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MANITOBA PUBLIC UTILITIES BOARD

Re: MANITOBA HYDRO
2004 GENERAL RATE APPLICATION

Before Board Panel:

Graham Lane	- Board Chairman
Len Evans	- Board Member
Robert Mayer	- Board Member

HELD AT:

Public Utilities Board
400, 330 Portage Avenue
Winnipeg, Manitoba
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1 --- Upon commencing at 9:05 a.m.

2

3 THE CHAIRPERSON: Good morning, everyone.

4 It's day nine (9) on the school calendar, I guess. Ms.

5 Fernandes, are you sitting in for Ms. Ramage?

6 MS. ODETTE FERNANDES: Just for -- until the

7 morning break.

8 THE CHAIRPERSON: Very good. Is there any

9 other undertakings being filed by Hydro at this point?

10 MS. ODETTE FERNANDES: Yes, we have three (3)

11 undertakings being filed. The first one (1) is Manitoba

12 Hydro Undertaking Number 25, and that's an undertaking

13 requesting that we compare Manitoba Hydro's accounting

14 policies to that of BC Hydro and Hydro Quebec, in terms of

15 how costs for planning studies are taken into consideration.

16 And I propose we give that Exhibit number 57, I believe we're

17 at.

18 THE CHAIRPERSON: I think that number is

19 correct.

20

21 --- EXHIBIT NO. MH-57: Comparison of Manitoba Hydro's
22 accounting policy with that of BC
23 Hydro and Hydro Quebec, in terms
24 of how costs for planning studies
25 are taken into consideration.

1 MS. ODETTE FERNANDES: The next one (1) is
2 Manitoba Hydro Undertaking Number 48, and that's updating
3 Table 10.2 from Tab 10 of Volume I in Manitoba Hydro's
4 Application to show the current RCC's prior to the allocation
5 of export revenues. And I believe that's Exhibit Number 58.

6
7 --- EXHIBIT NO. MH-58: Updated Table 10.2 from Tab 10 of
8 Volume I in Manitoba Hydro's
9 Application to show the current
10 RCC's prior to the allocation of
11 export revenues.
12

13 THE CHAIRPERSON: Thank you.

14 MS. ODETTE FERNANDES: And the final
15 undertaking is Manitoba Hydro's Undertaking Number 49, which
16 is providing the impact on GSS and total general consumer
17 revenue if potential rate increases presented in Hydro's
18 rebuttal evidence were implemented. And that should be
19 Exhibit Number 59.

20
21 --- EXHIBIT NO. MH-59: The impact on GSS and total
22 general consumer revenue if
23 potential rate increases
24 presented in Hydro's rebuttal
25 evidence were implemented.

1 THE CHAIRPERSON: Thank you.

2 MR. BYRON WILLIAMS: Mr. Chairman, if -- if I
3 might. You can see me carefully concealing my absence of tie
4 which I assure you is not any disrespect to the Panel but
5 just a bad apparel planning this morning.

6 I did indicate that there was an error -- a
7 typographical error in CAC/MSOS Exhibit 10.

8 THE CHAIRPERSON: I recall.

9 MR. BYRON WILLIAMS: I have provided the
10 revised copies to Mr. -- to Mr. Barron and also some to
11 Hydro. I'll share the -- it with the interested parties as
12 well in just one (1) second.

13 And I can tell you that there were two (2)
14 typographical errors. The first one (1) was on monthly usage
15 -- or, under -- under total, for the zero (0) to one thousand
16 (1000) range, the figure was -- was originally put in as
17 three zero eight two period one six six (3082.166). And
18 that should be three zero eight two comma one six six
19 (3082,166).

20 And then if you go down to the monthly usage
21 range. Three thousand (3000) to four thousand (4000), under
22 Zone III, we erroneously typed in, under that two one six
23 four nine two (216,492). And if you look at that you can see
24 that, that's actually a total figure.

25 What it should read under Zone III is, for the

1 range of three thousand (3000) to four thousand (4000) is
2 ninety-five six oh six (95,606). The totals either at the
3 bottom on -- or at the extreme right of Zone III is a
4 percentage of total, are not changed. So, these were just
5 typographical errors, not mathematical errors.

6 So, I'm not sure if you want to mark it as
7 CAC/MSOS Exhibit 10-R, or just as ten (10). I'll leave that
8 to your judgment, Sir.

9 I left some with Mr. Barron. I apologize for
10 not advising -- asking him to distribute them.

11 THE CHAIRPERSON: We'll just use it as a
12 replacement for the original one.

13

14

(BRIEF PAUSE)

15

16 THE CHAIRPERSON: Ms. McCaffrey, at long last
17 we've reached you.

18

MS. TAMARA MCCAFFREY: Good morning.

19

20 THE CHAIRPERSON: I'm pleased to see, by the
21 way, Mr. Warden has returned. Welcome back.

21

MR. VINCE WARDEN: Thank you.

22

23 MS. TAMARA MCCAFFREY: And I know you came
24 back because you knew I was cross-examining this morning,
25 didn't you, Mr. Warden?

25

THE CHAIRPERSON: That's exactly what I was

1 getting at.

2 MR. VINCE WARDEN: It's the first thing I
3 asked this morning; she hasn't been up yet, has she?

4 MS. TAMARA MCCAFFREY: I don't think I'll
5 have too much to chat with you about this -- this morning,
6 but.

7 Let's -- let's start with demand-side
8 management.

9

10 CROSS-EXAMINATION BY MS. TAMARA MCCAFFREY:

11 MS. TAMARA MCCAFFREY: Mr. Kuzcek. Sir, when
12 Hydro undertakes a demand side management program, it frees
13 up one (1) kilowatt hour for the system. That is a found
14 kilowatt hour, right? So, it's as good as getting a new
15 kilowatt hour from a new generating station. Is that fair to
16 say?

17 MR. LLOYD KUZCEK: Actually I -- I think not.
18 Because there -- there actually is a difference between a
19 supply resource and a demand side resource.

20 MS. TAMARA MCCAFFREY: You're going to have
21 to explain that to me, sir.

22 MR. LLOYD KUZCEK: Okay. And that's where
23 the confusion comes into play. When a lot of people just
24 look at the cost of DSM.

25 That -- the big differences is with DSM and

1 supply side options, you have revenue associated with gen --
2 supply side options. You have no revenue associated with DSM
3 options.

4 And if you want to think of it in terms of
5 where Manitoba Hydro is right now, if we were at a
6 supply/demand balance right now and we were expecting load to
7 increase going forward, we could meet that load with either a
8 supply side option or a demand side management initiative.

9 If you proceed with the supply side option,
10 you will have revenue that comes into the company from that
11 generating resource.

12 If you proceed with the DSM option, you
13 actually have no revenue. Because you've got a supply/demand
14 balance of that -- prior to that.

15 MS. TAMARA MCCAFFREY: Okay. So, give me an
16 -- give me an example of a supply side option.

17 MR. LLOYD KUZCEK: Supply side options
18 generally fall into the category of new generating resources
19 that we build; non-utility generators or independent power
20 producers. And the other category of supply side
21 enhancements.

22 MS. TAMARA MCCAFFREY: So, maybe you
23 misunderstood me. I appreciate that -- that explanation, but
24 -- but I'm talking not even about whether there's revenue or
25 not; I'm talking whether or not there is a kilowatt hour

1 that's available to the system.

2 Now, sir, if I asked you that question again,
3 if you save a kilowatt hour through a demand side or -- or
4 another source, if -- if there's a kilowatt hour there that
5 Manitoba Hydro had that they can use, regardless of the
6 revenue question at this point?

7 MR. LLOYD KUZCEK: There is one (1) less --
8 with the demand side management initiative, there's one (1)
9 less kilowatt hour that you have to serve -- right. With the
10 supply side option you have to still supply that.

11 MS. TAMARA McCAFFREY: Right. So, I think the
12 answer to my question then would be yes, that's one (1) less
13 hour that you have to provide, so that's one (1) more hour
14 for Hydro. Basically, a pretty simple point and then we can
15 move on.

16 MR. LLOYD KUZCEK: Yeah, as long as we agree
17 on what I said prior to that.

18 MR. ROBERT MAYER: Just a second now, I'm
19 confused, because --

20 MS. TAMARA McCAFFREY: Oh.

21 MR. ROBERT MAYER: -- the demand -- when you
22 save money, or when you save power with demand side
23 management initiatives, the belief I think I had and I think
24 that -- that Ms. McCaffrey has, is that you can now turn
25 around and sell that on the export market; are we mistaken in

1 that?

2 MR. LLOYD KUZCEK: No, you're not mistaken in
3 that. I was just trying to explain the difference between
4 DSM and a supply side option. There -- there is always a
5 difference in terms of the revenue.

6 When you -- and if you think of it, maybe I'll
7 try another way. Think of it in terms of the benefit cost
8 ratio associated with either initiative. If you proceed with
9 the demand side management initiative, on -- on the cost
10 side, it's the costs associated with that initiative.

11 On the benefits side, the true benefit from
12 the utility's perspective is just the differential between
13 the -- the export revenue and the domestic revenue. So --
14 so, it's incremental.

15 So, you are right, you -- you -- if you have
16 surplus power in your system, or if you -- if you realize
17 demand side -- demand savings through DSM, you can sell it on
18 the export market, that is true.

19 MR. ROBERT MAYER: Now, just to follow up from
20 that briefly. I take it, however, that with supply side, you
21 have some ability to manage that supply and can sell it on --
22 on peak hours. Can you do the same thing with demand side
23 management savings?

24 MR. LLOYD KUZCEK: We can actually use DSM to
25 -- use our system to shape DSM, and capture the benefits on

1 the -- the on peak market, for the most part.

2 MR. ROBERT MAYER: Thank you, sir.

3 MS. TAMARA McCAFFREY: Thank you, Mr. Mayer,
4 and Mr. Kuzcek.

5

6 CONTINUED BY MS. TAMARA McCAFFREY:

7 MS. TAMARA McCAFFREY: So, we'll just carry on
8 then. We have -- we've established I think the point that I
9 was getting at with respect to the hour that's now available
10 to be used by Hydro for something else, whether it's supply
11 to a domestic or to be sold on export, or whichever.

12 Moving down then, for the DSM program there
13 are two (2) costs to acquiring that kilowatt hour, okay, now
14 we're just talking about the DSM, the program cost to free it
15 up; would you agree with that, whether it's marketing or
16 incentive cost?

17 MR. LLOYD KUZCEK: Yes.

18 MS. TAMARA McCAFFREY: And as you've already
19 indicated, the lost revenue from a customer who reduced their
20 usage; is that right?

21 MR. LLOYD KUZCEK: Yes, and one can actually
22 put that on the -- the revenue side as a -- or the benefit
23 side as a negative, or you know the net -- depends on how you
24 look at it, as a net benefit or put it on the cost side, you
25 can do it either way.

1 MS. TAMARA McCAFFREY: Sure, and then on the
2 plus side of it, though if it makes it a little more
3 appealing to Hydro on the financial side of things, there can
4 -- there's a new offsetting revenue in terms of making the
5 freed up power available for export sales over the long term
6 market, for example, which I think was Mr. Mayer's question
7 to you?

8 MR. LLOYD KUZCEK: Yes.

9 MS. TAMARA McCAFFREY: Now, for the long term
10 value of export sales, we have a number of six point one five
11 (6.15) cents per kilowatt hour; does that sound right to you,
12 in terms of the value of that?

13 I've seen it in Manitoba -- I've seen it
14 throughout the Hearing, but Manitoba's rebuttal evidence as
15 well. I can give you a page reference, if you need it?

16 MR. LLOYD KUZCEK: No, that is correct, in
17 terms of the value of power to Manitoba Hydro.

18 MS. TAMARA McCAFFREY: And it's a long term
19 value, it's not a value that sort of blips upwards or
20 downwards with short term export market prices, am I right in
21 that?

22 MR. LLOYD KUZCEK: Correct.

23

24 (BRIEF PAUSE)

25

1 MS. TAMARA McCAFFREY: Is there a way that you
2 can give us a des -- general description that tells us the
3 basic approach that's used to develop that number, without
4 getting too complicated to the point that -- that I can still
5 understand you?

6 MR. LLOYD KUZCEK: This isn't my area of
7 expertise, but I -- but I do understand the general
8 principles, and that number is derived from the value that
9 Manitoba Hydro realizes through the export market.

10 And it's a combination of the value of the
11 export market and the avoided cost in our infrastructure,
12 that being generation -- deferred generation, deferred
13 capital expenditures associated with transmission and
14 distribution.

15 The current number is mainly composed of the
16 export market value.

17 MS. TAMARA McCAFFREY: Thank you for that.
18 Now, we also heard from Mr. Surminski, I'm not sure if you
19 were with us at that point, Mr. Kuzcek, but that they're
20 basically conservative in the export price forecast, and
21 there's good reasons for that.

22 But would you agree that that -- that that's
23 right, Hydro tries to be fairly conservative in its export
24 price forecast?

25 MR. LLOYD KUZCEK: I couldn't comment on that,

1 that would be Mr. Surminski's area of expertise.

2 MS. TAMARA McCAFFREY: That's fine, it's --
3 it's on the record in any event. But let's assume that
4 Manitoba Hydro tries to take a conservative approach in terms
5 of their forecast.

6 And then what I'd like you to -- I think
7 something that you can comment on is that when Manitoba Hydro
8 evaluates DSM programs, they will look at a DSM program as
9 being a good fit for Manitoba Hydro, if in general, the costs
10 -- and that would be administration, marketing, incentive
11 costs, plus the lost revenue, is less than the extra revenue
12 that can be gained from selling the power on the export
13 market. Basically, the revenue from the sale of freed up
14 power would exceed the costs of the DSM program.

15 Is that the type of test that you might run
16 by, in terms of deciding whether to go with the DSM program
17 or not?

18 MR. LLOYD KUZCEK: We actually use two (2)
19 tests, the -- the first test is the total resource cost test,
20 and that test is -- screens out DSM opportunities that we
21 wouldn't pursue.

22 And that test is looked -- it looks -- it's a
23 benefit cost ratio that looks at the benefits and cost for
24 Manitoba Hydro, and the customer as a whole; from that
25 perspective.

1 If opportunities pass that test, we then get
2 into detailed program design, and we do another test, which
3 is the RIM test, and that test actually looks at the impacts
4 to our rates. And so we use that test to determine whether
5 or not we will proceed with the program, or recommend the
6 program.

7 After that point of course, the -- the options
8 that we develop from those tests is evaluated against other
9 supply side options at -- within the resource planning.

10 MS. TAMARA McCAFFREY: So, that RIM test is
11 the Rate Impact Measure test; is that right?

12 MR. LLOYD KUZCEK: Correct.

13 MS. TAMARA McCAFFREY: And so, essentially
14 this is -- this analysis looks at the economics, whether this
15 makes good sense economically, to pursue a DSM program, is
16 that -- would you agree with that?

17 MR. LLOYD KUZCEK: The RIM test is -- looks at
18 it -- what it provides us with is an indication of the
19 impacts on rates and it gives you an indication in terms of
20 magnitude and direction.

21 So, if the benefit cost ratio is greater than
22 one (1), the impact is -- is positive, in terms of there is
23 no negative impacts on rates, so there's no upward pressure
24 would apply to rates.

25 It also gives you an indication of what the

1 impacts are to the non-participants, and this -- this is
2 where the issue of fairness comes into play, because if it
3 passes the TRC, generally speaking the next issue is -- in
4 the program design is, who's going to pay for the initiative
5 -- the resource cost.

6 And so there's the issue of how much Manitoba
7 Hydro should pay and how much the participant should pay.

8 In deciding that, the RIM test gives you an
9 indication of what the impacts would be to those that aren't
10 participating and -- and that's getting into the fairness
11 issue.

12 MS. TAMARA McCAFFREY: Great. So, in any
13 event then, what I'm trying to get at here though is that one
14 (1) of the factors that you look at, and I guess the first
15 hurdle that it's got to pass is this total resource cost test
16 that you've told us about, and a key factor there would be
17 whether the -- the upside exceeds the downside.

18 And -- and a factor that you look at is -- is
19 how much revenue you can make from this -- from the freed up
20 kilowatt hour. That -- that's a key factor there. Is that
21 right?

22 MR. LLOYD KUZCEK: That's where we use the
23 six point one five (6.15) cents, yes.

24 MS. TAMARA McCAFFREY: Now, given that we're
25 assessing DSM against conservative export price forecasts,

1 and that we have the fact that it's conservative, I think, on
2 the records from Mr. Surminski, so, go with me on that
3 assumption.

4 If that's the case, if we're looking at the
5 value of DSM against a conservative export forecast, I think
6 it follows from that, sir, that the value of DSM that's being
7 evaluated or assessed may in fact also be a -- a conservative
8 number, that is, the potential may be of considerably higher
9 value than currently assessed; is that fair to say?

10 MR. LLOYD KUZCEK: I struggle with that a bit
11 but if our --

12 MS. TAMARA MCCAFFREY: It's probably the way
13 I worded the question.

14 MR. LLOYD KUZCEK: If the -- if our forecasts
15 are -- are conservative, you -- you would think so. Now,
16 there's other factors you have to consider and that's the
17 risks associated with the -- the DSM you're actually going to
18 achieve the risks associated with the free riders issue --
19 the free drivers issue.

20 MS. TAMARA MCCAFFREY: Oh sure, I appreciate
21 there's a number of things that go -- go into this. I'm
22 certainly not trying to over-simplify. I think what I'm just
23 more getting at is it's more of a -- of a simpler point. And
24 that's in terms of the value estimated for the DSM programs
25 would also be conservative if it's -- if it's in fact based

1 in part on a conservative expert price forecast.

2 MR. LLOYD KUZCEK: It's hard -- hard for me
3 to comment otherwise. I mean if that's what Mr. Surminski
4 said, where we would be using a conservative number if that's
5 the case.

6 MS. TAMARA MCCAFFREY: Now, Mr. Kuzcek, I
7 don't know if you've had an opportunity to read the evidence
8 that was filed on behalf of MIPUG by Mr. Osler and Mr.
9 Bowman. But they talk about some DSM in that evidence.

10 Did you have a chance -- you don't need to
11 turn to it now. But I'm wondering, have you had a chance to
12 review it?

13 MR. LLOYD KUZCEK: I certainly read the --
14 the areas dealing DSM.

15 MS. TAMARA MCCAFFREY: And that's all I'm
16 going to ask you about.

17 They made an assertion that the largest DSM
18 achievements to date for Manitoba Hydro have been from the
19 industrial sector in Manitoba. Would you agree with that,
20 sir?

21 MR. LLOYD KUZCEK: Yes.

22 MS. TAMARA MCCAFFREY: Now, on the capacity
23 side, I -- I guess the main program, or one (1) of the main
24 programs is the curtailable rates program; is that right?

25 MR. LLOYD KUZCEK: That's correct.

1 MS. TAMARA MCCAFFREY: And simply put, that
2 program gives Hydro the opportunity to interrupt customers,
3 like Mr. Turner who is here from Nexen, on short notice when
4 Hydro's pir -- or requirements are -- are high; is that
5 right?

6 MR. LLOYD KUZCEK: That's correct.

7 MS. TAMARA MCCAFFREY: Now, sir, that program
8 has been developed over time and started as an experimental
9 program back in the early 1990's, as I understand it; is that
10 right?

11 MR. ROBIN WIENS: 1993.

12 MS. TAMARA MCCAFFREY: Thank you, Mr. Wiens.
13 Now it continues as a permanent offering of
14 Manitoba Hydro, correct?

15 MR. ROBIN WIENS: That's correct.

16 MS. TAMARA MCCAFFREY: And I take it then
17 that this program has been a successful program?

18 MR. ROBIN WIENS: We have achieved the
19 capacity numbers that we think are pretty close to optimum or
20 maximum for Manitoba Hydro system to be able to benefit.

21 So, yes, I would say that generally it's been
22 successful.

23 MS. TAMARA MCCAFFREY: And there's a
24 curtailable rates monitoring committal -- committee that
25 Hydro and MIPUG developed to monitor and test the program

1 when it was in it's experimental stages and to refine the
2 terms and conditions; is that right, Mr. Wiens?

3 MR. ROBIN WIENS: Well, that committee was
4 active in the -- in the 1990's. It's not active today.

5 MS. TAMARA MCCAFFREY: Right. But that
6 committee was active and -- and it was a nice example of some
7 successful teamwork, I think, between Manitoba Hydro and
8 MIPUG in terms of refining and developing this successful
9 program; is that right?

10 MR. ROBIN WIENS: I think it was an example
11 of a situation where we were able to jointly develop and
12 agree on the parameters for a program prior to bringing it
13 for review by the Public Utilities Board.

14

15 (BRIEF PAUSE)

16

17 MS. TAMARA MCCAFFREY: Just a few more
18 questions for you, Mr. Kuzcek.

19 For electricity customers, DSM that Hydro
20 pursues is designed to lead to overall -- or to lower overall
21 rate levels, that is more new revenues than cost. Is that a
22 fair assertion? I -- I hope it's not too much of an over
23 simplification, but is it an accurate point?

24 MR. LLOYD KUZCEK: In -- in general we -- we
25 try to have a portfolio program -- a portfolio of DSM

1 programs that does that, yes.

2 MS. TAMARA McCAFFREY: So, regardless of
3 whether we have a residential customer or an industrial
4 customer who achieved the DSM savings, if it's economic DSM,
5 if I can use that term, where the upside exceeds the down,
6 then both residential and industrials can benefit; is that
7 correct, sir?

8 MR. LLOYD KUZCEK: Correct.

9 MS. TAMARA McCAFFREY: So, obviously there's
10 good reason why each customer class is well served by
11 actively pursuing DSM, right?

12 MR. LLOYD KUZCEK: Correct.

13 MS. TAMARA McCAFFREY: And I take it then, it
14 doesn't really matter whether the DSM's from a customer who's
15 being more efficient, i.e. using better lightbulbs, or a
16 customer doing without, i.e. turning out any lights that they
17 don't need. Again that's that kilowatt hours at kilowatt
18 hour point; is that fair to say?

19 MR. LLOYD KUZCEK: That's fair to say, in
20 terms of the revenue. In terms of how the costs were
21 allocated, Mr. Wiens can address that, but, yes.

22 MS. TAMARA McCAFFREY: And similarly again,
23 whether the -- a fuel is switched to something other than
24 electricity, or simply being concerned, it doesn't really
25 mater either, from a -- from a purely practical standpoint,

1 of freeing up the kilowatt hours?

2 MR. LLOYD KUZCEK: If one were taking a narrow
3 view of only looking at the -- the electricity business that
4 would be true.

5 MS. TAMARA McCAFFREY: And I am just focusing
6 on the electrical utility in this Proceeding, Mr. Kuzcek.

7

8 (BRIEF PAUSE)

9

10 MS. TAMARA McCAFFREY: So, then would you also
11 agree with me, sir, that the overall electrical customers can
12 also benefit if the DSM electricity is saved from someone
13 switching their energy source, from electricity to say
14 another fuel?

15

16 (BRIEF PAUSE)

17

18 MR. LLOYD KUZCEK: I'm sorry, can you repeat
19 that again?

20 MS. TAMARA McCAFFREY: Yes. Is it fair to say
21 that the overall electricity customers can benefit then by
22 somebody saving DSM electricity, by switching their energy
23 source from electricity to some other type of fuel?

24 MR. LLOYD KUZCEK: Again, if we were looking
25 at it from a narrow perspective, that would be true. If you

1 can reduce electrical consumption in Manitoba and -- and sell
2 it at a higher price in the export market.

3 MS. TAMARA McCAFFREY: Right, which is the
4 assumption that that's what you're going to do with it right,
5 it wouldn't really make sense to save the -- the power and
6 then have it spill over from the dams. You want to use it to
7 some benefit for Hydro of course?

8 MR. LLOYD KUZCEK: Yeah, I -- I'm just being
9 cautious there, because -- and the reason I mention narrow
10 perspective, is that we look at it from a broader perspective
11 of supplying customers with both gas and electricity, and
12 also from the customer's perspective, in terms of the choices
13 they make in having the choice.

14 MS. TAMARA McCAFFREY: Well, and I appreciate
15 your elaboration of your -- of your answer, and I -- and I
16 guess I'm just trying to focus on the -- on the electrical
17 side for the purpose of -- of this Hearing, just so that
18 we're on the same page. But I appreciate you explaining
19 that, sir.

20 Now, you've indicated in your -- in your
21 evidence, and I have a reference if you need it. I expect
22 you don't, but it's MIPUG-II-4(b), that Hydro doesn't pursue
23 this type of fuel switching DSM. And that essentially, is
24 the rationale for that because you can't know with certainty,
25 which fuel would be cheaper over the long term; is that

1 right?

2 MR. LLOYD KUZCEK: There -- there's two (2)
3 points probably. One (1) -- one (1) for sure, we don't know
4 where the differential is going to be with gas and
5 electricity. If you go back into the '90s and look at what
6 the differential was, we wouldn't have predicted what it is
7 today. And we can't predict what it's going to be into the
8 future. And I guess we can predict what it's going to be,
9 but we don't know for certain.

10 We -- our position is that whether or not a
11 customer would be better off to go with one (1) particular
12 fuel, depends on that differential price going forward, and
13 our position that we take is that we provide the customer
14 with the information and allow the customer to make the
15 choice.

16

17 (BRIEF PAUSE)

18

19 MS. TAMARA McCAFFREY: And just to wrap up the
20 point, because you take that approach to it, that you can't
21 predict what -- you know, the prices of alternate fuel, and
22 so you try and provide the information and let the customer
23 make the choice.

24 I take it then that there's no DSM programs
25 though, that deal with the fuel switching? Certainly, I

1 didn't see any in your evidence?

2 MR. LLOYD KUZCEK: No.

3 MS. TAMARA McCAFFREY: Would you also just
4 agree with me as one (1) final point, sir, though, that that
5 potential is there, whether or not Hydro decides to pursue it
6 for whatever policy reasons or not, that potential is also
7 there though, of course?

8 MR. LLOYD KUZCEK: I think I mentioned earlier
9 that -- and I agreed with you in the sense that if you -- you
10 reduced electricity consumption, you -- you could sell it --
11 sell that electricity in the export market, and increase the
12 revenues for the electricity business.

13 But the other point I probably should make is
14 that our ener -- our DSM programs are -- are targeted towards
15 pursuing energy efficiency -- efficiency improvements, not
16 fuel switching.

17 MS. TAMARA McCAFFREY: Yes, I understand that,
18 thank you.

19 All right, I'd like to talk about the Surplus
20 Energy Program. Mr. Wiens, are you the best person to
21 address my questions to today?

22 MR. ROBIN WIENS: I'm the best person you have
23 here today.

24 MS. TAMARA McCAFFREY: All right then, you're
25 in.

1 The Surplus Energy Program; first can you just
2 tell us briefly what that is, sir?

3 MR. ROBIN WIENS: The Surplus Energy Program
4 is a program whereby we make available to customers, on a
5 weekly pricing basis, we make available to customers, surplus
6 energy that would otherwise, in most cases, be sold into the
7 export market, at a price which compensates us for the
8 revenue that we thereby forego, by not selling it into the
9 export market.

10 In some cases, surplus energy sales may be
11 made out of imports, or may be made out of -- out of Manitoba
12 generation, probably thermal generation, and in which case
13 the pricing of that surplus energy takes into consideration
14 the probability that those other sources may come to play
15 during the upcoming week.

16 We price the energy on a weekly basis, we fax
17 our estimated prices, which will make Manitoba Hydro revenue
18 neutral, or indifferent, as to whether they sell that supply
19 in the export market, or to domestic customers, or whether
20 they generate or don't generate it domestically.

21 Those prices are time of use prices. We have
22 three (3) time of use pricing periods; the peak period, the
23 shoulder period and the off peak period.

24 We have two (2) seasons, summer and winter.
25 The -- during the summer, the peak period is from noon until

1 8:00 p.m. During the winter the peak period is from 8:00
2 a.m. until noon and then from 4:00 p.m. until 8:00 p.m., if
3 I'm recalling correctly.

4 The shoulder period is any other hours that
5 are between 7:00 a.m. and 11:00 p.m., seven (7) days a week,
6 which means that on the weekends, the shoulder hours are from
7 7:00 a.m. to 11:00 p.m. We -- we do not have peak pricing on
8 the weekends.

9 The off peak period is the night time hours of
10 11:00 p.m. to 7:00 a.m.

11 Customers are provided with prices that are
12 approved on an ex parte basis, by this Board. On the day
13 that they are approved by the Board, we fax these prices to
14 our customers, and it is entirely up to them whether they
15 make a decision to use the energy, whether to cease
16 operations, because the price is not right, or whether to
17 switch to an alternate supply of energy, that typically being
18 propane.

19 MS. TAMARA McCAFFREY: That was a wonderful
20 explanation. Thank you for that.

21 So, just to clarify a couple of points in that
22 then; is this program supposed to be revenue neutral to
23 Manitoba Hydro?

24 MR. ROBIN WIENS: Yes, it is.

25 MS. TAMARA McCAFFREY: And you're selling the

1 power to customers here, basically for the same price as you
2 would sell it on the export market?

3 MR. ROBIN WIENS: Well, it's based on the
4 expected prices that we'll obtain in the export market for
5 the following week. Or if we're not likely to be making
6 those sales, then it is based -- it may be based on import
7 costs. And throughout most of 2003/2004, it was in fact
8 based on import costs.

9 MS. TAMARA MCCAFFREY: And -- and one of the
10 other points that you just said is that the customer has the
11 choice whether to take the power or to use the alternative
12 energy source; that's right?

13 MR. ROBIN WIENS: Or to not use anything.

14 MS. TAMARA MCCAFFREY: Now, so you wouldn't
15 describe this as a captive market or a monopoly in supplying
16 them with the energy because they can always switch to
17 something else, I take it, propane or whatever; is that fair?

18 MR. ROBIN WIENS: Well, that would be our
19 perception.

20 MS. TAMARA MCCAFFREY: Now, -- now I guess
21 the driver -- I -- I -- you've explained that what you're
22 predicting the export prices to be, so the driver here in
23 terms of setting the prices would be essentially a market-
24 based driver -- what the market would bear; is that right?

25 MR. ROBIN WIENS: It is indeed.

1 MS. TAMARA MCCAFFREY: Now, just before we
2 jump into cost of service with Mr. Thomas, just to finish
3 here, the cost of service measures embedded costs of the
4 system. Now, this program doesn't price power at embedded
5 cost though; is that right, sir?

6 MR. ROBIN WIENS: No, it does not.

7 MS. TAMARA MCCAFFREY: And, again, the price
8 of the power doesn't depend on a cost of service analysis it
9 depends on the market?

10 MR. ROBIN WIENS: That's right.

11 MS. TAMARA MCCAFFREY: We're moving
12 wonderfully quickly. Cost of service now; a few questions
13 for Mr. Thomas. Mr. Thomas, Hyd -- Manitoba Hydro annually
14 produces their cost of service study in your department; is
15 that right, sir?

16 MR. CHIC THOMAS: Under the directions of --
17 of Mr. Wiens, yes.

18 MS. TAMARA MCCAFFREY: Certainly. I
19 understand that -- I'm going to talk a lot to Mr. Wiens in
20 terms of the rate design and what have you but I have you
21 down as, sort of, my class of service person but, Mr. Wiens,
22 if you want to answer the questions jump right in; that's
23 terrific.

24 Now, cost of service, just so that we have the
25 basic principles here which I, at least, find helpful, this

1 cost of service study uses two main inputs; the cost
2 developed by Ms. Wray's people within the IFF process and the
3 loads developed by Mr. Kuzcek as part of his load forecast.
4 Is that...

5 MR. CHIC THOMAS: Essentially, yes.

6 MS. TAMARA MCCAFFREY: So the cost of service
7 study takes these and applies a set of analysis methods to
8 determine the cost to provide service to each customer class
9 and each type of consumption, that is energy versus demand,
10 et cetera; is that right, sir?

11 MR. CHIC THOMAS: Can you repeat that again,
12 please?

13 MS. TAMARA MCCAFFREY: Yes, I can. The study
14 takes the inputs, of the costs developed within the IFF
15 process and the loads developed as part of the load forecast
16 and applies a set of analysis -- or methods of analysis to
17 determine the cost to provide service to each customer class
18 and each type of consumption, that is energy versus demand;
19 am I right?

20 MR. CHIC THOMAS: That's right, yeah.

21 MS. TAMARA MCCAFFREY: Now, this is a normal
22 part of utility analysis for regulated utilities, that is to
23 determine the fair allocation of the utility costs; is -- is
24 that fair to say, sir?

25 MR. ROBIN WIENS: Most utilities do carry out

1 some version of a cost of service study although their --
2 their principles and, indeed, their data sources may vary
3 substantially between utilities or among utilities. Not all
4 of them do it every year, by the way.

5 MS. TAMARA MCCAFFREY: Okay. Most regulated
6 utilities though do use a cost of service study although it
7 may have some variations in the way that you do it?

8 MR. ROBIN WIENS: That's been my experience
9 and my perception, yes.

10 MS. TAMARA MCCAFFREY: So, then is it fair to
11 say that we can look to the cost of service studies then as
12 an analysis to determine which customer classes are creating
13 which costs on the system; is that fair to say -- is that
14 what it's trying to do?

15 MR. ROBIN WIENS: Well, we did have some
16 considerable discussion about this yesterday, you may recall.
17 And I think we did agree that it was an attempt to identify
18 the costs caused by each discernible class of customer but
19 that we did not -- we did not promote it as being something
20 that was absolutely certain.

21 We recognized that there were some bounds of
22 uncertainty around those allocation of costs.

23 MS. TAMARA MCCAFFREY: That's -- you're
24 absolutely correct, of course, Mr. Wiens, and -- and I'm
25 getting to the uncertainties in a moment, because that's a

1 very important point.

2 Now, it's fair to say that when we look at a
3 service for cost jurisdiction for the regulated utility
4 providing service -- power for cost, it's a generally the
5 general principle -- the goal is that the rate the customers
6 pay should track the costs that they impose on the system is
7 a -- is a basic premise.

8 MR. LLOYD KUZCEK: With more or less degree
9 of precision or approximation. That is a -- that is an
10 important benchmark for -- for setting up rate design, yes.

11 MS. TAMARA MCCAFFREY: Sure, and we'll talk a
12 little bit more about that and precision because it is
13 important. But, just to sort of contrast this, in -- in
14 places that are deregulated, the market would be used to
15 determine prices for power, not -- not the cost of service;
16 is that fair to say?

17 MR. LLOYD KUZCEK: Well, very, very simply
18 that's fair to say in places that are deregulated. Typically
19 the market is used to establish hourly or even more frequent
20 variations in the price for the basic commodity out of the
21 generating station. There typically remains some degree of
22 regulation over the transmission and distribution systems.

23 MS. TAMARA MCCAFFREY: And -- and similarly
24 in -- in the export market, you don't use a cost of service
25 study to determine your export prices, you use the market to

1 determine that.

2 MR. ROBIN WIENS: That's what Mr. Cormie
3 tells me.

4 MS. TAMARA MCCAFFREY: So, the key -- one (1)
5 -- essentially the key output of the Cost of Service Study
6 and I know it tells us a lot of different things, is it's an
7 assessment of the costs to serve each customer group compared
8 with the rates charged to that customer group, which is this
9 revenue cost coverage ratio that we talked so much about?

10 MR. ROBIN WIENS: Well, we do as a final step
11 in the cost of service study after we have identified and
12 allocated the costs, we do compare those with the expected
13 revenues from each class of service.

14 MS. TAMARA MCCAFFREY: Now, Mr. Wiens, in
15 your experience would you agree that it's customary, in terms
16 of utility regulation, to define an acceptable range for
17 these revenue cost coverage ratios? Particularly given the
18 imprecision that you've been alluding to.

19 MR. ROBIN WIENS: It's typically done.

20 MS. TAMARA MCCAFFREY: So, here we call that
21 the zone of -- of reasonableness. But the zone of
22 reasonableness, essentially is there because it recognizes
23 the imprecision, the uncertainties in -- in forecasts,
24 variabilities -- or variables that appear in the Cost of
25 Service, all the different factors that can -- that can

1 fluctuate.

2 MR. ROBIN WIENS: You know, I've heard that
3 it's there to recognize other factors as well, but that's
4 certainly one (1) of the main considerations in establishing
5 the zone of reasonableness.

6 MS. TAMARA MCCAFFREY: And -- and again, the
7 zone of reasonableness is a zone. It reflects the fact that
8 cost of service isn't an exact science, which is part of the
9 discussion, I think, that you had yesterday with Mr.
10 Williams.

11 MR. ROBIN WIENS: Yes.

12 MS. TAMARA MCCAFFREY: In terms of just the
13 historical development of the zone of reasonableness in this
14 jurisdiction, I understand that it was in the early '90's,
15 somewhere there about, the zone of reasonableness was
16 determined to be between ninety (90) and a hundred and ten
17 (110); is that right, for the revenue cost coverage ratio?

18 MR. ROBIN WIENS: I think generally that's
19 correct. We -- we did, in around 1990, I think, or perhaps
20 it was 1991, we did bring some material before this Board and
21 we talked about some of the uncertainties that we had as --
22 as some people may recall, we did not have an active
23 established load research program at that time.

24 So, we had even some uncertainty about how we
25 were measuring some of the key load parameters for the

1 customer classes.

2 So, I believe what we actually recommended was
3 that until we resolve certain issues related, particularly to
4 measurement of the load, that we would -- we would look at a
5 zone of reasonableness of eighty-five (85) to 115 percent and
6 that we would -- once we have resolved some of those issues,
7 consider recommending a tighter range of 90 percent to 110
8 percent. I think that -- I think that is the history up
9 until at least 1992 or '93.

10 MS. TAMARA MCCAFFREY: That's very helpful,
11 Mr Wiens. And then from the ninety (90) to a hundred and ten
12 (110), again, over the course of time, there's more debate
13 and discussion and ultimately that zone of reasonableness
14 becomes refined once again to the present one, ninety-five
15 (95) to a hundred and five (105); is that right, Sir?

16 MR. ROBIN WIENS: Yes. I'm -- you know, the
17 milestones are receding in my mind on this but it -- it is my
18 recollection that by about 1996 we had a definite direction
19 from this Board to look in terms of ninety-five (95) to 105
20 percent.

21 MS. TAMARA MCCAFFREY: And of course this
22 number, as -- as you've been telling us, isn't something
23 that's picked from the air. This is something that was
24 developed over time, with considerable progress and
25 developments on Hydro's side, in terms of the load forecasts,

1 the debate in this forum, and direction from the Public
2 Utility Board, after having input from Hydro and others; is
3 that fair to say?

4 MR. ROBIN WIENS: Well, you know, I will agree
5 with you to the extent that it was not picked out of the air.
6 It was done after consideration of a number of factors, and a
7 lot of those cannot be quantitatively analysed.

8 So, no, it was not picked out of the air, but,
9 yes, there was judgment involved in establishing it, and --
10 and I think the judgment of this Board played a significant
11 role in that establishment.

12 MS. TAMARA McCAFFREY: And is it fair that --
13 thank you for that, Mr. Wiens. Is it fair to say that not --
14 that most, if not all regulated utilities would have defined
15 a zone of reasonableness, similarly, like in terms of ninety-
16 five (95) to a hundred and five (105); that's a pretty common
17 standard is that?

18 MR. ROBIN WIENS: You know, I'm having a bit
19 more trouble with this one. We haven't recently surveyed
20 other utilities, and I'm not sure what all of their practices
21 are, but certainly over the years we've seen Canadian
22 utilities, several of them, with that type of a range;
23 ninety-five (95) to a hundred and five (105). Some have been
24 wider.

25 US utilities; we've seen the ninety (90) to

1 ninety-five (95), we've seen the ninety (90) to a hundred and
2 ten (110). And, you know, we've seen in practice,
3 divergences that are wider than that, but usually they're
4 trying to focus on something in that order.

5 MR. ROBERT MAYER: Mr. -- Mr. Wiens, can you
6 with any degree of confidence, tell this Board that you can
7 accurately assign costs to anything narrower than plus or
8 minus 10 percent?

9

10 (BRIEF PAUSE)

11

12 MR. ROBIN WIENS: I think probably the biggest
13 issue in terms of accurately defining is the question of --
14 is the question of -- that I reviewed with Mr. Williams
15 yesterday, is the question that a significant part of our
16 costs are not readily divisible.

17 We do have and have developed over the last --
18 over the last certainly ten (10) years, a pretty good ability
19 to estimate what the -- what the demands at critical times on
20 the system are, of the different classes of service. Our
21 ability is better for some classes than others.

22 But we have a -- we have a pretty tight
23 measure for the very largest classes, because we've got most
24 of them -- are metered with interval meters. So, we have
25 almost a 100 percent saturation.

1 With the residential class we have obviously
2 much fewer research meters in the field, but residential
3 loads are fairly homogeneous, there are some divergences,
4 depending on some key apparatus in the home, particularly
5 electric heat. But generally speaking, you have a fair
6 degree of homogeneity.

7 So, a small research sample gives us what we
8 consider to be a satisfactory capability to estimate those
9 demands within a range of -- of five (5) or seven (7) or 8
10 percent.

11 The biggest gap is the general service small
12 class, because there not only are a lot of them, they are
13 very heterogeneous in terms of their composition. So, they
14 have very -- very different types of behavior among the
15 class. But we're narrowing that down as well.

16 And in addition of course, the more we improve
17 our capability to measure at the very large customer level
18 and at the residential level, you know, we -- we have a
19 residual that we can look at that we're narrowing, and that
20 also helps us narrow the scope on the general service small.

21 So, we're pretty confident in the information
22 that we have, regarding how we estimate our class demands,
23 coincident with the system peak, our class -- our class
24 diversified peaks, that may not be coincident with the system
25 peak, that we use in the embedded cost of service study to

1 describe the loads of those classes.

2 The issue of the -- of the -- of how you deal
3 with the big costs, the big investment costs, the interest
4 and depreciation on our generation resources. You're always
5 going to have some measure of uncertainty related to that.

6 And, you know, that's part of the reason fo
7 course, why we wanted to look at -- at what we did in the --
8 in the report -- what we're referring to here as the NERA
9 Report, that we filed with this Board in April, because we're
10 trying to bring to bear some other thoughts and ideas on how
11 you can deal with that.

12 Plus or minus 10 percent, I think we can be
13 reasonably -- reasonably confident of that. When you get to
14 ninety-five (95) to a hundred and five (105), I think there's
15 a little bit more judgment being applied there. But it's not
16 entirely unreasonable either.

17 MR. ROBERT MAYER: Thank you, sir, that's
18 really what I wanted to get at.

19
20 CONTINUED BY MS. TAMARA McCAFFREY:

21 MS. TAMARA McCAFFREY: Sir, you would I think
22 agree, that having a zone of reasonableness, we -- we talked
23 about some of the reasons why we have a zone, but it's not a
24 cart blanche to maintain any group of customers, either at --
25 at the low or the high end of -- of the zone, right? That's

1 Hydro's goal, is still not to maintain customers at one (1)
2 or the other end of the range, but the goal is still to move
3 towards unity; is that right, sir?

4 MR. ROBIN WIENS: Well, we're on less sure
5 ground here. A zone of reasonableness in itself, is not a
6 reason to have one (1) customer group consistently at one (1)
7 end of it and another consistently at the other end of it.

8 And Manitoba Hydro has in fact taken the
9 position that we will recognize that classes are recovering
10 their costs if they're in the zone, but as -- as a long term
11 general directive, we will try to move them toward a 100
12 percent of cost recovery.

13 Certainly 100 percent is within the zone, it's
14 right -- it's right in the middle of the zone.

15 We will -- we recognize that even if we are
16 successful over a period of time, or whatever number of
17 years, to push classes toward that magic 100 percent, there
18 are always going to be factors that are going to change in
19 our load structure, that we hadn't anticipated, in our cost
20 structure that maybe we anticipated, but they will change
21 from year to year.

22 So, customers, even at targeting a 100
23 percent, may fall on either side of that and toward the
24 ninety-five (95) or the hundred and five (105).

25 So, just to summarize that part of the answer

1 again. Yes, for a zone of reasonableness, there's no
2 particular reason to have a customer at one -- a customer
3 class at one end or the other, if you agree that the zone of
4 reasonableness is in fact reasonable.

5 There may be public policy reasons, or there
6 may be other reasons outside the Cost of Service Study, or
7 outside the zone of reasonableness to -- to, in fact target
8 some groups lower and some groups higher. But we haven't had
9 any of those. So, we're -- we're not looking at that as --
10 as a possible constraint on how we operate within the zone of
11 reasonableness.

12 MS. TAMARA McCAFFREY: Thank you, very much
13 for that, Mr. Wiens.

14 We're going to chat a little bit about
15 Manitoba Hydro Exhibit 39, and there's also some -- some
16 common numbers from Schedule A-1, of the Cost of Service
17 PCOSS-04, which Mr. Peters provides at Tab 30 of his book.

18 MR. ROBIN WIENS: Well, we may need half a
19 minute or a minute or so to scare up those documents.

20 MS. TAMARA McCAFFREY: Sure. Do you have
21 Exhibit 39 handy?

22 MR. ROBIN WIENS: Yes, but it's a question of
23 locating it.

24 MS. TAMARA McCAFFREY: Okay, sure.

25 THE CHAIRPERSON: Let's take our five (5)

1 minute break now then.

2 MS. TAMARA McCAFFREY: Thank you.

3

4 (BRIEF PAUSE)

5

6 MR. ROBIN WIENS: I recognized the exhibit. I
7 just didn't recognize the number.

8 MS. TAMARA McCAFFREY: Okay, that -- that's
9 fine. Listen, you've got my sympathy in terms of finding
10 people's paper with all the volumes of material we're dealing
11 with.

12

13 --- Upon recessing at 9:55 a.m.

14 --- Upon resuming at 10:05 a.m.

15

16 THE CHAIRPERSON: Welcome back, Ms. Ramage.

17 MS. PATTI RAMAGE: Thank you.

18 THE CHAIRPERSON: Ms. McCaffrey, do you want
19 to recommence?

20 MS. TAMARA MCCAFFREY: I sure do. Thank you,
21 Mr. Chair.

22

23 CONTINUED BY MS. TAMARA MCCAFFREY:

24 MS. TAMARA MCCAFFREY: All right, let's just
25 -- let's just start with exhibit -- where -- where I'm going

1 with this is I'm going to talk a little bit about Exhibit 39
2 and what that means and in order to do that we're going to
3 have to also refer to the prospective Cost of Service Study
4 from March 31st, 2004 which was at Tab 30 of Mr. Peter's
5 document.

6 So, let's go through this material and -- and
7 basically what I'm trying to do is -- is just make it clear
8 for the Board and on the record what -- what this information
9 is -- is essentially telling us at the end of the day.

10 Now, Mr. Thomas, I -- I wonder if you're the
11 person that was involved in preparing this Exhibit 39? Like,
12 was that -- do you -- Mr. Wiens are you a better person to
13 direct my questions to?

14 MR. ROBIN WIENS: I think you can ask a
15 question and we'll see who the best person is.

16 MS. TAMARA MCCAFFREY: All right. That's
17 fine I'll just throw it out there then. What I see this
18 Exhibit 39 is showing me is a comparison from the Cost of
19 Service Study from 1992 and the Cost of Service Study from --
20 for the 2004 period; is that -- is that right then?

21 MR. ROBIN WIENS: It is.

22 MS. TAMARA MCCAFFREY: All right. Now, why
23 -- why was '92 used as the comparison year?

24 MR. ROBIN WIENS: Well, we could have chosen
25 an earlier year, I guess. '92 was -- the choice of '92 was

1 not entirely arbitrary. It was the last year that the
2 general service large class over 100 Kv received a rate
3 increase.

4 MS. TAMARA MCCAFFREY: All right. And the --
5 what you're trying to do in this table then is to compare
6 some results from those two (2) cost of service studies and
7 then you've worked in some additional ratios that you've
8 developed that we're going to talk about now.

9 So, why don't we look here at the final
10 results from these cost of service studies so if -- we're
11 looking at the second last row and I'm looking here at the
12 figure 'after allocation of exports'

13 And I see there, sir, that there's 88.5
14 percent for residential in 1992 and 111.8 percent for the
15 industrials then; is that -- is that fair to say that's the
16 revenue cost coverage there?

17 MR. ROBIN WIENS: If I've done better than
18 Mr. Williams on my transcribing, I think those are correct.

19 MS. TAMARA MCCAFFREY: All right, sir. I
20 know this is a little bit tedious going through tables so I'm
21 going to try and go through it quickly and get to the point.

22 Now, again, just -- we see ninety point six
23 (90.6) for residential now, I'm looking at 2004 here, and a
24 hundred and fourteen (114) for the industrials now; is that
25 right, sir?

1 MR. ROBIN WIENS: That is coming out of Table
2 A-1 from the cost of service study for 2003/'04 that was
3 filed with this Application.

4 MS. TAMARA MCCAFFREY: Thank you. Now, these
5 -- these percentages are the revenues from each particular
6 class divided by the cost to serve that class; is that right?

7 MR. ROBIN WIENS: The revenues for the class
8 from rates plus an allocated export -- net export revenues
9 divided over the allocated costs of that class.

10 MS. TAMARA MCCAFFREY: Thank you. Now, 1992
11 indicated that that was the last general rate increase that
12 the industrials received; that's what you told us, Mr. Wiens,
13 correct?

14 MR. ROBIN WIENS: April 1st, 1992.

15 MS. TAMARA MCCAFFREY: Yeah, I bet you'll
16 never forget that day. That was the -- the rate increase --
17 the rate -- the rate increase --

18 MR. ROBIN WIENS: There are some dates that
19 are much more memorable to me.

20 MS. TAMARA MCCAFFREY: Well, and I think
21 probably some dates that are much more pleasurable even. But
22 I -- but I -- let's just say this, the overall average rate
23 increase in that Application, the industrials received a rate
24 increase that was less than that because of the revenue cost
25 coverage ratios that -- that we see here, okay?

1 And in 1992 for the industrials that would be
2 111.8 percent?

3 MR. ROBIN WIENS: You know, as memorable as
4 that date was to me, I don't remember the exact rate
5 increases either for general consumers overall. But -- or
6 for industrials. But, I do remember that the industrial was
7 -- was less than the general consumers' average.

8 MS. TAMARA MCCAFFREY: And less because of
9 the revenue cost coverage ratios was -- was a factor in that
10 decision, I take it?

11 MR. ROBIN WIENS: Well, I -- you know, I
12 believe it was. It was the reason why we proposed a lesser
13 increase for the industrials.

14 MS. TAMARA MCCAFFREY: Now, I take it that
15 the other line that Hydro wants to highlight here is -- is
16 the before allocation of export credits. Is that -- that
17 sort of a key piece of information for you in this Hearing;
18 is that right, sir?

19 MR. CHIC THOMAS: Well, I think we wanted to
20 draw the attention of the Board and Intervenors to that line,
21 yes.

22 MS. TAMARA MCCAFFREY: Now let's go the Cost
23 of Service Study now; that's Schedule A-1.

24 The first column there is the total cost
25 column and I'm going to look at the bottom of that column and

1 I see that the total system cost reported by Hydro are one
2 billion two hundred and ninety-one million six hundred forty-
3 two point eight dollars (\$1,291,642.8); is that -- that
4 right, sir?

5 MR. CHIC THOMAS: That's right.

6 MS. TAMARA MCCAFFREY: Now, those one point
7 two nine (1.29), if I can average a billion dollars in cost,
8 this is effectively all the costs that show up in the
9 respective year's IFF and we're talking about O&M costs, fuel
10 costs, interest, less a small portion of the costs that are
11 set aside to net against the export revenues. Am I -- am I
12 right in that?

13 MR. CHIC THOMAS: Yes, that's a good general
14 perception.

15 MS. TAMARA MCCAFFREY: And when I'm talking
16 about the small portion of the costs, that would be around
17 the -- the variables. I don't know if that's around a \$100
18 million dollar mark, or if you know the number.

19 MR. CHIC THOMAS: If you're alluding to the
20 \$101 million dollars that we apportioned against net export
21 -- against gross exports to come up with ex -- net export
22 revenue, yes.

23 MS. TAMARA MCCAFFREY: Right. That's not a
24 number that takes into account fixed costs though as I
25 understand it; is that right?

1 MR. CHIC THOMAS: That's correct.

2 MS. TAMARA MCCAFFREY: Now that \$101 million
3 dollar number: these costs were set aside against exports;
4 that's some water rental, National Energy Board fees. Is --
5 is there other things that are included in that?

6 MR. CHIC THOMAS: It's a portion of the water
7 rental fees attributable to exports. It's a 100 percent of
8 the import costs and, yes, some -- some smaller minor costs,
9 National Energy Board costs and marketing charges and such.

10 MS. TAMARA MCCAFFREY: Okay. Thank you for
11 that.

12 So, in this first column then, Hydro is
13 allocating all of the costs of the system among its domestic
14 customers; is that correct? You've broken them down in -- in
15 the classes there; is that right, Sir?

16 MR. CHIC THOMAS: It's allocated costs as
17 well as some direct costs.

18 MS. TAMARA MCCAFFREY: Can you just explain
19 to me what the difference is please?

20 MR. CHIC THOMAS: Allocated costs are those
21 costs that are run through the model and allocated on, be it
22 energy, or demand, or customer costs, whereas direct costs we
23 can attribute directly to a specific customer class.

24 MS. TAMARA MCCAFFREY: Great. So it -- it
25 gets you a figure though? It gives you a -- an amount to

1 apportion to each of the different classes though? Am I
2 right in that?

3 MR. CHIC THOMAS: That's correct.

4 MS. TAMARA MCCAFFREY: Now -- so, just going
5 very quickly through this then. For the residential, it's
6 542.7 million, general service small, 123 million and 107
7 million for the two (2) groups respectively, non-demand and
8 demand. And industrials it's 95 million and 93 million for
9 the two (2) groups, non-curtable and curtable,
10 correct, sir?

11 MR. CHIC THOMAS: That's right.

12 MS. TAMARA MCCAFFREY: All right. Now, the
13 next column, Hydro's calculating the revenues from each of
14 the customer groups under the existing rates, correct?

15 MR. CHIC THOMAS: That's correct.

16 MS. TAMARA MCCAFFREY: That takes us to the
17 third column then which is the RCC and basically all of
18 Hydro's costs have been included but basically, at this
19 point, none of the export revenues are there yet; is that
20 right, sir?

21 MR. CHIC THOMAS: That's correct.

22 MS. TAMARA MCCAFFREY: So, then we see the
23 RCC's there before export allocation of 63.9 percent for the
24 residential and -- and so on down that column, correct?

25 MR. CHIC THOMAS: That's right.

1 MS. TAMARA MCCAFFREY: Now, these are the
2 same ratios that we saw in Exhibit 39, where -- under the
3 before allocation of export credit line; is that right, Sir?

4 MR. CHIC THOMAS: That's right.

5 MS. TAMARA MCCAFFREY: All right. Now we're
6 going to look at the Hydro allocating the export revenues.
7 And this is done by taking the export revenues and splitting
8 them into a demand component and an energy component, using
9 the system load factor; is that right, sir?

10 MR. CHIC THOMAS: On generation and
11 transmission.

12 MS. TAMARA MCCAFFREY: The energy component
13 then is allocated equally to all kilowatt hours on the
14 system; is that right?

15 MR. CHIC THOMAS: Allocated to all customer
16 classes, whether they're equal. What -- it depends on their
17 proportion of the total of course. So...

18 MS. TAMARA MCCAFFREY: The kilowatt hours
19 though, per kilowatt hours -- allo --

20 MR. CHIC THOMAS: Yes.

21 MS. TAMARA MCCAFFREY: -- allocated equally to
22 all kilowatt hours, as opposed to how many each customer
23 class has and so forth?

24 MR. CHIC THOMAS: That's right.

25 MS. TAMARA MCCAFFREY: The demand component is

1 allocated equally to all demand, and as I understand it, that
2 means peak loads on the system; is that right, sir?

3 MR. CHIC THOMAS: Coincident peak loads, yes.

4 MS. TAMARA McCAFFREY: And -- and coincident
5 peak loads, just to put on the record means...?

6 MR. CHIC THOMAS: When the entire system
7 peaks, versus individual customer class peaks.

8 MS. TAMARA McCAFFREY: Now these amounts are
9 allocated to the various customer classes, to get to the
10 numbers in the net export revenue column; am I correct in
11 that?

12 MR. CHIC THOMAS: That's right.

13 MS. TAMARA McCAFFREY: So, this leads to a 145
14 million for the residentials and so on down the column; is
15 that right, sir?

16 MR. CHIC THOMAS: To a total of our net export
17 revenue of 419 million, that's correct.

18 MS. TAMARA McCAFFREY: Thank you.

19 Okay. So, just to sum up then, the Exhibit
20 39, the ratios that are shown in the before allocation of
21 export credits, are ratios derived from taking basically all
22 of Hydro's costs and dividing it only by the domestic loads,
23 correct?

24 MR. ROBIN WIENS: They're taken by dividing
25 all of Hydro's costs attributed or allocated to each class --

1 pardon me, by taking the class revenue from each class and
2 dividing it by the allocated costs. The class revenue from
3 the application of today's rates to the consumption of that
4 class.

5 That's where you get the numbers in the third
6 column of Table A-1.

7 MS. TAMARA McCAFFREY: Right, right.

8 MR. ROBIN WIENS: Where you get the numbers in
9 Exhibit 39, I -- I assume you're going to take me there, or
10 if not, we can go there anyway.

11 MS. TAMARA McCAFFREY: Go ahead, that's fine.
12 Your -- your information is very helpful, Mr. Wiens. So...

13 MR. ROBIN WIENS: It's simply to take the
14 numbers in the third column of Schedule A-1, and if you'll go
15 down to the general consumers row in that column, you'll see
16 that general consumers overall, the revenue from the rates
17 charged to those general consumers overall, recovers about
18 67.7 percent of the costs attributed or allocated to those
19 customers.

20 If you restate 67.7 percent as 100 percent,
21 and ratio up all the other numbers above it in the column,
22 you will arrive at -- in the third last row of -- of Exhibit
23 39, for the residential class, 94.4 percent, for the general
24 service large over 100 Kv class, 100 percent and for the
25 total of general consumers, also 100 percent.

1 MS. TAMARA McCAFFREY: I was actually going to
2 ask you about that point, this -- this second line here where
3 you've indexed it to a 100 percent, what -- what exactly did
4 you do there, to get it to -- to that level? Can you explain
5 that to us?

6 MR. ROBIN WIENS: Well, it's simply a
7 restatement of this revenue cost coverage by saying that if
8 general consumers overall were restated to a 100 percent, in
9 other words, that -- that ratio bumped up from 67.7 percent
10 to 100 percent, and if we did the -- and if we took one
11 hundred (100) divided by sixty-seven point seven (67.7), and
12 multiplied that by the pre-export allocation for each class,
13 we would arrive at 94.4 percent for the residential class.

14 In other words, the residential RCC allocation
15 of 63.9 percent of costs before export allocation,
16 sixty-three point nine (63.9) is equivalent to 94.4 percent
17 of the recovery from all classes combined.

18 MS. TAMARA McCAFFREY: All right. All right,
19 thank you for explaining that -- that to us.

20 I guess my -- the point I want to make here
21 though is when you're taking this line of before the
22 allocation of the export credit you are not including --
23 that's the second row - you're showing what RCC ratios would
24 be if you had no exports and your system costs \$420 million
25 dollars less to run; that's sort of where I was getting at

1 with this domestic load question?

2 You've taken the costs of the exports right
3 out of the picture as well as the revenues, right?

4 MR. ROBIN WIENS: You could look at it that
5 way.

6 MS. TAMARA MCCAFFREY: Just a couple more
7 questions on this -- on this exhibit then. On Hydro's
8 domestic loads, I take it that this is allocating the costs
9 over about eighteen (18) to twenty (20) terrawatt hours which
10 is eighteen (18) to twenty thousand (20,000) gigawatt or
11 eighteen (18) to 20 million megawatt hours of domestic load:
12 that's about the domestic load; is that right, sir?

13 MR. ROBIN WIENS: I think that's pretty
14 close. If you wanted we could dig up that number for you
15 pretty quickly.

16 MS. TAMARA MCCAFFREY: Okay. You can -- you
17 can maybe get back to me and just confirm if I've got the
18 right number there. I don't have a specific reference for
19 you but I think that's pretty close.

20 It -- it doesn't really -- the exact number
21 doesn't really matter. I'll tell you where I'm going with it
22 and then -- as I understand it --

23 MR. ROBIN WIENS: It's -- it's -- if you'll
24 just bare with us, it's about 21.6 million megawatt hours at
25 generation or 18.8 million at the meter -- the customer

1 meter.

2 MS. TAMARA MCCAFFREY: Okay. Terrific.
3 Thank you for that. Now, I understand that your system can,
4 on a normal basis, put out about twenty-nine (29) or thirty
5 (30) terrawatt hours as opposed to eighteen (18) to -- to
6 twenty (20) or twenty-one (21); is that right?

7 MR. CHIC THOMAS: That might be a better
8 question for someone like Mr. Cormie but approximately, I
9 think that's within the range.

10 MS. TAMARA MCCAFFREY: Essentially -- you're
11 right, it would be a better question for Mr. Cormie, you're
12 quite -- you're quite right about that. But my point being
13 is that there's about nine (9) to ten (10) terrawatt hours in
14 there that's -- that's over and above what's required in the
15 domestic load that's available for export; is that fair?

16 MR. VINCE WARDEN: That's under median flows.

17 MS. TAMARA MCCAFFREY: Thank you, very much,
18 for that, Mr. Warden. We -- we've heard a lot of talk about
19 the changes in the export market, Mr. Wiens, that have
20 occurred since the 1990's.

21 And you've indicated that the export market
22 has changed so significantly, that is your export revenues
23 are now so much more significant than they were in the early
24 1990's, that I think that's one of the reasons that you
25 suggested in 2002 that you might want to look at changing the

1 way you're doing your cost of service; is that fair?

2 MR. ROBIN WIENS: Well, I guess we -- we
3 recognized that prior to 2002 by some years but this is when
4 we brought this basically before the Public Utilities Board
5 and the change that has happened is if you go back to 1992 or
6 beyond, virtually all of the export sales were being made on
7 an opportunity basis.

8 They were at prices typically which were below
9 embedded cost. And over the course of a decade that -- that
10 changed fairly materially for us so that even opportunity
11 sales were often being made at prices above embedded cost.

12 And, as well, there -- there was a greater
13 factor of firm sales being made into the export market. So,
14 as a consequence, just looking at the numbers, 1.3 billion
15 and 419 million, you've got approximately a third of the
16 Corporation's total revenue that is coming from export sales.

17 MS. TAMARA MCCAFFREY: So, those big changes,
18 as you indicated, occurred sort of over the course of a
19 decade; is that -- is that right?

20 MR. ROBIN WIENS: Well, we began noticing it
21 and -- and I guess beginning to feel some concern about what
22 that might say about our Cost of Service method somewhere
23 after about 1997.

24 So, it would have been in the course of the
25 first six (6) or seven (7) years of the 1990s, that there was

1 some fairly substantial changes.

2 MS. TAMARA McCAFFREY: Right. And -- and I
3 take it then, between 2002 and 2004, there hasn't been a big
4 change to the export market; is that right, sir?

5 MR. ROBIN WIENS: Well, a permanent change,
6 no. But I think as everybody's heard here, we did have
7 fairly significant events affecting our ability to
8 participate in the export market.

9 MS. TAMARA McCAFFREY: Oh, I understand that
10 completely, but in terms of the export market itself, drought
11 aside, not big changes from 2002 anyway, I take it.

12 MR. ROBIN WIENS: If -- if you look -- if you
13 look at Exhibit 39 here, we -- what we were forecasting was
14 about \$420 million dollars of export revenue, and that's
15 based on our best ability to forecast that, and -- and those
16 are the kinds of volumes that -- that we were expecting and
17 that we expect to continue, assuming that we can continue to
18 -- assuming that we can continue have that amount of
19 generation available to serve into the export market.

20 What we saw in 2003/2004 of course was a
21 negative number, so that's -- that's eloquent about the gap
22 and the risks that Manitoba Hydro faces, but it's not what we
23 expect to be a permanent fixture.

24 MR. ROBERT MAYER: Mr. Wiens, I'm getting my
25 history confused a little bit now. You say that the export

1 market became an issue in the '90s. If I recall correctly,
2 we -- you constructed Limestone in the '80s; am I right, so
3 far?

4 MR. VINCE WARDEN: Final unit of Limestone
5 came into service in 19 -- 1992.

6 MR. ROBERT MAYER: There must have been some
7 notice, however, of the -- at least the possibility of
8 significant export sales, because if I understand correctly,
9 the final decision to build Limestone was based on some firm
10 power sales to what was then called Northern States Power;
11 isn't that correct?

12 MR. VINCE WARDEN: Limestone was needed to
13 serve the domestic load, and we didn't need it -- we didn't
14 need all of that capacity at the same time of course, hence
15 the -- the sale -- the firm sale to Northern States Power.
16 But Limestone was required, or new generation was required to
17 serve the Manitoba load.

18 MR. ROBERT MAYER: I was in the room when the
19 press release was written for the -- for the Limestone
20 Project, and a lot was made of the fact that what was going
21 to be excess, was going to be sold at a profit, into the
22 northern States market.

23 MR. VINCE WARDEN: No question.

24 MR. ROBERT MAYER: Thank you.

25

1 CONTINUED BY MS. TAMARA McCAFFREY:

2 MS. TAMARA McCAFFREY: All right. Now, I
3 appreciate your point about the revenues from exports being
4 markedly different than you'd forecast, and I don't think
5 there's any dispute about that at all.

6 I guess my -- my simple point though was the
7 market itself though, that you haven't seen big changes in
8 the market itself since 2002 to 2004. And I'm not talking
9 specifically about Hydro's ability to participate in it.

10 We're not talking about the changes, the
11 magnitude of changes that you saw in the early '90s; does
12 that make it easier to answer that question?

13 MR. VINCE WARDEN: That's fair.

14 MS. TAMARA McCAFFREY: Now, in 2002, one (1)
15 of the changes that Hydro proposed was to allocate export
16 costs on the basis of total allocated costs, which is meaning
17 equally as an offset to all generation, transmission and
18 distribution costs. Of course you recall that, Mr. Wiens?

19 MR. ROBIN WIENS: Yes, almost as well as I
20 recall April the 1st, 1992.

21 MS. TAMARA McCAFFREY: So, you probably recall
22 the Board's response to that, they didn't accept that in
23 their Order of 07/03, and one (1) of the basis for that was
24 essentially, if I can paraphrase, the reference is page 97 if
25 you need it, you can check it:

1 "That the Board has heard no new evidence
2 at the current Hearing, to justify a
3 departure from the principles of cost
4 allocation, previously adopted for
5 allocating net revenues."

6 Not really what you wanted to hear, but that
7 was the Board's response in any event, as a result of that
8 Hearing; is that fair to say, sir?

9 MR. ROBIN WIENS: That was a response,
10 although I would say that the Board did in fact hear new
11 evidence and I'm assuming from the response, that they
12 weren't convinced by it.

13 MS. TAMARA MCCAFFREY: Fair enough. Then the
14 Review in Variance Application was brought and Hydro came to
15 the Board and asked the Board to permit them to further
16 explore options for allocation of net export revenues and to
17 present the options for the Board for consideration. And --
18 and that was accepted; is that right, sir?

19 MR. ROBIN WIENS: I'm not sure what you mean
20 by, that was accepted.

21 MS. TAMARA MCCAFFREY: Oh, in -- in terms of
22 there -- from there Hydro said, sure go and study it further
23 and -- and now we have the, I think, the NERA Report is the
24 -- what became of that; is that right?

25 MR. ROBIN WIENS: Okay, you're meaning that

1 the Board accepted Hydro's request to prepare some further
2 report?

3 MS. TAMARA MCCAFFREY: That's right.

4 MR. ROBIN WIENS: Yes.

5 MS. TAMARA MCCAFFREY: Of course though, when
6 they accepted that, that request, they also made the point
7 that they continue to believe the principles of cost
8 causation are still important considerations in a Cost of
9 Service Study.

10 You know that, that's where the Board has been
11 coming from?

12 MR. ROBIN WIENS: Well, I, you know, I think
13 can assume that. I don't recall the specific passage but I
14 -- yes, I think I can assume that.

15 MS. TAMARA MCCAFFREY: We're going to talk
16 about NERA of course. But just -- right of the bat and I
17 know this on the record but just to -- as a nice introduction
18 to it.

19 What's being proposed in NERA, you've said, is
20 -- is not being actually relied on Hydro in this General Rate
21 Application. It's out there where -- they were going to have
22 some discussion. We've been discussing it certainly. But
23 it's not something that Hydro's based their Application on
24 with their current Cost of Service Study, correct?

25 MR. ROBIN WIENS: We did not file this

1 Application prior to filing the NERA Report. And, in fact,
2 we did not prepare this Application in the expectation of
3 incorporating any of the NERA recommendations and we have not
4 incorporated them.

5 However, we did file the report on April the
6 1st. I believe there was some exchange of correspondence as
7 to whether or not it might be considered. And I believe the
8 final ruling by this Board was that, yes, it was a topic for
9 conversation, for discussion at this -- at this Hearing.

10 I cannot divine any further what the intent of
11 the Board might have been with respect to the significance of
12 the -- of those recommendations and -- and what role they may
13 have to play in the outcome of these proceedings. But the
14 Application was not prepared on the basis of them.

15 MS. TAMARA MCCAFFREY: And the rates
16 increases being sought and the cost of service study being
17 relied upon in your Application again, don't incorporate NERA
18 for the reasons that you've stated?

19 MR. ROBIN WIENS: That is correct.

20

21 (BRIEF PAUSE)

22

23 MS. TAMARA MCCAFFREY: Just a -- I'm going to
24 talk about NERA. I just want to have a point about cost
25 causation before we go there.

1 When we talk about cost causation in the
2 context of a cost of service study. I say the key argument
3 that was made, certainly by MIPUG, in 2002 and -- and others
4 and I believe accepted by the Board, is -- is that the Cost
5 of Service Study should continue to allocate expert revenues
6 on the basis of gen -- generation and transmission; is -- is
7 that right?

8 MR. ROBIN WIENS: Order 703.

9 MS. TAMARA MCCAFFREY: Order 703. And the
10 reason for that is because these are the components that give
11 rise to the export. These are the -- the components of the
12 system that give rise to that export power, not the
13 distribution system?

14 MR. ROBIN WIENS: Technically that is
15 correct.

16

17 (BRIEF PAUSE)

18

19 MS. TAMARA MCCAFFREY: And in -- in terms of
20 Order 703, and it -- well, hang on -- just a moment.

21 When you look at NERA there's some -- a whole
22 bunch of different approaches that NERA took and we're going
23 to be discussing them in a little bit more detail shortly.

24 But you'd agree that they looked at a wide
25 range of possible approaches to cost of service; is that fair

1 to say?

2 MR. ROBIN WIENS: It's a matter of judgment
3 over what is why. But they looked -- they looked at -- they
4 looked at a number of alternatives.

5 MS. TAMARA MCCAFFREY: Okay, fair enough.

6 And those alternatives are out there but
7 there's a lot of data and underlining analysis and
8 information that isn't part of the NERA Study, or any of the
9 approaches at -- at this early stage; is that -- is that fair
10 to say?

11 Still in the -- it's still fairly
12 preliminary --

13 MR. ROBIN WIENS: But you're referring to a
14 range of data, and -- and information that is not available,
15 and I need -- I think I need to get a little bit closer to
16 what you intended to mean by that, in order to respond to
17 your question.

18 MS. TAMARA MCCAFFREY: Sure, I hate it when my
19 witnesses ask me questions. But my point is that NERA isn't
20 providing a -- you know, complete Cost of Service analysis
21 for all these different approaches, this -- these aren't --
22 not one (1) of these approaches at this point is the type of
23 thing that's here, it's a fete de compli; we have everything
24 we need now, to make an assessment of Cost of Service
25 analysis.

1 There'd be some more work -- Hydro may take
2 some of these approaches, you may decide to adopt them, maybe
3 you'll decide to adopt one (1) of them in particular, but
4 when you do that, then there'll be more work that you'll have
5 to do to provide the foundation for the results, that's --
6 that's basically what I'm trying to say.

7 MR. ROBIN WIENS: Well, let me start at the
8 beginning, if I was asking you -- if I appear to be asking
9 you a question, I wasn't. I was stating my need to be able
10 to answer yours.

11 NERA looked at alternatives, and I think you
12 can infer this from the study, they looked at alternatives in
13 utilities throughout North America, which obviously you
14 cannot match Manitoba Hydro on every category, but we tried
15 to find utilities that at least had some similarity,
16 particularly along three (3) dimensions, although we didn't
17 -- we weren't successful on every dimension, in terms of the
18 -- the sample we picked.

19 But we like to get utilities that had
20 significant Hydro power, and we like to get utilities that
21 had significant off system sales. And we wanted to look at
22 some Crown Corporations.

23 So, that's how we selected the sample. And we
24 did or NERA did undertake a survey of approximately ten (10)
25 of these comparison utilities, and I believe that we filed

1 the information that they were able to gain, and over a
2 relatively short period of time by contacting employees of
3 those -- of those ten (10) different utilities.

4 And they recommended a number of different
5 approaches that we could review. Now we -- did we com --
6 prepare a complete Cost of Service Study on each of those
7 approaches?

8 No. But I think the staff here that worked
9 very closely with NERA in terms of evaluating the impact of
10 those assessments, prepared -- looking at the base that we
11 had at that time for the 2003/2004 prospective Cost of
12 Service Study, and using that financial and load data that
13 was incorporated into that study, reviewed I think, correct
14 me if I'm wrong, over seventy (70) different scenarios and
15 prepared results and compared results on the basis of seventy
16 (70) of those scenarios.

17 Did we present complete Cost of Service
18 documents on each of those? No. We --

19 MS. TAMARA McCAFFREY: And --

20 MR. ROBIN WIENS: -- there was information
21 included in -- in the report, that allowed a -- at least a
22 visual review of the affect of many of those scenarios.

23 MS. TAMARA McCAFFREY: Absolutely and -- and
24 you -- you may be misunderstanding where I'm going with it.
25 My point is that, no, you didn't -- obviously even the

1 supporting documentation isn't -- isn't here today, that's --
2 that's all -- that's all we're saying with respect to the
3 data here.

4 MR. ROBIN WIENS: Supporting documentation
5 meaning what, the research notes of the -- of the consultant,
6 in terms of their contract with the other utilities, or --
7 or --

8 MS. TAMARA McCAFFREY: Well, the -- the --

9 MR. ROBIN WIENS: -- or the files that we
10 prepared at Manitoba Hydro?

11 MS. TAMARA McCAFFREY: Sure, files you
12 prepared at Manitoba Hydro, the underlying data. You --
13 you've indicated it was a fairly short period of time, NERA
14 had to gather data from, you know, these different sources
15 and look at all these different scenarios.

16 I don't really want to get bogged down. I
17 don't think it -- it's actually not that material a point, so
18 I don't want you to misunderstand me. All I'm just saying is
19 the type of data and -- that you provide, when you make a
20 General Rate Application, in support of your Cost of Service
21 Study '04, okay, that type of data is not present for -- for
22 these different approaches that -- that NERA reviewed.

23 What -- what we have here is the summaries and
24 the NERA Report, which as you say, allows sort of a visual
25 review, different directions, different approaches to take.

1 Is that fair to say?

2 MR. ROBIN WIENS: I guess after this
3 conversation, yeah, we -- we can agree on that.

4 MS. TAMARA McCAFFREY: Sure.

5 MR. ROBERT MAYER: Mr. Wiens, I take it for
6 the record that when you said one (1) of the three (3)
7 elements you wanted in these comparison companies, was you
8 wanted to look at Crown Corporations. Is that fair to say,
9 that what you really meant was public utilities -- publicly
10 owned utilities, Crown Corporations being restricted to those
11 countries that are -- that have a head of state who is a
12 Monarch?

13 MR. ROBIN WIENS: That -- that -- that --
14 that is a fair -- that is a fair statement, Mr. Mayer, and we
15 did look at -- in Canada we looked at BC Hydro and Hydro
16 Quebec. I think we looked at Ontario Hydro. Basically
17 looked at the practices in the days when Ontario Hydro was a
18 Crown Corporation.

19 So, Crown Corporations were fairly weighty.
20 But we also looked at Bonneville and TBA in the United States
21 which were publicly owned.

22

23 CONTINUED BY MS. TAMARA McCAFFREY:

24 MS. TAMARA McCAFFREY: Thank you for that,
25 Mr. Wiens. Now, in terms of one of the things that NERA did,

1 of course, was that they looked at the creation of an export
2 class and you indicated yesterday that there was an appetite
3 to look at that further in the 2002 Status Update Hearing
4 and, in fact, the Board directed that you go and -- and study
5 that issue and from that we get some of the stuff that NERA
6 has done; is that right?

7 MR. ROBIN WIENS: Yes.

8 MS. TAMARA MCCAFFREY: When the Board
9 directed you to look at an export class, the Board also gave
10 a few examples of -- of the types of refinements that -- that
11 they'd like to see in terms of Hydro's Cost of Service
12 approach once they looked at this issue.

13 And I'm just going to just put a couple to
14 you. I'm not going to quote verbatim from Order 7/'03 but
15 you can tell me whether you agree with me that -- that this
16 was your understanding from that Order.

17 First of all, one of the guidelines or
18 suggestions was that it would be necessary to assign a fair
19 share of fixed costs against exports and that would be in
20 addition to the -- to the variable costs that are netted
21 against exports; is that --

22 MR. ROBIN WIENS: You know, without having
23 the Order in front of me, I -- I hesitate a little bit
24 because I worry a little bit -- always worry a little bit
25 about context but I think that's true.

1 MS. TAMARA MCCAFFREY: And I -- and I don't
2 want -- my intention's not to take anything out of context
3 but just to put a few of the guidelines and then we're going
4 to go and look at NERA.

5 And you're certainly welcome to, if you want
6 to clarify anything that I'm putting to you, as you've been
7 doing throughout the morning, you know, please feel free.

8 The Board suggested that one way to assign a
9 fair share of the fixed costs against the exports might be
10 to, in fact, develop an export class; is that -- is that fair
11 to say? That -- that would be, sort of, one of the
12 rationales that they stated or seemed to indicate that they
13 were interested in an export class. Is --

14 MR. ROBIN WIENS: I don't recall if the Board
15 said that but that's certainly one way to look at -- to look
16 at assignment of fixed costs to export sales, yeah.

17 MS. TAMARA MCCAFFREY: All right. And, of
18 course, we've already talked about the importance or the
19 continuing relevance of the principles of cost causation as
20 well when we look at different approaches to cost of service;
21 is that -- you agree with that?

22 MR. ROBIN WIENS: As a general principle, I
23 agree with that.

24 MS. TAMARA MCCAFFREY: All right. Now, we'll
25 have a chance to go through NERA.

1 MR. ROBERT MAYER: Would somebody refresh my
2 memory and tell me where I'm going to find NERA?

3 MR. ROBIN WIENS: It wasn't filed as part of
4 the Application, Mr. Mayer. So, it was filed subsequent to
5 the Application and it wasn't filed in one of the IR binders.
6 It was a separate -- it was a separate filing.

7 MR. BOB PETERS: I'll check, Mr. Mayer. It
8 might be Exhibit 11, small roman numeral (I) is my memory,
9 where I think it is. But we'll -- we'll verify that.

10

11

(BRIEF PAUSE)

12

13

14 MS. TAMARA MCCAFFREY: I wonder if it's
15 helpful, Mr. Mayer, just to advise for the purpose of my
16 cross-examination you may not -- I appreciate you may want to
17 look at it but you may not need it because the evidence --
18 all the tables that MIPUG-9 does is summarize the results of
19 -- of NERA but it's giving you actual -- the references that
20 are part of the IR responses.

20

MR. ROBERT MAYER: I have it now.

21

MS. TAMARA MCCAFFREY: Okay.

22

MR. ROBERT MAYER: Thank you.

23

24

(BRIEF PAUSE)

25

1 MS. TAMARA McCAFFREY: Are the Members of the
2 Board ready, and I can proceed?

3 THE CHAIRPERSON: Please, we're all set.

4 MS. TAMARA McCAFFREY: All right.

5

6

(BRIEF PAUSE)

7

8 CONTINUED BY MS. TAMARA McCAFFREY:

9 MS. TAMARA McCAFFREY: Now, the -- the summary
10 that we've provided of -- of the NERA and the different
11 approaches, demonstrate -- well, different things, different
12 ratio cost coverage at the end of the day, revenue cost
13 coverages before exports, after exports.

14 And they look at two (2) -- page 1 looks at
15 doing that, by allocating the exports consistent with the
16 current practice against generation and transmission. And
17 the second page looks at allocating the exports on the basis
18 of generation, transmission and distribution, which Hydro
19 refers to as based on the total allocated costs.

20 Now, the NERA approaches don't -- they change
21 how costs are measured, but they don't actually look at rate
22 changes, the revenue is consistent in each of these analysis;
23 is that right?

24 MR. CHIC THOMAS: That's correct.

25 MS. TAMARA McCAFFREY: And now the references

1 again, are in the far right column with respect to these
2 various figures that we're relying here and trying to
3 summarize.

4 So, let's go through this and -- and see what
5 we can discern.

6 THE CHAIRPERSON: Just as we get in -- into
7 it, if you don't mind, I think when we closed off last night,
8 Ms. Ramage, you were going to have a look at this to see
9 whether or not you were fine with these references, et
10 cetera.

11 MS. TAMARA McCAFFREY: Oh, that's right, was
12 there any objection to having this marked as MIPUG Exhibit 9,
13 Ms. Ramage?

14 MS. PATTI RAMAGE: I have to say, Mr. Wiens
15 advises that MIPUG is much better than Mr. Williams at
16 transcribing numbers, and there is no --

17 MR. ROBIN WIENS: In this case only.

18 THE CHAIRPERSON: So it is MIPUG-9.

19 MS. TAMARA McCAFFREY: Thank you.

20

21

(BRIEF PAUSE)

22

23 MR. ROBERT MAYER: Give it to Mr. Harper and
24 see if he can find the mistake, eh?

25

1 CONTINUED BY MS. TAMARA McCAFFREY:

2 MS. TAMARA McCAFFREY: All right, let's look
3 at page 1 first. And just sort of as an overview then, in
4 every scenario on this first page, using the current practice
5 of allocation, every class has lower costs, because there's
6 costs that are being allocated to -- to an export class; is
7 that -- is that right. The class revenue stays the same, but
8 the costs are lower?

9 MR. CHIC THOMAS: That's fair, yes, because
10 there's a portion of those fixed costs that are now
11 attributable to export sales.

12 MS. TAMARA McCAFFREY: All right. And the
13 total costs are in the first column, and the class revenue is
14 in the second column.

15 Looking then at columns 3 and 4, we see there
16 are no export revenues taken into account, and again, we're
17 looking at column 4, and there are those familiar -- now
18 familiar costs -- revenue cost coverage ratios that we saw in
19 Exhibit 39, that are the pre-export allocation RCCs; is that
20 right, Mr. Thomas?

21 MR. CHIC THOMAS: So far so good.

22 MR. ROBIN WIENS: And just following up, in
23 the same spirit as one (1) of your earlier questions, they
24 are considerably higher than in Exhibit 39, and for the same
25 reason that the first column is low.

1 MS. TAMARA McCAFFREY: Thank you for that, Mr.
2 Wiens.

3 The fifth column then, we have the exports are
4 allocated back using the current approach of allocating them
5 in accordance to what's generation and transmission; is that
6 fair?

7 MR. CHIC THOMAS: That's correct.

8 MS. TAMARA McCAFFREY: The sixth column then,
9 we have the total revenue, which is the sum of all classes
10 revenue, plus the net export revenue. And here we're talking
11 about net export revenue, meaning that it's the export
12 revenue, less the variable costs and the fixed asset costs;
13 is that right?

14 MR. CHIC THOMAS: A portion thereof, yes.

15 MR. ROBIN WIENS: Technically we haven't done
16 any pre-allocation of variable costs. We have simply taken
17 all of the generation and transmission costs together,
18 including that extra 101 million that we didn't see in the
19 Cost of Service Study, and we have allocated all of them on
20 the same basis to the export class as to the domestic
21 classes.

22 MR. ROBERT MAYER: Can somebody tell me what
23 this column about contribution to reserves which appears
24 twice on this MIPUG exhibit and I don't seem to see that
25 anywhere else?

1 MR. ROBIN WIENS: Mr. Vice Chair, this is --
2 this appears to be a holdover from an earlier day. We have,
3 for many years now, in the review of cost of service studies
4 here, looked basically at the -- at the end number, the
5 revenue cost coverage.

6 This expresses it in a different way in -- in
7 that it says does -- do the recoveries from this class before
8 export revenues or, in the other case, after export revenues
9 add to or subtract from the Corporation's reserves? We -- we
10 -- we haven't been -- I don't even -- do we include that
11 in --

12 MR. ROBERT MAYER: I just had not seen that
13 before.

14 MR. ROBIN WIENS: Yeah. It's -- we -- we
15 used to provide that type of information but we don't -- we
16 haven't been doing that for a number of years.

17
18 CONTINUED BY MS. TAMARA MCCAFFREY:

19 MS. TAMARA MCCAFFREY: Just following up on
20 -- on Mr. Mayer's question to you and your response, that --
21 that would be one of the examples of how you treat that 100
22 million variable, that would be, sort of, one of the examples
23 of the detail -- the devil's in the details in terms of the
24 type of debate or refinement for any of these types of
25 approaches; that would just be one example of that, different

1 ways you can do that -- treat that?

2 MR. ROBIN WIENS: Well, once we make a
3 decision that we're going to have an export class and then
4 following that and we're going to treat them the same as the
5 domestic classes, we don't take variable costs out when we --
6 when we look at the domestic classes.

7 So, when we do not have a separate export
8 class, when we are determining net export revenues we have --
9 we have taken that step of taking the variable costs out
10 because those you could attribute, with near certainty, to
11 exports.

12 MR. LEN EVANS: Excuse me, just as a matter
13 of further information, this MIPUG Exhibit 9, there's no
14 reference to year or years. I was just wondering what period
15 of time are we talking about?

16 MS. TAMARA MCCAFFREY: Was there a question
17 being addressed to me? I'm sorry, Mr. Evans, Mr. Bowman and
18 I were just having a quick consultation.

19 MR. LEN EVANS: You're Exhibit 9, NERA
20 Results, Exports Allocated Equally to All Energy Demand; what
21 time period are we talking about, what year or years?

22 MS. TAMARA MCCAFFREY: Well, this -- this is
23 from the March 31st, 2004 Effective Cost of Service cov --

24 MR. LEN EVANS: Yeah, I was surprised there's
25 no reference to -- to a date or years.

1 MS. TAMARA MCCAFFREY: All right. Thank you,
2 Mr. Evans, I'm sorry about the confusion. I -- I need a
3 moment though if I -- if I could please?

4
5 (BRIEF PAUSE)

6
7 MS. TAMARA MCCAFFREY: If I might be able to
8 clarify one point, the Contributions to Reserves column that
9 Mr. Mayer was asking about, column 7, I believe it is --
10 there are two (2), seven (7) and three (3), thank you.
11 There's also that contribution to reserves information
12 provided in Manitoba Hydro's Revenue Cost Coverage March
13 31st, 2004 summary, page 528 from the MIPUG response
14 MIPUG/MH-II-16. MIPUG -- I should have probably told you
15 that first, MIPUG/MH-II-16 which is one of the references on
16 the far right column of the table.

17 And then if you -- if you go to that you'll
18 see that Manitoba Hydro's provided a table summarizing on
19 page 5 of 28. So, the point being is that this table is
20 essentially transcribing information from that document with
21 respect to contributions to reserve.

22 MR. ROBERT MAYER: Ms. McCaffrey, I wasn't
23 questioning that, I just wanted -- I hadn't seen that column
24 before and I was just wondering what it meant.

25 MS. TAMARA MCCAFFREY: Thank you for that, I

1 just -- I just wanted to make sure, when we're dealing with
2 tables with so much volume of material, I just want to make
3 sure everything's as clear as -- as it possibly can be, Mr.
4 Mayer.

5

6 CONTINUED BY MS. TAMARA McCAFFREY:

7 MS. TAMARA McCAFFREY: Now, in terms of the
8 columns 7 and 8 then, just to sort of provide this basic
9 overview, and I'm only going to do this with page 1, because
10 the columns are essentially set up the same on page 2.

11 But, there we -- there's a calculation of the
12 revenue cost coverage ratio, with seven (7) being
13 contribution to reserves and then column 8 being the revenue
14 cost coverage, at the current rates.

15 And again, we see in column 8, 90.6 percent,
16 revenue cost coverage for the residential, and -- and again,
17 we know now that's from the current Cost of Service Study,
18 and we see that at lines 1, lines 8 and lines 15. That's
19 using the current Public Utility Board method for each of the
20 residential GS small and GS large classes; correct, Mr.
21 Thomas?

22 MR. CHIC THOMAS: That's correct.

23 MS. TAMARA McCAFFREY: Now, the GS large class
24 includes sub-classes though, and those aren't reflected --
25 they're not reflected here on this table, in the NERA Report,

1 is that fair to say?

2 MR. CHIC THOMAS: That's fair.

3 MS. TAMARA McCAFFREY: And we see at line 15,
4 that the revenue cost coverage under the current Public
5 Utility Board method, is a hundred and nine point six (109.6)
6 for the GS large customers, which again comes from the Cost
7 of Service Study; is that right, Mr. Thomas?

8 MR. CHIC THOMAS: That's right.

9 MS. TAMARA McCAFFREY: But if we were to look
10 at the SEV (phonetic) classes, we know also that the
11 industrial class are at about a 114 percent, and we saw that
12 in Exhibit 39, I think?

13 MR. CHIC THOMAS: Yes.

14 MS. TAMARA McCAFFREY: So, even as a class
15 average then, like when we do not break it down into the
16 sub-classes of GS large, the GS large shows that this class
17 is still at the higher end of the revenue cost coverage zone;
18 is that right?

19 MR. CHIC THOMAS: That'd be a fair
20 characterization, yes.

21 MS. TAMARA McCAFFREY: Now, if we look at
22 column 4, what that shows us is that once an export class is
23 created, the revenue cost coverage is now considerably closer
24 to one hundred (100), than what we saw in Exhibit 39; is that
25 fair to say?

1 completely independent of rates?

2 MR. CHIC THOMAS: Domestic rates, yes, that's
3 correct.

4 MS. TAMARA McCAFFREY: And in fact, when we
5 look at all the different scenarios run, whether you consider
6 it wide ranging or here we're looking at six (6) different
7 complete approaches in any event, none of them change the
8 fact that the GS large is still above the zone of
9 reasonableness.

10 And we know that the industrials within the
11 sub-class within that, their revenue cost coverage ratio is
12 again, still likely to remain higher than -- than even those
13 reported here.

14 MR. CHIC THOMAS: I think that's fair, yes.

15 MS. TAMARA McCAFFREY: Now, let's look at
16 page 2, if we could, of MIPUG-9.

17

18 (BRIEF PAUSE)

19

20 MS. TAMARA McCAFFREY: Now, we all know now
21 that this looks at the approaches that NERA took that do a
22 different allocation in the Cost of Service in terms of
23 export revenue, then the current and past practice.

24 That's allocating according to, not only
25 generation and transmission, but also distribution based on

1 this term -- the total allocated costs of the whole system;
2 is that correct, sir?

3 MR. CHIC THOMAS: That's right.

4 MS. TAMARA MCCAFFREY: Now, there -- here
5 we're looking at three (3) essentially different cases. But
6 rows three (3), with respect to residential, seven (7) with
7 respect to GS small, and eleven (11) under GS large, are the
8 ones that NERA recommended: those are the approaches that
9 NERA recommended; is that right, sir?

10 MR. CHIC THOMAS: I'm sorry, Ms. McCaffrey, I
11 was figuring out columns. Could you repeat that.

12 MS. TAMARA MCCAFFREY: I'd be delighted to.
13 Here we -- we looked at three (3) different
14 cases. Or NERA's looked at three (3) different cases. But
15 at the rows three (3) and the residential class, seven (7)
16 and the GS small and eleven (11) in the GS large, that is
17 looking generation as marginal costs: that's the approach
18 that NERA recommended; is that right?

19 MR. CHIC THOMAS: That's one (1) of the
20 approaches or recommendations of the NERA report, yes.

21 MS. TAMARA MCCAFFREY: Now, again, even when
22 we look at that approach and -- and in fact let's -- even
23 broader than that, when we look at any of these approaches.
24 And let's look at GS large, in particular.

25 Each case still shows this class being above

1 100 percent and in fact the lowest revenue cost coverage was
2 the 103.5 percent which is the NERA, what I termed, as the
3 NERA recommended approach; the generation as marginal cost.
4 That's on line eleven (11). And I'm looking at the final
5 column there. Is that right, sir?

6 MR. CHIC THOMAS: I have some hesitation when
7 you say, NERA recommended because there was a lot more
8 recommendations other than just the marginal costs but
9 according to your table, yes, that's a fair characterization.

10 MS. TAMARA MCCAFFREY: You know what? And --
11 and if I misstating that, then I'll -- I'll stop using that
12 term. That was our understanding from -- from reviewing the
13 evidence. That's one (1) of the favoured approaches.

14 But that's fine. If I'm misstating that then
15 I appreciate you for -- I appreciate you illuminating that
16 for me. Excuse me.

17 Mr. Bowman's just helpfully giving me a
18 reference for where that interpretation comes from and that
19 is TREE/RCM/MH-2-13 Response where you were asked to provide
20 a revised Cost of Service that incorporates the preferred
21 alternatives recommended in that report. And your answer
22 was, that below with the revenue cost coverage schedule
23 incorporating the NERA recommendations.

24 So he's just giving you some context for where
25 -- where that term is coming from.

1 MR. CHIC THOMAS: I stand corrected.

2 MS. TAMARA MCCAFFREY: Now, at the bottom of
3 -- of MIPUG-9 on page 2, we have the -- the TREE/RCM/MH-2-13
4 Response that elaborates on the NERA recommended approach; if
5 I can read the heading there.

6 And you see there that, that breaks the
7 results down into the different sub-classes. You see that
8 Mr. Thomas?

9 MR. CHIC THOMAS: I do.

10 MS. TAMARA MCCAFFREY: And the industrial
11 subclasses at lines 19 and 20; we have revenue cost coverage,
12 even with this expert allocation on the basis of total
13 allocated costs, we see that the industrial subclasses are at
14 106.8 percent and 107.9 percent, which again is still above
15 the zone of reasonableness, correct, Mr. Thomas?

16 MR. CHIC THOMAS: According to these results,
17 yes.

18 MS. TAMARA MCCAFFREY: So, my key point then,
19 in summation, is that of all of NERA's cases that are run,
20 even the case that most impacts the GS large revenue cost
21 coverage, that is, i.e., the approach at -- at line 11,
22 industrials are still above the zone of reasonableness and
23 these results are absent in any rate increase; would you
24 agree with that conclusion, sir?

25 MR. CHIC THOMAS: Yes.

1 (BRIEF PAUSE)

2
3 MS. TAMARA McCAFFREY: So, I take it then that
4 -- that rates for this class of customers, I take it, would
5 increase, if they were to increase, below the average overall
6 rate increases over time, Mr. Wiens?

7 MR. ROBIN WIENS: And that's what's included
8 in our Application.

9 MS. TAMARA McCAFFREY: Now, I just want to
10 have a brief chat about price signals, because this is an
11 issue that has been raised by Hydro. There seems to be a
12 concern there, Mr. Wiens, that the prices currently are not
13 sending the right price signals, particularly to the
14 industrials. Am I correct in understanding your concern
15 there, sir?

16 MR. ROBIN WIENS: Well, that -- that concern
17 is rooted in the relationship of, as -- as Mr. Evans has
18 talked about, marginal revenue to marginal cost. And
19 particularly, as I've also indicated earlier, that in many
20 situations and many months of the year, we're looking at a
21 short run marginal cost, which is higher than the marginal
22 revenue. And my recollection from rate design 101, is that
23 you at least want to have the rates equal to the short term
24 marginal cost.

25 MS. TAMARA McCAFFREY: Now, I never did take

1 that -- that course, as you can probably discern, fortunately
2 I have a lot of help here. But why don't you just put on the
3 record what short run marginal costs are?

4 MR. ROBIN WIENS: Well, I -- I think I did
5 that yesterday, we had some discussion about it, and I said I
6 believe that the prices that we provide to the surplus energy
7 customers are reasonably indicative of short run marginal
8 costs.

9 I mean, in a pure technical sense, it's that
10 kilowatt hour in this second, and one (1) -- one (1) kilowatt
11 hour more or less is going to result, in terms of the -- the
12 impact on the utility.

13 We -- we try to measure that over broader
14 intervals, so that we can have not only more measurability,
15 but a little bit more stability.

16 So, short run marginal costs is -- you know,
17 the value of -- the value of generation sold this week in the
18 export market, or the cost of the imports that Manitoba Hydro
19 has to make in order to serve its load, and under those
20 conditions, or if thermal is on the margin, the cost of
21 burning the fuel, and the associated variable costs.

22 MS. TAMARA McCAFFREY: And we know that
23 marginal costs is the -- marginal costs or marginal usage is
24 the -- is the component that I don't know if optional is the
25 right word, but it's -- it's sort of extra, outside of the

1 core.

2 And if we talk about marginal costs for the
3 usage of power, that would be the component of power usage
4 that's most subject to management or conservation by the
5 consumer; is that right?

6 MR. ROBIN WIENS: I'm not sure I would
7 characterize it that way, it is -- it is simply stated, you
8 know, the -- what the increment or decrement of the next
9 kilowatt hour or the reverse of taking a kilowatt hour off,
10 what impact that has on the cost of the utility, that's
11 really what it is.

12 You know, and to be -- to be fair, short term
13 -- short term conservation, if it is -- if it occurs, if I
14 make a decision today, not a permanent decision, but a
15 decision today that I will -- I will keep the lights out in
16 my house, but not tomorrow, the short run marginal cost is
17 the measure of the cost that the utility is able to avoid, by
18 my doing that.

19 If I make a decision for all time to keep the
20 lights out in my house, we're looking at a longer term
21 marginal cost as being the consequence of that.

22 MS. TAMARA McCAFFREY: I appreciate that, that
23 does -- that is helpful for me, Mr. Wiens.

24 Now, with respect to the improving price
25 signals, you'd agree with me that the NERA -- NERA's not

1 dealing with that in their Cost of Service approaches,
2 they're not dealing with -- with pricing; is that something
3 that -- that you deal with in terms of rate design? Is that
4 right, sir?

5 MR. ROBIN WIENS: Well, technically, no,
6 they're not. But, as we know, the end result of all of this
7 activity is going to have something to do with price signals.
8 But technically, no, they're dealing with cost
9 allocations.

10 MS. TAMARA McCAFFREY: And price signals are
11 -- are the problems of rate design?

12 MR. ROBIN WIENS: Rate design or markets.

13

14 (BRIEF PAUSE)

15

16 MR. ROBERT MAYER: Mr. Wiens, accepting the
17 export market, it appears to me that price signals appear to
18 be more of a concern to -- to TREE than to Hydro; am I
19 correct in that?

20 MR. ROBIN WIENS: No, I -- I don't think
21 that's true, sir. I think -- I think price signals are a
22 concern to Hydro and as much of a concern to Hydro as -- as
23 to TREE. It does appear that that is the main concern of
24 TREE whereas Hydro has to have a number of other concerns.

25 MS. TAMARA McCAFFREY: Thank you. I'm almost

1 finished. I think everyone will be excited about that. I
2 know I will be. But, I do just -- I don't need another break
3 but if I might just have a minute. I just want to review
4 things one more time.

5 THE CHAIRPERSON: Given that you're almost
6 finished, we'll have a five (5) minute break.

7 MS. TAMARA MCCAFFREY: Thank you.

8 THE CHAIRPERSON: Apparently, a popular one.

9

10 --- Upon recessing at 11:16 a.m.

11 --- Upon resuming at 11:35 a.m.

12

13 THE CHAIRPERSON: Ms. McCaffrey, are you
14 ready to begin again?

15 MS. TAMARA MCCAFFREY: Yes, I am, Mr. Chair.

16 THE CHAIRPERSON: Please proceed.

17 MS. TAMARA MCCAFFREY: Thank you.

18 CONTINUED BY MS. TAMARA MCCAFFREY:

19 MS. TAMARA MCCAFFREY: I'm going to conclude
20 with rate design; just a couple of questions on rate design.
21 And just before I get there, if you can just bear with me,
22 there is a point that I do want to make about uniform rates.

23 I just think it's relevant in terms of some of
24 the cross-examination we heard from Mr. Williams yesterday.
25 Mr. Wiens, uniform rates are not inconsistent with other

1 provinces; many -- many other provinces have basically
2 uniform rates. I'm going to give you some examples, British
3 Columbia, Newfoundland and then the Yukon; is that right?

4 MR. ROBIN WIENS: I think today most Canadian
5 provinces have uniform rates. There are still some
6 exceptions.

7 MS. TAMARA MCCAFFREY: And I -- I just want
8 to get at the point, sir, of dealing with the difficulty that
9 Hydro may have in talking about what would have been had you
10 not implemented uniform rates and dealing with that
11 hypothetical.

12 Now, it may be, and I -- I gather from Mr.
13 William's line of questioning yesterday, it may be that had
14 uniform rates not come in you would have come to the Board
15 proposing a different rate increase for Zone 3 perhaps than
16 -- than Zones 1 and 2; is that -- is that right?

17 MR. ROBIN WIENS: We're -- we're in the realm
18 of the speculative and I would say that, yes, it's possible.

19 MS. TAMARA MCCAFFREY: And -- and my point is,
20 is that because it's possible, it gets more and more
21 difficult to say -- to answer questions such as that, that
22 was put to you by the Consumer Association of Manitoba and
23 Manitoba Society of Seniors, and in particular, their IR-I-
24 10-B, that asked you basically again, to -- to discuss or to
25 tell them what the cost of the uniform rates would be.

1 I take it because without uniform rates there
2 could have been different increases for different zones, it
3 gets more and more difficult for you to be able to speculate
4 as to what the cost of the Uniform Rate Application is, as
5 time goes on; is that right, sir?

6 MR. ROBIN WIENS: Well, I think everybody
7 here's aware, we did make an estimate of it at the time, that
8 uniform rates were implemented, and we provided a forecast
9 over a number of years about what that would be. I think
10 everybody has a pretty good idea of what that figure is.

11 And you know, to the extent that we keep
12 talking about it, those are going to be the numbers that
13 we're talking about.

14 MS. TAMARA McCAFFREY: Thank you. I'm going
15 to go to my concluding piece now, and we can have a
16 discussion about rate design.

17 Mr. Williams covered with you quite thoroughly
18 yesterday, what Manitoba Hydro's rate design objectives were.
19 Would you agree -- I won't go back over that territory again,
20 but would you agree, sir, that a number of rate design
21 objectives may compete or conflict with each other at any
22 given time? That's part of the balancing act for you?

23 MR. ROBIN WIENS: Yes.

24 MS. TAMARA McCAFFREY: Now, you indicated
25 yesterday, in response to a question from the Chairman, that

1 you couldn't say whether -- or I believe it was you or -- I
2 think it was you, Mr. Wiens, I didn't make a note I'm afraid
3 as to his response, but you couldn't say for sure whether the
4 Manitoba Hydro's Board actually approved the rate design
5 objectives that you discussed with Mr. Williams, and we
6 didn't have the benefit of Mr. Warden here then.

7 But, sir, you are aware, I take it, that
8 Manitoba Hydro does in fact approve a rate design policy,
9 which includes a component that states that no customer class
10 shall have a rate increase greater than 2 percent above the
11 overall average rate increases for all classes. Are you --
12 are you aware of that guideline?

13 MR. ROBIN WIENS: Well, that is a guideline
14 that, to the best of my knowledge, has been reviewed by the
15 Board of Manitoba Hydro, and has been accepted.

16 MS. TAMARA McCAFFREY: Sure, and -- and just
17 for reference for the record, that excerpt from the Manitoba
18 Hydro Electric Board Meeting, number six seventy-nine dash
19 ninety-five ten nineteen (679-95-10-19), which sets out that
20 principle that I've just put to Mr. Wiens, can be found at
21 CAC/MSOS-MH-I-41-)?

22 Now, that guideline is higher than what
23 Manitoba Hydro is proposing in this Rate Application,
24 correct?

25 MR. ROBIN WIENS: Yes.

1 MS. TAMARA McCAFFREY: So, this Board approved
2 policy has not constrained you thus far, that is Manitoba
3 Hydro hasn't yet tried to take rates to that limit, in terms
4 of the Rate Applications; is that right, Mr. Wiens?

5 MR. ROBIN WIENS: Not in this application.

6

7

(BRIEF PAUSE)

8

9 MS. TAMARA McCAFFREY: Now, when we look at
10 rate design, once we go through the cost allocation process,
11 that determines the costs that have to be recovered, you can
12 then design the rates any number of ways, in order to achieve
13 that objective of recovering a certain amount of revenue; is
14 that fair to say, Mr. Wiens?

15 MR. ROBIN WIENS: Well, I don't know that I
16 would say any number of ways. But there are certainly
17 alternatives.

18 MS. TAMARA McCAFFREY: Well, say for example,
19 if the costs of a certain customer class were 500 million,
20 you could probably come up with maybe ten (10) different ways
21 to recover that 5 million, if you wanted to, or a number of
22 different ways?

23 MR. ROBIN WIENS: Yeah, there -- there are
24 alternative ways you can do it, and some of the other -- some
25 of the other principles and guidelines, will help constrain

1 you to fewer and fewer, among those alternatives.

2 MS. TAMARA McCAFFREY: Now, I'm going to
3 apologize at the outset. I didn't photocopy this page for
4 you, but I'm just going to refer to page 18 of your rebuttal
5 evidence. Lawyers keep -- you know, when we keep talking
6 with the consultants that I have assisting me, and we keep
7 coming up with new -- new ideas to add, so I apologize for
8 not including that.

9 But, I'll just give you a moment to turn to it
10 and then we can have a -- a brief little discussion just to
11 wrap up.

12 You have it? All right.

13 On page 18 of Manitoba Hydro's rebuttal, lines
14 18 to 24, the paragraphs -- second last paragraphs that I'm
15 going to be talking about.

16 I'll just give you a moment just to have quick
17 glance at that. You remember? Okay.

18 You've noted in that evidence that MIPUG is
19 amenable to redevelop industrial rate designs to attempt to
20 increase the price signal on the marginal consumption. That
21 is, the part of the load that's most subject to management or
22 conservation by the customer. You -- you've noted that there
23 in your evidence, sir?

24 MR. ROBIN WIENS: What I've said is that
25 MIPUG appears to be suggesting. I -- I want to leave open

1 the possibility that I may reading more into it than was
2 intended. But it does appear that way.

3 MS. TAMARA MCCAFFREY: Okay. And -- and
4 that's fine. No one's challenging you on -- on your
5 interpretation.

6 There's been talk, a little bit, about one (1)
7 way of doing this might be rolling baselines. We -- we've
8 heard about that. Now, that would be one (1) way you might
9 do it. There, would of course, be others; is that right, Mr.
10 Wiens?

11 MR. ROBIN WIENS: There probably are more
12 than one (1) way, though I have to be up front here and say I
13 -- I haven't explored a number of different possibilities.
14 Rolling -- rolling baselines is one (1) that people seemed to
15 have -- it's -- it's a difficult area to do, design inverted
16 rates for customers that are facing both demand and energy
17 charges, the way -- where -- where it's not feasible to block
18 the rates.

19 A rolling baseline seems to be one (1) that
20 parties who have experienced this seem to find one (1) of the
21 easier ways to do.

22 MS. TAMARA MCCAFFREY: And -- and I
23 appreciate your forthrightness in your answer, that you
24 haven't really considered other -- other ways to do that.
25 But I think you'd probably agree with me, in principle, that

1 there's probably other ways to do that, that won't penalize
2 development and growth -- new development and growth in the
3 industrial sector in the same way that one (1) might argue
4 rolling baselines do, particularly in the first year or two
5 (2) of that three (3) year guideline that we head from Mr.
6 Lazar; is that right?

7 MR. ROBIN WIENS: There's other ways to
8 design rolling baselines. I -- I don't think I am prepared
9 to talk, just yet, about the extent to which they may or may
10 not penalize growth and development.

11 MS. TAMARA MCCAFFREY: Now, I take it though
12 that you will be back at some point, whether it's another
13 general rate application or perhaps even a special conference
14 set up in order to discuss maybe other ways of rate design to
15 deal with the price signals that you'd like or to deal with
16 the NERA approaches of cost of service.

17 Do you have any view at this point whether
18 you'd like to see some of those issues dealt, maybe in a
19 special hearing to deal with them, like, in terms of looking
20 NERA or some other rate design alternatives? Or whether you
21 think that you'd like to see that come back in a general rate
22 application?

23 MR. ROBIN WIENS: Right now we're -- we're
24 focused on trying to get that information assembled and not
25 on what the prospects are or the best approach is, to review

1 that information.

2 MS. TAMARA MCCAFFREY: So I -- I guess my
3 question is a bit premature at this point, is it?

4 MR. VINCE WARDEN: Yes.

5 MS. TAMARA MCCAFFREY: Nobody wants to touch
6 that one (1) but you Mr. Warden. Okay.

7 I'd like to thank the Panel for your very
8 helpful responses to my questions and your patience with me
9 as I went through some of that material. I know tables -- I
10 find tables quite difficult myself. So, that completes the
11 questions on behalf of MIPUG. Thank you, very much.

12 THE CHAIRPERSON: Thank you, Ms. McCaffrey.
13 Next on the agenda is Mr. Anderson for MKO.
14 Mr. Anderson, do you want to have a good -- a bit of a start
15 now? We have a bit of time before lunch.

16 MR. MICHAEL ANDERSON: Yes, Mr Chair, I -- I
17 can begin if you like. I did have some copies that I was
18 wanting to make in your copy room and distribute it if I
19 might though.

20 THE CHAIRPERSON: No problem.

21 MR. MICHAEL ANDERSON: Okay. Thank you.

22 THE CHAIRPERSON: We'll get Board staff to
23 help you. We're just...

24

25

(BRIEF PAUSE)

1 THE CHAIRPERSON: Mr. Anderson, while we're
2 getting that I'm just going to ask you a general question and
3 I don't mean to confine you at all because I'm going to ask
4 the same question of Mr. Peters.

5 Do you know approximately how long your cross-
6 examination would take?

7 MR. MICHAEL ANDERSON: It'll actually be very
8 brief, Mr. Chair, I've had an opportunity to review the
9 transcript records from what people have -- have reviewed
10 with Manitoba Hydro, and I have some matters that are of
11 particular -- particular interest to MKO.

12 THE CHAIRPERSON: Mr. Peters, turning to you
13 for a moment. Assuming then, that if we returned after the
14 break at 1:30, and assuming Mr. Anderson wasn't more than say
15 an hour, do you think you'd be able to conclude by the end of
16 today?

17 MR. BOB PETERS: I do.

18 THE CHAIRPERSON: Thank you.

19

20 (BRIEF PAUSE)

21

22 THE CHAIRPERSON: Mr. Anderson, do you need
23 the material copied first, before you begin?

24 MR. MICHAEL ANDERSON: Yeah, I -- I do, Mr.
25 Chair. I must apologize that on our original schedule

1 estimate, I had been advised that I would begin after the
2 lunch break, and so I had sort of been working toward that.

3 THE CHAIRPERSON: Well -- well, we appreciate
4 your cooperation in -- in getting a bit of a start, because
5 we've got...

6 MR. MICHAEL ANDERSON: I'll --

7 THE CHAIRPERSON: Okay, we're going to get the
8 copies and maybe at least you can --

9 MR. MICHAEL ANDERSON: Mr. Peters, will begin?

10 THE CHAIRPERSON: -- start off.

11 MR. MICHAEL ANDERSON: Thanks, I appreciate
12 that, Mr. Peters.

13 THE CHAIRPERSON: Mr. Peters, you're trying to
14 say something, and I'm interfering.

15 MR. BOB PETERS: I'm just suggesting if it
16 might be helpful that maybe I can fill in some -- some time
17 between now and the lunch break on some of the questions I
18 have, just to ensure that my commitment to Mr. Mayer is --

19 THE CHAIRPERSON: Okay. And then, Mr.
20 Anderson can start at 1:30, after the lunch break, and he'd
21 be all -- have all the material then for sure.

22 MR. MICHAEL ANDERSON: That would be
23 excellent. Thank you, Mr. Chair.

24 THE CHAIRPERSON: Okay. Mr. Peters, please
25 proceed.

1 MR. BOB PETERS: I will, and thank you, Mr.
2 Chair.

3

4 CROSS-EXAMINATION BY MR. BOB PETERS:

5 MR. BOB PETERS: Mr. Kuzcek, I believe your
6 attendance on this Panel was one (1) of the reasons that
7 questions related to load forecasting was deferred to this
8 Panel. Would you be aware of that?

9 MR. LLOYD KUZCEK: Yes.

10 MR. BOB PETERS: In terms of load forecasting,
11 there's a schedule that's marked at Tab 6 of the book of
12 documents that was prepared and circulated. Have you that
13 document, sir?

14 MR. LLOYD KUZCEK: Yes.

15 MR. BOB PETERS: Would I be correct, Mr.
16 Kuzcek, in suggesting that the load forecast is really the
17 starting point for Manitoba Hydro's planning purposes of its
18 -- how it's going to manage its assets and meet its load?

19 MR. LLOYD KUZCEK: Yes.

20 MR. BOB PETERS: Can you tell the Board what
21 steps you go through, briefly, to prepare this load forecast?

22 MR. LLOYD KUZCEK: Are you speaking in terms
23 of methodologies used?

24 MR. BOB PETERS: I think that would be helpful
25 if you could -- could give us a -- a brief review of that.

1 MR. LLOYD KUZCEK: The load forecast is
2 prepared using a number of forecasting techniques; the
3 starting point of course is last year's forecast and -- and
4 the actual sales that occurred.

5 Basically you -- you take that information and
6 you're -- you're updating your models that you use in the
7 previous years to predict what the forecast is going to be --
8 the load's going to be, going forward.

9 We use on the residential sector, what's
10 referred to as an end use model, to forecast the residential
11 market.

12 In the commercial market we use the -- what's
13 referred to as econometric model, and the industrial sector
14 is -- I should -- let me correct that. We refer to the sec -
15 - second sector that I referred to was not the commercial
16 market, it's the general service mass market that we use an
17 econometric model.

18 On the third customer class that's referred to
19 as the general service top customers, this is the nineteen
20 (19) -- this is nineteen (19) customers that use a
21 considerable amount of energy, and we use a customized
22 approach to forecasting the load for those customers.

23 And I could get into more detail about those
24 models if you'd like.

25 MR. BOB PETERS: Well, just still keeping a

1 fairly high level for understanding purposes at this point,
2 Mr. Kuzcek, when you say the residential forecast is based on
3 end use, is that simply a matter of looking at what you --
4 what was used last year and then adding on for new -- new
5 residential homes or premises?

6 MR. LLOYD KUZCEK: In -- in general that's
7 true. It's updating the -- the information of the model that
8 you have to forecast what the end use is going to be. The
9 end use model is -- is quite complicated and it consists of
10 incorporating the end use age of your -- your energy
11 consumption, appliances, the saturation rates of those
12 various end uses.

13 An example of that -- of that would be TV's;
14 how many TV's in a home. Current end use -- usage
15 information, how much your end uses are actually using per
16 unit. End use age distributions and the reason that's in
17 there is because of the different -- the energy efficiencies
18 that have been -- that take place over time with the
19 different end uses.

20 An example of that is appliances. As you --
21 as new appliances have recently been on the market they're
22 more energy efficient than older appliances. End use
23 efficiency improvements going forward is incorporated into
24 the model.

25 And our model incorporates, I think, thirty

1 (30) different end uses, approximately.

2 MR. BOB PETERS: What end use is -- is
3 driving your forecast up? What's happening on the end use
4 side that you can demonstrate to the Board is causing your
5 load forecast to increase from the residential perspective?

6 MR. LLOYD KUZCEK: Three (3) things really.
7 In the hot water area, new homes are now using electric heat
8 to -- electric energy to heat the water; that's a change from
9 the past in the gas market.

10 The -- another area is the use of big screen
11 TV's. The consumption of big screen TV's is much higher than
12 the smaller TV's. You're looking at approximately seven
13 hundred (700) gigawatt hours as opposed to in the range of
14 three hundred (300), I believe it was.

15 And the other area is computer use. With the
16 internet added to our society -- internet service added to
17 our society people are using computers much more and they're
18 leaving their computers on with internet service. And,
19 again, there I think the added consumption is about three
20 hundred (300) gigawatt hours with a computer with internet
21 service as opposed to without internet service.

22 MR. BOB PETERS: Are any of your DSM programs
23 designed at reducing the consumption from those three (3)
24 additions?

25 MR. LLOYD KUZCEK: The hot water tank market,

1 we -- our new home program has got a component in there that
2 addresses hot water tanks and thus the energy efficiency of
3 hot water tanks.

4 With computers, we haven't addressed that yet
5 and we're assessing that right now. We think that the market
6 may transform on its own with LCD monitors especially. They
7 use less than the regular monitors. In terms of the consumer
8 using more energy by leaving their computers on, there will
9 be efficiency improvements made with new technology. They --
10 computers automatically shut off. They have a power down
11 feature on them.

12 Third market, large screen TV's, we haven't
13 addressed that.

14 MR. BOB PETERS: Can you tell the Board why
15 there's an increase in the electric hot water heating units
16 being installed as opposed to gas hot water heaters?

17 MR. LLOYD KUZCEK: It's to do with cost.
18 With building an new home with high efficiency furnaces
19 there's changes to venting requirements and with older homes
20 you had a chimney and the venting was used -- the same
21 chimney was used for venting the hot water tank as the
22 furnace.

23 And so with what's being done today, as they
24 vent out the -- the air through the side and it's more cost
25 -- it's more cost effective to install electric furnace than

1 it is a gas furnace now -- electric hot water tank.

2 MR. BOB PETERS: Thank you for that. On the
3 load forecast that's at Tab 6 of the materials, I believe one
4 of your colleagues on -- on the prior Panel updated us for
5 the actual firm energy consumed domestically, year ending
6 March 31st of '04 to twenty-one thousand eight hundred and
7 ninety (21,890) gigawatt hours; is that a number that you're
8 familiar with?

9 MR. LLOYD KUZCEK: It sounds correct.

10 MR. BOB PETERS: Can you tell the Board, in
11 terms of the consumption, would it be fair to say that the --
12 the consumption is -- is relatively balanced between winter
13 and summer, for Manitoba Hydro?

14 MR. LLOYD KUZCEK: You're asking if the -- the
15 demand is balanced between summer and winter; our demand is
16 higher in the winter time than it is in the summer?

17 MR. BOB PETERS: I meant in terms of
18 recognizing it's higher in the winter, you attribute that to
19 space heat, correct?

20 MR. LLOYD KUZCEK: Correct.

21 MR. BOB PETERS: And while it's -- while it's
22 higher, it's not significantly higher. My rough numbers, I
23 thought it was about 56 percent of the energy was -- was
24 winter usage from November to April and 44 percent through
25 the summer months?

1 You don't run those calculations, Mr. Kuzcek?

2 MR. LLOYD KUZCEK: I didn't take note of that,
3 no.

4 MR. BOB PETERS: Can you tell the Board which
5 months have the great -- are the greatest export months for
6 the Corporation?

7 MR. LLOYD KUZCEK: Generally in the summer
8 time. And that's due to the higher load in our domestic
9 market. A combination of that, and of course how we manage
10 our system more.

11 MR. BOB PETERS: I'm not sure I understood
12 your answer. The -- the export months for the Corporation
13 are predominantly the summer months, because you're exporting
14 for the air conditioning load in other jurisdictions?

15 MR. LLOYD KUZCEK: Our -- the amount that we
16 export is the -- the difference between what our generation
17 capability is and our domestic load. In the summer time our
18 domestic load is less, so we'll be exporting more in the
19 summer time.

20 We will also try to capture the higher valued
21 of markets as much as we can within our system constraints,
22 and in the summer time, that's generally -- there is a higher
23 value to the short term market, than there is in the winter
24 time.

25 MR. BOB PETERS: But you also have greater

1 capacity available in -- in Manitoba in the summer, because
2 the electric consumption is down, relative to your winter
3 months?

4 MR. LLOYD KUZCEK: Yes, we have more surplus
5 power available for sale.

6 MR. BOB PETERS: And in terms of your load
7 forecasting, your measurement of -- of energy, in gigawatt
8 hours is -- is a more important measure than the total
9 capacity measured in -- in megawatts?

10 MR. LLOYD KUZCEK: That's correct.

11 MR. BOB PETERS: In your load forecast that I
12 recall reading, it seems quite a while ago now, Mr. Kuzcek,
13 but there was an assumption that you used in the load
14 forecast, and that was that natural gas was going to
15 decrease; do you recall that?

16 MR. LLOYD KUZCEK: I think the -- the
17 assumption was that the real price of natural gas in the
18 short term was going to decrease.

19 MR. BOB PETERS: I noted in -- and I haven't
20 checked this, this morning, but I have it on page 9 of your
21 load forecast at Appendix 6.1, that there was -- I think
22 that's in Volume II of your materials, you've assumed that
23 there will be a decrease in natural gas prices of
24 approximately 12 percent over the next three (3) years; is
25 that correct?

1 MR. LLOYD KUZCEK: That was our forecast at
2 that time.

3 MR. BOB PETERS: When was that forecast?

4 MR. LLOYD KUZCEK: This would have been the --
5 this -- this forecast we're talking about is the -- the
6 03'/04' forecast, so it would have been the economic -- I
7 guess it would have been our gas forecast for '03.

8 MR. BOB PETERS: And as you sit here today,
9 you can tell the Board that that assumption is not correct?

10 MR. LLOYD KUZCEK: I haven't checked that
11 personally, so I -- I believe that's not correct, but --

12 MR. BOB PETERS: Well, again, let me rephrase
13 the question. And to be fair, you had an assumption that
14 natural gas prices were going to decrease, and if my
15 reference is correct, by 12 percent over three (3) years.
16 You won't know if that was accurate until the full three (3)
17 years has expired, correct?

18 MR. LLOYD KUZCEK: That's true.

19 MR. BOB PETERS: But based on where we are
20 today, the natural gas prices have not decreased, as you had
21 assumed they would in your forecast?

22 MR. LLOYD KUZCEK: I'd have to confirm that.
23 I'm not sure where gas prices were two (2) years ago, when we
24 did this -- or a year and a half ago, when we did this
25 forecast.

1 So, to be able to answer that with certainty,
2 I would have to check.

3 MR. BOB PETERS: All right, so two (2) -- so
4 if -- when you prepared this -- when -- when did you prepare
5 the forecast? I know it was for year '03/'04 fiscal year but
6 what -- when was it prepared?

7 MR. LLOYD KUZCEK: It would be prepared -- it
8 was prepared in -- and I'm not certain of the -- it was for
9 sure May, but it's generally in May of that year.

10 MR. BOB PETERS: So, generally speaking, from
11 May of '03 until now, you had an expectation that gas costs
12 were going to decrease. Would that be fair?

13 MR. LLOYD KUZCEK: That's correct.

14 MR. BOB PETERS: And has -- has your natural
15 gas division of your company advised you as to whether or not
16 that assumed decrease has actually taken place or whether the
17 rates have increased?

18 MR. LLOYD KUZCEK: We would have had an -- an
19 update on that forecast, yes, this year.

20 MR. BOB PETERS: All right and recognizing
21 you would have an update on the forecast, have you changed
22 your domestic load forecast for '05 and '06 fiscal years
23 based on the impact of gas costs?

24 MR. LLOYD KUZCEK: We have a -- an -- a no --
25 an updated forecast, correct and it's -- it incorporates the

1 updated information.

2 MR. BOB PETERS: Is it available, similar to
3 Table 13 that was found at Tab 6 of the documents that we
4 assumed?

5 MR. LLOYD KUZCEK: Yes.

6 MR. BOB PETERS: Would you -- would you file
7 that with the Board then as an undertaking?

8 MR. LLOYD KUZCEK: Yes.

9

10 --- UNDERTAKING NO. 46: An updated load forecast

11

12 (BRIEF PAUSE)

13

14 CONTINUED BY MR. BOB PETERS:

15 MR. BOB PETERS: Mr. Kuzcek in your load
16 forecast there was also discussion about general service
17 customer's load. And if I understand the numbers, general
18 service customers would be approximately two-thirds of a
19 domestic load. Would that be correct?

20 MR. LLOYD KUZCEK: Correct.

21 MR. BOB PETERS: And therefore residential
22 customers would make up one-third of the domestic load?

23 MR. LLOYD KUZCEK: Correct.

24 MR. BOB PETERS: In your load forecasts, it
25 appeared that from 2001 to 2003 there was strong growth seen,

1 or forecast, through the general service customer load.
2 Would you agree with that?

3 MR. LLOYD KUZCEK: Yes.

4 MR. BOB PETERS: It appears also to me that
5 for fiscal 2004 and following, the general service customer
6 load levels off and it's not as strong as -- as the past few
7 years. Do you agree with that?

8 MR. LLOYD KUZCEK: I believe that's correct,
9 yes.

10 MR. BOB PETERS: Can you tell the Board to
11 what you attribute that leveling off of the general service
12 customer demand? I'm sorry, general customer load.

13 MR. LLOYD KUZCEK: A -- a significant portion
14 of that increases from the general -- general service top
15 customers. And as I mentioned earlier, we have a customized
16 approach to how we undertake our forecasts for that customer
17 segment and the -- the forecast that we have incorporates the
18 additional load of specific customers. And that information
19 we've received from those customers and it's confidential.

20 MR. BOB PETERS: And just to -- or maybe
21 restate your answer to me, in terms of the general service
22 customers, you go individually to the larger customers to
23 find out what their energy plans are and incorporate their
24 responses cumulatively into your load forecast?

25 MR. LLOYD KUZCEK: That's correct.

1 MR. BOB PETERS: And -- and your comment
2 about confidentiality is that you do not want to disclose
3 which, if any, of your customers are forecasting expansions
4 or contractions in their business?

5 MR. LLOYD KUZCEK: That's correct. I believe
6 in our load forecast we -- we provide the -- the general
7 industry sectors that are...

8 MR. BOB PETERS: Mr. Kuzcek, Document Number
9 Seven (7) in the Book of Documents that was prepared and
10 provided, is basically your report card on the accuracy of
11 your load forecast? Would you agree with that?

12 MR. LLOYD KUZCEK: That's correct.

13 MR. BOB PETERS: And this chart and graph are
14 provided to show how accurate Manitoba Hydro has been since
15 approximately 1982 in their load forecasting, correct?

16 MR. LLOYD KUZCEK: Correct.

17 MR. BOB PETERS: Would you agree with me that
18 if I interpret this graph correctly that there was a fairly
19 high degree of inaccuracy in the early years from '82 maybe
20 through to '88/'89?

21 MR. LLOYD KUZCEK: That's correct --

22 MR. BOB PETERS: And, I didn't mean to cut
23 you off.

24 MR. LLOYD KUZCEK: Oh, I was just going to
25 add that there's been significant improvements made to the

1 forecasting tech -- techniques that have been used since the
2 1970's to where we are today and that attributes -- or that
3 explains part of the -- or the majority of the reason for
4 those changes.

5 MR. BOB PETERS: All right. And what you're
6 showing the Board is you used to be -- have some inaccuracy
7 that was fairly pronounced and over time you've tried to
8 bring that closer to actual and, in fact, in 2003 it appears
9 that you under-estimated by about 6 percent what your firm
10 energy demands were going to be?

11 MR. LLOYD KUZCEK: That's correct.

12 MR. BOB PETERS: Can you tell the Board -- was
13 it a methodology change you're talking about or was it a
14 technology change?

15 MR. LLOYD KUZCEK: Methodology change. In
16 the '70's and this is well before my time in this area, they
17 used a fairly simplistic method for forecasting and I'm not
18 sure I'm exaggerating but some people talk in terms of just
19 taking the historical and using a ruler and extrapolating
20 into the future what the forecast was going to be.

21 MR. ROBERT MAYER: That's what Mr. Tory
22 accused you of doing, wasn't it?

23 MR. LLOYD KUZCEK: Mr. Tory accused me of a
24 few things and best not to -- it's best not for me to comment
25 on Mr. Tory here. In the early 1980's we started looking at

1 using a econometric model for forecasting the residential
2 market and that was incorporated in the early 1980's.

3 As you moved into the late 1980's we
4 incorporated the econometric model for forecasting the
5 general service market. And in the early '90s we looked at
6 and I implemented an end use model for the residential
7 market.

8 And then sin -- since that time we've been
9 improving both those models with changing the coefficients
10 and the factors used for determining what the forecast is
11 going to be. And so there's -- there's a time delay also of
12 -- it should be noted when you're looking at this measure of
13 accuracy here, we provide two (2) -- two (2) measures
14 actually in the load forecast: one is a ten (10) year measure
15 and one's -- a ten (10) year measure and a five (5) year
16 measure.

17 So, it takes ten (10) years before you can
18 actually see how well your accuracy was for a particular
19 forecast.

20

21 CONTINUED BY MR. BOB PETERS:

22 MR. BOB PETERS: And the reason that this is
23 important to you, Mr. Kuzcek, is that on one hand if you know
24 what your domestic consumption forecast is you can then help
25 -- perhaps assist Mr. Cormie in figuring out how much he can

1 export; would that be one -- one use?

2 MR. LLOYD KUZCEK: That -- that helps Mr.
3 Cormie in the longer term, yes.

4 MR. BOB PETERS: And the other is that you
5 help Mr. Wiens and Mr. Thomas because you can tell them how
6 much energy is going to be consumed by various customer
7 classes so that may help them in designing the rates to
8 recover the approved revenue requirement from this Board?

9 MR. LLOYD KUZCEK: Sounds correct.

10 MR. BOB PETERS: In your load forecast, Mr.
11 Kuzcek, it appears from your evidence that you use aggregated
12 assumptions for things like CPI and economic activity within
13 the Province; do you agree with that?

14 MR. LLOYD KUZCEK: Correct.

15 MR. BOB PETERS: One of the Intervenors, I
16 think, was suggesting that your forecast might become more
17 accurate if you were to dis-aggregate your assumptions?

18 MR. LLOYD KUZCEK: I think that suggestion
19 was made.

20 MR. BOB PETERS: Have you thought about doing
21 that?

22 MR. LLOYD KUZCEK: We have thought about
23 doing it. We -- we -- we've discussed using alternative
24 models and whether or not they would improve our forecasting
25 techniques used today. Of course, the benchmark is the

1 results that you're seeing -- seeing in -- you know, in -- in
2 Tab 7 here.

3 And so, what we -- we're achieving today is
4 fairly accurate results. If you look at the last ten (10)
5 years or the ten (10) year measure, the forecast has been
6 accurate within, over the last fifteen (15) years, I guess
7 the average is 6.8 percent high and over -- if you narrow it
8 down to a shorter term, over the last seven (7) years, it's
9 been 6.2 percent high.

10 So, it's showing some improvement there. If
11 you look at the five (5) year forecast, you're also seeing
12 fairly accurate results and we're seeing results over the
13 past fifteen (15) years that average 1.8 percent high and
14 over the shorter term, over the last seven (7) years, 0.4
15 percent low.

16 So, any improvement or change to the
17 methodology used has to be measured against the results that
18 we're achieving today. So, we -- we'd -- we'd have to be
19 fairly confident that a change in that regard would improve
20 on these results and just by the very nature of forecasting
21 itself, it's -- it's doubtful that you would see significant
22 improvements beyond this.

23 MR. BOB PETERS: So --

24 MR. ROBERT MAYER: It's a hell of a lot
25 better than -- than Environment Canada.

1

2 CONTINUED BY MR. BOB PETERS:

3 MR. BOB PETERS: So, Mr. Kuzcek, I take from
4 your answer that while you hear the suggestions from other
5 parties, you don't think it has merit at this point in time?

6 MR. LLOYD KUZCEK: I couldn't say which
7 forecasting method would be better -- better. All I know --
8 what we do know is that the forecasting methodology that we
9 use today is fairly accurate, and probably as close as we're
10 possibly going to get.

11 We are exploring looking at using an
12 alternative method for the general service mass market, but
13 that's for another reason more -- pertaining more to pursuing
14 our DSM initiatives.

15 MR. BOB PETERS: Can you tell the Board
16 whether or not you incorporated Winnipeg Hydro into this load
17 forecast?

18 MR. LLOYD KUZCEK: It's incorporated into this
19 forecast, but a different methodology was used for Winnipeg
20 Hydro. The data base for Winnipeg Hydro was not near as good
21 as the data base that we have at Manitoba Hydro, for our
22 service area.

23 MR. BOB PETERS: Was Winnipeg Hydro's energy
24 consumption incorporated in the years prior to Manitoba Hydro
25 acquiring that utility?

1 MR. LLOYD KUZCEK: Yes, it was a common bus
2 (phonetic).

3 MR. BOB PETERS: On the issue of area and
4 roadway lighting in the Winnipeg Hydro service territory, has
5 that now been added to -- to Manitoba Hydro's rate class of
6 area and roadway lighting?

7 MR. LLOYD KUZCEK: At this point all of
8 Winnipeg Hydro's service areas is added in.

9 MR. ROBERT MAYER: Excuse me, before we get
10 away from this Tab 7, you've got the column in there Weather
11 Adjustment, and the first line says two twelve (212).

12 Firstly, what is Weather Adjustment, and
13 secondly, what is two twelve (212)?

14 Is that -- what does that number mean?

15 MR. LLOYD KUZCEK: Weather adjusted -- well,
16 each -- each year we have -- we could have colder winters,
17 warmer winters, and so what we do is we weather adjust the
18 actual results to just a -- a normal year. The number that
19 we talked about for actual results for this past winter that
20 Mr. Peters mentioned was -- I don't believe that was weather
21 adjusted, we would weather adjust that to just be a typical
22 year, so that you can compare, you know, the -- the actual
23 sales from year to year.

24 MR. ROBERT MAYER: So, if you have an
25 unusually cold winter, you would adjust your usage forecast

1 downwards, because there'd be too much heat, or -- or you
2 would -- people would be heating -- that's what you do?

3 MR. LLOYD KUZCEK: Correct.

4 MR. ROBERT MAYER: And -- and --

5 MR. LLOYD KUZCEK: The colder the winter, the
6 more -- the greater the adjustment.

7 MR. ROBERT MAYER: Okay, thank you very much.

8

9 CONTINUED BY MR. BOB PETERS:

10 MR. BOB PETERS: Just a couple of quick
11 points, if I might just conclude with you, Mr. Kuzcek. I
12 didn't understand on that Area and Roadway Lighting, the Area
13 and Roadway Lighting that was in the Winnipeg Hydro service
14 territory; what has happened to that in your load forecast?

15 MR. LLOYD KUZCEK: I'm sorry, can you repeat
16 that again?

17 MR. BOB PETERS: Yes, I'd like you to explain
18 how Manitoba Hydro has treated, what was formerly known as
19 Area and Roadway Lighting in the Winnipeg Hydro service
20 territory?

21 MR. LLOYD KUZCEK: How we treated it previous
22 to -- to purchasing Winnipeg Hydro?

23 MR. BOB PETERS: You could tell the Board how
24 you treated it previously, and then how you treated it after
25 your acquisition of that utility.

1 MR. LLOYD KUZCEK: Subject to check, we're
2 getting down to the technical components that I'm not that
3 familiar with. But my understanding was that we incorporated
4 all of Winnipeg Hydro's demand in -- at common bus
5 (phonetic), and since purchasing Winnipeg Hydro, we allocated
6 that to the various classes, including Area and Roadway
7 Lighting.

8 MR. BOB PETERS: Thank you for that. Mr.
9 Kuzcek, can you tell the Board why your distribution losses
10 appear to be higher now than they -- than they were before
11 you acquired Winnipeg Hydro?

12

13 (BRIEF PAUSE)

14

15 MR. LLOYD KUZCEK: Again, we're getting into
16 the technical components that I -- I don't usually focus on
17 at my level.

18 But, I'm just looking at the forecast there
19 and it says the distribution loss forecast increased as a
20 result, because losses from Winnipeg Hydro system are now
21 included in this category.

22 I -- I think the comment was referred to the
23 total losses, not the percentage of losses.

24 MR. BOB PETERS: Well, I wonder if you can
25 tell the Board, is this distribution loss solely attributable

1 to your acquisition of Winnipeg Hydro or is it a function of
2 additional exports?

3 MR. LLOYD KUZCEK: It's not a function of
4 additional exports. It -- I think the -- the general
5 increase is on the quantity and not the percentage.

6 MR. BOB PETERS: Thank you. I might just
7 give Mr. Kuzcek a minute with his colleague, Mr. Rose, but
8 those will conclude my questions before lunch if it suits the
9 Board.

10 THE CHAIRPERSON: Okay. And if Mr. Kuzcek
11 has something else to add he can add when we come back and
12 we'll break now to 1:35.

13 MR. BOB PETERS: Thank you.

14

15 --- Upon Recessing at 12:08 p.m.

16 --- Upon Resuming at 1:39 p.m.

17

18 THE CHAIRPERSON: Okay, welcome back
19 everyone. We have Mr. Anderson for MKO is the next one (1)
20 to cross-examine the Panel.

21 There's been a number of pieces of paper that
22 have been distributed. I notice that -- okay one's a --
23 maybe Mr. Anderson you'd like to propose which ones you want
24 to put in as exhibits.

25 MR. MICHAEL ANDERSON: Mr. Chair, yes, thank

1 you. The first three (3) documents are simply one (1) page
2 extracts for convenience of Board Order 1704 and Board Order
3 4604 and respectively the first one (1) is from 1704 and the
4 other second two (2) following are from 4604.

5 THE CHAIRPERSON: Are they related to the
6 same topic?

7 MR. MICHAEL ANDERSON: Yes they -- well they
8 are related to the matter of diesel rates, the cost service
9 and the rates themselves.

10 THE CHAIRPERSON: Is the final document also
11 a diesel rate?

12 MR. MICHAEL ANDERSON: It is. It's from the
13 -- it's a CAC Interrogatory from the Manitoba Diesel Rate
14 Application.

15 THE CHAIRPERSON: For ease of simplicity, why
16 don't we entitle them all MKO-15, and we'll just say
17 supporting documents with reference to diesel rates.

18 MR. MICHAEL ANDERSON: Okay, and if --

19 THE CHAIRPERSON: Would that be all right?

20 MR. MICHAEL ANDERSON: -- if I might, Mr.
21 Chair, perhaps if it's -- if it's appropriate just to say
22 15(a), (b), (c) and (d)?

23 THE CHAIRPERSON: Fine.

24 MR. MICHAEL ANDERSON: Thank you.

25 THE CHAIRPERSON: Is there any particular

1 order you want them in?

2 MR. MICHAEL ANDERSON: In the sequence that I
3 have presented, A, 15-A would be the extract of the February
4 6th order, page 9.

5 THE CHAIRPERSON: Yes.

6

7 -- EXHIBIT NO. MK0-15-A: Extract of the February 6th
8 Order, page 9.

9

10 MR. MICHAEL ANDERSON: B would be page 3.

11 MS. PATTI RAMAGE: I believe we're missing
12 some of these documents.

13 MR. MICHAEL ANDERSON: Oh, well I have
14 complete sets and we could provide them to you, they are in
15 sequence and then we could follow along, Ms. Ramage, just for
16 a moment.

17 THE CHAIRPERSON: Mr. Barron, do you have a --

18 MR. MICHAEL ANDERSON: And I have some extras
19 if there is a shortage.

20 THE CHAIRPERSON: So, 15-B would be the
21 photocopy of page 3 of Board Order 46/04?

22 MR. MICHAEL ANDERSON: Correct, Mr. Chair,
23 thank you.

24

25 --- EXHIBIT NO. MK0-15-B: Photocopy of page 3 of Board

1 Order 46/04.

2

3 THE CHAIRPERSON: Do you want to take on then
4 from there?

5 MR. MICHAEL ANDERSON: 15-C would be the
6 attachment 1 to Board Order 46/04.

7

8 -- EXHIBIT NO. MKO-15-C: Attachment 1 to Board Order
9 46/04.

10

11 THE CHAIRPERSON: Okay.

12 MR. MICHAEL ANDERSON: And 15-D, or as in
13 Delta, would be the CAC/MSOS-MH-14.2, The Interrogatory
14 Response, three (3) pages.

15 THE CHAIRPERSON: Thank you.

16

17 --- EXHIBIT NO. MKO-15-D: CAC/MSOS-MH-14.2 Interrogatory
18 Response, consisting of three (3)
19 pages.

20

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

22 THE CHAIRPERSON: Okay, Mr. Anderson, you can
23 begin at your convenience.

24

25 (BRIEF PAUSE)

1 MR. MICHAEL ANDERSON: Ms. Ramage, does your
2 Panel have a complete set of the four (4)?

3 MS. PATTI RAMAGE: We have one (1) -- two (2)
4 complete sets.

5 MR. MICHAEL ANDERSON: Okay, I have several
6 organized sets here, I'll just -- if I might, Mr. Chair, just
7 take a moment?

8

9 (BRIEF PAUSE)

10

11 MR. MICHAEL ANDERSON: Thank you, Mr. Chair,
12 for that, I appreciate it.

13

14 CROSS-EXAMINATION BY MR. MICHAEL ANDERSON:

15 MR. MICHAEL ANDERSON: The area of examination
16 that I have. I have a couple, but since the other parties
17 have done quite a job of canvassing through many of their
18 cost of service and rate design issues that are of interest
19 to us, and there's no need therefore, to go back over them.

20 One (1) of the areas of particular interest of
21 course to us is the matter of diesel service rates. And
22 although there has been a recent Application, that an order
23 that has dealt with this, there is a component in the GRA,
24 dealing with the first 2000 kilowatt hours for diesel
25 residential and diesel general service, and it's on those

1 matters that I'd like to address a few questions to the
2 Panel.

3 Just by way of background, hopefully for the
4 Board's convenience, I do realize that Mr. Mayer has reviewed
5 the matter in detail, and Mr. Evans wasn't present at the
6 proceeding, so with the patience and the support of the
7 Board, I'd just like to review very briefly, some of the key
8 elements that came out of that particular application, in
9 comparison with the current GRA.

10 And I assume that I'll be addressing most of
11 my questions to Mr. Thomas and Mr. Wiens, hello, nice to see
12 you again.

13 The summary on -- provided at 15 -- MKO-15-A,
14 if we notice item number 3, do you, Mr. Wiens, confirm that
15 the -- the Board has captured that aspect of the -- the
16 diesel rate application, that is that Manitoba Hydro had
17 revised its current RCC ratios, upwards to 90 percent for
18 residential customers, and 99 percent for general service
19 customers, is that correct?

20 MR. ROBIN WIENS: That's correct.

21 MR. MICHAEL ANDERSON: I don't intend to enter
22 into issues with variances between the application and the
23 Board's assessment of it, but I just wanted to confirm that
24 for the record.

25 In essence, does that reflect Manitoba Hydro's

1 position as taken in the Application and endorsed by the
2 Board in the Order, that the diesel service, i.e. that the
3 cost of service and rates established for the diesel service,
4 essentially should be viewed as a separate and stand-alone
5 service; that is separate from the grid service?

6 MR. ROBIN WIENS: Yes. I -- yes, I believe
7 so. We have -- we have costs based on some very different
8 factors in the diesel zone that we do for the grid. The
9 connection is simply that for some levels of consumption
10 affecting residential and general service customers that we
11 have applied grid rates to those levels of consumption.

12 In both cases, that's consumption under 2,000
13 Kilowatt hours a month.

14 MR. MICHAEL ANDERSON: And to just re-confirm
15 what you've already responded to, in essence in terms of the
16 costs incurred in serving diesel customers, it's Manitoba
17 Hydro's objective to recover all of the costs incurred from
18 rates charged to diesel service customers; is that correct,
19 as a general approach?

20 MR. ROBIN WIENS: No. I think paragraph 3 on
21 that page makes an exception to that. It is Manitoba Hydro's
22 intent to recover 90 percent of the cost to serve residential
23 customers and 99 percent of the cost to serve general service
24 customers.

25 The remaining costs would be recovered in

1 rates to those customers or in surcharges to the government
2 accounts. At least that's the intent.

3 MR. MICHAEL ANDERSON: So if we go then, just
4 holding that particular thought, Mr. Wiens, thank you, to the
5 MKO-15(b) and addressing that, I appreciate your
6 clarification, and if we look at the right-hand column "the
7 effect of the proposed rates" and go down to the bottom of
8 the series of columns to "total revenues for all classes" add
9 the contributions that you've just discussed and then
10 determine the "total forecast cost of service."

11 Would you please confirm, subject to check,
12 that the RCC that would result from that is 94 percent?

13 MR. ROBIN WIENS: Meaning that \$8,973,000
14 divided by \$9,537,000 is approximately 94 percent?

15 MR. MICHAEL ANDERSON: Yes, yes.

16 MR. ROBIN WIENS: Sure.

17 MR. MICHAEL ANDERSON: Thank you. And that
18 the contributions provided through the two (2) subsidies the
19 Board has noted in their summary are about 6.28 percent or 6
20 percent just in round numbers, Mr. Wiens?

21 MR. ROBIN WIENS: Yes.

22 MR. MICHAEL ANDERSON: Is there any
23 contribution of what we have become accustomed to call the
24 export credit to the cost of service of the diesel customers?

25 MR. CHIC THOMAS: No.

1 MR. MICHAEL ANDERSON: Thank you, Mr. Thomas.
2 So, subject to or notwithstanding the 6 percent contributed
3 by Manitoba Hydro, all remaining revenues required to cover
4 the cost of service in the diesel zone are obtained from
5 diesel service customers; is that correct?

6 MR. CHIC THOMAS: That's the intent, yes.

7 MR. MICHAEL ANDERSON: Thank you, Mr. Thomas.

8 MR. ROBERT MAYER: That's, quite frankly, a -
9 - an interesting way of putting it. And I guess technically
10 your government subsidy comes from a customer, as they happen
11 to be a government, but they're paying a number that bears no
12 relationship to the actual cost of their service; that is
13 correct.

14 MR. ROBIN WIENS: You're referring to the
15 government surcharge and that is correct.

16 MR. MICHAEL ANDERSON: And as I've noted
17 previously on the record, once again, I thank Mr. Mayer for
18 his question.

19

20 CONTINUED BY MR. MICHAEL ANDERSON:

21 MR. MICHAEL ANDERSON: Now, just as a matter
22 of perspective, I'd like to briefly refer to MKO-15(d). And
23 specifically, if I might, on the first page for -- marked
24 "residential customers" to go to the column, the third -- the
25 third line on that table for Zone 3 customers, do you have

1 that Mr. Wiens, Mr. Thomas?

2 MR. CHIC THOMAS: Yes, we have that.

3 MR. MICHAEL ANDERSON: Thank you. And to
4 confirm, of course, this is from the -- it's the retail
5 prospective cost of service study for the year ending March
6 31st, 2002; is that correct?

7 MR. CHIC THOMAS: Yes, as we filed in our
8 status update with a number of changes that were not approved
9 by this Board but, yes, it is from that study.

10 MR. MICHAEL ANDERSON: Thank you, Mr. Thomas.
11 And we've become accustomed to using somewhat different
12 terms, for example, in the discussion of the similar table
13 that appears for convenience purposes at Tab 30 of Mr.
14 Peters' package of documents.

15 but I just wanted to confirm that if we look
16 at the -- still looking at the table for residential for MKO-
17 15(d) the column in the centre of the residential table
18 marked "revenue cost coverage" is the revenue cost coverage
19 of residential customers relative to their cost of service;
20 that is the contribution of their rate revenues to the cost
21 of service; is that correct?

22 MR. CHIC THOMAS: Yes, we went over that with
23 Ms. McCaffrey this morning.

24 MR. MICHAEL ANDERSON: Yes, and I -- I was
25 here for that and I don't intend to pursue that to any great

1 degree. And then, of course, the -- the revenue cost
2 coverage numbers that we've just discussed are -- do not
3 reflect any contribution of the net export -- of the export
4 credit to that customer class; is that correct?

5 MR. CHIC THOMAS: It is before the allocation
6 of the net export revenue; that's correct.

7 MR. MICHAEL ANDERSON: Thank you. And so if
8 we look at Zone 3 customers, it means that the -- the rate
9 design of the Corporation at this time contemplated that Zone
10 3 customers would contribute 55 percent of the cost to serve
11 them through their rate revenues; is that correct?

12 MR. CHIC THOMAS: Not -- notwithstanding my
13 caveat earlier about the methodology used that's what the
14 results show, yes.

15 MR. MICHAEL ANDERSON: Thank you. And I take
16 your qualification. And in terms of the past practice of the
17 Corporation, it was the practice of the Corporation that
18 residential and diesel -- sorry, residential and general
19 service rates in the diesel communities would be set at a
20 level equivalent to Zone 3 residential and diesel -- and
21 general service rates; is that correct?

22 MR. CHIC THOMAS: Yes, that's correct.

23 MR. MICHAEL ANDERSON: Thank you.

24 MR. ROBERT MAYER: Again, we're talking about
25 Zone 3, are we still playing with Zone 3 in the diesel rates

1 or are we playing with the standard residential rates now?

2 MR. CHIC THOMAS: The way our application was
3 approved by this Board, I guess, in essence, we are still
4 playing with the Zones in -- in the fact that we offer this
5 Manitoba Hydro subsidy which is based on Zone 3.

6

7

(BRIEF PAUSE)

8

9 MR. VINCE WARDEN: Mr. Mayer, we have a bit
10 of a timing problem here with respect to the diesel
11 application. I think, if you'll recall, we filed that way
12 back in November of 2002 and for various reasons that could
13 not be heard until January of '04 so the rates -- there was
14 -- in that application there was a reference to zones which
15 we, in the current application, we have certainly combined
16 all the zones into one (1) zone.

17 So that in the -- in this current application
18 that's before the Board there is no reference to zones, or at
19 least there should be no reference to zones, and in future
20 applications, I can assure you there will be no reference to
21 zones.

22 MR. ROBERT MAYER: I thought you might be
23 treading on dangerous ground if we were going to go back to
24 be playing with zones after what we discussed earlier this
25 week. Thank you.

1 MR. MICHAEL ANDERSON: My comparative was, in
2 part, to use the zone -- the reality of the previous zones
3 prior to the uniform rate plus the numbers that do exist and
4 are able to be generated and also, of course, Mr. Peters, Mr.
5 Williams and Ms. McCaffrey -- I mean, there have been --
6 zones have been used as a convenient comparative throughout
7 by several parties. I suppose I'm joining the company in
8 doing so.

9 But, other than that, I have a specific
10 purpose for doing this which is brief.

11

12 CONTINUED BY MR. MICHAEL ANDERSON:

13 MR. MICHAEL ANDERSON: In terms of the dated
14 aspect of the document, I'm glad Mr. Warden's raised that. I
15 just wanted to do a couple of very quick comparison --
16 comparatives to my -- MKO-15(d) and Mr. Peters' Tab 30, if I
17 might. Again, just for foundation purposes, Mr. Chair. Do
18 you have both documents, Mr. Wiens --

19 MR. CHIC THOMAS: Yes, I do.

20 MR. MICHAEL ANDERSON: Thank you very much.
21 If we look at the -- the two tables on Mr. Peters' Tab 30 the
22 column marked "RCC percent pre-export allocation", just for
23 confirmation, is -- provides the same information as the
24 column on 15(d) residential that says "revenue cost
25 coverage", is that correct, Mr. Thomas?

1 MR. CHIC THOMAS: That's right.

2 MR. MICHAEL ANDERSON: Thank you. If we look
3 at Mr. Peters' Tab 30, the "prospective cost of service study
4 to March 31, 2004", it indicates that the "RCC before export
5 allocation" was 63.9 percent for residential; correct, Mr.
6 Thomas?

7 MR. CHIC THOMAS: That's correct.

8 MR. MICHAEL ANDERSON: Okay. And if we look
9 at the residential class "RCC prior to application of export
10 revenue" on MKO-15(d), it's 63.0 percent; is that correct,
11 Mr. Thomas?

12 MR. CHIC THOMAS: That's just taking the
13 three (3) zones, the class as a total, you'll notice at the
14 bottom, is 62.8.

15 MR. MICHAEL ANDERSON: Correct. Well, thank
16 you. My point, you would agree that even with the passage of
17 time that the class RCC prior to export allocations are
18 similar in terms of the range; they're less than 1 percent
19 apart?

20 MR. CHIC THOMAS: That's fair.

21 MR. MICHAEL ANDERSON: Thank you. And then
22 similarly if we look at general service small -- oh, one
23 qualifying question, just for foundation, in the diesel
24 community the general service customers would be equivalent
25 to grid customers at general service small non-demand; is

1 that correct, Mr. Thomas?

2 MR. CHIC THOMAS: For the first 2,000
3 Kilowatt Hours in terms of the rate, yes.

4 MR. MICHAEL ANDERSON: I just -- in terms of
5 the -- thank you; that's exactly what I was looking for,
6 thank you.

7 If we flip to the last page of MKO-15(d) and
8 go to the -- the class RCC for non-demand general service
9 small and make a comparative to the RCC pre-export allocation
10 for general service non-demand on Tab 20, you would agree
11 that, again, these RCC coverages are extremely and
12 substantially similar, in this case being less than than 1/10
13 of a percent -- only 1/10 of a percent different, is that
14 correct?

15 MR. CHIC THOMAS: Yeah, they're very close.

16 MR. MICHAEL ANDERSON: Thank you. So, back to
17 -- and just for the purposes of conceptualizing, if we
18 brought the same analysis in MKO-15(d), forward to the
19 current time, would you expect that the revenue cost coverage
20 ratios that are depicted for non-demand general service small
21 and residential would be fairly close to what's depicted on
22 MKO-15(d)?

23 MR. CHIC THOMAS: Yes.

24 MR. MICHAEL ANDERSON: Thank you.

25

1 (BRIEF PAUSE)

2
3 MR. MICHAEL ANDERSON: Would you agree that
4 the -- there is a -- that a difference between the treatment
5 of residential and general service small customers in the
6 grid and diesel are significantly different in respect of not
7 applying an export credit to the diesel customers, Mr.
8 Thomas?

9 MR. ROBIN WIENS: The rates that the general
10 service and the residential customers pay for the first 2,000
11 kilowatt hours in the diesel zone are exactly equivalent to
12 -- to those in the grid. So, no, I wouldn't agree that there
13 is any difference in their treatment.

14 MR. MICHAEL ANDERSON: In respect of their
15 customer class RCCs, would you agree that there's a
16 significant difference between a 55 percent revenue cost
17 coverage on grid, and a 94 percent -- well, overall service
18 class coverage for the diesel zone?

19 MR. ROBIN WIENS: Yes, and if I do agree, all
20 I am agreeing to is that there has been no allocation of
21 export revenue to the diesel zone. And in effect, that we
22 expect to pick up that share of the cost from either the full
23 cost for service in excess of 2000 kilowatt hours a month, or
24 more likely, since most service occurs below 2000 kilowatt
25 hours a month, from the Government surcharge.

1 MR. MICHAEL ANDERSON: Thank you, I'm --
2 that's exactly the clarification I was seeking, Mr. Wiens, I
3 appreciate that.

4 MR. ROBERT MAYER: With an allocation for a
5 little bit of cross-subsidy, or is that -- that's already
6 included is it?

7 MR. ROBIN WIENS: That the assumption of the
8 -- the determination that we will set the surcharge of -- on
9 the basis that we're prepared to accept a 90 percent revenue
10 cost coverage for general -- for residential, and 99 percent
11 I believe, for general service, yes, that's -- I think that's
12 what you're referring to.

13

14 CONTINUED BY MR. MICHAEL ANDERSON

15 MR. MICHAEL ANDERSON: And I don't intend to
16 explore the details of this particular aspect of the rate,
17 but in terms of the rate beyond the first 2000 kilowatt hours
18 for diesel customers, would you agree that there is a
19 significant difference in the rate paid for all consumption
20 beyond that point by -- beyond diesel customers and grid
21 customers?

22 MR. ROBIN WIENS: It would be hard not to
23 agree to that.

24 MR. MICHAEL ANDERSON: And just for the
25 record, the tail block for residential and diesel customers

1 under the currently approved rates is...?

2 MR. CHIC THOMAS: Seventy-nine point one
3 (79.1) cents per kilowatt hour.

4 MR. MICHAEL ANDERSON: Thank you, Mr. Thomas.
5 If we -- briefly, if I might, and I thank
6 Manitoba Hydro for filing the documents pursuant to an MKO
7 request for -- that it now appears it is actually M -- sorry,
8 Manitoba Hydro Exhibit 51. And --

9 MR. ROBERT MAYER: For my benefit, could you
10 tell me what that is, I don't have them numbered?

11 MR. MICHAEL ANDERSON: I'm sorry, it's MKO --
12 Manitoba Hydro Undertaking Number 43, in which I requested
13 information get-- provided to the customer in respect of the
14 rationale for the interim rates.

15 And the page I'm looking for is page -- the
16 third physical page of this exhibit, the "insights"
17 document.

18

19

(BRIEF PAUSE)

20

21 MR. VINCE WARDEN: I think we have the
22 information.

23

MR. MICHAEL ANDERSON: Mr. Chair --

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THE CHAIRPERSON: We have it here too.

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MR. MICHAEL ANDERSON: Thank you.

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CONTINUED BY MR. MICHAEL ANDERSON:

MR. MICHAEL ANDERSON: Just for confirmation, where would the insights appear and to whom would it be circulated?

(BRIEF PAUSE)

MR. VINCE WARDEN: It's got a fairly wide circulation. It goes to major customers, government, anybody that's got an interest in the goings on at Manitoba Hydro. So it has -- it has a fairly wide distribution list that we -- mainly to our customers and other stakeholders.

MR. MICHAEL ANDERSON: I just wanted to make a distinction between whether it's a bill insert or not?

MR. VINCE WARDEN: It's not a bill insert, no.

MR. MICHAEL ANDERSON: And your reply was helpful too, thank you, Mr. Warden. In respect of the policy initiative referred to, is it Manitoba Hydro's understanding that the policy initiative required the Corporation to apply grid rates in the diesel community?

MR. VINCE WARDEN: No, the legislation did not require us to apply grid rates in the diesel communities.

MR. MICHAEL ANDERSON: The application of

1 grid rates to the diesel communities being enabled by what
2 authority or mechanism, Mr. Warden?

3 MR. VINCE WARDEN: Like all other rates,
4 subject to the approval of the Public Utilities Board.

5 MR. ROBERT MAYER: I'd suggest, Mr. Anderson,
6 you not look a gift horse in the mouth.

7 MR. MICHAEL ANDERSON: I agree, Mr. Mayer.
8 Thank you.

9

10 CONTINUED BY MR. MICHAEL ANDERSON:

11 MR. MICHAEL ANDERSON: Okay, turning to the
12 extract that I made which now appears as MKO-15(a), only for
13 general reference and to the subsequent confirming Order
14 46/04, the references that I intend to refer to, I just want
15 -- essentially, I'm just asking you to keep in mind your
16 knowledge of the two (2) Board Orders; is there anything in
17 either of those Board Orders that explicitly directs Manitoba
18 Hydro to apply grid rates to any customer class in the diesel
19 community?

20 MR. VINCE WARDEN: Well, the rate schedules
21 that we had approved by this Board approved grid rates for
22 the first 2,000 Kilowatt Hours of consumption in the diesel
23 communities.

24 MR. MICHAEL ANDERSON: Being that Manitoba
25 Hydro had made an application to do so?

1 MR. VINCE WARDEN: That's correct.

2 MR. MICHAEL ANDERSON: My original question
3 was in the manner of the form of the directive, for example,
4 and the means for allocating export revenue. In that case
5 the Board had provided a direction to Manitoba Hydro as to
6 how to allocate export revenue amongst customer classes, is
7 that correct?

8 MR. ROBIN WIENS: In Order 7/03.

9 MR. MICHAEL ANDERSON: Did the Board apply any
10 similar direction to Manitoba Hydro, to apply grid rates to
11 diesel customers?

12 MR. VINCE WARDEN: Only in response to our
13 Application.

14 MR. MICHAEL ANDERSON: Thank you, Mr. Warden.

15 If we go to the transcript for June 14th,
16 pages 230 to 232, this is at the very end of the day in reply
17 to a brief exchange between Mr. Peters and the Panel, Mr.
18 Warden and -- and again, that's the transcript for June 14th,
19 pages 230 to 232.

20

21 (BRIEF PAUSE)

22

23 MR. CHIC THOMAS: Give us a moment and we'll
24 locate those documents, Mr. Anderson.

25 MR. MICHAEL ANDERSON: Yes, that's fine, Mr.

1 Thomas, thank you.

2

3

(BRIEF PAUSE)

4

5 THE CHAIRPERSON: We're making ten (10)
6 copies, because it's all on that one (1) page.

7

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MR. MICHAEL ANDERSON: That's fine, Mr. Chair,
I'll wait a moment.

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While I might, in the interim, I'd like to
compliment Digi-Tran for providing electronic versions of the
transcript in a searchable form. It's been very handy for me
of course, with our schedule, to participate in the
Proceedings, by keeping copies of the records, and as you've
probably noted from us -- myself walking in with my backpacks
and luggage and so forth, electronic filing would be
something that we would definitely support, if the Board so
considered. And appreciate that at least the transcription
company has services, proceeded to make that available
already.

I'm just filling in some time. Thank you, Mr.
Chair.

(BRIEF PAUSE)

THE CHAIRPERSON: Everyone has it now.

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

2

3 CONTINUED BY MR. MICHAEL ANDERSON:

4 MR. MICHAEL ANDERSON: At the bottom of page
5 230, Mr. Peters asks about -- oh, Mr. Mayer, excuse me, in
6 response to these questions, was interested in the effect of
7 the GRA on diesel communities. And, Mr. Warden, you replied:

8 "Well, the diesel communities pay the same
9 rates as do consumers in other parts of the
10 Province up to --"

11 And the transcript record reads 200 kilowatt
12 hours per month, but of course that's 2000 kilowatt hours per
13 month, is that correct, Mr. Warden?

14 MR. VINCE WARDEN: Correct.

15 MR. MICHAEL ANDERSON: And then Mr. Mayer
16 asks, that's residential? And then you reply:

17 "Residential and general service, same
18 rates as elsewhere in the Province, up to
19 2000 kilowatt hours per month. So,
20 whatever rate increase is awarded through
21 these Proceedings, will also affect those
22 communities to that limit."

23 Do you recall making that statement, Mr.
24 Warden?

25 MR. VINCE WARDEN: Yes, I do.

1 MR. MICHAEL ANDERSON: And that the schedules
2 and so forth that currently appear within the General Rate
3 Application, are based on that premise, is that correct?

4 MR. VINCE WARDEN: Correct.

5 MR. MICHAEL ANDERSON: On what basis does
6 Manitoba Hydro presume that an increase in general -- in grid
7 rates would automatically pass through to the diesel
8 customers?

9 MR. VINCE WARDEN: It's as reflected in our
10 Application.

11 MR. MICHAEL ANDERSON: And in our examination
12 of the Revenue Requirement Panel, we had confirmed that the
13 reason for this Application is that costs to the grid service
14 exceed the revenues available from grid service rates, plus
15 extra-provincial revenues. Is that correct, Mr. Warden?

16 MR. VINCE WARDEN: Do you want to just state
17 that again please?

18 MR. MICHAEL ANDERSON: I'll just get a
19 reference. Just a moment please.

20

21

(BRIEF PAUSE)

22

23 MR. MICHAEL ANDERSON: At the beginning in my
24 cross-examination of the other Panel, I referred to the very
25 first page of the Application at Tab 1, lines 27 through 33.

1 You recall, or have that, Mr. Warden?

2 I can get to a simple question to assist you.
3 The -- the purpose of this General Rate Application is to
4 address costs of the grid service. Is that correct?

5 MR. VINCE WARDEN: Well, I don't think we've
6 necessarily stated it quite that way, that it applies to
7 costs of the grid services, it's the costs of Manitoba Hydro
8 in their totality. So, the Application that we filed also
9 includes the non-grid customers.

10 MR. ROBERT MAYER: Mr. Warden, I don't recall
11 reading a specific request that this would apply. I -- I
12 know I asked the question earlier. I don't recall reading
13 anything where your Application called for an increase in the
14 diesel rates because that is the subject of a separate order.
15 And it's -- so that it wouldn't ordinarily follow unless the
16 specific request is there.

17 MR. VINCE WARDEN: Well the specific request
18 is there, Mr. Mayer. Would you like me to provide you with
19 the specific reference?

20 MR. ROBERT MAYER: No, I'm prepared to take
21 your word for that, Mr. Warden. I just didn't recall reading
22 it.

23 MR. VINCE WARDEN: Okay.

24 MR. ROBERT MAYER: I see Jean nodding at me
25 too.

1 MR. MICHAEL ANDERSON: If I might be of
2 assistance, Mr. Mayer. One (1) reflection of that of course
3 was -- is Manitoba Hydro, Exhibit 16, Revised or Re-filed.
4 I'm not sure exactly how it's been characterized.

5 Which was provided in response to a series of
6 questions by Mr. Peters at the end of June 14th in respect of
7 ensuring that the schedules reflect the Rate Order that
8 recently was granted by the Board.

9 MR. ROBERT MAYER: I suppose that leads to a
10 -- to another question. Recognizing that you've tied the --
11 the diesel rate up to two thousand (2000) whatever it is.
12 Kilowatt hours per month? To -- to the grid rates.

13 Aside from the fact that you've done that, how
14 could there be any other justification for any increase in
15 the diesel communities in light of the fact that the
16 application that was made purported to recover all the costs
17 that were required.

18 Are there any separate -- are there any other
19 costs other than Hydro general administration that would have
20 increased the cost of the diesel service?

21 We know that the drought couldn't have
22 affected it because the water -- they don't have any
23 advantages of the export class and they didn't lose cost you
24 any money because there was as drought.

25 So I'm wondering what justification there

1 would be other than the fact that you have given the
2 residential and -- or the two thousand (2000) kilowatt hours
3 per month customers benefit of a fairly significant cost cut.

4 MR. VINCE WARDEN: Well the Application that
5 we filed for the diesel communities to be effective April the
6 1st of 2004, was intended to recover all the costs incurred
7 in those communities in '03/'04 based on the perspective cost
8 of service study for the diesel communities.

9 However, you might recall there was a very
10 substantial deficit that was being carried forward. So we
11 take -- every year -- that's the practice we go through with
12 the diesel communities, we take the revenue earned from those
13 communities and reconcile with the cost incurred, and carry
14 forward any surplus or deficit to recover -- to be recovered
15 in future Rate Applications, that would be our intention here
16 as well.

17 MR. ROBERT MAYER: Mr. Warden, you and I both
18 know that the amount of money you would recover by those --
19 by the minimal increases that are being applied for here, the
20 amount of money you would recover in the diesel communities,
21 wouldn't -- wouldn't pay half a day's interest on the money
22 that's outstanding on those accounts, would it?

23 MR. VINCE WARDEN: Nevertheless, I think my
24 point was that we would -- we would reconcile the differences
25 between cost and revenues, and bring that forward.

1 So, if we happened to over-recover through
2 this Application, related to the '03/04 year specifically,
3 then we will apply that to the outstanding balance.

4 MR. ROBERT MAYER: Thank you, sir.

5 THE CHAIRPERSON: Mr. Warden, that does raise
6 an indirect question, just so I've got a complete
7 understanding. With the accumulated balance carried forward
8 from past years, does Hydro impute interest on that balance,
9 such as you do when you're capitalizing other expenses?

10 MR. VINCE WARDEN: Yes, yes, we will
11 ultimately.

12 THE CHAIRPERSON: Thank you.

13 MR. ROBERT MAYER: And you're going to resolve
14 that problem next week, right?

15 MR. VINCE WARDEN: Very soon.

16 THE CHAIRPERSON: Mr. Anderson...?

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

18
19 CONTINUED BY MR. MICHAEL ANDERSON:

20 MR. MICHAEL ANDERSON: Following along, some
21 of the general query of Mr. Mayer, I just wanted to confirm,
22 is there any information before us in the GRA, outlining any
23 anticipated cost increases in the diesel service zone, that
24 would speak to the cost -- the rate increases being applied
25 for in the diesel service?

1 MR. CHIC THOMAS: We haven't filed any diesel
2 information pursuant to change in cost. Of course as Mr.
3 Warden mentioned, we -- we do include Manitoba Hydro's costs
4 in totality, which does include the non-grid customers.

5 THE CHAIRPERSON: Just to save time, Mr.
6 Warden, I remember your testimony, correct me if I'm wrong,
7 you talked about the various factors that were driving your
8 Rate Application and the drought may have been one (1) of
9 them, but the other one (1) you were talking about was the
10 absence of taking into account the rise in O & Ms over a
11 period of many years.

12 MR. VINCE WARDEN: That's correct, yes.

13

14 CONTINUED BY MR. MICHAEL ANDERSON:

15 MR. MICHAEL ANDERSON: And then following
16 along directly on that, we had confirmed earlier that any
17 costs that are incurred in serving the diesel customers, are
18 taken into the design of rates for that service, that is that
19 as we discussed, that it's the intention to recover the cost
20 of service of the diesel service through their rates, subject
21 to the 6 percent that Hydro contributes, is that correct?

22 MR. CHIC THOMAS: Yes, that's correct.

23 MR. MICHAEL ANDERSON: Thank you. Turning to
24 either the Application schedule, or again, Mr. Peters' Tab
25 30. I very much appreciate Board Counsel preparing these

1 documents, and all parties actually, I'd like to compliment
2 them on their organization.

3 Does the information that's -- does this
4 single line in respect of diesel in this prospective Cost of
5 Service Study represent the totality of the cost information
6 that we have for the diesel service in this Application?

7 MR. CHIC THOMAS: No, I think, Mr. Anderson,
8 the intent is that as you'll recognize in a Diesel Cost of
9 Service Study is a little more extensive than the costs that
10 we pulled out of the Cost of Service Study, and one (1) of
11 the reasons we do a separate study so -- so while this is a
12 fair representation of -- of some of the costs we might
13 incur, as we went through in the diesel hearing in '04,
14 there's a number of other factors that are also included in a
15 separate diesel Cost of Service Study.

16

17 (BRIEF PAUSE)

18

19 MR. MICHAEL ANDERSON: Does the information,
20 and I'm going to just follow up on that in a moment, Mr.
21 Thomas, does the information presented on this schedule
22 reflect the application of the rates as ordered -- as
23 approved by the PUB?

24 MR. CHIC THOMAS: No, the rates didn't take
25 affect until '04/'05, so, as you can see, this is '04,

1 prospective ending '04.

2 MR. MICHAEL ANDERSON: Thank you. And we'd
3 already had a discussion about the RCC as would it be derived
4 from the numbers that are in the Board's summary so I won't
5 pursue that again.

6 In terms of the bill comparisons that appear
7 in the application in respect of the diesel rates as they
8 appear, I realize that the rates themselves have been
9 clarified through the filing of Manitoba Hydro Exhibit 16,
10 but has Manitoba Hydro re-filed the bill comparisons that
11 reflect the rates that appear in Manitoba Hydro Exhibit 16?

12

13 (BRIEF PAUSE)

14

15 MR. CHIC THOMAS: You're correct, Mr.
16 Anderson, those bill comparisons, the updated ones, have not
17 been re-filed.

18 MR. MICHAEL ANDERSON: Could you undertake to
19 do so please?

20 MR. CHIC THOMAS: Yes, we can -- we can take
21 care of that undertaking.

22

23 --- UNDERTAKING NO. 47: Manitoba Hydro to re-file the bill
24 comparisons that reflect the rates that
25 appear in Manitoba Hydro Exhibit 16 for

1 both the 2004 and 2005 rates for diesel;
2 residential and diesel general service.
3

4 (BRIEF PAUSE)

5
6 MR. CHIC THOMAS: Sorry, Mr. Anderson, just
7 if we could have clarification on that undertaking, are you
8 just looking for residential, general service...

9 MR. MICHAEL ANDERSON: I appreciate that
10 follow up, I was just composing that in my mind now.
11 Actually, there are bill comparisons that appear for both the
12 2004 and 2005 rates for diesel, residential and diesel
13 general service. There are no rate increases being forecast
14 for the government rate that I can see in the schedules.

15
16 (BRIEF PAUSE)

17
18 MR. MICHAEL ANDERSON: Now, if you would
19 please go to Manitoba Hydro Exhibit 16 and MKO-15(c) please.
20 If you could just compare them to each other?

21
22 (BRIEF PAUSE)

23
24 MR. MICHAEL ANDERSON: Mr. Thomas, Mr. Wiens,
25 are you with me there?

1 MR. ROBIN WIENS: Yes.

2 MR. MICHAEL ANDERSON: Thank you. As I
3 compare these two (2) tariffs, I just wanted to clarify that
4 they're presented correctly and that I understand them.

5 If I look at the diesel residential tariff in
6 Manitoba Hydro Exhibit 16 and compare that to Attachment 1 to
7 the Board Order 46/04 it appears that for the residential
8 tariff that the only area of difference is the rate being
9 charged for what's described as the next 1,825 Kilowatt
10 Hours, is that correct?

11 MR. ROBIN WIENS: Yes.

12 MR. MICHAEL ANDERSON: And similarly, with
13 respect to the energy charge aspect of diesel general service
14 that, again, the only change in the rate that's being
15 proposed is for what's described as the next 910 Kilowatt
16 Hours, is that correct?

17 MR. ROBIN WIENS: Restricting our discussion
18 to the energy charge only; that is correct.

19 MR. MICHAEL ANDERSON: I just wanted to -- to
20 clarify with respect to, I hope I have the right page, yes,
21 that is Manitoba Hydro intending to change the basic --
22 increase the basic charge in minimum bill of the diesel
23 general service from that that's appears in the Board Order?

24 MR. ROBIN WIENS: Yes, it is our intention to
25 make them consistent with whatever the Board issues an Order

1 on in respect of the grid rates. In fact, Exhibit 16 is an
2 update of one of the rate schedules that was filed with the
3 General Rate Application updated to incorporate the changes
4 from 46/04.

5 MR. MICHAEL ANDERSON: So, once again, the
6 rationale for the increase is entirely based on a pass
7 through of a rate increase awarded by the Board in respect of
8 grid rates?

9

10 (BRIEF PAUSE)

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MR. ROBIN WIENS: Well, we've had a long
standing practice, I think as -- as you're aware at Manitoba
Hydro whereby we do apply the grid rates to a designated
portion of consumption in the diesel zone.

And that's not -- that is a practice Manitoba
Hydro has adopted but it is more than that, it is also part
of our understanding with the Federal government that will,
in fact, charge similar rates for -- to the grid for that
type of consumption.

MR. ROBERT MAYER: And it clearly has been.
It's been approved by this Board on a fairly consistent
basis, I take it.

MR. ROBIN WIENS: That's correct.

MR. ROBERT MAYER: Mr. Anderson, I think we

1 understand Hydro's position, we understand the application.
2 So I don't know where you're going from here.

3

4 CONTINUED BY MR. MICHAEL ANDERSON:

5 MR. MICHAEL ANDERSON: The next one was a
6 housekeeping question on the third page of Manitoba Hydro
7 Exhibit 16.

8 And, again, comparing it to Board Order 46/04
9 which appears as Attachment 1 which is MKO-15(c), in
10 comparing the two (2) tariffs would you agree, Mr. Wiens,
11 that once -- one difference between these two, these are the
12 proposed April 1, 2005 diesel rates in Manitoba Hydro Exhibit
13 16 and the Board Order; is the collapse of the second rate
14 block into the first?

15 MR. ROBIN WIENS: Yes.

16 MR. LLOYD KUZCEK: I think as we prefer to see
17 it, simply the combining of the two (2) blocks.

18 MR. MICHAEL ANDERSON: Okay. I appreciate
19 that.

20

21 Is there a presentation in the application
22 providing a rationale for changing the rate structure for the
23 April -- effective April 1st, 2005 from that that's been
24 approved by the Board in Board Order 46/04?

25 MR. ROBIN WIENS: There's a discussion

1 generally of Manitoba Hydro's intent to move from a declining
2 block rate for the residential class to a flat energy rate --
3 basic charge and flat energy rate.

4 MR. MICHAEL ANDERSON: Is there a specific
5 discussion in the application in respect of the
6 appropriateness or applicability of that approach in the
7 diesel service?

8 MR. ROBIN WIENS: We have not made particular
9 reference to the diesel zone in the discussion of moving from
10 a declining block to a flat energy rate.

11 MR. ROBERT MAYER: With hope, some of us
12 believe that you might go to inverted rates in some time in
13 the future.

14 MR. ROBIN WIENS: It certainly makes it an
15 easier platform to go to inverted rates.

16 MR. ROBERT MAYER: So the rationale in
17 general would apply to all classes, no need for specific
18 reference to a diesel class or to a residential class or
19 whatever or to -- to all customers who are affected by those
20 rates; the rationale's the same?

21 MR. ROBIN WIENS: Yes, it is.

22

23 CONTINUED BY MR. MICHAEL ANDERSON:

24 MR. MICHAEL ANDERSON: My -- thank you for
25 that. My final or another area of questions that I have

1 emerges from a brief comment in respect of demand side
2 management that appears on the transcript of June 28th at
3 page 1209.

4

5

(BRIEF PAUSE)

6

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THE CHAIRPERSON: What page, again, was that
8 Mr. Anderson?

9

10 MR. MICHAEL ANDERSON: 1209, if I have my
reference correct. Yes.

11

12

(BRIEF PAUSE)

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14

MR. MICHAEL ANDERSON: And it's an exchange
15 between Mr. Miller and Mr. Kuzcek. Do I have that
16 pronunciation correct, Mr. Kuzcek?

17

MR. LLOYD KUZCEK: Yes.

18

MR. MICHAEL ANDERSON: Thank you.

19

20 And I realize that there is a report requested
on these matters from the Board so I anticipate that we've
21 all been requested to work on it together. That is, MKO and
22 other parties.

23

24 But I just wanted to explore one (1) of the
comments made here, to some extent, in respect of the rate
25 increase. That is the proposal to increase rates for the

1 first two thousand (2000) kilowatt hours.

2 The exchange -- it's interesting Mr. Miller
3 had indicated -- a question, is there any programming -- DSM
4 programming that is trying to address groups where the
5 impacts may be greatest?

6 And Mr. -- Mr. Kuzcek replies at first
7 generally, but then specifically, in respect of the diesel
8 service.

9 Would you agree, Mr. Kuzcek, that the rate
10 impacts on diesel customers are the greatest amongst any
11 customers in Manitoba Hydro's system?

12 MS. PATTI RAMAGE: Mr. Anderson, could you
13 clarify. Are you talking the rate impacts of diesel rates
14 generally or the rates specifically out of this Application?

15 Because I think we should be limiting our
16 discussions to this Application. And -- and I'm not clear
17 whether -- what your question was addressing.

18 MR. MICHAEL ANDERSON: Well, there is a
19 proposal to increase a -- a portion of the rate but the rate
20 is faced by the customer as a whole rate and I'm referring to
21 the rate that was ordered by the Board that appears in our
22 MKO-15C.

23 MR. ROBERT MAYER: And I see the reference to
24 diesel rates on line 13 of page 1209. Is that what you're
25 focusing in on?

1 MR. MICHAEL ANDERSON: Yes, Mr. Mayer.

2 MR. ROBERT MAYER: That line merely -- that's
3 just an acknowledgment by Mr. Kuzcek that they're attempting
4 to do something more with respect to diesel communities
5 insofar as DMS is concerned. Right?

6 MR. MICHAEL ANDERSON: That's what the
7 reference in the case. I did have a specific line, Mr.
8 Mayer, and I should best get onto it. Thank you.

9

10 CONTINUED BY MR. MICHAEL ANDERSON:

11 MR. MICHAEL ANDERSON: Would you agree Mr.
12 Kuzcek that it's very important for a residential or a
13 general service customer in the diesel communities to be
14 aware of the change -- the substantial and sudden change in
15 rate after consumption beyond two thousand (2000) kilowatt
16 hours?

17 MR. LLOYD KUZCEK: Yes.

18 MR. MICHAEL ANDERSON: And would you agree
19 that no other customers in the Manitoba Hydro system face
20 that type of change in rate based on consumption?

21 MR. LLOYD KUZCEK: Yes.

22 MR. MICHAEL ANDERSON: Thank you.

23 In respect of the Application of the -- of
24 Order 4604, what has Manitoba Hydro done to ensure that
25 customers are aware of this transition in the diesel

1 communities?

2 MR. LLOYD KUZCEK: I -- I think that's what
3 you referred to in terms of us being asked to report back to
4 the Board in September. I -- I can provide you with some
5 information just to give you an idea of what's going on. But
6 Manitoba Hydro has been in contact with the Chiefs and
7 Councils in those communities as well as other people.

8 A number of efforts have been made to make the
9 communities as well as -- as well as the residential -- not
10 only the residential but all those impacted in those
11 communities of the impacts. This has been done through
12 faxes, letters, direct letters to customers as well as the
13 Chiefs, the Mayor in Brochet, for sure has been sent a
14 letter.

15 There was leaflets that were produced in both
16 English and the Native language there. I'm not sure those
17 were handed out. We contacted the local Bands and asked --
18 we expressed an interest in hiring somebody locally to
19 deliver, I believe it was the leaflets, to residential --
20 residents, and we didn't get a response back from that. But
21 we did send those leaflets up there. Posters were sent to
22 the communities, we understand some were posted, but we don't
23 know if they all were.

24 We established a one-eight hundred (1-800) --
25 it's one-eight six-six (1-866) phone line for people to call.

1 That was also indicated on the communication to the residents
2 there, if they should desire to contact an energy service
3 advisor to discuss possible measures that they can take.

4 We actually didn't have anybody use that line
5 to date, and we're also in communications with the Bands and
6 Councils to set up some community workshops in all four (4)
7 of the communities.

8 MR. MICHAEL ANDERSON: Thank you, that's a
9 very helpful summary. And at the risk of providing evidence,
10 I hope to be helpful, but I would like to confirm that the
11 Board has urged MKO, Manitoba Hydro and the communities to
12 cooperate, and I can confirm that at least one (1) of these
13 meetings has occurred at MKO's offices here in Winnipeg. I'd
14 just like to indicate that there is cooperation.

15 One (1) -- one (1) undertaking I would like
16 just from that summary if it's possible, is to file the
17 leaflet that you've circulated please?

18 MR. LLOYD KUZCEK: Okay.

19

20 --- UNDERTAKING NO. 48: To file a copy of the leaflet
21 that was circulated to the diesel
22 customers.

23

24 CONTINUED BY MR. MICHAEL ANDERSON:

25 MR. MICHAEL ANDERSON: And a question in

1 respect to the leaflet, has it been made available in Native
2 languages?

3 MR. LLOYD KUZCEK: I believe that's correct,
4 and I'll -- I'll confirm that.

5 MR. MICHAEL ANDERSON: And if they have been
6 published in the Native language, if you would please
7 undertake to file an example of just one (1) of them. There
8 are two (2) languages spoken.

9 MR. LLOYD KUZCEK: I will do that.

10

11 --- UNDERTAKING NO. 49: To file a copy of at least one of
12 the leaflets that was published
13 in the Native language.
14

15 CONTINUED BY MR. MICHAEL ANDERSON:

16 MR. MICHAEL ANDERSON: In respect of the one
17 eight-eight (188) number, are there persons available at the
18 other end of the phone that speak the languages of the
19 customers in these communities? The Native languages? Upon
20 request of course, of the caller?

21 MR. LLOYD KUZCEK: Yeah, Manitoba Hydro, in
22 general, tries to accommodate any customer that speaks a
23 language other than English, and in the North in particular,
24 we're -- we're aware that a number of people don't speak
25 English, and should somebody desire to speak their Native

1 language, we make every effort to accommodate that.

2 MR. LEN EVANS: Mr. Kuzcek, if you may -- if I
3 may ask you one (1) other question related to this, to give
4 us a sense of what we're talking about here on -- with the
5 diesel residential customers, what proportion of the
6 residences would have the practice of using more than 2000
7 kilowatt hours?

8 MR. LLOYD KUZCEK: I don't have that
9 information with me, but my staff have that information, I
10 believe.

11 MR. LEN EVANS: I appreciate that.

12 MR. LLOYD KUZCEK: You want that filed?

13 MR. LEN EVANS: Yes.

14 MR. LLOYD KUZCEK: Okay.

15

16 --- UNDERTAKING NO. 50: What proportion of the residences
17 would have the practice of using
18 more than 2000 kilowatt hours.

19

20 MR. ROBERT MAYER: The evidence that the -- at
21 one (1) of the Hearings was that there wasn't anybody likely
22 to have any -- use it unless they were using the electricity
23 for space heating, which they're not supposed to be doing in
24 those communities. That's I think how I recall the evidence.

25 MR. LEN EVANS: But my question was specific,

1 what proportion of the residences were in excess of the 2000
2 level, say in the last year?

3 MR. LLOYD KUZCEK: We have that information.

4 MR. ROBIN WIENS: Mr. Chairman, we did inform
5 the earlier Panel hearing the Diesel Rate Application, that
6 about 7 percent of the bills issued to residential customers
7 were in an amount -- covering amounts of over 2000 kilowatt
8 hours a month.

9 THE CHAIRPERSON: Thank you, that suffices.
10 Please, Mr. Anderson...?

11 MR. MICHAEL ANDERSON: Mr. Chair, hopefully
12 I'm being helpful, I would indicate that the information can
13 be, as I'm sure the Board is aware, depicted in two (2) ways,
14 one (1) is the number of customers, which is an absolute
15 number that you've raised, and another is billing frequency.
16 And they don't provide exactly the same information, and I'm
17 wondering if it's of any assistance to provide both, so they
18 can be compared.

19 Because the periodicity of bill reading and
20 the issuance of bills has an affect on that understanding.

21 THE CHAIRPERSON: I think the -- the question
22 I'm raising is that if anything Hydro can do to help inform
23 us of the relative distribution of the customers, how many
24 are likely to be directly affected by the higher rates once
25 they get past the minimum?

1 MR. MICHAEL ANDERSON: And in -- in respect
2 of the -- I thank the Chair for the questions, in respect of
3 that and so that the record is complete in respect of the --
4 of this Application, if the same information or sim --
5 similar information could be plie -- provided for general
6 service customers as well so you have the whole picture, that
7 would be appreciated? Did you want to combine that as their
8 undertaking to yourself?

9 THE CHAIRPERSON: Sounds reasonable.

10 MR. MICHAEL ANDERSON: Thank you.

11 MR. ROBIN WIENS: That -- it will be done.

12 THE CHAIRPERSON: We appreciate it. I'm
13 confident that this probably duplicates some of the other
14 information from before but hopefully it makes it easier for
15 you to compile it.

16

17 (BRIEF PAUSE)

18

19 MR. MICHAEL ANDERSON: Mr. Chair, I have some
20 additional questions but in looking at the transcript and
21 listening to the flow of Mr. Peter's earlier comments, that
22 I'll conclude my questions at this time for this Panel and
23 I'd like to thank the Panel for their answers and time.
24 Thank you.

25 THE CHAIRPERSON: Thank you, Mr. Anderson.

1 Mr. Peters, do you want to start, say, for fifteen (15) or
2 twenty (20) minutes and then we'll have a short break.

3 MR. BOB PETERS: Certainly. Thank you and I
4 did go over my notes at the lunch recess and I'm not quite as
5 confident as I was before lunch in my time estimate. So...

6 THE CHAIRPERSON: Mr. Mayer predicted that.

7 MR. BOB PETERS: I'm sure he did. But I --
8 what I did want to do was make sure I asked my questions that
9 I thought Mr. Kuzcek would be responding to because I know
10 he's -- he's not available next week.

11 MR. ROBERT MAYER: I want to know how it is,
12 Mr. Peters, that you always manage to be there when I have to
13 catch an airplane since you're the one who organizes the
14 schedule?

15 THE CHAIRPERSON: Regardless of the
16 misgivings, Mr. Peters, I'm sure you'll do a thorough job.

17 MR. BOB PETERS: Well, and I am prepared to
18 stand down at four o'clock today recognizing that on Monday
19 next we have suggested that the MIPUG witnesses come in from
20 InterGroup, Messrs. Osler and Bowman. And I suspect that if
21 I spill over until Monday morning we'll still finish with the
22 MIPUG evidence on Monday, if that's of any comfort to -- to
23 Mr. Mayer.

24

25 CONTINUED CROSS-EXAMINATION BY MR. BOB PETERS:

1 MR. BOB PETERS: Mr. Kuzcek, back to some DSM
2 issues, would the Board be correct in understanding that when
3 Manitoba Hydro evaluates resource options they use the same
4 underlying criteria and evaluation approach whether it's DSM
5 or firing up a gas generator or building a -- a water
6 resource?

7 MR. LLOYD KUZCEK: That's correct.

8 MR. BOB PETERS: Would it be correct then
9 that from Manitoba Hydro's point of view you are indifferent
10 as to whether you build a generating station that uses water,
11 uses gas or can achieve the -- the same result through DSM of
12 existing customers?

13 MR. LLOYD KUZCEK: I think we have a
14 preference for DSM but all things being equal, if you
15 evaluate all the factors, it shouldn't matter. But DSM seems
16 to have a preference in our company.

17 MR. BOB PETERS: So, rather than build
18 something with 250 Megawatts of capacity, you'd just as soon
19 find that through DSM savings?

20 MR. LLOYD KUZCEK: I -- I think a better way
21 to characterize it is that we pursue all economic activities
22 and as we currently testified in the CEC hearings, we're
23 pursuing both options of building hydraulic and DSM right
24 now.

25 MR. BOB PETERS: Okay.

1 MR. LLOYD KUZCEK: So, provided we can
2 achieve the benefits associated with both those alternatives,
3 it's worth pursuing.

4 MR. BOB PETERS: You told, I think, Ms.
5 McCaffrey this morning that you performed a number of tests
6 to evaluate your DSM program, correct?

7 MR. BOB PETERS: And when you answered her
8 question, I'm not sure I fully understood it and I want to
9 make sure the Board has a clear record of it.

10 But is the first test that you use what you
11 call your marginal resource cost test?

12 MR. LLOYD KUZCEK: Yes.

13 MR. BOB PETERS: I don't know that you
14 mentioned that to Ms. McCaffrey this morning. Did you?

15 MR. LLOYD KUZCEK: No I didn't. That's a
16 very high level test that we use to do some first level
17 screening for DSM options.

18 MR. BOB PETERS: Briefly explain how that
19 works then on a high level.

20 MR. LLOYD KUZCEK: The -- is it MRC? The MRC
21 test is -- is close to a TRC test. The only thing that's not
22 included is the program costs associated that -- with that
23 DSM initiative. So it just looks at strictly the -- the
24 costs associating with -- associated with the net resource
25 option and measures that against the benefits, without taking

1 into account the costs of the program.

2 MR. BOB PETERS: And as long as the result is
3 greater than one (1), or positive I suppose in that approach,
4 it would go onto the next filter?

5 MR. LLOYD KUZCEK: That's correct.

6 MR. BOB PETERS: And that next filter was the
7 total resource cost test?

8 MR. LLOYD KUZCEK: Correct.

9 MR. BOB PETERS: And that's where the
10 benefits have to exceed costs to Manitoba Hydro and that
11 includes the costs of the program?

12 MR. LLOYD KUZCEK: That test actually looks
13 at -- it's a benefit cost ratio where it looks at the
14 benefits and cost from the -- from Manitoba -- from the
15 combined Manitoba Hydro consumer perspective.

16 MR. BOB PETERS: What do you mean by the
17 combined consumer perspective?

18 MR. LLOYD KUZCEK: Well there -- the combined
19 cost of the resource option doesn't allocate whose going to
20 pay for those costs of the resource option. So if you have a
21 DSM opportunity, you'd just look at the overall costs and
22 ignore the -- any -- any costs or any consideration of whose
23 going to pay.

24 Generally speaking, the TRC does not take into
25 account any transfer of costs or benefits between Manitoba

1 Hydro and the consumer.

2 MR. BOB PETERS: Does that transfer of
3 benefits get measured on the next test, which was the rate
4 impact measures test?

5 MR. LLOYD KUZCEK: The first test determines
6 whether or not it makes sense for Manitoba Hydro and the
7 customer to consider the option, the DSM option. The second
8 option considers what portion Manitoba Hydro could pay and
9 that's under the rim test.

10 MR. BOB PETERS: From your answer, you're
11 telling the Board that the rim test will indicate how much
12 money Manitoba Hydro can put towards the program and still
13 get a -- an economic return.

14 MR. LLOYD KUZCEK: Yes. It -- it's a measure
15 of the -- well, the outcome -- it's a benefit cost ratio as
16 well. It gives you an indication of the impact to rates on
17 consumers and the magnitude and the direction.

18 MR. BOB PETERS: Am I correct that the rate
19 impact measures test may result in some of your programs
20 being -- with -- with the ratio of greater than one point
21 zero (1.0) and some less than one point zero (1.0)?

22 MR. LLOYD KUZCEK: That's correct.

23 MR. BOB PETERS: And the ones that are
24 greater than one point zero (1.0) have a positive rate impact
25 for consumers and those that are less than one point zero

1 (1.0) it would be a negative rate impact?

2 MR. LLOYD KUZCEK: That's correct.

3 MR. BOB PETERS: Would I also be correct in
4 that when you put together your basket of DSM ideas and
5 programs, at the rim test, you want the overall basket to
6 come out with a positive, or a one point zero (1.0) ratio?

7 MR. LLOYD KUZCEK: That's -- that is the
8 general objective. Yes.

9 MR. BOB PETERS: That implies then, does it
10 Mr. Kuzcek, that some of the programs in the basket may be --
11 may have a cost benefit of less than one point zero (1.0)?

12 MR. LLOYD KUZCEK: Correct.

13 MR. BOB PETERS: And why is it that you would
14 proceed with some programs where the cost benefit is less
15 than one point zero (1.0) or has a negative rate impact on
16 consumers?

17 MR. LLOYD KUZCEK: We -- we pursue some of
18 those initiatives for other reasons. And that is to have a
19 balanced portfolio of DSM initiatives -- programs for the
20 different sectors. Residential sectors are somewhat more
21 challenging sometimes in terms of passing those tests.

22 Conservation in general is a good thing, so we
23 consider that. There's other benefits that could be
24 associated with pursuing a specific DSM initiative that would
25 -- when you evaluate it by itself, it wouldn't pass the RIM

1 test, but when you put it together within your basket or your
2 portfolio, the DSM programs could potentially benefit the
3 overall portfolio.

4 MR. BOB PETERS: Does that also imply then,
5 Mr. Kuzcek, that there might be an industrial DSM program
6 that has a very -- very strong benefit to consumers, that is
7 it passes the RIM test for the industrial customers, and you
8 can offset that by some programs to the residential customers
9 that -- that don't pass the -- the RIM test individually?

10

11

(BRIEF PAUSE)

12

13 MR. LLOYD KUZCEK: We generally don't look at
14 it from that perspective, but I guess that's the end result.

15 MR. BOB PETERS: What you're saying is that --
16 that can happen when you design your portfolio, that I
17 referred to as a basket earlier?

18

MR. LLOYD KUZCEK: That's correct.

19

20 consciously?

21

22 MR. LLOYD KUZCEK: We don't consciously design
23 industrial programs and residential programs and say, well,
24 we can pass this particular residential program, just because
25 we have this industrial program with a TRC of say for
example, one point four (1.4), and then we'll now pass

1 something at zero point six (0.6), no, it's not done that
2 way.

3 We look at the programs on an individual
4 basis, generally speaking. And so other considerations that
5 I talked about are usually taken into account, if we're going
6 to proceed with a DSM program that is less than one (1).

7 It's usually the reverse, we just look at
8 those programs that don't pass the RIM test at one point zero
9 (1.0) and take into account those other considerations.

10 MR. BOB PETERS: And those other
11 considerations from what I recall your -- your answers just a
12 few minutes ago, was really you wanted to have a balanced
13 portfolio available for -- for the variety of your customer
14 classes?

15 MR. LLOYD KUZCEK: That -- that's one (1) of
16 the answers that we also -- that we have a corporate
17 strategic of being proactive and -- and protecting the
18 environment, and a leader in promoting sustainable
19 development, so it supports that.

20 We also, in our DSM primary strategic goal
21 states that we'll be a leader in implementing cost effective
22 energy conservation, and alternative energy programs. And to
23 be that, we believe you need a balanced portfolio of DSM
24 programs.

25 MR. BOB PETERS: Would it be correct for the

1 Board to conclude that the test that Manitoba Hydro employs,
2 are to ensure that there is a net positive impact on the
3 utility?

4 MR. LLOYD KUZCEK: The RIM test is -- deals
5 more with a fairness issue, if a DSM program doesn't pass the
6 RIM test, then the non-participants are generally worse off.
7 Participants are better off.

8 MR. BOB PETERS: But not talking about the
9 participants, let's just talk about the Corporation from the
10 -- from Manitoba Hydro's perspective. When you go through
11 these various filters, it has to -- the programs that come
12 through in your portfolio, taken collectively, have to ensure
13 there's a positive impact on the utility?

14 MR. LLOYD KUZCEK: I guess if our portfolio
15 did not pass the RIM test, there would be some negative
16 impacts, because we would need -- require additional
17 revenues, but that really translates into a benefit to the
18 consumer, I guess. Benefit or impact to the consumer --
19 ratepayer.

20 MR. BOB PETERS: And if there's additional
21 cost to the ratepayer, it wouldn't pass the -- the TRC test
22 earlier on, would it?

23 MR. LLOYD KUZCEK: If it didn't pass the RIM
24 test, the participants are better off. Their -- their bills
25 are lower, the rates -- rates could be higher, but their

1 overall bills are less for that particular initiative. For
2 the non-participants their rates would be higher and their
3 bills certainly would be higher.

4 MR. BOB PETERS: But put another way, Mr.
5 Kuzcek, does Manitoba Hydro spend more money to save a
6 Kilowatt Hour than it would cost to generate it?

7 MR. LLOYD KUZCEK: Can you say that again?
8 I've got to make sure I get this right?

9 MR. BOB PETERS: Well, I'm just wondering,
10 does Manitoba Hydro spend more to save a Kilowatt Hour than
11 it would to -- to generate it?

12 MR. LLOYD KUZCEK: Our DSM options are
13 evaluated against other alternative generating options. So
14 generally speaking if we pursue DSM options they're cost
15 effective relative to alternative generating resources, our
16 options.

17 MR. BOB PETERS: And when you weight that
18 against those alternatives, Mr. Kuzcek, do you incorporate
19 the price for that Kilowatt Hour you would receive on export
20 or the price it would cost you to generate it?

21 MR. LLOYD KUZCEK: Resource planning
22 undertakes this -- this effort and when they're comparing
23 alternatives in the resource planning stage, they're
24 comparing the costs of the different generating resources.
25 Once we've done our -- our evaluations to ensure that they

1 pass the TRC and the RIM Tests.

2 MR. BOB PETERS: All right. Fair enough.
3 You said in answer to one of my earlier questions that
4 Manitoba Hydro wants to be proactive in protecting the
5 environment but can you confirm to the Board that when you're
6 doing your tests on the DSM projects, you don't take into
7 account environmental issues or costs?

8 MR. LLOYD KUZCEK: Environmental benefits are
9 actually incorporated in the six point one five (6.15) cents
10 as I understand it. But I couldn't give you specifics of how
11 that's done.

12 MR. BOB PETERS: I think I'll come to that on
13 my notes, but I think that answer was explained in one of the
14 responses to CAC/MSOS and I'll maybe come to that later.

15 When you -- when you measure your tests
16 against the -- what actually happens -- well, let me ask it
17 this way, Mr. Kuzcek, are the tests projected or are they
18 based on actual measurements?

19 MR. LLOYD KUZCEK: They're projected.

20 MR. BOB PETERS: And once the program is
21 designed and implemented do you go out into the field and
22 take measurements to see if the infield measurements support
23 the projections made at the time the program was proposed?

24 MR. LLOYD KUZCEK: Yes. And that's reported
25 in the PowerSmart Review.

1 MR. BOB PETERS: And when you have in your
2 PowerSmart plan the -- the goals and where you -- where you
3 are, I think you say approximately 488 Gigawatt Hours saved
4 by 2002; does that project -- is that a projected result or
5 is that an actual result?

6 MR. LLOYD KUZCEK: That's an actual result.

7 MR. BOB PETERS: How did you measure that?

8 MR. LLOYD KUZCEK: The results that we report
9 on our PowerSmart Review are from incentive based programs.
10 with incentive based programs you have application forms that
11 are usually filled out by the customers.

12 And from those application forms we get data
13 which provides us with how much energy is saved and the issue
14 that we have to address after that is to assess how many free
15 riders and free drivers and what the impacts of persistency
16 are on those results.

17 MR. BOB PETERS: I'd better stop you here. I
18 don't know that Ms. McCaffrey did, but when you talk about
19 "free riders and free drivers" maybe you'd better just
20 explain that to the Board so we have an understanding on
21 that.

22 MR. LLOYD KUZCEK: Free riders are those
23 consumers that apply for the PowerSmart incentive that would
24 have undertaken the initiative without our incentive. So, in
25 other words, the savings associated with those customers

1 aren't of benefit to Manitoba -- or benefit to the program.

2 "Free drivers" are the opposite; that's those
3 customers that are actually implementing the energy efficient
4 measure and not applying for the incentive.

5 MR. BOB PETERS: With an earlier Panel, Mr.
6 Kuzcek, we had a look at the balance sheet of the Corporation
7 and I recall noting on the balance sheet there was a deferred
8 asset of approximately \$50 million attributed to PowerSmart
9 or demand side management. Are you familiar with that?

10 MR. LLOYD KUZCEK: Not to any degree, I would
11 have to pass that over to somebody else.

12 MR. BOB PETERS: I'm not sure they passed it
13 to you, but it's in my notes here, so -- but let me try it
14 this way, sir.

15 You told the Board that -- that you spend
16 money designing these programs and implementing the programs,
17 and that's the major expense of the Corporation, in -- in the
18 demand side management activity, would that be correct?

19 MR. LLOYD KUZCEK: The expenses -- the major
20 expenses related to the design, delivery and incentives.

21 MR. BOB PETERS: And those costs are primarily
22 human resource costs?

23 MR. LLOYD KUZCEK: Incentives are actual cash.

24 MR. BOB PETERS: All right. Can you help
25 quantify for the Board again, for fiscal 2004, how much did

1 your group spend on the DSM activities in -- let's say in
2 total?

3 MR. LLOYD KUZCEK: This past year I believe we
4 spent in the range of \$16 million.

5 MR. BOB PETERS: Of that \$16 million, do you
6 know if -- if -- how much of that was capitalized, or how
7 much of that was expensed?

8 MR. LLOYD KUZCEK: Subject to check, my
9 understanding is we capitalize all DSM, and it's amortized
10 over a fifteen (15) year period.

11 MR. BOB PETERS: All right, and if -- if you
12 take as correct, that there's an amount of \$50 million on the
13 balance sheet as a deferred asset related to PowerSmart and
14 DSM, would the Board be correct in interpreting that as being
15 prior year's expenditures of the similar nature to what you
16 just referred to as taking place in 2004?

17 MR. LLOYD KUZCEK: That would be correct.

18 MR. BOB PETERS: That would be the unamortized
19 -- or the un -- I guess the unamortized balance of the costs
20 that have accumulated?

21 MR. LLOYD KUZCEK: That's correct.

22 MR. BOB PETERS: And is -- is \$16 million a
23 year a high number, a low number, an average number. Do you
24 have any -- any feel for that?

25 MR. LLOYD KUZCEK: It's -- it's gone up

1 considerably, and if I -- I could refer to the document, but
2 I think by '01/02, we spent seventy (70) some million -- 72
3 million.

4 MR. ROBERT MAYER: There is some suggestion
5 that your fervor for DSM appears to go up and down in some
6 relationship to when you want to build new generation
7 stations?

8 MR. LLOYD KUZCEK: Is Mr. Tory here?

9 THE CHAIRPERSON: Would it be time for a
10 break, Mr. Peters?

11 MR. BOB PETERS: Oh, certainly, sir.

12

13 --- Upon recessing at 3:09 p.m.

14 --- Upon resuming at 3:23 p.m.

15

16 THE CHAIRPERSON: Mr. Peters, we don't --
17 there are about another thirty-five (35) minutes for this
18 week?

19 MR. BOB PETERS: Yes, thank you, sir. Mr.
20 Kuzcek, that's probably the countdown to your being away so
21 why don't you and I try to finish off my questions, for sure
22 in that area.

23

24 CONTINUED BY MR. BOB PETERS:

25 MR. BOB PETERS: Before the break, sir, you

1 were -- you were telling me that, as I understood your
2 answers, that you've been spending at a higher rate of late
3 than in past years and that approximately \$16 million dollars
4 was the expenditures in fiscal 2004; have I got that correct?

5 MR. LLOYD KUZCEK: In fiscal year ending '04,
6 yes. Like, 03/04.

7 MR. BOB PETERS: And I think you also said
8 that cumulatively, or I understood it to be cumulatively, at
9 the end of fiscal '02 the Corporation had spent approximately
10 \$72 million dollars and I think that's a number that was in
11 the PowerSmart Program report?

12 MR. LLOYD KUZCEK: Yeah, and the updated
13 number at the end of 03/04 and this is subject to being
14 confirmed is about 100 million.

15 MR. BOB PETERS: And that cumulative amount
16 represents the number since the inception of your DSM
17 activities at the Corporation?

18 MR. LLOYD KUZCEK: Correct.

19 MR. BOB PETERS: And that was approximately
20 1991?

21 MR. LLOYD KUZCEK: Looking at the table here,
22 I see a range -- dollars associated with the period 89/92 so
23 in that area, yes.

24 MR. BOB PETERS: All right. Pre-dates both
25 of us perhaps then. We're saying back to the late '80s,

1 early '90s.

2 MR. ROBERT MAYER: You're not that young, Mr.
3 Peters.

4 MR. BOB PETERS: At least in terms of
5 Manitoba Hydro rate cases.

6

7 CONTINUED BY MR. BOB PETERS:

8 MR. BOB PETERS: Do I interpret, Mr. Warden,
9 sorry to start without you but we didn't need you until now,
10 if Mr. Kuzcek has told the Board that he's spent
11 approximately \$100 million dollars up until the end of fiscal
12 '04 and your balance sheet shows that there's a deferred
13 asset of about \$50 million dollars does that lead the Board
14 to conclude that the other 50 million has already been
15 amortized and taken into account through rates?

16 MR. VINCE WARDEN: The -- the updated number
17 to the end of 2004 is 61 million. So if Mr. Kuzcek's number
18 of 100 million is also for that same time period, then the
19 difference between the 100 million and the 61 million would
20 be amortized, yes.

21 MR. BOB PETERS: Mr. Kuzcek, I think when Mr.
22 Warden and I talked about this in a previous week, he
23 couldn't recall any DSM programs that, in my words, didn't
24 get off the ground or didn't get implemented and do you know
25 of there being a number of programs that you investigate but

1 ultimately they don't go forward?

2 MR. LLOYD KUZCEK: There -- there are some
3 technologies that we do investigate that don't go forward but
4 that's because they don't pass the tests.

5 MR. BOB PETERS: And if they don't pass the
6 tests, what do you do with the costs that have been incurred
7 up until the time you learn they haven't passed the tests?

8 MR. LLOYD KUZCEK: I don't think there's any
9 substantial costs associated with doing the initial
10 assessments associated with those opportunities.

11 THE CHAIRPERSON: Mr. Kuzcek, if I recall the
12 earlier testimony that you aggregate all the DSM type
13 planning studies and work and things like that and then don't
14 evaluate each item within it. And then -- then you amortize
15 it over the fifteen (15) years.

16 MR. LLOYD KUZCEK: That's correct.

17

18 CONTINUED BY MR. BOB PETERS:

19 MR. BOB PETERS: And that includes the costs
20 of programs that don't go past the testing stage, Mr. Kuzcek?

21 MR. LLOYD KUZCEK: That's correct.

22 MR. BOB PETERS: Can you indicate, when
23 you're doing your expenditures; do you target a certain
24 amount per year that you're going to spend for different
25 customer classes?

1 (BRIEF PAUSE)

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MR. LLOYD KUZCEK: It's actually broken down. Currently, right now, we're looking at the -- opportunities in the residential market, the commercial market and the industrial market.

When we come out with our revised formal plan you will see numbers assigned to the specific programs within each of those sectors.

MR. BOB PETERS: Do you try to balance it out as between those sectors in terms of costs expended?

MR. LLOYD KUZCEK: Actually there's no -- there's no balancing in that -- in that sense. What we do is the driver is pursuing all economic opportunities regardless of where they are, in a general sense.

MR. BOB PETERS: If that's the driver then, Mr. Kuzcek, you don't have any specific programs that would say be addressed to low income residential customers, as opposed to higher income residential customers?

MR. LLOYD KUZCEK: We -- we have different programs targeting different groups. We have initiatives, I think I outlined in my direct evidence, where we are trying to support some -- what I would call low income initiatives.

MR. BOB PETERS: Can you refresh my memory on that long list that you provided in your direct evidence to

1 Ms. Ramage?

2 MR. LLOYD KUZCEK: I believe people probably
3 were sleeping at that point.

4

5

(BRIEF PAUSE)

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7

MR. LLOYD KUZCEK: It was a long list, and the
8 -- the low income initiatives that I referred to are
9 supporting the In Fill Housing Initiative in Winnipeg.

10

There's the Habitat Humanity initiative, there
11 was the West Broadway -- West Broadway initiative, North End
12 Housing, Spence Street Neighbourhood Initiative, those
13 initiatives.

14

MR. BOB PETERS: And other than efficiency
15 programs, were there any that you recall for the diesel
16 community?

17

MR. LLOYD KUZCEK: We have a -- well, we have
18 a few different programs targeting different customer
19 segments, we -- we mentioned the Wise Program, which is
20 focused towards the seniors.

21

We also have been over the past couple of
22 years been talking about -- and even longer, about how we can
23 address the First Nation communities, and we've developed a
24 program that -- a pilot program that we call -- just one (1)
25 sec, look it up here, it's a communication action strategy, I

1 believe it's called that. Communication Action Plan, and
2 that's focused towards the First Nations, not just the diesel
3 communities.

4 What we did with the diesel communities is we
5 took our -- our draft pilot that we had drafted already, and
6 we customized it just for the diesel communities, but in
7 affect it's the same program, and the -- the intent of the
8 program is to get community involvement and try to get the
9 residences within those communities, aware of PowerSmart
10 initiatives, and aware of the costs associated with the
11 energy consumption.

12 MR. BOB PETERS: Thank you, Mr. Kuzcek. While
13 we're talking generally about savings of power, do you know
14 if Manitoba Hydro experiences energy theft in any material
15 way?

16 MR. LLOYD KUZCEK: Mr. Warden might be able to
17 answer that.

18 MR. BOB PETERS: Certainly.

19 MR. VINCE WARDEN: Well, we don't think so, we
20 -- we monitor the -- the difference between inputs and
21 outputs, you know, generation and sales to the ultimate
22 customer.

23 And that hasn't changed materially over the
24 years. Whether there's theft in that amount, we expect, you
25 know, like other jurisdictions, there probably is some. But

1 we don't think it's real significant.

2 MR. BOB PETERS: I don't want to lapse into --
3 into gas mode here, but in the gas industry there's this
4 unaccounted for gas, which is a difference between
5 measurements of purchases and sales, is that what you're
6 telling me you do also with the electric side?

7 MR. VINCE WARDEN: No, I think the unaccounted
8 -- unaccounted for gas is more related to measurements of the
9 meters, so that most of the unaccounted for gas is because of
10 error in metering. We don't have the same issue -- electric
11 meters for the most part are more precise than gas meters.

12 MR. BOB PETERS: What happens with -- with the
13 difference that you have in your monitoring results, Mr.
14 Warden. Who ends up paying for that, or how does it end up
15 getting taken into account in the Cost of Service?

16 MR. VINCE WARDEN: Well, it becomes just part
17 of the cost of providing service to customers, and that
18 ultimately would be allocated amongst the customer classes,
19 just the same way we do other costs.

20 MR. BOB PETERS: To close that off, Mr.
21 Thomas, do you know how -- how that's allocated, and what --
22 what basis?

23 MR. CHIC THOMAS: Yeah, we have -- we have
24 both a -- a transmission loss and a distribution loss which
25 we allocate back to individual customer classes and sub-

1 classes based on their usage.

2 MR. BOB PETERS: On the same theme then, Mr.
3 Warden, does Manitoba Hydro undertake any efforts to prevent
4 use of energy for illegal purposes?

5 MR. VINCE WARDEN: We do --

6 MR. BOB PETERS: I'm not asking for my own --

7 MR. VINCE WARDEN: We cooperate with
8 authorities in attempting to thwart those activities.

9 MR. BOB PETERS: All right. And we -- we're
10 both thinking the same of these, what they call illegal grow
11 operations. But does Manitoba Hydro take the initiative when
12 they notice that a residential consumer with non-electric
13 space heaters bill goes from 800 Kilowatt Hours a month to 3500
14 Kilowatt Hours a month?

15 MR. VINCE WARDEN: We do monitor those
16 activities. However, for the most part, the grow operations
17 would bypass the meters. So it wouldn't show up in usage.

18 MR. BOB PETERS: That would be part of the
19 distribution loss that Mr. Thomas and I talked about?

20 MR. VINCE WARDEN: That's right.

21 MR. BOB PETERS: Mr. Kuzcek, after that
22 interesting interlude, can you tell the Board how many
23 employees are responsible for the DSM activities and the
24 PowerSmart activities of the Corporation, and I'm actually
25 looking at Tab 24 of the Book of Documents that I circulated

1 and I have a bunch of -- I have a number of EFT positions
2 listed on -- in that tab and I wondered if you could help the
3 Board in identifying how many EFTs are devoted to the DSM
4 programs at the Corporation?

5 MR. LLOYD KUZCEK: I -- I don't have an exact
6 number that I can give you. It's a struggle identifying the
7 number of EFTs because there's a number of staff that
8 actually -- it's a portion of their role and that varies
9 within a number of positions.

10 We have dedicated staff that work on DSM and
11 program design and that number is approximately twenty-five
12 (25). We have dedicated sales staff that -- there's four (4)
13 and then we have a number of other sales staff that, in the
14 range of thirty (30) that, and even within their jobs, their
15 jobs are composed of promoting PowerSmart, selling PowerSmart
16 service extension work in the community activities, customer
17 relations type work.

18 So the percentage of their work that's tied to
19 PowerSmart could vary from 5 percent to 40 percent or some
20 number like that. So I've never calculated that number. In
21 the contact centre, it varies there as well and if I have to
22 pick a number, there might be five (5) staff -- five (5) EFTs
23 there.

24 Throughout our districts we've got seventy-two
25 (72) or in the range of seventy-two (72) districts, there's a

1 number of staff there that spend a certain amount of time
2 promoting DSM as well.

3 In our communications area, we have, if I have
4 to pick a number, maybe five (5) in there that -- five (5)
5 EFTs. Load forecasting does a certain amount of effort
6 towards DSM. What portion that is, I'm not sure. Maybe an
7 EFT.

8 MR. BOB PETERS: All right. So when I get
9 the transcript back I can just add those up and that would be
10 your best estimate as to the EFT positions.

11 MR. LLOYD KUZCEK: I'm sorry. I forgot, Mr.
12 Wiens' group.

13 MR. BOB PETERS: And how many of his group
14 would you, on an EFT basis, attribute to the DSM activities
15 of Manitoba Hydro?

16 MR. LLOYD KUZCEK: I like this answer.

17 MR. ROBERT MAYER: Pick a number, any number.

18 MR. ROBIN WIENS: It's probably less than one
19 (1) but we do administer the curtailable rate program which
20 we do account for in our DSM accounting.

21 MR. BOB PETERS: All right.

22 MR. LLOYD KUZCEK: There's -- there's
23 actually also accounting people involved in the Corporation
24 as well. With our finance programs we have people that do
25 the creditworthiness checks and then there's the people that

1 are involved in the billing, we bill through our bills under
2 the finance programs.

3

4 CONTINUED BY MR. BOB PETERS:

5 MR. BOB PETERS: I'm gathering from your
6 answer that you've never had to do a calculation of what the
7 EFT number is for the DSM activity of Manitoba Hydro?

8 MR. LLOYD KUZCEK: That's correct because
9 it's integrated well within our -- throughout our company, so
10 we've never done that.

11 But having said that, people do charge their
12 activities to DSM, but we've never come up with an EFT count.

13 THE CHAIRPERSON: When you say charge, do you
14 mean their -- their time, their salaries and benefits would
15 be charged?

16 MR. LLOYD KUZCEK: That's correct.

17 THE CHAIRPERSON: Included in the \$15 million
18 dollars would be human resource costs?

19 MR. LLOYD KUZCEK: That's correct.

20 THE CHAIRPERSON: Mr. Peters, perhaps it would
21 be helpful actually to have a sort of a baseline count of the
22 DSM effort on an estimated EFT basis?

23

24 CONTINUED BY MR. BOB PETERS:

25 MR. BOB PETERS: Mr. Kuzcek, could you --

1 could you provide us with that?

2 MR. LLOYD KUZCEK: Yes.

3

4 --- UNDERTAKING NO.52: To provide a baseline count of
5 the DSM effort on an estimated
6 EFT basis.

7

8 CONTINUED BY MR. BOB PETERS:

9 MR. BOB PETERS: Thank you, sir. When we
10 talked about your cost being capitalized, and then amortized
11 over fifteen (15) years, I think that was your evidence, Mr.
12 Kuzcek?

13 MR. LLOYD KUZCEK: That's correct.

14 MR. BOB PETERS: Who picked fifteen (15)
15 years?

16 MR. LLOYD KUZCEK: Likely an accountant,
17 but...

18 You know, I -- I don't know, I was --

19 MR. VINCE WARDEN: Yeah, he's right, it was --

20 MR. BOB PETERS: And -- and do you know why,
21 Mr. Kuzcek, fifteen (15) years was selected, as opposed to
22 some other number?

23 MR. VINCE WARDEN: It's similar to what we
24 discussed on planning studies, it was considered to be a
25 reasonable time over which to spread those costs. We're

1 attempting to match costs with benefits, and the thinking at
2 the time was that the benefits of a DSM program would be
3 realized over a fifteen (15) year period.

4 MR. BOB PETERS: Mr. Kuzcek, is that
5 consistent with your analysis of the programs that your group
6 implements, is that they're good for fifteen (15) years?

7

8 (BRIEF PAUSE)

9

10 MR. LLOYD KUZCEK: Yeah, there's not --
11 there's not a clear answer to that. It depends on the life
12 or the measure of the initiative that we're looking at.

13 But it'd probably be fair to say that it's in
14 that range on average.

15 MR. BOB PETERS: Can you think of an example
16 where back in 1989 or '90, there was a program that was
17 instituted that is still operational today, some
18 fourteen/fifteen (14/15) years later?

19 MR. ROBERT MAYER: The insulation in my house.
20 I'm sorry, I didn't mean to interrupt you, sir.

21 MR. LLOYD KUZCEK: Yeah, we didn't -- we
22 didn't have a lot of programs back in '89/90, but the block
23 heater program was in effect back then, so it -- it would
24 still be -- it would still be realizing benefits associated
25 with that.

1 And, Mr. Mayer's right, if you're looking at
2 specific technologies, insulation has a fairly long life.

3

4 CONTINUED BY MR. BOB PETERS:

5 MR. BOB PETERS: Do I take from your answer,
6 sir, that there's other programs that -- that you can -- that
7 you're aware of, that don't have a fifteen (15) year life
8 span?

9 MR. LLOYD KUZCEK: I'm just generalizing in my
10 own mind, thinking about if there was an opportunity that
11 staff brought forward to me, and I thought the market was
12 going to possibly transform earlier.

13 Then I would ensure -- or the concern I would
14 have there is that we would only evaluate that specific
15 initiative over a shorter period of time if that was the
16 case.

17 MR. BOB PETERS: Thank you. Mr. Kuzcek,
18 you've told Mr. Williams that you also have done a DSM market
19 potential study in 2003, if I heard you correctly?

20 MR. LLOYD KUZCEK: That's correct.

21 MR. BOB PETERS: And that's a new study that's
22 one (1) that's not generally done by the Corporation?

23 MR. LLOYD KUZCEK: It's not usually done by
24 anybody that undertakes DSM very often. It's usually done
25 once, you know, I can't pick a particular number of years,

1 but it's fairly expensive, but you do it maybe once every
2 seven (7) years, once every ten (10) years, something like
3 that.

4 MR. BOB PETERS: And when you did it this
5 time, you involved not just Manitoba Hydro, but other
6 stakeholders, would that be correct?

7 MR. LLOYD KUZCEK: That's correct.

8 MR. BOB PETERS: Can you indicate to the
9 Board, who as an example, were those other stakeholders?

10 MR. LLOYD KUZCEK: Can't think of the names
11 but they -- Barry Wilde was one of them. Natalie -- Natalie
12 Sieba and she's a resource manager from Red River College.

13 Yeah, we actually invited a number of other
14 people prior to that and those were the only two (2) people
15 that stayed to the end. And I should mention that Barry
16 Wilde was -- I think he's a member of TREE but I don't think
17 he was there representing TREE is the way to put it.

18 MR. BOB PETERS: As a result of that new
19 study or that market potential study, Mr. Kuzcek, there were
20 additional energy savings that were -- that were identified;
21 is that correct?

22 MR. LLOYD KUZCEK: Correct. And those were
23 the numbers that we referred to when I responded to Mr.
24 Williams and I should point out, because it is another
25 important factor, is the -- it included the Winnipeg Hydro

1 service territory.

2 So we naturally expected the number to go up
3 because of that. Our plan prior to that did not include the
4 Winnipeg Hydro service territory.

5 MR. BOB PETERS: All right, and at the risk
6 of polluting the record with incorrect numbers, I won't, but
7 the numbers that you and Mr. Williams talked about, were
8 those incremental and addition to the PowerSmart savings that
9 you've accumulated to date?

10 MR. LLOYD KUZCEK: No. They were incremental
11 to what our plan identified going forward. And I forget the
12 base year, but I believe the base year was 02/03 so we were
13 looking at what the plan had indicated for certain reference
14 years.

15 And there was a five (5) year, ten (10) year
16 and fifteen (15) year reference when we at the CEC hearing
17 talking about Wustwatim we tended to refer to the more
18 distant year which was the fifteen (15) year out period,
19 17/18 year point.

20 And it was there that we -- the DSM potential
21 was one point eight five (1.85) times larger than what our
22 plan had called for.

23 MR. BOB PETERS: I recall you using that
24 number with Mr. Williams but what you're telling the Board
25 then is that these savings under the market potential study

1 are in addition to savings already realized with PowerSmart?

2 MR. LLOYD KUZCEK: That's correct.

3 MR. BOB PETERS: And in terms of the status
4 of those various programs, as I understood your exchange with
5 other counsel, Manitoba Hydro will be incorporating the
6 information from that market potential study of 2003 and
7 build in some of those programs into its PowerSmart program
8 in the fall of 2004?

9 MR. LLOYD KUZCEK: That's correct. And we've
10 already proceeded down the path of actually launching some
11 programs. So we're -- we're doing two (2) things. One is
12 we're pursuing those DSM opportunities immediately, a number
13 of them immediately.

14 And we're also going to formalize a plan
15 that'll be presented to the Board later this fall.

16 MR. BOB PETERS: And when you say "presented
17 to the Board" is that Manitoba Hydro Board, the Public
18 Utilities Board or both?

19 MR. LLOYD KUZCEK: I think we indicated in
20 our response to an IR that we would file it with the Board
21 not --

22 MR. BOB PETERS: File it with this Board?

23 MR. LLOYD KUZCEK: Correct.

24 MR. BOB PETERS: And in terms of the
25 PowerSmart plan for 2004, Mr. Kuzcek, are you going to be

1 involving other stakeholders in the development of those
2 plans?

3 MR. LLOYD KUZCEK: That's correct.

4 MR. BOB PETERS: And can you explain who --
5 who you're intending to involve at this point in time?

6 MR. LLOYD KUZCEK: We're -- at this point
7 we're having some consultations with interested parties to
8 see who would be interested and we've talked to
9 representatives from CAC/MOSS. We've talked to TREE. We've
10 talked to two (2) -- with some government representatives to
11 see if they'd be interested, partially because of efficiency
12 Manitoba.

13 And we've had some internal discussions to
14 explore involving other people as well, the ECO network
15 (phonetic), Climate Change Connection, we probably would have
16 some consultations with some communities as well, for
17 example, Brandon.

18 We might have some in Thompson as well. The
19 AMM, the Association of Manitoba Municipalities.

20 MR. BOB PETERS: Conspicuously absent from
21 that list was Ms. McCaffrey's client, MIPUG.

22 MR. LLOYD KUZCEK: I keep -- I maybe didn't
23 mention this, but I don't represent the -- the industrial
24 group. We have another -- my counterpart that does and he
25 did respond to one of the IR's saying that he would consult

1 with the industrial group as well.

2 MR. BOB PETERS: Thank you for that. So,
3 those consultations I take it, are -- are underway, and are
4 at least in the preliminary stages, all again with a view to
5 having some programs vetted and included in the fall
6 PowerSmart Program by Manitoba Hydro?

7 MR. LLOYD KUZCEK: That is the plan. How soon
8 we get the plan out will depend on those consultations I
9 guess, and how involved they'll be.

10 MR. BOB PETERS: Can you indicate to the Board
11 what limitations exist from reaching those new targets?

12 MR. LLOYD KUZCEK: The -- the limitations that
13 we face with those targets are similar to barriers that we
14 realize with all our DSM initiatives, there's general
15 barriers out there within DSM initiative, that -- and they
16 range from consumer awareness, financing capability of
17 consumers -- consumer priorities.

18 To give you an example of that, my -- my
19 sister -- or my brother, for example, when I go over there
20 and talk about energy efficient measures, he pretty much
21 shows me the door. He's financially wealthy, and doesn't
22 really care about saving a hundred dollars (\$100).

23 My sister, on the other hand, is on the low
24 income category, and she's very interested, but she can't
25 afford to implement any measures. So, there's a number of

1 areas involved.

2 MR. BOB PETERS: From Manitoba Hydro's
3 internal perspective then, there are no limitations to the
4 program, in terms of resources, internal human resources?
5 You've got enough bodies to -- to implement these programs,
6 if you decide to go ahead?

7 MR. LLOYD KUZCEK: We're having some internal
8 discussions right now, in terms of what resources we need.
9 And as part of finalizing that plan, we will probably be
10 talking about what resources are required to -- to fulfil our
11 objectives in -- in the plan.

12 As I mentioned in my direct evidence, we have
13 increased staff considerably since '99, and we will continue
14 to do so if it makes economic sense.

15 MR. ROBERT MAYER: Recognizing --

16 MR. LLOYD KUZCEK: Good business sense.

17 MR. ROBERT MAYER: -- recognizing the regulat
18 -- regulatory zoo Manitoba Hydro's been in for the last two
19 (2) years, assuming we get by the Clean Environment
20 Commission Hearing and get by this Hearing, will you at that
21 point in time have enough bodies in the place, to see that
22 these -- these programs come online when they're supposed to?

23 MR. LLOYD KUZCEK: I'm not sure we'll have
24 enough bodies right at that particular point in time. But,
25 it comes down -- it comes down to balancing -- dealing with a

1 peak load requirement, and do you do that over a short period
2 of time, or do you do that over a more gradual period of time
3 of implementing the programs in one (1) to three (3) years,
4 and those are the discussions we're having internally, trying
5 to decide what to do.

6 There is alternative choices of possibly
7 hiring some consultants -- consultants to help us with some
8 of those programs.

9

10 CONTINUED BY MR. BOB PETERS:

11 MR. BOB PETERS: Mr. Kuzcek, just a couple of
12 quick areas left here, you mentioned Efficiency Manitoba in
13 an answer to me a few minutes ago, can you tell the Board
14 what you understand that to be?

15 MR. LLOYD KUZCEK: I made a mistake. I -- I
16 can't tell you, yeah, I made a mistake in mentioning it,
17 because I can't tell you a lot.

18 What I can tell you is that we've had some
19 ongoing discussions with Government. This is a Government --
20 a policy initiative, and we are involved in terms of those
21 consultations. And where it's going from here, I couldn't
22 respond to that.

23 MR. BOB PETERS: Can you explain whether this
24 is a -- a new Government Department or agency, or how you
25 understand it to be -- to be --

1 MR. LLOYD KUZCEK: I understand -- I
2 understand they're still looking at the options and how it's
3 going to be structured.

4 MR. BOB PETERS: Can you -- is there a
5 possibility then that the DSM initiatives and the PowerSmart
6 initiatives of Manitoba Hydro would be transferred over to
7 this Efficiency Manitoba group?

8 MR. LLOYD KUZCEK: That is a possibility.

9 MR. BOB PETERS: And that's been discussed in
10 some preliminary way, I take it?

11 MR. LLOYD KUZCEK: Yes.

12 MR. BOB PETERS: Could you indicate to the
13 Board whether or not Manitoba Hydro's funding obligations
14 would continue, if it was transferred over?

15 MR. LLOYD KUZCEK: I haven't had any
16 discussion, well, I shouldn't say I haven't had any
17 discussions, I haven't had any formal discussions, I don't
18 know where the -- how the funding's going to work.

19 MR. BOB PETERS: Is there a time-line that
20 you're aware of, in which perhaps more information will be
21 available to the utility, as well as the public?

22 MR. LLOYD KUZCEK: I don't have a specific
23 time-line that I'm aware of.

24 MR. BOB PETERS: And you're not aware then of
25 how many -- how many, if any, employees of Manitoba Hydro

1 would be transferred over to such a -- such an Efficiency
2 Manitoba group?

3 MR. LLOYD KUZCEK: Correct. I don't -- I
4 don't believe that decision's been made.

5 MR. BOB PETERS: And, again, you don't have a
6 time-line that you can indicate to this Board in which such
7 decisions might be made?

8 MR. LLOYD KUZCEK: No, I couldn't.

9 MR. BOB PETERS: Mr. Kuzcek, how long have
10 you been in your current position?

11 MR. LLOYD KUZCEK: Since 2001.

12 MR. BOB PETERS: And since 2001 your
13 Corporation has acquired the gas utility in the province,
14 correct?

15 MR. LLOYD KUZCEK: We acquired it in 1999, I
16 believe.

17 MR. BOB PETERS: Since -- thank you, sir.
18 Thank you for that correction. I was thinking of Winnipeg
19 Hydro but I didn't mean the gas utility. Centra Gas was in
20 July of 1999?

21 MR. LLOYD KUZCEK: Correct.

22 MR. BOB PETERS: And when you assumed your
23 responsibilities on the electric side, sir, have you any
24 responsibilities also for the gas side of the Corporation?

25 MR. LLOYD KUZCEK: Yes.

1 MR. BOB PETERS: And so when you are
2 evaluating programs, you're looking to see if it will impact
3 gas consumers as well as electric consumers; would that be
4 fair?

5 MR. LLOYD KUZCEK: Correct.

6 MR. BOB PETERS: And without getting into
7 each an every program, generally speaking, any of your
8 programs that are designed for energy efficiency will benefit
9 the homeowner whether they use electric space heat or gas
10 space heat?

11 MR. LLOYD KUZCEK: Can you repeat that?

12 MR. BOB PETERS: I will because -- leaving
13 aside the type of appliance that's involved in efficiency
14 programs, the insulation programs, the upgrading of windows
15 and the like; those programs, are they available to both gas
16 and electric customers?

17 MR. LLOYD KUZCEK: A number of programs are
18 available to both, yes. But some are not, such as the
19 insulation program is available only to electrically heated
20 consumers.

21 MR. BOB PETERS: Why do you differentiate
22 between electric heat and gas heat in those types of
23 programs, Mr. Kuzcek?

24 MR. LLOYD KUZCEK: The benefits associated
25 with incentive-based programs are derived from the revenues

1 -- the additional revenues, that we realize in the export
2 market and it's not tied to the -- the gas business.

3 MR. BOB PETERS: What you're telling the
4 Board is you don't have a ready available source of funds in
5 which you can provide incentives to consumers?

6 MR. LLOYD KUZCEK: That's correct.

7 MR. BOB PETERS: And that's predominantly
8 because the gas that consumers use for space heat comes from
9 outside the Province over which Manitoba Hydro has no
10 ownership?

11 MR. LLOYD KUZCEK: Yes. And it's a pass
12 through, from what I understand. So, there's no -- no
13 savings there.

14 MR. BOB PETERS: Have -- has Manitoba Hydro
15 ever proposed a DSM type program on the gas side to the
16 Public Utilities Board for which they did not get approval?

17 MR. LLOYD KUZCEK: Not on the gas side that
18 I'm aware of.

19 MR. BOB PETERS: From your analysis
20 perspective, is it as easy to analyze programs for gas
21 customers, and when I say "gas customers" I mean space heat
22 customers and water heater customers, as it is for electric
23 customers?

24 MR. LLOYD KUZCEK: Yes.

25 MR. BOB PETERS: Would the tests be

1 essentially the same?

2 MR. LLOYD KUZCEK: Yes.

3 MR. BOB PETERS: Mr. Kuzcek, in the few
4 minutes before your weekend begins there's also evidence
5 before this Board that Manitoba Hydro has an obligation to
6 provide Winnipeg -- the City of Winnipeg with some measurable
7 DSM savings; are you aware of that?

8 MR. LLOYD KUZCEK: Yes, I am.

9 MR. BOB PETERS: And am I correct that
10 Manitoba Hydro is to deliver eight hundred thousand dollars
11 (\$800,000) of savings to the City of Winnipeg on an annual
12 basis?

13 MR. LLOYD KUZCEK: Yes.

14 MR. BOB PETERS: And that started in 2002?

15 MR. LLOYD KUZCEK: September 2002, correct.

16 MR. BOB PETERS: And in your fiscal year
17 2002/'03, did Manitoba Hydro provide DSM savings to the City
18 of Winnipeg that would be pro-rated to the eight hundred
19 thousand dollar (\$800,000) on an annual basis?

20 MR. LLOYD KUZCEK: I believe the first year
21 there was some savings there, yes.

22 MR. BOB PETERS: But not the equivalent of
23 eight hundred thousand dollars (\$800,000) on an annual basis?

24 MR. LLOYD KUZCEK: Not even close.

25 MR. BOB PETERS: And so, what did you do in

1 that case?

2 MR. LLOYD KUZCEK: We're -- we're in the
3 process of implement -- or fulfilling our commitment under
4 the contract and the first year was spent working out certain
5 arrangements, talking to the City of Winnipeg and a number of
6 the staff there.

7 And we now have moved forward, where a number
8 of the measures -- energy efficient measures are going to be
9 implemented over the next eighteen (18) months.

10 MR. BOB PETERS: Would it be correct that you
11 didn't achieve the eight hundred thousand dollar (\$800,000)
12 annual savings limit in fiscal '03, and you probably didn't
13 reach it in fiscal '04; would you agree with that?

14 MR. LLOYD KUZCEK: That's correct, and -- and
15 I think when we signed the agreement, we didn't expect to in
16 the first couple of years.

17 MR. BOB PETERS: Do you know what actual
18 levels you did achieve in terms of financial savings in those
19 two (2) years?

20 MR. LLOYD KUZCEK: The first two (2) years
21 were fairly small. The first year, it seems to me, it was
22 only six hundred dollars (\$600), it was some small initiative
23 that we were able to implement fairly easy.

24 The second year we've achieved -- there was
25 more savings there, but it wasn't even a hundred thousand

1 (100,000) is what I understand.

2 Where we're at right now is implementing most
3 of the other measures that we had indicated, and you're
4 probably going to lead to this anyways, where -- where were
5 you expecting that number to be, but it's -- it's looking
6 like it's going to be in the -- if I gave you a range, just
7 to be safe, the eight hundred thousand (800,000) to \$1.2
8 million range.

9 MR. BOB PETERS: And that's in fiscal '05?

10 MR. LLOYD KUZCEK: I believe -- where are we
11 now? We're in '04, so roughly eighteen (18) months from now,
12 so that would be September '06, is when I hope to have most
13 of those implemented. There will be some that occur in the
14 year following that.

15 MR. BOB PETERS: Does the Board then -- I'm
16 sorry, I didn't mean to cut you off.

17 MR. LLOYD KUZCEK: That's fine.

18 MR. BOB PETERS: Does the Board then conclude
19 that in the years in which you did not achieve the equivalent
20 of eight hundred thousand dollars (\$800,000) on an annual
21 basis, that Manitoba Hydro will -- has cut a cheque already
22 to the City of Winnipeg?

23 MR. LLOYD KUZCEK: That's correct.

24 MR. BOB PETERS: Could you check and see how
25 much has been paid to the City of Winnipeg then, for your

1 fiscal '03, your fiscal '04, and what you're expected cheque
2 to the City would be in fiscal '05?

3 MR. LLOYD KUZCEK: I can do that.

4

5 --- UNDERTAKING NO.53: Show much has been paid to the
6 City of Winnipeg for fiscal
7 '03/'04, and what the expected
8 cheque to the City would be in
9 fiscal '05?

10

11 CONTINUED BY MR. BOB PETERS:

12 MR. BOB PETERS: And in addition to cutting a
13 cheque to the City of Winnipeg, when they don't achieve their
14 DSM potential, or the amount that was in the agreement,
15 Manitoba Hydro also pays for the cost of the programs, as I
16 understand it?

17 MR. LLOYD KUZCEK: Yes, unless we agree to
18 some alternative arrangement. We -- it is possible that we
19 -- and we have proposed -- made a proposal to the City, where
20 they've agreed to pursue that, as well as increase the amount
21 of the project, to achieve some additional benefits that they
22 would like incorporated in the project.

23 MR. BOB PETERS: In addition to telling me how
24 much the cheques were for those years, Mr. Kuzcek, would you
25 also be able to estimate the amount of Manitoba Hydro

1 expenditures in those three (3) years, relative to getting
2 those programs going?

3 MR. LLOYD KUZCEK: Yes.

4 MR. BOB PETERS: All right, thank you. With
5 that, Mr. Chairman, I'm recognizing the hour, I have a
6 feeling it's like a Friday before a long weekend, but I guess
7 it's a Wednesday before a potentially extra long weekend.

8 So, I can pick up with this Panel, minus Mr.
9 Kuzcek on Monday morning, and still make ample room for My
10 Friends from MIPUG.

11 THE CHAIRPERSON: Thank you, Mr. Peters.
12 Thank you, Intervenors. Thank you, to the Panel. Thank you,
13 in particular to Mr. Kuczek, for answering all these
14 questions this afternoon. We appreciate the input and the
15 cooperation and even the diligence.

16 We'll see all of you on -- oh, Mr. Peters,
17 before we shut down, you were going to speak to our schedule?

18 MR. BOB PETERS: I did, and I will, Mr.
19 Chairman. As I've indicated, on July the 5th, I will
20 conclude with this Panel, certainly in the morning, and that
21 will free up most of the day for the witnesses on behalf of
22 MIPUG from Inter-Group, Messrs. Bowman and Osler, and their
23 -- it's envisioned that they will give their direct evidence
24 through Ms. McCaffrey, and then be cross-examined by all
25 parties who wish to.

1 And then we will stand down until Thursday,
2 the 8th of July, when Mr. Williams will have his witness, Mr.
3 Harper here, from Econalysis, in support of CAC/MSOS, and
4 that witness will be asked for his evidence in direct, as
5 well as cross-examination on Thursday, the 8th.

6 Presently July 15th, the Thursday, is
7 available. And I'm looking to My Friend, Ms. Ramage, to see
8 that she may have witnesses available, should any parties
9 wish to have any questions on the exhibits that have been
10 filed.

11 I can indicate, at this point in time, Mr.
12 Anderson has taken me up on that offer, and has indicated
13 that he has questions of the Revenue Requirement Panel, and
14 his limits -- or sorry, his questions of the Revenue
15 Requirement Panel, to his way of thinking, are limited to
16 Messrs. Cormie, Surminski and if possible, Mr. Warden, on a
17 policy basis, should those policy issues arise. But the rest
18 of the Revenue Panel, no one yet expressed an interest, and
19 if they do, I will notify Ms. Ramage immediately.

20 And that frees up then on Friday the 16th,
21 would be the day for closing submissions by all parties and
22 to that end, I can indicate that TREE/RCM will likely have a
23 written submission to be filed at that time.

24 THE CHAIRPERSON: Thank you, Mr. Peters. Ms.
25 Ramage, this Undertaking Number 50, I take it this is Exhibit

1 MH-60?

2 MS. PATTI RAMAGE: That's correct.

3 THE CHAIRPERSON: Very good.

4

5 --- EXHIBIT NO. MH-60: Response to Manitoba Hydro
6 Undertaking NO. 50.

7

8 THE CHAIRPERSON: Thanks again, everyone,
9 we'll see you on Monday, have a nice Canada Day.

10

11 (PANEL RETIRES)

12

13 --- Upon adjourning at 4:05 p.m.

14

15

16

17 Certified Correct,

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21

22

Carol Wilkinson, Ms.

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