of  
14 this change is the magnitude of net export revenues.

15 Mr. Warden's direct evidence, beginning at  
16 page 96 of the transcript, provides a succinct  
17 description of Manitoba Hydro's position. The previous  
18 method of allocating extra-provincial revenue served us  
19 well during the years in which export revenues were a  
20 relatively small proportion of Manitoba Hydro's total  
21 cost of service.

22 He goes to on -- on to say:

23 "Since at least 1997 Manitoba Hydro has  
24 -- has been concerned that the  
25 traditional cost of service approach is

1 no longer appropriate for the  
2 determination of class revenue  
3 requirements."

4 Mr. Warden's direct evidence went onto --  
5 to describe the major increases in revenue per kilowatt  
6 hours from export sales; from 1.5 cents in 1992 to 4.9  
7 cents in 2004/05, a period in which embedded cost of  
8 generation and transmission changed very little.

9 He went on to say:

10 "In the recent past and present where  
11 export transactions are taking place at  
12 prices well in ex -- excess of Manitoba  
13 Hydro's embedded costs, assigning  
14 benefits on the basis of customer class  
15 usage of generation and transmission is  
16 no longer fair or rational."

17 Mr. Wiens' direct evidence commented  
18 further and he said:

19 "The long standing method of allocating  
20 net export revenue to domestic classes  
21 based, in effect, on their use of  
22 generation and transmission functions  
23 has not for some time provided  
24 appropriate and realistic cost  
25 recognition for domestic classes of

1 service."

2 And you can find Mr. Wiens quote at  
3 transcript page 105.

4 Manitoba Hydro 2005/'06 Cost of Service  
5 Study, noted on page 3, that Domestic customer classes  
6 are receiving export credits based on an ever increasing  
7 marginal cost of bulk energy, while being allocated based  
8 on the imbedded cost of generation, which is relatively  
9 stable from year to year.

10 Continuing to allocate back net export  
11 revenues on the basis of usage of the generation and  
12 transmission system is as described by Mr. Wiens in his  
13 direct evidence equivalent to saying that increases in  
14 the economic value of those resources that -- those  
15 resources that have occurred over the last years, should  
16 be credited to customers on the basis of their current  
17 usage, and that this is never sound economics nor sound  
18 public policy and therefore not a sound basis for cost  
19 allocation and recovery.

20 And Mr. Wiens comments in that regard can  
21 be found at transcript page 115.

22 As Mr. Williams noted in his own argument  
23 last Monday, he has no difficulty accepting the fact that  
24 there's been a fundamental change in the export market  
25 that necessitates changing the treatment of net export

1 revenues in the cost of service study. Mr. Williams  
2 comments are at page 2145 of the transcript.

3 Mr. Bowman has agreed that there is a  
4 fundamental -- fundamental in that the next -- export  
5 revenue per unit has increased very substantially. Mr.  
6 Bowman and MI -- and counsel for MIPUG even go as far as  
7 to concede that the change may be significant enough that  
8 it's worth considering some revision to the treatment of  
9 net export revenues, even if it's only to take a portion,  
10 however small, out of the cost of service study entirely.

11 But the witnesses for MIPUG are not  
12 prepared to concede that the fundamental change should  
13 impact the cost of service study. They would have you  
14 believe that this situation doesn't represent a cost of  
15 service study -- or a cost of service issue at all.  
16 According to them, it's a revenue requirement issue.

17 It's a revenue requirement issue provided  
18 you believe that export revenues have surpassed some sort  
19 of threshold and that it should be addressed through  
20 revenue requirement and not by changing the treatment of  
21 the cost of service study. Alternatively, the price  
22 distorting impacts, according to MIPUG, can be addressed  
23 through rate design.

24 We'll provide our comments on the  
25 positions of -- with respect to thresholds and rate

1 designs perspectives later.

2                   But, for now we want to note that MIPUG's  
3 evidence and argument ignore the fact this is also a  
4 fairness issue. This is so for two (2) reasons.

5                   First, regardless of how such a threshold  
6 -- threshold might be defined as long as net export  
7 revenues beyond such a threshold have an impact on the  
8 quantum of revenue that must be collected from domestic  
9 customer, the differential impact of this net export  
10 revenues on the various customer classes is, by  
11 definition, a cost of service issue.

12                   The creation of a drought reserve out of  
13 revenues that exceed threshold does not permanently  
14 remove the impact of these revenues on the domestic  
15 revenue requirement, it merely defers them. And I think  
16 -- we discussed this during Manitoba Hydro's cross of Mr.  
17 Bowman and Mr. McLaren at transcript page 2035.

18                   Therefore, ultimately these revenues will  
19 be considered in some cost of service study analysis and  
20 therefore it's appropriate to deal explicitly with the  
21 issue in the context of cost of service.

22                   The other reason we can't ignore the  
23 fairness issue is that the distorting impacts created by  
24 the current method are different among different classes  
25 of service. This is clearly demonstrated if one compares

1 the short run marginal cost depicted in Exhibit Manitoba  
2 Hydro Number 26 which the total costs per kilowatt hour  
3 of net exports for each class.

4           These would, I should -- result -- or that  
5 would result from using the current method as -- as a  
6 benchmark for class recovery. You can find the latter by  
7 checking the 2005/'06 prospective Cost of Service Study  
8 on page 37 and subtracting the net export revenues from  
9 total costs for each class.

10           If you div -- if you divide that result by  
11 the metered energy for each class on page 38 you'll see  
12 that the average cost per kilowatt hour derived by using  
13 the current method ranges from only two point four (2.46)  
14 cents for the general service large greater than kV --  
15 greater than 100 kV class up to seven point three (7.3)  
16 cents for the residential class.

17           On the other hand the short run marginal  
18 costs for energy, as depicted in Manitoba Hydro Exhibit  
19 26, is four point five eight (4.58) cents for general  
20 service large. This means that the current method  
21 assigns a cost equal to only 54 percent of short run  
22 marginal costs to that class.

23           On the other hand, for the residential  
24 class, the short run marginal cost is four point nine  
25 (4.9) cents per kilowatt hour as evidenced in Exhibit

1 Manitoba Hydro 26. This means that the costs assigned in  
2 the current method are equal to 150 percent of short run  
3 marginal cost.

4 Now, we're generally in agreement with Mr.  
5 Williams' concerns and NERA's concerns as discussed at  
6 pages 630 through 632 of the transcript that it is, as a  
7 general rule, inappropriate to be pricing below short run  
8 marginal costs.

9 Putting this constraint into practice in  
10 Manitoba at the current level of export earnings it  
11 admittedly, however, represents a significant practical  
12 challenge. But I don't think it should be a difficult  
13 case to make on the grounds of fairness, that if we were  
14 going to price below short run marginal cost, in any  
15 circumstances, we should not have an extreme variability  
16 among classes of service in the degree to which prices  
17 under-recover relative to marginal cost. But extreme  
18 variability is exactly what we get when we return all or  
19 even most of net export revenue on the basis of usage of  
20 generation and transmission.

21 Now, focusing on Manitoba Hydro's  
22 recommended method. As has been discussed throughout  
23 these proceedings Manitoba Hydro's recommended method for  
24 the Cost of Service Study going forward difference --  
25 differs from the current method in four (4) major



1 allocated on the basis of the domestic classes' share of  
2 both winter peak, that being the top fifty (50)  
3 coincident hours on the system and summer peak, also the  
4 top fifty (50) coincident hours.

5           In the recommended method there is no  
6 classification of the generation function into the demand  
7 and energy related components. Generation costs are  
8 allocated among domestic customer classes according to  
9 energy use weighted by marginal cost in each of four (4)  
10 time periods; summer peak, summer off-peak, winter peak,  
11 winter off-peak.

12           Inflation and adjusted SEP's prices,  
13 averaged over approximately a five (5) year period, were  
14 utilized as proxies for marginal cost of energy in the  
15 four (4) time periods.

16           The recommended method does include a  
17 subsequent reallocation of a small percentage of  
18 generation costs to -- to subtract the curtailable  
19 service benefit from those classes utilizing that service  
20 and allocates it to the remaining classes. This is done  
21 on the basis of demand.

22           Other than that class demand, either  
23 coincident or otherwise, does not factor into the  
24 calculation of generation costs in the recommended  
25 method. No party in this proceeding has opposed the use

1 of SEP as a proxy for marginal cost of generation and no  
2 party has opposed the concept of rela -- relative  
3 marginal cost among time of use periods to allocate  
4 generation costs.

5                   Witnesses for both MIPUG and CAC/MSOS have  
6 suggested it would be appropriate to increase the number  
7 of time periods, at least to twelve (12) periods, to  
8 incorporate four (4) seasons instead of just two (2) and  
9 add a shoulder period to the daily peak and off-peak  
10 periods. Manitoba Hydro has indicated it's willing to  
11 accept this modification.

12                   In addition, MIPUG's witnesses have  
13 indicated they believe it's important to retain the  
14 initial classification of generation into energy and  
15 demand-related components and to allocate the demand-  
16 related component on the basis of coincident peak. They  
17 cite the fact that Manitoba Hydro plans its system to be  
18 able to meet the coincident peak. And you can find that  
19 at transcript page 1885.

20                   Manitoba Hydro does not disagree that it  
21 plans the system to meet coincident peak. But it also  
22 places additional capacity in service to meet a range of  
23 conditions between average load and peak load similar to  
24 that reflected in the choice of four (4) or more energy  
25 periods as a basis for allocation of that cost.

1                   Manitoba Hydro believes that its  
2 recommended allocation of generation costs substantially  
3 captures related capacity related costs in the weighting  
4 provided to the energy period.

5                   Peak periods receive a higher weight. The  
6 higher value of energy in peak periods reflects the  
7 premium placed on availability at that time of peak. The  
8 more energy periods that are utilized the more certainty  
9 we have that peak effects are captured.

10                   In Manitoba Hydro's rebuttal evidence,  
11 pages 40 through 41, we've shown that even with only four  
12 (4) periods the allocation of generation costs is not  
13 substantially different in the recommended method than it  
14 is in the current method. Using twelve (12) periods  
15 reduces any -- any difference still further.

16                   The addition of a coincident peak  
17 allocator over and above these energy use differences  
18 substantially risks double-counting the impact of  
19 generation -- or impact on generation, I'm sorry. So if  
20 you're going to consider this perspective, Manitoba Hydro  
21 would also have to review its energy allocation  
22 methodology.

23                   Dealing next with the line specific  
24 transmission -- classification of transmission costs, the  
25 current method's treatment of transmission cost is that

1 all costs are demand-related and are allocated on the  
2 base of domestic class shares of both the winter  
3 coincident peak, the top fifty (50) hours, and summer  
4 coincident peak, also the top fifty (50) hours.

5 In the recommended method Manitoba Hydro  
6 proposed to assign costs associated with export  
7 transmission lines, approximately 17 percent of the total  
8 transmission costs. And we propose to allocate that on  
9 the basis of annual energy and to continue to allocate  
10 all remaining transmission costs on the basis of the two  
11 (2) coincident peaks.

12 Subsequent internal review led to the  
13 conclusion that the transmission system, whether inter-  
14 ties or other, is an integrated system and serves all  
15 customers. Hence, it's appropriate to continue to  
16 classify it as entirely demand-related and to allocate  
17 costs on the basis of the two (2) coincident peaks. No  
18 Intervenor has opposed this change to the recommended  
19 method.

20 I'm now I'm getting, I think, to the heart  
21 of the matter; it's the creation of the export class.  
22 One of the fundamental aims of cost of service study, as  
23 we've referenced, is to ensure that each customer class  
24 pays its fair share of costs incurred to serve that  
25 class. This is achieved, in part, by grouping customers

1 with similar characteristics and who -- who incur similar  
2 costs on the system.

3           Past cost of service studies have not  
4 defined an export class nor have they allocated embedded  
5 costs to exports. In the current long-standing cost of  
6 service method, allocation as a credit to domestic  
7 customers of all export revenues -- revenue, net of  
8 purely variable costs on the basis of generation and  
9 transmission, eliminated the need to consider a separate  
10 export class.

11           However, it's apparent that this approach,  
12 in the face of major increases in the value of these  
13 exports, is distorting cost allocation. Consequently,  
14 it's necessary to consider explicit cost allocation to an  
15 export class or classes for the purpose of identifying  
16 revenues that were clearly surplus to cost.

17           As noted by Mr. Wiens in his direct  
18 testimony at transcript page 111, the intent of creating  
19 an export class is to ensure that a reasonable share of  
20 embedded generation and transmission cost is attributed  
21 to export sales. With fair cost recovery assured there  
22 is no longer any reasonable basis to consider class share  
23 of generation and transmission costs as the only  
24 reasonable allocator of remaining export revenue.

25           And, in fact, a range of options for

1 treatment of these true surplus net ef -- revenues is  
2 open to Manitoba Hydro and this Board. Assigning costs  
3 to an export class recognizes that exports represent a  
4 large share of Manitoba Hydro's business and that export  
5 revenues can vary widely because of factors such as water  
6 flows and market conditions.

7                   Such assignment of costs also enables  
8 recognition of the -- the degree to which the Utility  
9 specifically plans and operates its system with exports  
10 in mind. As noted in the NERA report at page 30,  
11 inclusion of an export class makes it obvious that the --  
12 that export sales are recovering their full embedded cost  
13 of service.     The report goes on to state:

14                   "Identification of the above cost  
15 revenues from exports as profits would  
16 emphasize the fact that these revenues  
17 are available to support a variety of  
18 objectives and do not necessarily have  
19 to be functionalized, classified and  
20 allocated or credited back, to other  
21 classes within the cost of service  
22 study."

23                   Manitoba Hydro has expressed the view that  
24 there's a need for two (2) export classes. No activities  
25 can be related specifically to exports, but there are

1 assets and activities that have a significant likelihood  
2 of being related to exports. Further, all exports are  
3 not created equally and hence do not impose the same  
4 costs on the system.

5 Manitoba Hydro has thus recommended  
6 separate treatment of firm and opportunity exports. Firm  
7 exports would attract a full share of embedded gener --  
8 transmission and generation costs. This is done even  
9 though firm exports do not have the same quality of  
10 firmness as domestic sales. Manitoba Hydro is obliged to  
11 serve domestic sales, whereas exports are discretionary  
12 and in the amount appropriate to available surpluses.

13 Mr. Wiens summarized the reason for having  
14 the opportunity and firm classes as opposed to just one  
15 (1) class at page 483 of the transcript where he stated,  
16 and I'm quoting:

17 "Manitoba Hydro believes that we don't  
18 have firm resources in place to serve  
19 those opportunity sales, so that  
20 allocation of a share of the embedded  
21 costs of generation, we believe, is not  
22 appropriate for opportunity sales."

23 The opportunity class is directly assigned  
24 the variable cost associated with these sales; water  
25 rentals, thermal fuel and power purchases.

1                   The firm class is allocated a share of  
2 generation and transmission costs on the same basis as  
3 our domestic classes of service. This distinction is  
4 made because firm exports are backed up by dependable  
5 resources. And by that I mean dependable flows,  
6 dependable energy, generation capacity commitments and  
7 the availability of firm transmission. And you'll find a  
8 reference to these comments at transcript page 417  
9 through 424.

10                   For planning purposes they're treated as  
11 the same as domestic load and in -- accept in the usual  
12 circumstances outlined by Mr. Surminski at page 479 of  
13 the transcript, the resources required to serve them are  
14 not considered available to meet domestic requirements.

15                   On the other hand, opportunity sales rely  
16 on water flows which are above dependable and are only  
17 made as short term less than one (1) year sales as  
18 surpluses allow. The shorter timeframes mean that such  
19 commitments are based on existing capacity and do not  
20 impact Manitoba Hydro's capacity planning process. And  
21 here I'd refer you to Manitoba Hydro's evidence of page  
22 420 and Mr. Harper's evidence at page 1393 of the  
23 transcript.

24                   Manitoba Hydro forecasts the firm -- firm  
25 and opportunity sales based on the long term average

1 water flow sequences. The percentage resulting from this  
2 calculation is that 55 percent of sales are firm and the  
3 remaining 45 percent represent opportunity sales. Using  
4 this information the recommended method assigns 45  
5 percent of variable cost to the opportunity class with  
6 the remaining 55 percent to the opportun -- to the firm  
7 sales. This 55 percent is then combined with the  
8 remaining generation and transmission cost and allocated  
9 between firm and domestic customers.

10 Mr. Harper endorsed the creation of the  
11 two (2) export classes. His evidence to this effect can  
12 be found at transcript pages 1392 through 1394. Manitoba  
13 Hydro Exhibit 13 demonstrates that NERA, who in their  
14 report only proposed the creation of one (1) export  
15 class, also supported two (2) -- two (2) classes.

16 In that Exhibit NERA states:

17 "We agree it makes a lot of sense.  
18 Normally we would have recommended  
19 separate treatment for opportunity and  
20 firm sales anyways."

21 MIPUG took issue with the creation of the  
22 firm and opportunity export classes in particular, the  
23 value assigned to the cost of serve exports.

24 MIPUG stands alone in taking the position  
25 that cost to serve export customers is higher than the

1 average cost of all customers and that the resources put  
2 in place are also a higher cost than average.

3 In support of MIPUG's position Mr. Bopa --  
4 Mr. Bowman testified at page 2003:

5 "Hydro faces effectively a stepped rate  
6 for its supply as it makes decisions at  
7 the margin with or without all of these  
8 capital investments it might make that  
9 changes the export revenues and that's  
10 what drives them in terms of making  
11 their decisions. So as these decisions  
12 are made, and more and more resources  
13 are brought online to deal with  
14 capturing the export market or to  
15 replace growth in the domestic load,  
16 exports are served at higher than  
17 average prices."

18 However, as Mr. Williams noted during his  
19 final submission exports are made from a range of  
20 resources including long established resources. And here  
21 I'm referring to Mr. Williams' comments at page 2157 of  
22 the transcript.

23 Manitoba Hydro endorses his comments.  
24 There is simply no compelling reason why Manitoba Hydro  
25 would assign the most recent resource solely to the

1 export market when their long-term use is of substantive  
2 benefit to domestic customers.

3           The two (2) Manitoba Hydro engineers who  
4 provided evidence with respect to the matter of planning  
5 generation capacity. The only witnesses at this process  
6 with system planning and operating expertise both  
7 emphatically rejected the suggestion that when planning  
8 new generation exports drive the decision as to the  
9 appropriate number of turbines.

10           Dealing with an exchange between Mr.  
11 Peters and Mr. Surminski, Mr. Peters said:

12           "If you were going to have that  
13 facility serve nothing but domestic  
14 load it might influence you to put in a  
15 certain number of turbines, but if you  
16 had an opportunity to export that  
17 energy, you might put in a few more?"

18           Mr. Surminski replied, very clearly:

19           "No, I would not agree with that. It  
20 is more related to the incremental cost  
21 of -- of -- of this site; incremental  
22 cost of adding the additional turbine  
23 and utilizing the water at site. It is  
24 the amount of water at the site that  
25 determines how many units you're

1                    putting in, so if you put in more and  
2                    more units until you get to the point  
3                    of having little to spill."

4                    And that can be found at page 396 of the  
5 transcript.

6                    Mr. Cormie, during re-direct, and that's  
7 at page 1352 of the transcript, agreed with Mr.  
8 Surminski's assessment and rejected MIPUG's suggestion  
9 that additional units are planned to facilitate  
10 opportunity sales.

11                    To the contrary, a new plant has a life  
12 expectancy in excess of one hundred (100) years and most  
13 of that life will be spent serving Manitoba Hydro --  
14 Manitoba customers, or Manitoba load I should say.

15                    Manitoba Hydro must always ensure that  
16 there is sufficient capacity in the system to handle peak  
17 load. Additional units are the lowest cost alternative  
18 to providing capacity and are lower than entering into  
19 firm contracts or building thermal plants. While the  
20 potential to export certainly influences the economics of  
21 -- of advancing the in-service date of new generation, it  
22 does not drive the decision as to how many units should  
23 be installed at a plant.

24                    Manitoba Hydro takes advantage of the  
25 export market. This is, however, quite different from

1 designing the characteristics of a plant based on that  
2 export market. And I'd also direct your attention to  
3 transcript page 502 because we also deal with -- our  
4 evidence deals with that -- that section of the  
5 transcript.

6                   A second criticism of the export classes  
7 proffered by Mr. Bowman was that -- was even if agreement  
8 was reached as to the appropriate level of costs  
9 attributable to exports it only keeps customers whole,  
10 whereas he believes customers are entitled to additional  
11 benefits.

12                   In response to this criticism Manitoba  
13 Hydro believes that the creation of an export class does  
14 not deprive domestic customers of the benefits from  
15 exports.

16                   To the contrary, the allocation of cost to  
17 the export market makes it transparent that exports are  
18 recovering their full embedded cost of service. This in  
19 turn enables domestic customers to reap the benefits in a  
20 fairer manner as opposed to restricting benefit  
21 distribution to the use of generation and transmission  
22 functions, the use of which diminishes rather than  
23 promotes export revenues.

24                   Additional benefits are still there,  
25 they're just being distributed in a more equitable

1 manner.

2                   Mr. Harper, in his direct testimony,  
3 supported Manitoba Hydro's assessment of the cost of  
4 service expor -- exports, noting that the cost to serve  
5 firm exports is less than those to serve domestic and  
6 that the additional costs o serve opportunity sales are  
7 substantially less than the cost of the basic  
8 infrastructure to support firm sales. And that can be  
9 found at transcript page 1394.

10                   In the course of cross-examination the  
11 treatment of costs associ -- associated with export sales  
12 was tested extensively. The recommended method assigns  
13 45 percent of power purchase costs directly to the  
14 opportunity class with the remaining 55 percent allocated  
15 to firm exports and domestic customers.

16                   As wind is a non-utility -- is non-utility  
17 generation, or NUG, the only costs incurred would be as a  
18 power purchase and it would be treated in the same  
19 manner. And here I can refer you to the Information  
20 Request PUB/MH-I-25(a).

21                   Mr. Harper initially challenged this  
22 treatment on the basis that the cost of service study is  
23 based on median flows, and in years of median flows  
24 Manitoba Hydro does not require power purchases to serve  
25 domestic load. And that -- his comments there can be

1 found at page 32 through 33 of his pre-filed evidence.  
2 This view was shared by Mr. Bowman at transcript page  
3 2099.

4                   As noted by Manitoba Hydro at page 33 of  
5 its rebuttal evidence, while the Corporation assumes  
6 median water flows, were it possible to prepare eighty-  
7 six (86) different cost of service studies and then to  
8 average the results of the studies, the impact of drought  
9 on the prospective cost of service study results would be  
10 considerably greater, and the requirement for imports for  
11 thermal energy to serve domestic loads would be more  
12 apparent.

13                   After hearing Manitoba Hydro's position on  
14 this matter, Mr. Harper concurred that the cost of  
15 service study should represent cost drivers for purchases  
16 and thermals over a range of system conditions, and he  
17 retracted his suggestion to assign all power purchases to  
18 the opportunity class.

19                   This did not, however, lead Mr. Harper to  
20 the same conclusion as Manitoba Hydro. Instead, Mr.  
21 Harper went on -- went further, and he concluded that 50  
22 percent of power purchase volumes ought to go to  
23 domestic, 50 percent to export.

24                   As noted during Manitoba Hydro's cross-  
25 examination of Mr. Harper, his proposal results in the

1 power -- in the power purchase costs attributable to  
2 domestic and firm export classes to increase in the order  
3 of magnitude of six (6) and \$5 million to the domestic  
4 and the firm classes, respectively.

5           Whereas the costs attributable to  
6 opportunity exports would decrease by approximately \$12  
7 million, as compared to Manitoba Hydro's recommended  
8 method. And that analysis can be found at transcript  
9 page 1530.

10           Manitoba Hydro does not take serious issue  
11 with this treatment. However, at the end of the day,  
12 continues to main (sic) that 100 percent assignment to  
13 exports with the forty-five fifty-five (45/55) split is  
14 the more reasonable of the two (2) proposals.

15           Mr. Harper initially claimed Manitoba  
16 Hydro over-stated the benefit of power purchases to  
17 domestics. Manitoba Hydro believes his revised proposal  
18 may have swung too far the other way, and it's he who may  
19 be somewhat over-stating the benefit of power purchases  
20 to domestic customers.

21           Treatment of the Brandon thermal plant was  
22 also discussed in detail. The recommended method  
23 treatment of Brandon thermal costs is that 50 percent be  
24 treated in the same way as power purchases. That is --  
25 that is, 45 percent of that 50 percent is directly

1 assigned to the opportunity sales, with the remaining 55  
2 percent functionalised to the generation pool through the  
3 firm export class. And the other 50 percent is allocated  
4 to the generation pool through the domestic class.

5           As noted by Manitoba Hydro at page 35 of  
6 its rebuttal evidence, this fifty fifty (50/50) split  
7 recognized the significant historical role of the Brandon  
8 generating station in providing energy support to  
9 domestic sales during droughts, and to reliability in the  
10 western part of the province. The treatment also  
11 recognizes that Brandon Unit 5, which utilizes coal, is  
12 often used to facilitate export sales.

13           As noted at page 36 of Manitoba Hydro's  
14 rebuttal evidence, the Selkirk generating station's long-  
15 standing role has been to provide firm energy support to  
16 domestic loads during drought, and peak load reliability  
17 support. As such, 100 percent of this cost is  
18 appropriately assigned to the generation pool.

19           Mr. Harper concluded that Manitoba Hydro's  
20 treatment of the Brandon and Selkirk generating stations  
21 appropriately represents the cost drivers for thermal  
22 costs over a range of system conditions. And that can be  
23 found at transcript page 1399.

24           Manitoba Hydro urges the Board to accept  
25 the Corporation's treatment of these costs as being the

1 most reasonable method of depicting the costs that --  
2 that exports incur on the system. As noted by Mr. Wiens  
3 at transcript page 410:

4 "Yes, there are probably some costs out  
5 there that could be assigned directly,  
6 but there are also -- there is also the  
7 situation where an allocation of -- of  
8 embedded costs, on the same basis as --  
9 as to a domestic customer, over-states  
10 those costs, because -- because of the  
11 fact that we're not dealing with the  
12 same level of firmness and because of  
13 the fact that those -- those type of  
14 export sales cannot be made with  
15 certainty at all times and in all  
16 periods."

17 Once we have assurance through the  
18 creation of an export class and the assignment or  
19 allocation of an appropriate share of the embedded cost  
20 of generation and transmission against revenues earned  
21 from exports, there is no longer any reasonable basis, in  
22 cost causation, to consider that generation and  
23 transmission are the only basis for crediting these net  
24 export revenues back to customer classes.

25 Contrary to the MIPUG witnesses frequent

1 references to a principled basis for allocation or the  
2 more recent term, functional integrity, the remaining  
3 export revenues, over and the above the costs reasonably  
4 assigned to the export class, are pure surplus.

5           There is no basis in cost causation theory  
6 or embedded cost rules for assigning them in any  
7 particular way. Manitoba Hydro believes that the  
8 decisions with respect to the allocation of this level of  
9 surplus need to be guided by other relevant  
10 considerations.

11           Contribution to efficiency goals is  
12 certainly one of these, and allocation of at least a  
13 share of the surplus against the distribution system or  
14 against fixed customer related costs, is one (1) way of  
15 doing this.

16           If you believe, as does Mr. Lazar at  
17 transcript page 1575, that it is most efficient to offset  
18 costs that don't vary with usage, such as customer costs,  
19 you might be inclined to offset considerably more  
20 distribution related costs, than even Manitoba Hydro is  
21 recommending.

22           Mr. Wiens direct evidence, way back on the  
23 first day of the hearing, noted that one (1) such option  
24 would be to return an equal portion of the surplus to  
25 each customer, possibly weighted by some factor related

1 to the size of service.

2                   However, Mr. Wiens direct evidence also  
3 noted that Manitoba Hydro considered other relevant  
4 factors such as equitable treatment of classes in a very  
5 broad sense and a degree of gradualism with respect to  
6 potential class rate impacts in making its actual  
7 recommendation, which is to allocate the surplus on the  
8 basis of overall cost to serve.

9                   It's worth noting here, however, that  
10 Manitoba Hydro's recommendation as to the treatment of  
11 this pure surplus, does not stand on its own, but needs  
12 to be taken within the framework of the overall  
13 recommendation.

14                   It implies, among other factors,  
15 acceptance of the recommendations with respect to two (2)  
16 export classes, and the approaches taken to assigning or  
17 allocating these costs to those classes.

18                   Adoption of a more aggressive allocation  
19 of costs against exports, for example, represents an  
20 increase in allocation based on generation and  
21 transmission.

22                   Since Manitoba Hydro's recommended method,  
23 with respect to the allocation of net exports among  
24 domestic classes, continues to assign the majority of  
25 credit based on generation and transmission costs, a more

1 aggressive allocation of costs to the export classes  
2 would need to recognize this and make offsetting  
3 compensation in the basis for crediting that surplus.

4 THE CHAIRPERSON: I think you've reached  
5 a good spot in your closing statements, Ms. Ramage, we'll  
6 take a break now for ten (10) minutes and come back at  
7 10:20, it's now 10:10.

8

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

10 --- Upon resuming at 10:24 a.m.

11

12 THE CHAIRPERSON: Okay, Ms. Ramage, we're  
13 all ears.

14 MS. PATTI RAMAGE: Mr. Chair, it was like  
15 you read my final argument ahead and knew exactly where  
16 to break, because now I'm going to direct my attention to  
17 MIPUG's proposal. And I've already addressed much of the  
18 substance of the MIPUG in my summation of Manitoba  
19 Hydro's position on the key issues in this proceeding.

20 For clarification and completeness,  
21 however, I'd like to deal explicitly with two (2) of the  
22 specific positions take by -- taken by the MIPUG  
23 witnesses. And those are, first, the concept of  
24 threshold export revenue and how it's been addressed in  
25 the recommended method. and second, the role of rate

1 design.

2                   Throughout this proceeding MIPUG witnesses  
3 have been suggesting that if there is an issue with  
4 respect to export revenue having grown to such an extent  
5 that it can no longer be treated in the Cost of Service  
6 Study using long-standing credit allocation on the basis  
7 of generation and transmission, then it should be taken  
8 out of the cost of service study entirely.

9                   To that end, the Witnesses have proposed  
10 identifying a threshold level, beyond which the revenue  
11 would no longer be included at all in the Cost of Service  
12 Study, but would accrue in a drought reserve.

13                   As I've already noted, however, this  
14 suggestion does not deal at all with the Cost of Service  
15 concerns identified by Manitoba Hydro. Specifically, it  
16 does not deal, in any way, with the cost allocation  
17 distortion caused by the fact that unit export revenues  
18 have come to exceed embedded costs of generation and  
19 transmission by such a wide margin.

20                   The MIPUG suggestion does not even really  
21 take the revenue out of the Cost of Service Study, it  
22 merely changes the timing of it being credited back to  
23 the -- to customer classes on the basis of their use of  
24 generation and transmission. And there I'd refer you to  
25 transcript page 2035, Manitoba Hydro's cross-examination

1 of Mr. Bowman.

2                   The MIPUG witnesses have demonstrated --  
3 have demonstrated one (1) approach to defining the so-  
4 called threshold of export revenues in their pre-filed  
5 evidence at pages 15 and 16. That approach is to  
6 determine the threshold on the basis of the historic  
7 relationship with -- between export revenues and the  
8 total generation and transmission costs. On this basis  
9 they conclude that only \$50 million, or approximately 12  
10 percent of export revenue, is beyond threshold.

11                   Manitoba Hydro's rebuttal evidence, on  
12 page 15 through 19, demonstrates clearly that this  
13 approach in defining the threshold has no relationship at  
14 all to the issues that cause concern in the cost of  
15 service study, that is, the very high unit value of  
16 export revenue compared to embedded cost.

17                   Adapting the determination of threshold to  
18 this factor would result in a much higher proportion of  
19 net export revenue in the order of 55 percent being found  
20 beyond threshold. And there I refer you to page 17 of  
21 Manitoba Hydro's rebuttal.

22                   The MIPUG witnesses themselves have  
23 conceded that the consideration of unit values might be a  
24 more valid approach to determining this threshold. And  
25 this was in their direct examination by Ms. McCaffrey at

1 page 1869.

2                   In closing argument Ms. McCaffrey was  
3 gently chiding Manitoba Hydro for claiming there was a  
4 problem but not bringing it -- bringing our minds to  
5 define it properly and deal with it in terms of revenue  
6 requirement where it belongs. She encouraged Manitoba  
7 Hydro to intelligently study the problem, identify where  
8 the problem arises, and look at a solution in the realm  
9 where the problem arises. And that's at transcript page  
10 2284.

11                   Well, with the greatest respect to Ms.  
12 McCaffrey and her Witnesses, Manitoba Hydro's already  
13 done these things. We've identified the problem as lying  
14 in the treatment of export revenues in the -- in the Cost  
15 of Service Study, and that continuing to allocate  
16 benefits on the basis of generation and transmission is  
17 the source of the problem. We've identified a threshold,  
18 although we haven't labeled it as such.

19                   That threshold is the quantum of costs  
20 allocated on the basis of generation and transmission to  
21 the export classes. Contrary to Ms. McCaffrey's  
22 argument, the costs assigned to the export class, or  
23 classes, not be considered as determining the threshold,  
24 it's not really possible to imagine any more rational way  
25 of identifying this threshold.

1                   The real threshold is the quantum of  
2 embedded costs that can reasonably be taken out of the  
3 domestic revenue requirement in respect of the use made  
4 of the system -- of the system capacity by parties other  
5 than domestic customers.

6                   Manitoba Hydro believes it's appropriately  
7 identified those costs, and that therefore, these  
8 constitute a reasonable and realistic threshold. Mr.  
9 Williams, and his witness, Mr. Harper, didn't take  
10 serious issue with the quantum of costs allocated by  
11 Manitoba Hydro as reasonably assignable to the export  
12 classes.

13                   Ms. McCaffrey and her witnesses do take  
14 issue and, in fact, they're not really keen at all on the  
15 adoption of export classes. But we know that this  
16 doesn't solve the problem.

17                   In the alternative, then, they asked the  
18 Board to adopt the original NERA method and allocate a  
19 full share of embedded costs to opportunity export sales.  
20 Manitoba Hydro believes this to over-assign costs against  
21 exports.

22                   However, if this Board concurs with that  
23 particular recommendation, then we submit that it has  
24 adopted an alternative determination of threshold, and  
25 that's different than that proposed by Manitoba Hydro,



1 consumption, and not all consumption,  
2 is priced at marginal cost. [Go on]  
3 This type of rate design can be  
4 implemented with Manitoba Hydro's  
5 existing cost of service approach,  
6 without requiring all the complicated  
7 changes proposed by Manitoba Hydro and  
8 NERA."

9 End quote.

10 This comes from their pre-filed evidence  
11 at page 19 through 20.

12 MIPUG's witnesses and their counsel have  
13 maintained this position throughout the proceeding. For  
14 example, in Mr. Bowman's responses to Mr. Williams at  
15 page 1945 of the transcript. Manitoba Hydro's dealt  
16 extensively with this assertion in its rebuttal evidence,  
17 its direct evidence, and in cross-examination of several  
18 of the Intervenor witnesses.

19 Manitoba Hydro's position is that rate  
20 design, in particular the concept of inverted rates, is a  
21 very useful tool for efficient pricing in situations like  
22 Manitoba Hydro's, where marginal cost exceeds average  
23 cost by a considerable margin.

24 However useful a tool it may be, it cannot  
25 effectively deal with all issues related to efficient

1 pricing in all circumstances. Most notably, in  
2 circumstances where marginal costs exceeds average cost  
3 by a wide margin, design of inverted rates could be  
4 challenging.

5           For major new loads it's been noted by  
6 Manitoba Hydro, and all Intervenor witnesses, that  
7 revenue neutral inverted rates would be perceived as no  
8 different than rates based in -- based entirely on low  
9 embedded cost. And here, Mr. Harper, you can find this  
10 at page 1536 of the transcript. And with respect to Mr.  
11 Bowman it's at page 1902 of the transcript, and Mr. Lazar  
12 at page 1690 of the transcript.

13           With respect to the incentive perceived by  
14 new major loads, no witness at these proceedings, not  
15 even Mr. Bowman, has disagreed with our assertion that  
16 inverted rates do not offer a price signal that is  
17 meaningful -- meaningfully different from today's rates.

18           Yet, it is a major loaded expansion in  
19 Manitoba that is responsible for much of the recent load  
20 growth, and which is attracted by today's low rates that  
21 are derived, in considerable measure, from the current  
22 method of net export revenue allocation.

23           Most importantly, however, no rate design  
24 can compensate for an inequitable allocation of costs  
25 among customer classes. If this Board concurs with

1 Manitoba Hydro that the existing method of allocating  
2 export revenues among domestic customers classes creates  
3 inequities in respect of allocating costs responsibly, it  
4 must also concur that cost of service is the only vehicle  
5 available to redress the imbalance.

6 Dealing with CAC's position with respect  
7 to the legislation, Manitoba Hydro disagrees with the CAC  
8 assertion found at transcript page 2219, that the PUB is  
9 limited to approving rates based on embedded costs.

10 Section 39(1) of the Manitoba Hydro Act  
11 has been cited for this proposition. Section 39(1),  
12 however, must be read in conjunction with Section 26(4)  
13 of the Crown Corporations Public Review and  
14 Accountability Act.

15 If you want to properly understand the  
16 legislation's intentions with respect to what costs must  
17 be recovered in Manitoba Hydro's rates, the two Acts work  
18 together, and you can't read one (1) without the other.

19 Section 39(1) provides that Manitoba Hydro  
20 shall recover the full cost of supplying power and  
21 provides a list of costs which must be recouped. A duty  
22 is imposed on Manitoba Hydro to ensure that its costs are  
23 recovered and that it does not operate as a deficit.

24 This section does not purport to address  
25 rate related policy considerations and maintains a narrow

1 focus, requiring the Corporation to not operate at a  
2 loss.

3                   Considerations such as the impact of rates  
4 on consumption levels, or application of export revenues,  
5 are left to the discretion of the Corporation, subject to  
6 the approval of this Board.

7                   Approval of Manitoba Hydro's rates,  
8 though, is dealt with under Section 26 of the  
9 Accountability Act. And there we have Section 26(4),  
10 which provides a list of factors which the Board may take  
11 into consideration when approving rates.

12                   The legislature has not mandated that  
13 these items be included in its rates, nor has it limited  
14 its list to cost based factors. Inclusion of compelling  
15 policy considerations, and any other factor the Board  
16 considers relevant in these guidelines is, in Manitoba  
17 Hydro's view, a clear indicator that the Public Utilities  
18 Board has broad authority to look beyond embedded costs,  
19 or pure cost causation when setting rates.

20                   MR. ROBERT MAYER: Ms. Ramage, I went to  
21 the Hydro Act yesterday to determine whether there was  
22 any legislated requirement that Hydro basically operate  
23 as a non-profit Corporation.

24                   And I agree with you that Section 39(1)  
25 says what it says, but what I found more interesting, and

1 I wonder if you would comment on it, is Section 42(1),  
2 which very clearly envisions a profit over and above all  
3 costs, because there's permission there for Manitoba  
4 Hydro to take those excess revenues and invest them with  
5 the Minister of Finance for investment which then becomes  
6 funds held in trust for Hydro.

7 So 42(1) clearly appears to provide for --  
8 not only provide, but actually expect the Corporation to  
9 make a profit.

10

11 (BRIEF PAUSE)

12

13 THE CHAIRPERSON: Ms. Ramage, you don't  
14 have to answer that now, you can file it as an  
15 Undertaking.

16 MS. PATTI RAMAGE: Okay. That would be  
17 appreciated, just to give me a chance to look at that.

18 MR. ROBERT MAYER: I don't need an  
19 Undertaking, quite frankly. I looked at that section and  
20 thought you might want to look at it at some point  
21 because it...

22

23 (BRIEF PAUSE)

24

25 THE CHAIRPERSON: This is clearly a

1 matter that you want to give some thought to, so why  
2 don't you take us up on that?

3 MS. PATTI RAMAGE: I think that might be  
4 a good idea.

5 THE CHAIRPERSON: Okay.

6 MS. PATTI RAMAGE: I think certainly our  
7 view is that Manitoba Hydro is not limited to its cost  
8 and the word profit isn't one that is thrown around  
9 lightly around the Corporation, as Mr. Mayer's  
10 acknowledged.

11 But we certainly reserves -- and I'd just  
12 like to look at this section a little more carefully and  
13 see how it ties into the concept of reserves.

14 THE CHAIRPERSON: As an Undertaking you  
15 provide us your view within a reasonable period of time.

16 MS. PATTI RAMAGE: Certainly. Thank you.

17 THE CHAIRPERSON: We'll share it with the  
18 other parties.

19 MS. PATTI RAMAGE: Okay.

20

21 --- UNDERTAKING NO 27: Manitoba Hydro to comment  
22 Section 42(1), which  
23 envisions a profit over and  
24 above all costs.

25

1 MS. TAMARA MCCAFFREY: With respect to  
2 that, given that it's going to be treated in terms of an  
3 undertaking, would other parties have the opportunity to  
4 respond in brief written reasons. I might as well ask  
5 now while the Board is sitting, as opposed to making an  
6 application later.

7 THE CHAIRPERSON: Well, it sounds only  
8 fair. I would like to underline the word 'brief'; in a  
9 reasonable period of time too. Thank you.

10 MS. TAMARA MCCAFFREY: Thank you.

11 THE CHAIRPERSON: Ms. Ramage...?  
12

13 CONTINUED BY MS. PATTI RAMAGE:

14 MS. PATTI RAMAGE: It's that should  
15 have/ought to thing coming up.

16 Okay. In principles of public utility  
17 rates Bombright, Mr. Williams' favourite author, he  
18 discusses the many conflicting interpretations of costs  
19 and notes that:

20 "A cost based standard is subject to  
21 many different interpretations and that  
22 the interpretation which would best  
23 comport with any single objective of  
24 rate making is almost sure to be ill  
25 adapted to the attainment of other

1 objectives.  
2 Manitoba -- Manitoba's legislatures  
3 appear to have recognized the need to  
4 continually balance various objectives  
5 and refrain from imposing a definition  
6 of cost, instead electing to create a  
7 system of rate making allowing for  
8 consideration, not only of costs, but  
9 also other relevant policy  
10 considerations."

11 And while Manitoba Hydro is of the view  
12 that the PUB has a fairly broad discretion as to what  
13 costs and other factors may be considered when approving  
14 rates, Manitoba Hydro respectfully disagrees with  
15 RCM/TREE's proposal to attempt to incorporate an  
16 externality such as the impact of CO2 into the  
17 Corporation's Cost of Service Study.

18 The most obvious reason for taking issue  
19 with this proposal is that these costs have already been  
20 accounted for when making resource planning decisions and  
21 also when deciding whether to run its Brandon and Selkirk  
22 units. And you can find that at transcript page 752  
23 through 754.

24 As noted at page 24 of Manitoba Hydro's  
25 rebuttal evidence, the Corporation considers a range of

1 impacts including environment and social impacts of  
2 alternative decisions. This process is not limited to  
3 just CO2 impacts.

4                   During Manitoba Hydro's cross-examination  
5 of TREE's witness, Mr. Lazar, who discussed Bonnyville  
6 Power and the fact that it includes a CO2 adder when  
7 evaluating resources. When asked to confirm Bonnyville  
8 Power does not have a CO2 adder put in its Cost of  
9 Service Study Mr. Lazar indicated that incorporating such  
10 costs into resource planning is essentially the same  
11 thing. He said, and I'm quoting here:

12                   "To the extent that you buy a more  
13                   expensive resource, that more expensive  
14                   resource flows through the cost of  
15                   service. It's really the same as  
16                   flowing the carbon costs through."

17                   And that's the end of that quote -- quote  
18 which appears at transcript page 1689 lines 4 through  
19 1690 to line 5.

20                   Mr. Lazar indicated that that is how  
21 Bonnyville Power meets its full cost accounting  
22 obligations. And I would submit it is also one (1) of the  
23 ways that Manitoba Hydro meets its obligations under the  
24 Sustainable Development Act.

25                   Mr. Lazar also cited the experience of

1 Seattle Cit -- City Light and its voluntary efforts to  
2 manage emissions from its own facilities. Again this is  
3 directly comparable to Manitoba Hydro's efforts to manage  
4 the emissions from our own -- from our own facilities.

5 In response to, and this is a mouthful,  
6 CAC/MSOS/RCM/TREE 2B Information Request, Mr. Lazar also  
7 cited the policies of Denmark as being supportive of his  
8 notions. However, as noted in Manitoba Hydro's rebuttal  
9 evidence at page 24 -- 25 our understanding is that  
10 Denmark does not levy that tax in respect of all energy  
11 and -- and that tax is therefore not a precedent for what  
12 Mr. Lazar is recommending.

13 The Danish EPA describes a carbon tax as  
14 being applied to energy products depending on their  
15 contribution to CO2 emissions. Under Denmark's system  
16 Manitobans being serviced predominantly by renewable  
17 resources would be sheltered from additional costs, not  
18 burdened by them.

19 Ultimately, that cost of CO2 emissions  
20 should be borne by those responsible for producing the  
21 emissions. Manitoba Hydro anticipates that this will  
22 happen over time as greenhouse gasses become increasingly  
23 regulated. In fact the expectation of this happening is  
24 built into the export price forecast that is used in  
25 evaluating new resources including energy conservation

1 programs. And you'd find evidence in that regard at page  
2 23 of the rebuttal.

3 Manitoba Hydro shares the concerns  
4 expressed by both CAC/MSOS and MIPUG with the notion that  
5 Manitoba -- Manitoba Hydro -- Manitoba consumers be  
6 required to pay more for their electricity because of  
7 other jurisdictions' use of fossil fuels. Such an adder  
8 is unprec -- unprecedented and frankly unfair,  
9 particularly give -- given that these environmental  
10 externalities are already being appropriately  
11 internalized through Manitoba Hydro's policies and  
12 practices.

13 RCM/TREE evidence is that marginal costs  
14 should play an important role in the Cost of Service  
15 Study. Their pre-filed evidence provides examples of  
16 cost allocation procedures that substitute marginal cost  
17 -- marginal generation costs for embedded generation  
18 costs in the study.

19 With cost of service so defined, Mr. Lazar  
20 concludes that domestic classes as a whole are paying  
21 only about half the total cost of service and that can be  
22 found in his pre-filed evidence at page 13.

23 He's made -- he's made it clear that he is  
24 not recommending that rates be increased to close this  
25 gap, at least not immediately. And that even gradual

1 upward adjustment to move towards this definition of cost  
2 would require a policy decision.

3           If such a decision were made the  
4 additional revenue, over and above the embedded cost-  
5 based revenue requirement, should be used to invest in  
6 energy efficiency measures or for general government  
7 purposes. And that can be found at page 14 of his pre-  
8 filed evidence.

9           However, Mr. Lazar does appear to be in  
10 favour of using this definition of costs for the purposes  
11 of cost allocation today. He notes that the cost of  
12 service results computed on this basis and indexed to 100  
13 percent should be used by the PUB to define parity and  
14 that's found at page 16 of his pre-filed evidence.

15           Dr. Miller confirms this in his written  
16 final argument at page 11 where he states:

17           "We suggest that in Manitoba's system  
18 with a growing subsidized domestic load  
19 and a lucrative export market, a  
20 marginal cost of service study provides  
21 the more accurate picture for the fair  
22 allocation of costs."

23           RCM/TREE is the only Intervenor in this  
24 proceeding to take this position. Mr. Harper favours  
25 embedded costs to deal with the fairness aspect of rate-

1 making which, in his world, is the cost of service study.  
2 Although he notes that marginal cost will give you the  
3 metrics to understand the efficiency associated with  
4 rates. And that statement can be found at page 1502 of  
5 the transcript.

6 Mr. Bowman is also clearly in the embedded  
7 cost camp as -- as discussed with Mr. Williams at pages  
8 1938 of the transcript and again at 1944.

9 Manitoba Hydro finds itself somewhere in  
10 between the positions of RCM/TREE on the one hand and Mr.  
11 Bowman and Mr. Harper on the other. Manitoba Hydro  
12 believes that rates should ultimately be set to recover  
13 costs as incurred which means embedded costs.

14 However, Manitoba Hydro also believes  
15 marginal costs can provide additional information to help  
16 this Board evaluate both rate design and, in some  
17 circumstances, cost of service equity within -- within an  
18 embedded study.

19 In particular, where an aspect of the cost  
20 of service study can reasonably be shown to have no basis  
21 in embedded cost causation theory for allocation to the  
22 various customer classes, marginal costs can provide a  
23 useful tool in evaluating different options around the  
24 allocation of the part -- of that particular aspect.

25 We have such an aspect in our Cost of

1 Service Study and it bears significantly on the ultimate  
2 results in terms of net costs allocated amongst customer  
3 classes. Of course, that aspect is the net export  
4 revenue require -- requirement over and above the costs  
5 that are appropriately allocated or assigned against the  
6 export class or classes.

7                   The relationship of marginal to embedded  
8 costs is a useful benchmark to consider when deciding  
9 among alternatives for allocating that pure surplus and  
10 we commend it to the attention of the Board. And for the  
11 purposes of this type of benchmark knowledge of either  
12 short-run or long-run marginal costs apply, that is,  
13 generation is probably sufficient to gather -- to provide  
14 guidance.

15                   Manitoba Hydro has noted on a number of  
16 occasions that allocating that pure surplus on the basis  
17 of generation and transmission cost alone widens that gap  
18 and can therefore be viewed to increase inequity in cost  
19 of allocation.

20                   Manitoba Hydro also acknowledges that it  
21 is impossible to use a marginal cost standard within an  
22 embedded revenue constraint to provide the actual  
23 benchmark for class parity.

24                   This is done in a number of US  
25 jurisdictions by setting class revenue requirements on

1 the basis of equal proportionate marginal cost or EPMC.  
2 And the evidence here can be found at Information Request  
3 PUB/MH First Round 1, question 1B.

4           This approach simply adjusts the class  
5 revenue to marginal cost ratios by a factor equal to  
6 total embedded cost divided by marginal -- total marginal  
7 cost. Manitoba Hydro is not recommending this approach  
8 in this proceeding but acknowledges that it is one (1)  
9 way of dealing with some of the concerns that have been  
10 raised here.

11           However, we want to make it very clear  
12 that what Mr. Lazar has proposed is not the same as EPMC.  
13 He has proposed adjusting only the generation function to  
14 reflect marginal cost. Fairness would require that a  
15 marginal cost of service study address the marginal costs  
16 of all functions as Manitoba Hydro has noted in its  
17 rebuttal evidence at page 29.

18           Omitting the marginal cost of such  
19 functions as generation and distribution service would  
20 skew the results to favour the residential class and  
21 would overcompensate for the problems caused by our  
22 current method of allocation of export revenue.

23           Mr. Lazar's exercise is still useful as a  
24 check on the results of embedded costs studies, but  
25 Manitoba Hydro does not share his belief that they're

1 appropriate to define interclass parity.

2 Mr. Lazar himself notes in his response to  
3 Manitoba Hydro RCM/TREE 7, that he is not aware of any  
4 jurisdictions which incorporate marginal cost into a  
5 regulated utilities cost of service study in the manner  
6 depicted in his evidence.

7 He further notes that:

8 "It is common practice to include all  
9 marginal costs in a marginal cost study  
10 and all embedded costs in an embedded  
11 cost study."

12 As a final note on the subject, the Board  
13 will recall that Manitoba Hydro in response to a  
14 suggestion of the Chairman offered to undertake the  
15 exercise of preparing a full marginal cost study if the  
16 Board believed that would be of value in assisting it to  
17 evaluate interclass equity. Manitoba Hydro's response can  
18 be found at transcript page 1339.

19 This exercise would require consider--  
20 considerable effort, but if the Board believes it's  
21 worthwhile Manitoba Hydro remains willing to under --  
22 undertake it. Manitoba Hydro does not believe that such  
23 a study should be weighted in any predetermined manner  
24 with the results of an embedded cost study but rather,  
25 the judgment should be applied in evaluating the relative

1 value of each.

2 Dealing now with MKO's comments --

3 MR. ROBERT MAYER: Before you go at --  
4 with severe hesitation about -- with asking yet another  
5 question, if the Board were so inclined to ask that to be  
6 done is it just a matter of substituting a different cost  
7 number to the cost of service study, or are we talking  
8 like weeks and weeks and weeks of work?

9 MS. PATTI RAMAGE: I think it's months  
10 and months not weeks and weeks.

11

12 CONTINUED BY MS. PATTI RAMAGE:

13 MS. PATTI RAMAGE: Going on. MKO, while  
14 supporting Manitoba Hydro's recommended approach has  
15 suggested Manitoba Hydro affected customers be exempt  
16 from paying for mitigation costs through their hydro  
17 bills by implementation of a rate rider extending a 4  
18 percent reduction. That suggestion is found at page 2393  
19 of the transcript.

20 Alternatively, creation of a customer  
21 class made up of person's adversely affected by Manitoba  
22 Hydro's operations was suggested, which class would be  
23 exempt from environmental cost allocations.

24 Rate riders are well outside the scope of  
25 this cost of service study process. More importantly,

1 the logic behind these proposals is fundamentally flawed.  
2 Settlement of adverse claims is an independent issue and  
3 cannot be linked to the unit cost of electricity  
4 consumed.

5 Settlement agreements are typically  
6 negotiated as full and final compensation with respect to  
7 a particular issue in which causation and liability are  
8 established and damage is quantified. Having received  
9 full compensation, the issue is at an end and there is no  
10 basis for additional compensation.

11 While dealing with MKO's proposals I'd  
12 also like to touch on their request that they be provided  
13 with the full cost of service study in an active  
14 electronic spreadsheet format.

15 Manitoba Hydro declined to provide its  
16 cost of service study for the reasons noted in  
17 MKO/Manitoba Hydro Round 2, question 4. Mr. Anderson  
18 questioned this response in final argument. Perhaps it's  
19 helpful to elaborate.

20 The cost of service is a multi-layered  
21 document with numerous input sources. As you drill down  
22 through the layers you ultimately arrive at individual  
23 consumption information which can't be shared.

24 If you remove one (1) level of the  
25 document it becomes useless. I'm advised that when you

1 change a number at any one (1) level there is a cascading  
2 effect and numerous other values will be changed.

3           This is a document that only a select few  
4 at Man -- of Manitoba Hydro's employees have access to.  
5 These people know how the document works and they  
6 understand the impacts of the changes their inputting.  
7 And they also track very carefully the changes that  
8 they're inputting. The working document even contains  
9 their own notes to assist them in navigating through the  
10 document. These too may contain confidential  
11 information.

12           It would be an extremely time consuming  
13 exercise for the Corporation to attempt to confirm where  
14 a change has been made by a third party and to understand  
15 its full impacts. Manitoba Hydro's always been willing  
16 to run these types of sensitivity analysis for interested  
17 parties and this is the most efficient way of testing the  
18 results in the cost of service study.

19           Finally, the cost of service study is  
20 proprietary in nature and of commercial value. Manitoba  
21 Hydro has invested years of developing this methodology  
22 and does not wish to place it in the public domain.

23           Now onto CCEP's proposal. CCEP stated in  
24 its opening comments that the changes proposed in the  
25 recommended methodology are sound and should be

1 implemented. That's transcript page 64. During final  
2 argument CCEP focussed it's submission on obtaining rate  
3 relief for the general service small class.

4 An argument for rate reduction is clearly  
5 outside the scope of this Hearing. The evidence did not  
6 explore the impact of such reduction and in fact it's  
7 been clear from the outset that no rate changes will  
8 result from this process.

9 Manitoba Hydro submits that the Board  
10 should not consider this proposal when making its  
11 deliberations.

12 Onto the City of Winnipeg, Mr. Buhr's  
13 concerns during this proceeding were very focussed. He  
14 was concerned that the City of Winnipeg has been paying  
15 too much for street lighting and that this situation has  
16 persisted for too long. Also, Mr. Buhr believes that  
17 the Cost of Service Study should consider the City as  
18 only one (1) customer for the purpose of allocating  
19 costs.

20 With respect to the first issue, that the  
21 City believes it's paying too much, I could repeat what  
22 I'm -- what I said concerning Mr. Feldschmid's  
23 intervention, an argument for a rate reduction is clearly  
24 outside the scope of this hearing. Nevertheless, I'd  
25 like to address, briefly, Mr. Buhr's concerns, because

1 they are partly premised on the accuracy of the current  
2 and past studies themselves.

3 Mr. Buhr stated that the City has been  
4 paying more than 100 percent of allocated costs for  
5 thirty (30) years. And that's at transcript page 2275.  
6 Mr. Buhr is wrong in -- in implying that Manitoba Hydro  
7 has made no effort since 1996 to address historically  
8 high RCCs for the street lighting class. In 1996 and  
9 1997 the area and roadway lighting class received  
10 successive rate decreases of 5 percent.

11 The record also shows, and that's at -- in  
12 the 2005/'06 prospective cost of service study at page  
13 35, that the area and roadway lighting class RCC, after  
14 allocation of net export revenues, declined continuously  
15 from 1995, and by 1999 was actually the ZOR at ninety-  
16 three point four (93.4). It remained below, or within  
17 ZOR, until 2003 when it moved up to one oh nine point  
18 nine (109.9) after application -- and that's after  
19 application of export revenues.

20 This was discussed with Mr. Buhr on pages  
21 -- on transcript pages 891 through 892 of the transcript.  
22 The upward movement in the class RCC was likely the  
23 result of bringing in all the lighting within the former  
24 Winnipeg Hydro service territory into Manitoba Hydro's  
25 cost of service study.

1                    Since that change, Manitoba Hydro has  
2 brought forward only one (1) rate application to this  
3 Board and ultimately was not directed to implement any  
4 class differentiated rate increases.

5                    With respect to the issue of weighted  
6 number of customers, Mr. Buhr's argument is overly  
7 simplistic and fails to recognize the costs which the  
8 Area and Roadway Lighting Class impose on the system.  
9 Mr. Buhr says that the City is one (1) customer and  
10 therefore should receive a weight of only one (1) in the  
11 customer-related functions in the study, but the City of  
12 Brandon is only one (1) customer as is say the City -- or  
13 the town of Pilot Mound, with a population of less than  
14 one thousand (1,000).

15                    It's not reasonable to suggest that street  
16 lights in these locations would all impose the same  
17 customer-related costs on the system. In fact, Manitoba  
18 Hydro has eleven (11) different categories of customer  
19 costs in the prospective Cost of Service study '06 and  
20 different customer weighs are applied, depending on the  
21 category.

22                    For six (6) of these eleven (11)  
23 categories, the Area and Roadway Class is allocated no  
24 cost at all. In other words, its customer weigh effect  
25 is zero. And this is entirely appropriate because this

1 class doesn't require such customer-related facilities or  
2 operations as electrical inspections, meter reading  
3 equipment, and maintenance, service lines, or equipment  
4 rentals.

5                   With respect to the customer-related  
6 portion of distribution costs, which the -- was the  
7 matter largely discussed with Mr. Buhr at transcript  
8 pages 920 through 939, Manitoba Hydro utilizes an  
9 estimate of number of connections to the distribution  
10 system as a proxy for the number of customers it serves.

11                   Manitoba Hydro believes that this is an  
12 entirely reasonable approach to defining the contribution  
13 of area and roadway lighting to the costs incurred to  
14 make the distribution system available to all customers.

15                   The Corporation requires an extensive  
16 distribution system to serve all of the City of Winnipeg.  
17 And the street lights connect to most, if not all parts  
18 of that distribution system, and at -- and at many -- and  
19 at many different points. With seventy-eight thousand  
20 (78,000) lights, the city system connects at  
21 approximately seven thousand eight hundred (7,800)  
22 points, and this is more points than all other street  
23 light customers in Manitoba connect.

24                   For other customer functions, such as  
25 billing, a different weighting approach is used.

1 Manitoba Hydro estimated its actual cost to bill  
2 different types of customers back in 1991, and the  
3 customer count for each class is weighted by the actual -  
4 - that actual cost. The same approach is taken for  
5 collections and general customer service costs.

6 As a result, although the actual lighting  
7 count represents over 20 percent of Manitoba Hydro's  
8 total customer base, the area and roadway lighting class  
9 is -- is appropriately allocated about 1 percent of those  
10 categories of customer-related costs. For the customer-  
11 related portion of poles and wires, that percentage rises  
12 to 1.5 percent.

13 Mr. Chairman, members of the Board,  
14 Manitoba Hydro takes the position there's no basis for  
15 treating the City street lights as only one (1) customer,  
16 except for defining the customer relationship itself.  
17 The relationship to customer costs in the study is a lot  
18 more complex than a single billing address.

19 And now I'm turning to the nineteen (19)  
20 sub-issues raised by Board counsel. I can only say,  
21 don't blame me. The first is, should the cost of service  
22 study use embedded or marginal costs, and I think we've  
23 already commented extensively on this question in  
24 response to the evidence and final argument of RCM/TREE.

25 Second, was the relevance, if any, on

1 other considerations such as replacement cost or  
2 inflation adjusted cost. Here, we'd respond, Manitoba  
3 Hydro does not believe it is necessary to consider such  
4 factors as replacement cost or inflation adjusted cost.  
5 If it is helpful, marginal cost provides the best  
6 indicator of the impact of new consumption on utility  
7 costs.

8                   Mr. Peters also -- his third heading was,  
9 "Other Changes to Functionalization Classification and  
10 Allocation," but I think these have been reviewed  
11 extensively during our discussion of major changes in the  
12 recommended method.

13                   A fourth issue was the key difference  
14 between NERA, the generation vintaging and the  
15 recommended methodology. Manitoba Hydro's elaborated  
16 extensively on the differences between these  
17 methodologies in its original filing of the PCOSS '06.

18                   The Corporation does not believe that the  
19 generation vintaging method adds any reasonable value to  
20 the cost study. And the other Intervenors, even Mr.  
21 Lazar who initiated the proposal, either concur or are  
22 taking no position.

23                   As between the NERA and recommended  
24 methods, the significant difference is that the NERA  
25 method groups firm and opportunity classes and assigns

1 all export sales a full share of embedded generation and  
2 transmission cost.

3 Mr. Harper supports the distinction  
4 between firm and opportunity exports and therefore  
5 supports the recommended method. RCM/TREE say they are  
6 indifferent as between the two (2) methods, and that's in  
7 their final summation, page 9. Only MIPUG expresses a  
8 distinct preference for the original NERA recommended  
9 method.

10 Only if you share MIPUG's belief that  
11 opportunity export sales have caused Manitoba Hydro to  
12 incur a full share of fixed and generation transmission  
13 costs, would you give preference to the original NERA  
14 method over Manitoba Hydro's recommended method.

15 Manitoba Hydro submits that it is a real  
16 stretch to imagine that opportunity sales triggered even  
17 a small fraction of investment in facilities, and for  
18 that reason, does not recommend returning to those  
19 original NERA recommendations.

20 As we've noted elsewhere, NERA themselves  
21 support the modification to their recommendations that  
22 Manitoba Hydro has adopted here.

23 Fifth, SEP is a proxy for marginal cost.  
24 Manitoba Hydro notes that SEP after the fact prices,  
25 averaged over a reasonable period and -- and adjusted for

1 inflation, represent the best available proxy for  
2 marginal cost of supply, and that this information is not  
3 subject to concerns about commercial sensitivity. We  
4 also note that no Intervenor has disputed the  
5 reasonableness of SEP prices as a marginal cost proxy.

6           The sixth fact -- or sixth issue was the  
7 treatment of deferred cost as -- treatment of deferred  
8 costs, such as planning studies and DSM, and the impact  
9 those have on the cost of service study. Both planning  
10 studies and DSM are capitalized and charged over future  
11 periods as appropriate.

12           The cost of service study incorporates  
13 these costs as part of depreciation and interest and  
14 allocates them in the appropriate year. DSM costs are  
15 directly assigned to customer classes based on the annual  
16 cost of each program. Manitoba Hydro's evidence in this  
17 regard can be found at RCM/TREE/MH-I-1.

18           Dealing with the treatment of mitigation  
19 costs, these are incurred and form part of capital  
20 project costs. Capital project costs are amortized over  
21 the expected useful life of the asset and are dealt with  
22 in the cost of service study accordingly, as a generation  
23 asset.

24           Given the connection to capital projects,  
25 it is appropriate to amortize mitigation costs in the

1 same manner as the capital project which gave rise to  
2 that cost. The benefit of the associated capital project  
3 occurs over many decades and, therefore, it's appropriate  
4 to amortize all the related costs over that period.

5 Uniform rates adjustment and Bill 11 came  
6 up next in Mr. Peters' laundry list here, and here I  
7 would indicate that, as directed in Order 101/04,  
8 Manitoba Hydro has allocated a sufficient share of net  
9 export revenue to offset the cost of the implementation  
10 of uniform rates.

11 Manitoba Hydro believes this is an  
12 appropriate mechanism to deal with the impact of uniform  
13 rates under the recommended method. Where the export  
14 classes are recovering their full embedded cost of  
15 service, as is the case in the recommended method, it is  
16 reasonable to use above cost revenues to support a  
17 variety of objectives, as there's no longer a link that  
18 they be credited back to a particular class of customer.

19 Mr. Lazar endorsed the appropriateness of  
20 dealing with uniform rates in this manner, relying on  
21 essentially the same logic. And that's found at page  
22 1576 of the transcript.

23 Until such time as --

24 MR. ROBERT MAYER: Ms. Ramage --

25 MS. PATTI RAMAGE: Yes?

1 MR. ROBERT MAYER: -- doesn't that  
2 argument maybe also apply to DSM?

3

4 (BRIEF PAUSE)

5

6 MS. PATTI RAMAGE: I think I'd respond by  
7 saying that it's not illogical, but Manitoba Hydro's  
8 view, and it's certainly the Corporation's preferred  
9 approach, is to assign those DSM costs back to the  
10 customer class that's receiving the benefits of those  
11 class, those DSM expenditures have all been evaluated on  
12 a business case basis, that they provide benefits, and so  
13 those customers who receive those benefits would be  
14 assigned.

15 MR. ROBERT MAYER: But one of the  
16 arguments for DSM, and one of the issues with respect to  
17 DSM, is it frees up energy which can then be exported.  
18 And that your export revenue is the major beneficiary of  
19 a true DSM program that saves power and allows you to  
20 export it.

21

22 (BRIEF PAUSE)

23

24 MS. PATTI RAMAGE: I think it's true that  
25 it frees up energy, but Manitoba Hydro's prepared to

1 spend up, in making its business case, up to the full  
2 amount of the expenditure so that they equalize the  
3 benefit and the expenditure will equalize each other and  
4 free up that energy.

5

6

(BRIEF PAUSE)

7

8 CONTINUED BY MS. PATTI RAMAGE:

9 MS. PATTI RAMAGE: I want to make sure I  
10 haven't missed anything. And I was going to go on to  
11 talk about Bill 11, and just indicate that until Bill 11  
12 is passed in its final form and becomes legislation, and  
13 until such time as Manitoba Hydro receives direction  
14 pursuant to that legislation, we're really not in a  
15 position to comment on its impacts and the options to  
16 deal with those impacts under the cost of service study.

17 We need to know exactly what -- what the  
18 legislation will say and what directions we would  
19 ultimately receive under it.

20 The ninth point on Mr. Peter's list was  
21 water rental calculations. Mr. Chairman, as closely as  
22 we can tell from Mr. Peter's direction at transcript page  
23 2137, this issue relates to the impact on water rentals  
24 charged to the opportunity export class, resulting from  
25 changes in the share of imports and thermal generation

1 which are assigned to this class.

2                   This subject is addressed in Exhibit  
3 CAC/MSOS 8 and at transcript page 2013 through 2015.  
4 These show that if Mr. Harper's recommendations with  
5 respect to assignment of purchase power and thermal  
6 generation to export classes are accepted instead of  
7 Manitoba Hydro's recommended assignment. The implication  
8 that an additional 466 gigawatt hours of hydraulic energy  
9 is deemed to be required to serve opportunity exports in  
10 PCOSS '06. Therefore, an additional \$1.6 million in  
11 water rentals would be assigned to the opportunity export  
12 class.

13                   The only additional comment that Manitoba  
14 Hydro can make here, is that if the PUB directs the  
15 Corporation to consider allocating, as a cost against  
16 exports, a greater or lesser share of purchase power and  
17 thermal generation than is assigned in Manitoba Hydro's  
18 recommended method, then an adjustment of water rental  
19 assignment of \$3.40 must be made for every megawatt hour  
20 in change in the amount of imports and thermal deemed to  
21 serve the export classes.

22                   Dealing with class consolidation, included  
23 with the PCOSS '06 filed in this proceeding, is a  
24 discussion around class consolidation and the cost of  
25 service study. This discussion provides a preliminary

1 assessment of the advantage of class consolidation and  
2 the likely impacts on class RCC's.

3                   During the hearing, Manitoba Hydro was  
4 cross-examined with regard to its intent in this matter  
5 and has noted it's not currently ready to proceed with a  
6 firm recommendation with respect to class consolidation.  
7 At some future point, likely in conjunction with the next  
8 GRA, Manitoba Hydro expects that it'll bring forward a  
9 proposal with regard to structuring of customer classes  
10 in both the Cost of Service Study and its rate schedules.

11                   MR. ROBERT MAYER:    So if -- do you  
12 consider the issues of class consolidation, or as I think  
13 Mr. Anderson recommended, the establishment of a new  
14 class part of the cost of service study?

15                   MS. PATTI RAMAGE:    It's both cost of  
16 service study and rate design. The eleventh item was --  
17 noted by Mr. Peters, was capital projects for exports  
18 past, present, and future.

19  
20 CONTINUED BY MS. PATTI RAMAGE:

21                   MS. PATTI RAMAGE:    And I believe my final  
22 submission here has already dealt with Manitoba Hydro's  
23 position that the export class has been assigned or  
24 allocated appropriate costs with respect to capital  
25 projects. And if I haven't made that point, I should

1 probably pack up at this point.

2                   But the twelfth point is adjustment to  
3 demand and energy charges. In response to PUB Directive  
4 -- PUB Order 703, Manitoba Hydro filed, on April 1st,  
5 2004, a report entitled, "Adjustment of Demand and Energy  
6 Charges."

7                   This report reviewed the impacts on the --  
8 on the general service classes, small -- small demand,  
9 medium and large at all three (3) delivery voltages, and  
10 it reviewed the impacts of a rate structure which  
11 recovered all generation costs through an energy charge  
12 and the cost of transmission, sub-transmission and  
13 distribution through the demand charge. The analysis  
14 assumed revenue neutrality for all classes.

15                   In the current proceeding, the Board has  
16 inquired as to Manitoba Hydro's intent regarding the  
17 report and Manitoba Hydro dealt with this in response to  
18 PUB/Manitoba Hydro First Round 9. That response noted  
19 that rate increases approved since the filing of the  
20 report have been applied entirely -- have been applied  
21 entirely to the energy component of the bills of general  
22 service customers.

23                   This has the effect of partially  
24 implementing the change in the rate structure discussed  
25 in the cited report. For example, the bill of the

1 typical general service large, greater than 100 kV  
2 customer, cited above, now has an energy portion of 71  
3 percent.

4 Manitoba Hydro expects that any future  
5 rate increases will continue to be weighted toward energy  
6 rather than demand charges. As such, Manitoba Hydro has  
7 no intent with respect to the treatment of the cited  
8 report, other than to have provided it as information to  
9 the Board and Intervenors, and to be responsive to the  
10 Board's directive.

11 Manitoba Hydro anticipates that the PUB  
12 will review future general rate applications, and that  
13 the rate structure implications thereof, in light of any  
14 concerns related to the relative importance of demand and  
15 energy charges, will be reviewed at that time.

16 Time of use rates is the thirteenth of Mr.  
17 Peters' points. On August 22nd, 2005, Manitoba Hydro  
18 filed with this -- with the PUB, a report prepared for  
19 the Corporation on the subject of time of use and  
20 inverted rates. Subsequently, this report was provided  
21 to all Intervenors of record. In the covering letter  
22 accompanying the report, Manitoba Hydro noted time of use  
23 rates, although conceptually capable of providing  
24 efficient pricing, are considered to be more complex and  
25 less understandable by customers.

1                   There may also be issues related to  
2 metering costs, although gradual phasing in of time of  
3 use rates, beginning with the largest customers, can  
4 minimize incremental costs. Before time of use rates can  
5 be adopted, however, additional studies would need to be  
6 undertaken.

7                   In terms of next steps, it is expected  
8 that a recommendation regarding inverted and/or time of  
9 use rates will be presented to the Manitoba Hydro Board  
10 in Manitoba Hydro's next general rate application.  
11 Manitoba Hydro has nothing further to add to this point.

12                   The fourteenth issue to be discussed was  
13 terms and conditions of export contracts. Manitoba Hydro  
14 has provided information on terms and conditions of  
15 export sales in exhibit Manitoba Hydro Number 22.

16                   Our evidence indicates that there is a  
17 clear difference in the terms and conditions as between  
18 firm and opportunity sales in terms of guarantee and  
19 supply. Firm sales have a certainty of supply in the  
20 long term, whereas opportunity sales are a short-term  
21 phenomena.

22                   Cost of the Brandon and Selkirk plants  
23 have already been addressed in our -- in the final  
24 submission, as have treatment of wind -- wind and  
25 imported power purchase costs. The treatment of

1 Wuskwatim we expect will be addressed at the time the  
2 plant comes into service.

3                   And that covered points 15 and 16, so  
4 we're nearing the end with HBDC transmission costs and  
5 losses.

6                   By definition, customers last served are  
7 reasonably allocated the highest percentage of  
8 transmission losses. If it is deemed that export  
9 customers are the customers last served, then higher  
10 transmission losses could be allocated to the export  
11 class or classes.

12                   Manitoba Hydro has provided, in response  
13 to PUB/MH-I-24(o), a discussion of HBDC losses and how  
14 treating exports as incremental load would increase the  
15 losses associated with export sales.

16                   In the example shown, treating exports as  
17 incremental load would result in assigning on-peak losses  
18 of approximately 10.6 percent, as compared to the deemed  
19 domestic customers losses of 6.4 percent. During the  
20 off-peak, however, the incremental losses would be 5.6  
21 percent, compared to deemed domestic customer losses of  
22 6.28 percent.

23                   Now, the eighteenth point, the power  
24 resource plan. As noted at page 146 of the transcript,  
25 Manitoba Hydro does not use the cost of service study for

1 generation planning purposes. While the cost of service  
2 study has no direct impact on generation planning, it  
3 does have an impact on consumption and load growth, which  
4 indirectly affects the timing of new generation  
5 additions.

6                   And, finally, zone of reasonableness.  
7 Manitoba Hydro is prepared to work within the current  
8 defined zone of reasonableness. We'd also like to note  
9 that our current policy, with respect to zone of  
10 reasonableness, is that at the time of a General Rate  
11 Application it will make rate adjustment proposals which  
12 will move each class to the mid-point of the ZOR, that  
13 is, 100 percent, but would recognize that, as long as a  
14 class is in the ZOR, its rates are recovering its costs.

15                   And that leads me to my final conclusions,  
16 which I can assure you are quite brief. We've covered a  
17 lot of ground this morning.

18                   In a rare showing of unanimity, I believe  
19 all participants to this process agree fairness is one,  
20 if not the primary objective of the cost of service  
21 study. Fairness, a simple concept, is complicated by the  
22 degree of subjectivity and judgment which must be  
23 exercised when performing a cost of service study. It's  
24 further complicated by the fact that, to some, fairness  
25 means fairness to me.

1                   In an exchange between Mr. Peters and Mr.  
2 Warden on day one (1) of this hearing, Mr. Warden  
3 indicated that it is true, that if you just look at the  
4 bottom line it shouldn't matter to the Corporation what  
5 happens with the cost of service study, as long as the  
6 Corporation collects its revenue requirement.

7                   Interestingly, though, and what struck me,  
8 was that Mr. Warden was clearly not comfortable with this  
9 idea and he elaborated on his response, focusing not on  
10 the financial impacts the cost of service might have on  
11 Manitoba Hydro's operations, but rather on its impacts on  
12 our customers and the need to treat them fairly.

13                   The development of the recommended method  
14 could perhaps best be described as a fairness exercise.  
15 There is no advantage to Manitoba Hydro to allow any of  
16 its domestic customers to be treated unfairly. The  
17 recommended method you have before you is Manitoba  
18 Hydro's best assessment of a fair allocation of the  
19 Utility's costs and revenues, balancing the interests of  
20 each of its customers classes.

21                   And after hearing ten (10) days of  
22 questions and answers aimed at testing this methodology,  
23 and after hearing the final submissions from each of the  
24 interested parties, Manitoba Hydro remains firmly  
25 convinced that the recommended method represents the most

1 fair and equitable means of allocating costs and  
2 revenues.

3 And with that, Mr. Chairman, I'd like to  
4 thank you and the members of the Board. That concludes  
5 Manitoba Hydro's final submission.

6

7 QUESTIONS BY BOARD:

8 THE CHAIRPERSON: Thank you, Ms. Ramage.

9 I have three (3) relatively short  
10 questions for you. Manitoba Hydro has advanced the views  
11 that a fundamental change has occurred, and that had to  
12 do with basically the unit export revenues. It has been  
13 reported that unit export revenues were higher than unit  
14 domestic revenues, I think it was '05/'06.

15 Do you expect this to continue; that is,  
16 unit export revenues exceeding unit domestic revenues?

17

18 (BRIEF PAUSE)

19

20 MS. PATTI RAMAGE: First, I'd bring to  
21 your attention that in '05/'06 export -- for the year,  
22 export revenues didn't exceed domestic revenues. It was  
23 in the first seven months that that occurred.

24 And --

25 THE CHAIRPERSON: You're talking about

1 aggregate or unit?

2 MS. PATTI RAMAGE: Aggregate.

3 THE CHAIRPERSON: Yes, I understood that.

4 MS. PATTI RAMAGE: In terms of unit, I  
5 draw to your attention there's a nicety to this in terms  
6 of the -- you have to look at the class revenue, because,  
7 for example, at the residential level, residential  
8 customers already or don't -- or the export does not  
9 exceed the residential levels, it's the -- but when you  
10 look at the industrial large it does.

11 THE CHAIRPERSON: I was referring to the  
12 average.

13 MS. PATTI RAMAGE: Okay.

14

15 (BRIEF PAUSE)

16

17 MS. PATTI RAMAGE: At the average we  
18 would expect that they would continue to exceed the --  
19 the exports would continue to exceed the average domestic  
20 unit price.

21 THE CHAIRPERSON: Thank you. I was just  
22 confirming your view on fundamental change.

23 The second question, going through the  
24 material that we've reviewed to date, there was one (1)  
25 question that I think people have gone around it, but

1 just to ask it directly.

2 Does NAFTA place any obligations on  
3 Manitoba Hydro with respect to exports, either volume or  
4 price?

5

6 (BRIEF PAUSE)

7

8 MS. PATTI RAMAGE: We're -- I think the  
9 answer would be, we're not aware of any.

10 THE CHAIRPERSON: Thank you. The final  
11 question I have is on process, and it's meant to help  
12 future hearings.

13 Do you feel that the break between the  
14 Intervenor closing statements, and your closing  
15 statements, the former taking place on Monday, the later  
16 today, have assisted in the quality and comprehensiveness  
17 of your closing statement?

18 MS. PATTI RAMAGE: I would definitely  
19 agree with that comment. One (1) of the -- I want to be  
20 careful here, but shortfalls of this Hearing from Counsel  
21 for the Utility's perspective is that Manitoba Hydro puts  
22 its position out on day one (1).

23 This is a very good example in this  
24 because it's the recommended method. And then we're  
25 asked questions, Intervenors provide pre-filed evidence.

1 But until we actually hear their final submissions, we  
2 don't necessarily know what their position is.

3 We can guess and we sometimes have a good  
4 idea, sometimes we're surprised. So being able to hear  
5 the final submission and having some time to consult with  
6 my colleagues is of significant assistance in preparing  
7 the final submission.

8 THE CHAIRPERSON: Thank you, Ms. Ramage.

9 Do either one of the three (3) Intervenors  
10 that are still here have any comment on this point about  
11 delaying the Utility's closing statement to provide them  
12 an opportunity to reflect on all that's being said  
13 before, as an assist to helping the Board's understanding  
14 of the matters before it?

15 MS. MYFANWY BOWMAN: I know that Mr.  
16 Williams and I have spoken about that, actually we talked  
17 about it this morning.

18 We spoke about it more in terms of the  
19 timing of Intervenors submissions. And I think that his  
20 view was that had we had a little bit more time between  
21 the end of the evidence and presenting our argument, that  
22 that would have been helpful to us in terms of presenting  
23 a more cohesive argument.

24 I haven't discussed with him the specific  
25 point around the break between Intervenors and Hydro. I

1 suspect that he would probably agree that that's helpful.  
2 But I can ask for his position and communicate that in  
3 writing, if that would be of assistance.

4 THE CHAIRPERSON: Thank you, Ms. Bowman,  
5 your comments are helpful. And with respect to a  
6 process, CAC/MSOS can comment on that at any time to us,  
7 because we're talking in a generic sense with all of our  
8 hearings.

9 Mr. Buhr, do you have a thought on this?

10 MR. DOUGLAS BUHR: Other than I think,  
11 Mr. Chairman, it's reasonable given -- given the length  
12 and the volume of material that's involved here. I think  
13 for Hydro to try and pull it all together, so to speak, I  
14 think the time is reasonable.

15 THE CHAIRPERSON: Professor Miller...?

16 DR. PETER MILLER: Yes, I think I agreed  
17 that that time was reasonable when you solicited comments  
18 last fall. And I would echo what Ms. Bowman said about  
19 more time for the Intervenor preparations for their final  
20 argument.

21 I think you want well considered views.  
22 And they're not going to be well considered if the time  
23 is too rushed for either party.

24 THE CHAIRPERSON: Thank you, Professor  
25 Miller. I'm going to ask for Mr. Peters to make some

1 comments in a few minutes, but in closing this phase of  
2 the public -- excuse me one (1) second. Mr. Evans has a  
3 comment.

4 MR. LEN EVANS: A comment or a general  
5 question.

6 I notice, Ms. Ramage, in your closing  
7 statement, that you say there's agreement by -- among all  
8 parties about the fairness as an objective, which is  
9 fine, but nowhere do you refer to efficiency objectives.

10 And it seems to me, somewhere along the  
11 line Manitoba Hydro has to be concerned about efficiency.  
12 And I see also -- I note also that you state that the  
13 Corporation may be looking at implementing -- just  
14 looking at it anyway, implementing time period rates,  
15 which I realize would require a lot of adjustment, new  
16 meters, et cetera.

17 But, you know, where is efficiency as an  
18 objective? I mean you seem to -- you -- you didn't even  
19 mention it in your closing remarks, which I found  
20 strange.

21 MS. PATTI RAMAGE: I -- I think what I  
22 was trying to do is -- I think in my opening remarks I --  
23 I noted that one (1) of Manitoba Hydro's mandates is  
24 efficiency. But under the Cost of Service Study I was  
25 trying to fairly represent each of the Intervenors'

1 comments regarding the Cost of Service Study and noting  
2 that that was the one (1) item that there was unanimity.  
3 I couldn't say, with confidence, that each of the  
4 Intervenors in the room agreed with efficiency, so I  
5 didn't include that.

6 But I'd agree with you that Manitoba Hydro  
7 use efficiency as certainly an important part of its  
8 mandate, if that's of any help.

9 MR. LEN EVANS: Thanks.

10 THE CHAIRPERSON: Thank you, Mr. Evans  
11 and Ms. Ramage.

12 In closing this phase of the Public  
13 Hearing, with the expectation of the legal interpretation  
14 undertaking to come, on behalf of the Board, I want to  
15 express our appreciation to Manitoba Hydro, its primary  
16 and other counsel, witnesses, back row contributors,  
17 contributors that are back in Manitoba Hydro's officers.  
18 Your cooperation and consistency, forthrightness, and  
19 transparency, along with diligence, remain major assets  
20 of this process and we thank you for that.

21 Intervenors, Counsels, and Advisors, this  
22 process depends on Intervenors' participation,  
23 cooperation and diligence, and the witnesses brought  
24 forward contributed significantly to this hearing.

25 For Board Counsel and Board Advisors, Mr.

1 Peters has, once again, been a critical resource and  
2 contributor to this process, and we thank him and Mr.  
3 McLean and Mr. Buhr; extremely helpful to assisting us  
4 with our understanding of matters.

5                   With respect to Board Staff, those in this  
6 room and those in our office, we appreciate your  
7 continued support as well.

8                   And finally we thank Digi-Tran, because  
9 the accurate and timely transcripts are extremely  
10 important to our process.

11                   Before closing I want to call on Mr.  
12 Peters to recognize and thank, in particular, Mr. McLean,  
13 who retires, we understand, this summer, unless he's  
14 brought back again. Mr. McLean has been an important  
15 resource to the Board for many years, and we will miss  
16 his sage advice, and I mean that quite sincerely.

17                   Mr. Peters...?

18                   MR. BOB PETERS:     Mr. Chairman, Mr. Vice-  
19 Chairman, Dr. Avery-Kinew and Dr. Evans, ladies and  
20 gentlemen, not only has this historic regulatory hearing  
21 come to an end, as the Chairman has indicated, but so to  
22 has the long, the illustrious, and the distinguished  
23 regulatory advisory career of Mr. Brent McLean, FCA.

24                   While I may have been a bit obtuse in my  
25 opening comments in reference to Brent McLean's career, I

1 must now be more direct. Brent has decided to retire,  
2 and this will be his last public hearing. Brent has been  
3 the financial and accounting advisor to the Public  
4 Utilities Board of Manitoba for more than thirty (30)  
5 years. Brent has also been sought out and retained by  
6 other Canadian regulators.

7           In addition to providing advisory services  
8 to the Board, one (1) of Brent's more challenging  
9 responsibilities is to assist and attempt to educate  
10 legal counsel on various aspects of the Board's  
11 oversight. And I thank him for his guidance, his  
12 patience, and also his persistence.

13           Brent consistently delivers his analytical  
14 and financial skills in an investigative approach to  
15 unresolved issues. His skills and dedication will most  
16 certainly be missed by all in the regulatory forum, and  
17 most certainly by me.

18           While there will be other opportunities to  
19 recount Brent's career and accomplishments, both  
20 regulatory and private practice, on behalf of all who  
21 have gathered at this proceeding I want to take this  
22 opportunity to congratulate Brent and to wish him a  
23 fabulous retirement.

24           While he has been talked out of it on at  
25 least two (2) occasions, this time I think he means it.

1 So we wish him nothing but the best. We also have a  
2 couple of mementos and these were to help celebrate and  
3 commemorate this occasion.

4                   So on behalf of all gathered here, I'd  
5 like to present Brent with -- with this tool. Just as  
6 the cost of service study is a tool, so too is this  
7 hammer; they each have a purpose, and this hammer is to  
8 remind Brent that there is much to be done in retirement.  
9 But one (1) part of this tool will remind him that there  
10 are also -- there are also good times to be had.

11                   I would be remiss, Mr. Chairman and ladies  
12 and gentlemen, if I didn't share with you Brent's desire,  
13 his intense interest and also his commitment to  
14 continuing education. My meetings with Brent have to  
15 start at the crack of dawn and they are routinely  
16 scheduled at that time.

17                   It is always the answer when I ask to meet  
18 with him in the afternoon that he will be on a course.  
19 And so after 3:46 p.m. most Mondays -- I'm sorry, most  
20 Wednesdays and Thursdays, he's unavailable to meet with  
21 me. So come with retirement, Brent will have more time  
22 and more opportunities to continue his time on a course,  
23 and we hope these titleists will help you do that.

24                   And finally, every team has its captain,  
25 and Brent is ours. While he leaves his captaincy with

1 us, he starts his captaincy in another league. He is  
2 currently a grandfather of one (1), and soon to be a  
3 grandfather of three (3). Brent will now lead and  
4 captain another group.

5                   So this -- this captain's hat will come in  
6 handy on his new boat that he purchased a couple of weeks  
7 ago, and also serve as a reminder, and the best wishes,  
8 from those of us who he was our captain.

9                   So congratulations Brent. On behalf of  
10 all of us, good luck and God Bless.

11                   THE CHAIRPERSON: A Board Order will be  
12 issued in due course. Thank you.

13

14 --- Upon adjourning at 11:32 a.m.

15

16

17

18 Certified Correct,

19

20

21

\_\_\_\_\_

22 Ryan Pickering

23

24

25