1
2 MANITOBA PUBLIC UTILITIES BOARD
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6 Re: MANITOBA HYDRO
7 COST OF SERVICE STUDY
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9
10 Before Board Panel:
11 Graham Lane - Board Chairman
12 Robert Mayer - Board Member
13 Kathi Avery Kinew - Board Member
14 Len Evans - Board Member
15
16
17 HELD AT:
18 Public Utilities Board
19 400, 330 Portage Avenue
20 Winnipeg, Manitoba
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25

1 APPEARANCES

2

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1 --- Upon commencing at 9:03 a.m.
2
3 THE CHAIRPERSON: Good morning, ladies
4 and gentlemen. We'll continue with the discussion from
5 yesterday's Hearing.
6 I'm Graham Lane, Chairman of this Board
7 and with me are Board Members, Mr. Len Evans, Dr. Kathi
8 Avery-Kinew, and Vice Chair Robert Mayer. The subject of
9 this Hearing is the proposed cost of service study
10 submitted by Manitoba Hydro.
11
12 VINCE WARDEN, Resumed
13 ROBIN WIENS, Resumed
14 CHIC THOMAS, Resumed
15 HAROLD SURMINSKI, Resumed
16
17 THE CHAIRPERSON: It seems to me it would
18 be appropriate not only to test the new proposed model
19 with existing information, but also understand how such a
20 new model would be impacted by likely future events.
21 You have indicated the potential for a
22 future consolidation of classes and I think we understand
23 how that would be done if it was proceeded with.
24 And with respect to wind, I understand
25 that payments to a wind generator would be treated as

1 purchase power; is that correct?
2 MR. VINCE WARDEN: This is correct, Mr.
3 Chairman, yes.
4 THE CHAIRPERSON: Thank you. Is it also
5 correct that any other costs that Manitoba Hydro incurred
6 with respect to wind would simply fall against the
7 expense and category lines that you employ for other
8 generation, transmission, distribution, and customer
9 service; is this correct too?
10 MR. VINCE WARDEN: It is. Any -- any
11 expense we incur with respect to wind, the majority of
12 which will be in the power to purchase co -- cost line,
13 but, yes you are correct.
14 THE CHAIRPERSON: Thank you. In short,
15 the overall impact of wind on the COSS revenue
16 requirements and perhaps rates, would be considered
17 within the mix of all of Manitoba Hydro's costs not by
18 itself; is this correct?
19 MR. VINCE WARDEN: Correct.
20 THE CHAIRPERSON: Okay. Now, with
21 respect to the prospects for Wuskwatim, I understand you
22 to say that Wuskwatim will be treated as if it were
23 Manitoba Hydros. In other words, we would find costs and
24 a variety of expense lines like appreciation, interest,
25 operating costs, et cetera.

1 And with respect to the COSS, we would
2 find the costs treated just as if they were a fully
3 Manitoba Hydro project; is this correct too?
4 MR. VINCE WARDEN: Mr. Chairman, I
5 indicated yesterday that we really hadn't put our minds
6 to how those costs would flow through the Cost of Service
7 Study. I should say though that we're talking about a
8 really very small plant here with Wuskwatim. And the
9 impact on our cost would be fairly insignificant.
10 So I don't expect there would be much of
11 an impact on the Cost of Service Study, at all. But the
12 net effect though of the -- adding that plant would be --
13 I -- without doing the modeling that I talked about the
14 impact would be very similar to us capitalizing in a
15 small plant on our system and the costs would flow
16 through as they do normally.
17 So, the impact on our cost of service
18 study, the impact on our proposed methodology, should be
19 minimal.
20 THE CHAIRPERSON: That's basically what I
21 was speculating on. I was speculating on if you were --
22 you'd mentioned before that you were operating and are
23 fully responsible for the operations et cetera, that I
24 was imagining that the COSS could handle it, just by
25 flowing it through like it was another generating

1 station.
2 MR. VINCE WARDEN: Yes, I agree.
3 THE CHAIRPERSON: Okay. Well, then I'm
4 speculating again and I appreciate confirmation just for
5 the general understanding, that under that approach
6 revenues that arise out of Wuskwatim when they would
7 occur, would just flow into the COSS as if it was any
8 other Manitoba Hydro generation; is that correct, as
9 well?
10 MR. VINCE WARDEN: Yes, we may have a
11 separate line for identifying those revenues separately,
12 but in terms of how it effects the Cost of Service Study,
13 it would be no different from any other dollar of revenue
14 earned by Manitoba Hydro.
15 THE CHAIRPERSON: I gather if that was
16 the way it played out, and just trying to imagine how it
17 would effect the COSS, any payments that were due to the
18 partner, would -- you be treating it as a minority
19 interest and be calculated according to such contracts as
20 you may enter into; would that be accurate?
21 MR. VINCE WARDEN: Yes, that would be
22 accurate, as well.
23 THE CHAIRPERSON: So any payments that
24 were made would sort of fall into the COSS, on some
25 different line, correct?

1 MR. VINCE WARDEN: I would expect so, Mr.
2 Chairman. I think there are some alternative ways that
3 we could account for Wuskwatim, but the net effect is
4 close to what you described I would expect, yes.
5 THE CHAIRPERSON: I was just trying to
6 work through in my mind how it would work with this COSS
7 and I --
8 MR. VINCE WARDEN: There are -- there are
9 though some options and I think it is something that I
10 would want to give further thought to as to how exactly
11 we would reflect Wuskwatim revenues and expenses on the
12 operating statements of Manitoba Hydro.
13 The impact though -- and your point is the
14 impact on the Cost of Service Study should be relatively
15 transparent as far as the methodology is concerned.
16 THE CHAIRPERSON: I was just imagining
17 the general accounting for a large corporation that has a
18 minority interest in some small subsidiary. You know
19 they normally consolidate all the revenues and all the
20 expense all the way through, then you look at it right at
21 the bottom they have minority interests, and I was sort
22 of testing that theory against the COSS model.
23 MR. VINCE WARDEN: Yes, and -- and I
24 agree that -- that would be the most logical way to
25 handle the -- the transaction.

1 THE CHAIRPERSON: Thank you, Mr. Warden,
2 it's helpful to me. Mr. Peters...?
3 MR. BOB PETERS: Yes, thank you.
4 MR. ROBERT MAYER: Excuse me, Mr. Chair,
5 coming out -- arising out of the question regarding wind
6 those wind purchases then as I understand it in your
7 proposal would be 46 percent assigned to the opportunity
8 export class; is that correct?
9 MR. VINCE WARDEN: Yes, that's correct.
10 MR. ROBERT MAYER: Yes, we're looking at
11 page 32 of your rebuttal.
12 MR. ROBIN WIENS: That -- that is
13 correct.
14 MR. ROBERT MAYER: Thank you.
15 THE CHAIRPERSON: Mr. Peters, we're back
16 to you.
17
18 CONTINUED CROSS-EXAMINATION BY MR. BOB PETERS:
19 MR. BOB PETERS: Thank you and good
20 morning. Panel, I think we left off yesterday with
21 perhaps a common understanding that one (1) of the most
22 significant debates that's going to happen before the
23 Board in this Hearing is what is a fair distribution of
24 the export credits or the next export revenue; is that
25 correct?

1 MR. VINCE WARDEN: Yes.
2 MR. BOB PETERS: And, Mr. Warden, I'm
3 wondering why does Manitoba Hydro even join that debate
4 as to what is fair about -- what's a fair way to
5 distribute the export credit because you've acknowledged
6 there's really nothing in it for Manitoba Hydro; would
7 you agree?
8 MR. VINCE WARDEN: No.
9 MR. BOB PETERS: All right. Tell my why
10 not.
11 MR. VINCE WARDEN: Well, when you say
12 there's nothing in it for Manitoba Hydro, I really -- I -
13 - I really am struggling as to where you're coming from
14 with that, Mr. Peters. I -- what does Manitoba Hydro
15 exist for? We exist to serve customers and we can't be
16 indifferent to how those customers are served with -- or
17 how those costs are allocated amongst those customer
18 classes.
19 MR. BOB PETERS: Okay. We're -- we're
20 not talking about the costs now, we're talking about the
21 net export revenue.
22 MR. VINCE WARDEN: But we have though
23 used cost to include -- I think in the broader sense
24 we've include the all encompassing costs to include the
25 net export revenue allocation.

1 MR. BOB PETERS: But would you agree
2 with me, Mr. Warden, that whatever methodology is
3 selected by this Board or determined won't impact
4 Manitoba Hydro's future?
5 MR. VINCE WARDEN: No, I would not agree
6 with that.
7 MR. BOB PETERS: All right. And how
8 decision by this Board impact on what -- what decisions
9 Manitoba Hydro makes going forward?
10 MR. VINCE WARDEN: Well, I -- I'm very
11 confident that this Board will come to a conclusion that
12 is in the -- in the interest of -- of ratepayers and
13 therefore I'm -- I'm not overly concerned about that, but
14 in the event that that -- was some decision that detected
15 how consumers used electricity in the future, if -- if
16 there was a weighting that was more advantageous to one
17 (1) consumer group over the others it could affect
18 consumption. It could affect how we plan our system and
19 how -- how generation is added in the future.
20 So a whole host of implications could flow
21 from a decision that may not be in the interests of -- of
22 Manitoba Hydro.
23 MR. BOB PETERS: Well, one (1) option,
24 is it correct to say, Panel Members, that rather than --
25 rather than get into the portraying of the export credit

1 as both the -- the blessing and the curse you could
2 exclude it entirely from the Cost of Service Study?
3 MR. VINCE WARDEN: Well, I think I
4 indicated in my direct and it was perhaps more a musing
5 than anything else, but I think I indicated that until we
6 achieve our minimum debt equity target, we might very
7 well consider excluding export revenue from the -- from
8 the Cost of Service Study.
9 In which case we would fall back to the
10 revenue cost coverage ratios before the -- before the
11 export allocation back to the customer classes, which,
12 net effect, would probably be the same. That is our --
13 our allocation of revenue increases approved by this
14 Board would probably, proportionately, be very similar to
15 what they would be with the net export calculation -- or
16 allocation.
17 MR. BOB PETERS: Well, let's just take a
18 couple of minutes and explore that option for the Board's
19 interest then.
20 And, Mr. Wiens, my recollection is that in
21 -- in a prior hearing you had urged the Board to consider
22 the pre-export revenue allocations and the resulting
23 RCC's, and that was done in the last GRA. Even though it
24 wasn't a recommendation from the Utility, it was
25 something you -- you recommended the Board consider.

1 Would that be fair?
2 MR. ROBIN WIENS: That's correct.
3 MR. BOB PETERS: And, Mr. Wiens and Panel
4 Members and Board Members, in the book of documents I
5 handed out, if you turn to document number 9, and I guess
6 page 1, there's a couple of documents in there -- or more
7 than one (1) in there.
8 If you turn to the first page what you'll
9 find is a copy of Schedule B-4 which is a summary page of
10 the Cost of Service Study for the recommended
11 methodology; is that correct, Mr. Wiens?
12 MR. ROBIN WIENS: Yes, it is.
13 MR. BOB PETERS: And in almost the middle
14 of the page you see:
15 "RCC percentage pre-export allocation."
16 And you see in a column a number of
17 numbers, all of which are below 100 percent, correct?
18 MR. ROBIN WIENS: Yes.
19 MR. BOB PETERS: And what you're saying
20 is that column represents the revenue to cost coverage
21 ratio before you deal with the -- with the difficult
22 question of how to allocate net export revenue.
23 MR. ROBIN WIENS: Yes.
24 MR. BOB PETERS: And you've actually, I
25 believe, done this for all four (4) of the methodologies

1 that you are putting before the Board. And if you turn
2 to document number 16 in the book of documents you'll see
3 a copy of Manitoba Hydro's response to PUB First Round
4 Question 20.
5 You've found that, Mr. Wiens?
6 MR. ROBIN WIENS: Yes.
7 MR. BOB PETERS: Now, the difference
8 between the document on page -- in Tab 9 and the document
9 on Tab 16 is that you've used the pre-export allocation
10 revenue to cost coverage ratio and you have converted it
11 to a base of 100 percent for each of the four (4)
12 methodologies.
13 MR. ROBIN WIENS: That's correct.
14 MR. BOB PETERS: And if you do that
15 you're saying that if you stop the cost of service at
16 document in Tab 16, you could use those revenue to cost
17 coverage ratios as the end product of a cost of service
18 study.
19
20 (BRIEF PAUSE)
21
22 MR. ROBIN WIENS: Mr. Peters, it -- it
23 does show the relative position of the classes. It's not
24 immediately apparent that you -- that you would want to
25 accept those results in all cases.

1 MR. BOB PETERS: Why is that, Mr. -- Mr.
2 Wiens?
3 MR. ROBIN WIENS: If -- if you -- you
4 take a look, going back to page -- or to Tab 9 in -- in
5 your book of documents, and as you mentioned, Mr. Peters,
6 there is a -- a comparable schedule for each of the four
7 (4) methodologies.
8 And they do, in all cases, show the
9 revenue cost coverage before export allocation, which, in
10 most cases, is going to -- is going to have a -- a
11 general consumer base in the order of seventy-five (75),
12 seventy-eight (78), eighty (80), and those are going to
13 tell you the relative position of the classes without the
14 necessity to index it over one hundred (100).
15 Indexing over one hundred (100) allows you
16 to view it conveniently, compared to, say, the last
17 column. It has that virtue, but it may introduce some
18 distortions of its own if you pursue it without any kind
19 of modification or perspective on your viewpoint.
20 MR. BOB PETERS: So you're telling the
21 Board that while you could stop with the results that you
22 find on Tab 16 document, there may be some modifications
23 needed on a class by class or even sub-class basis?
24 MR. ROBIN WIENS: That's possible, yes,
25 Mr. Peters.

1 MR. BOB PETERS: And without turning your
2 mind to it, are there any specific adjustments that you
3 can tell the Board would have to be made or would be
4 recommended to be made by Manitoba Hydro?
5 MR. ROBIN WIENS: Well, I'll refer to our
6 recommended method which -- if you go back to again to
7 tab 9 of that schedule, you will see that when we have
8 actually added back the export revenue and the allocation
9 of the export revenue using our recommended method, we
10 come up with some numbers which, for most of the classes,
11 aren't a whole lot unlike what you see in tab 16.
12 MR. BOB PETERS: Well, indeed that was
13 Mr. Warden's point, is that -- and you say that I think
14 in tab 16 in the narrative part that the revenue -- that
15 the export revenue doesn't change significantly regar --
16 the RCC's regardless of the cost allocation method used.
17 MR. ROBIN WIENS: Except -- except for
18 one (1) class if you check that.
19 MR. BOB PETERS: Okay.
20 MR. ROBIN WIENS: And that is area and
21 roadway lighting and that's -- I know Mr. Buhr will have
22 an interest in this. But that is because when we
23 specified the allocator for the net export revenue after
24 we had already assigned costs to an export class, the
25 allocator we specified was total cost to serve each of

1 the classes, other than the costs for dedicated or end
2 use facilities.
3 Which a significant portion of the costs
4 allocated to the street lighting or the area and roadway
5 lighting class are for dedicated end use facilities; that
6 actually could be considered to be beyond the point of
7 delivery for most customer classes.
8 In the same manner, I mean we didn't have
9 to make a deliberate exclusion, but we do not include,
10 Mr. Peters, the cost of the stove in your house in the
11 allocator for export revenue, or the cost of your fridge,
12 the end use portion of the load.
13 And what the strictly indexing method
14 does, is it doesn't allow us to make that adjustment. So
15 you get what, in our opinion, is an excessively high
16 revenue cost coverage for area and roadway lighting.
17 Whereas for most of the other classes the
18 amount of dedicated facilities serving those classes is
19 not significant. So it doesn't -- it means that indexing
20 or using Manitoba Hydro's recommended method is going to
21 give you pretty similar responses.
22 MR. BOB PETERS: All right. Thank you
23 for that detailed clarification, Mr. Wiens.
24 So because of the allocators used,
25 certainly Manitoba Hydro would want to consider some

1 adjustment to at least the area and roadway lighting
2 class, is what you've said?
3 MR. ROBIN WIENS: That's correct.
4 MR. BOB PETERS: You also say in the
5 document found at Tab 16, that's PUB Manitoba Hydro First
6 Round 20, that regardless of the methodology used, it's
7 the allocation of the net export revenues that causes the
8 most variance between the classes under all methods, and
9 that hasn't changed no matter -- no matter whether you
10 take the pre-export or the post-export -- sorry the pre-
11 export numbers and the different methodologies used.
12 MR. ROBIN WIENS: I think what we're
13 trying to say here is, if -- at least for the classes
14 generally, although there may be some wider discrepancy
15 for some than others, but, if you look at the residential
16 class the recommended method is 96 percent, the current
17 is 97 percent, the NERA is 94 percent, the generation
18 vintaging is 94 percent. They're not terribly different.
19 The gap is a little larger, say in the
20 case of general service large over 100 kV, you see the
21 range going from 101 to 107 or so percent.
22 But, it's not -- the gap is not as wide
23 among the methods as it when you add the export is when
24 you add the export assignment or allocation to the mix.
25 MR. BOB PETERS: And -- and part of the

1 reason for that, Mr. Wiens, is that between the
2 recommended and the NERA and the current there are
3 different ways and different amounts being allocated of
4 the export credit.
5 MR. ROBIN WIENS: That is correct.
6 MR. BOB PETERS: All right. We'll come
7 to that later, but in terms of this option as I've called
8 it, and certainly it'll be something that the Board can
9 consider, and it's clear that it's not your recommended
10 option, correct?
11 MR. ROBIN WIENS: That's correct.
12 MR. BOB PETERS: But in terms of having
13 merit, one (1) of the first things that you note is that
14 you don't assign the net export credit to customers and
15 therefore you avoid the -- let's call it the fight over
16 how to do it.
17 Would you agree that's one (1) of the
18 benefits?
19 MR. ROBIN WIENS: I guess, assuming such
20 a method would be adopted by the -- by this Board then
21 yeah, you would avoid that. You would avoid that
22 difference of opinion.
23 MR. BOB PETERS: Well, another --
24 another benefit I think is what Mr. Warden alluded to and
25 that was if you don't allocate the -- or credit the net

1 export revenue back to the various customer classes then
2 it's available for other purposes; is that correct?
3
4 (BRIEF PAUSE)
5
6 MR. VINCE WARDEN: Mr. Peters, we would
7 not be -- to be clear on that, we would not be creating
8 any more revenue. We would -- the purpose of developing
9 revenue cost coverage ratios through -- through the Cost
10 of Service Study is to determine a fair allocation of any
11 revenue increases in the future.
12 So there would be no additional revenue
13 available to the Corporation if that revenue was not
14 allocated back to the customer classes.
15 MR. BOB PETERS: No, I wasn't suggesting
16 there would be more revenue, Mr. Warden. It's just that
17 it could at least notionally be used for other purposes
18 than crediting it back in the Cost of Service Study.
19 MR. VINCE WARDEN: No. No. There --
20 there, as I said -- indicated the only purpose of those
21 revenue cost coverages is to determine how future rate
22 increases would be allocated back. If -- if we turn to -
23 - back to Tab 9 again and you look at the RCC's pre-
24 export allocation, and if you determine that 78.2 percent
25 was not on average, for all general consumers, was not

1 adequate or not appropriate you could come to a
2 conclusion you should have larger rate increases than you
3 otherwise would if you went to the RCC's which are close
4 to a hundred (100) on average for all cust -- all
5 classes.
6 But assuming we're only going to have rate
7 increases for discussion purposes about the rates of
8 inflation going forward it only becomes a question of how
9 those rate increases will be allocated back to the
10 customer classes.
11 I think I made the point earlier that the
12 only advantage of -- or one (1) of the advantages of
13 looking at the RCC's pre-export is that we can see that
14 no class exceeds one hundred (100) and therefore any
15 concern that people that support the area and roadway
16 lighting classification might have had that they're
17 overpaying would be alleviated in that circumstance.
18 MR. BOB PETERS: Mr. Warden, then perhaps
19 you can clarify for at least my benefit what you meant
20 when you said that until you reach your debt equity ratio
21 of seventy-five twenty-five (75:25) maybe there should be
22 no export allocation back to the -- to the classes
23 through the Cost of Service Study.
24 MR. VINCE WARDEN: Well, it -- all that
25 accomplishes really is, in your words, it avoids the

1 fight. We would in that situation look at RCC's prior to
2 the export allocation and make a judgment as to how
3 future rate increases should be allocated on that basis.
4 And I -- and I would expect that the
5 decision would not be too different from -- from what it
6 would be if we looked at the RCC's after the export
7 allocation. It does -- all it does is avoid this
8 discussion we're going through.
9 But assuming that we are going to get to
10 our seventy-five twenty-five (75:25) debt equity ratio in
11 a relatively short time period, the methodology we've
12 used historically at Manitoba Hydro still serves us going
13 forward and would also serve us going pre-attainment of
14 the -- of the target debt equity ratio.
15 So I guess what I'm saying is I'm not
16 really recommending that we go back to RCC's pre-export.
17 I think it's a -- a useful benchmark though.
18 MR. ROBERT MAYER: Mr. Warden, now you
19 have me confused. When I heard you yesterday saying we
20 could go -- we could remove this whole problem of net
21 export revenue allocation simply by ignoring it and
22 dealing with the whole issue based on the costs as shown
23 prior to the allocation, and then you said, as Mr. Peters
24 has just pointed out, that -- or at least you implied
25 you could then use all that money to increase your debt

1 equity ratio, which I sort of assumed meant you'd pay
2 down some of your debt.
3 And if you used that money to pay down
4 some of your debt you would, although reduce to some
5 extent your costs, your interest costs, it -- I was left
6 with the impression that if you used all the net export
7 revenue to reduce your debt, that the -- every class, in
8 order to pay its fair share of costs, would be -- would
9 suffer a significant rate increase almost immediately.
10 How am I wrong and where did I make my
11 mistake?
12 MR. VINCE WARDEN: Well, Mr. Mayer, I am
13 not sure that there's a real short answer to your
14 question. We -- if we use the RCC's pre the export
15 allocation, that does not in itself create any more
16 revenue for the Corporation.
17 We have so much revenue today. The only
18 way we're going to increase revenue is through additional
19 sales or through rate increases, or by a reduction of our
20 expenses. That's the only way that we can have more
21 revenue to, in your words, pay down debt, which is a
22 whole other discussion which we can get into at some
23 point.
24 I think I've made the point in previous
25 proceedings, that debt for Manitoba Hydro is not a bad

1 thing; that's what we use for expansion purposes. Debt
2 is good. It has to be managed. Managing it is getting
3 to an appropriate debt equity ratio, which we have
4 determined to be seventy-five twenty-five (75:25).
5 You get there through -- through fiscal
6 management of resources, such that rates to customers are
7 maintained in a manner that is in appropriate balance
8 with -- with the reality that we -- we do have this
9 export market that we -- fluctuates up and down.
10 So, as I said, there's not really a short
11 answer to your question but the point is there is no more
12 revenue that would be generated through, whichever cost
13 allocation methodology you use, unless there's rate
14 increases that flow there from --
15 MR. ROBERT MAYER: But, Mr. Warden, this
16 is what I couldn't understand. It sounded like what you
17 said yesterday, if you eliminated the allocation and
18 applied the debt export revenue to increase your debt
19 equity ratio or to make it -- to obtain a more favourable
20 debt equity ratio, then I got the impression that you
21 would -- because the Board has previously ordered to show
22 us a plan to bring everybody to unity within, I think we
23 said three (3) to five (5) years or five (5) to seven (7)
24 years. I can't remember the exact wording of the -- of
25 the Order.

1 So the only way you could do that then
2 would be to apply for significantly higher increases than
3 you have indicated to the Board that you're prepared to
4 do.
5 Now, I understand that to be -- have any
6 of the assumptions I made -- are any of them incorrect?
7 Am I missing something?
8 MR. VINCE WARDEN: No. The -- the point
9 you just -- the statement you just made that we would
10 have to apply for significantly higher rate increases
11 than we have in the past or plan on doing -- doing in the
12 future is absolutely correct.
13 If we go back to the RCC's pre-export
14 revenue and say, Okay we want to bring those up to unity,
15 we would apply -- immediately apply for a 15/20 percent
16 rate increase. I'm not recommending we do that but that
17 would be the effect.
18 MR. ROBERT MAYER: That's what -- sorry -
19 - that's what I thought would be the effect and that's
20 what I thought would happen, but that's not what I heard
21 you tell Mr. Peters.
22 So I -- I just can't perceive that as
23 being something you're recommending and you made it very
24 clear you're not recommending it. And I don't wish to
25 pre-judge anything but I, quite frankly, can't see this

1 Board buying into something like that either.
2
3 CONTINUED BY MR. BOB PETERS:
4 MR. BOB PETERS: Mr. Warden -- and I
5 think I may have contributed to some of the confusion, so
6 I should certainly take responsibility and try to
7 extricate myself here.
8 But, it's clear that you -- the Cost of
9 Service Study, no matter what you do with it, it doesn't
10 create more or less revenue for the Corporation?
11 MR. VINCE WARDEN: Absolutely.
12 MR. BOB PETERS: And under the -- using
13 the pre-export revenue to cost ratios and grossing them
14 up or basing them on a base of 100 percent, all that does
15 is it eliminates the need to consider how to incorporate
16 net export revenue into the Cost of Service Study?
17
18 (BRIEF PAUSE)
19
20 MR. VINCE WARDEN: I'm sorry, would you
21 just mind repeating the question. I want to make sure I
22 have your question clear.
23 MR. BOB PETERS: If the Board was
24 inclined to utilize the pre-export revenue RCC's as the
25 end product of the Cost of Service Study, all that will

1 accomplish is the allocating of the costs, but not having
2 to consider how to allocate the net export revenues to
3 customer classes.
4 MR. VINCE WARDEN: Yes, I would agree
5 with that. And if we again look at tab 9 we would then,
6 for illustrative purposes, let's just say we would come
7 forward with a rate application of 2 percent, or whatever
8 the number might be.
9 We would then look at those RCC's, pre-
10 export allocation, make some judgment about how the
11 weighting of that rate increase, that 2 percent should be
12 distributed amongst the customer classes.
13 I would look at, for example, area and
14 roadway lighting at ninety-nine point two (99.2) and say,
15 you know, they're very close to unity, perhaps that
16 should get zero increase. So then we'll make some
17 judgment about residential versus the general service
18 classes.
19 And then, look at how that might evolve
20 over the long term assuming there would be a series of
21 rate increases over the next several years and attempt to
22 bring those closer to unity.
23 So, yes, that could very well be done the
24 same -- I would say the same ultimate rate increase
25 recommendations would likely come forward from that --

1 from that scenario.
2 MR. BOB PETERS: Okay. Thank you. And
3 in your last answer, you talked about having to make
4 judgments. And in one of those judgments could be to set
5 the pre-export credits, RCC targets at -- you know, pick
6 a number say 80 percent and apply a zone of
7 reasonableness to them and then again make the same kind
8 of recommendations to the Board as to what are
9 appropriate rate increases, using a pre-export RCC as the
10 base.
11 MR. VINCE WARDEN: That could be done.
12 MR. BOB PETERS: And the reason I'm
13 hearing the Corporation say it doesn't -- it doesn't
14 support that is because there would -- there would be a
15 need to make other adjustments to eliminate distortions
16 that occur if you -- if you did that, if you used the
17 pre-export RCC's?
18 MR. VINCE WARDEN: Well, as Mr. Wiens
19 pointed out earlier, really the only customer class that
20 would be materially affected is area and roadway
21 lighting. I think the only reason it's not being
22 recommended -- it's certainly a viable option that's not
23 being recommended because it's a departure from history.
24 And there's -- assuming we can come to an
25 agreement on -- in net export revenue allocation, be

1 looking at some ratios closer to unity is probably
2 convenient.
3 MR. BOB PETERS: All right. The -- in
4 terms of moving forward then, the recommended cost of
5 service study that you put forward --
6 MR. ROBERT MAYER: Excuse me, Mr. Peters.
7 What would happen then if you did what you just suggested
8 and said you could do? The Board has already ordered
9 first call on net export revenues to be assigned to some
10 extent to level out the former geographical differential
11 zones -- sorry, zone differentials and to some extent to
12 diesel, without allocating net export revenue I'm
13 assuming that would create yet another judgment call
14 somewhere.
15 MR. VINCE WARDEN: It -- it would to a
16 certain extent but that -- that could easily be
17 accommodated. It wouldn't be a major obstacle for us.
18
19 (BRIEF PAUSE)
20
21 MR. BOB PETERS: In moving to the
22 recommended cost of service study methodology that's put
23 forward by Manitoba Hydro, and I didn't write down Mr.
24 Wiens's words but I -- I gather from yesterday, the
25 recommended methodology is to mitigate, although not

1 eliminate, the problems associated with the higher and
2 increasing export prices.
3 MR. ROBIN WIENS: I think that's fair,
4 yes.
5 MR. BOB PETERS: And we just had a few
6 minutes' discussion about the pre-export allocation.
7 We've -- we now -- we know that you have a recommended
8 cost of service methodology that's different and that
9 your recommended methodology is to -- to mitigate the
10 problems associated with the higher and increasing export
11 unit prices.
12 But is the -- is the recommended
13 methodology that you're putting forward robust enough to
14 withstand a return to export unit prices back in the
15 range of 1992?
16
17 (BRIEF PAUSE)
18
19 MR. ROBIN WIENS: To be truthful, Mr.
20 Peters, we -- we haven't explored that, at least
21 quantitatively. I think it possibly, maybe even likely,
22 may be but it's not something that I want to say with
23 certainty.
24 MR. BOB PETERS: I appreciate the
25 straightforward answer, Mr. Wiens.

1 So -- so would it -- would there be a
2 concern that if the world turned in a way that we don't
3 know and we can't predict, that we may find ourselves
4 wanting to go back to an allocation methodology based on
5 generation and transmission costs rather than the total
6 cost base on which the recommended methodology looks at?
7 MR. ROBIN WIENS: My friend on -- on my
8 extreme right may want to weigh in on this one. But I --
9 I don't see there being a very high probability of
10 returning to that world, so I -- I think the -- the
11 question may be somewhat academic, but let's go down that
12 road anyway.
13 If -- if we were to return to a world in
14 which we were receiving one and half (1 1/2) cents or so
15 per kilowatt hour out of the export market instead of the
16 greater than five (5) cents that is in this particular
17 cost of service study, I -- I think we might want to take
18 -- take a look at that, yes.
19 MR. HAROLD SURMINSKI: I can add to Mr.
20 Wiens' comments about the one point five (1.5) being an
21 extremely low number. We do work out scenarios of -- of
22 our expected price, a low price and a high price, and our
23 low price is -- is nowhere near that kind of an estimate.
24 MR. BOB PETERS: Meaning you use a higher
25 low price than one point five (1.5) cents a kilowatt

1 hour.
2 MR. HAROLD SURMINSKI: That's correct.
3 MR. BOB PETERS: So -- so you probably
4 knew that we were going to pay a dollar a litre for
5 gasoline too and you didn't tell anybody.
6 Now, what I'm saying, Mr. Surminski, is
7 for your -- for your modeling purposes you've made an
8 assumption that you're not dropping back to a -- a cost
9 that low.
10 MR. HAROLD SURMINSKI: Yes. We --
11 MR. BOB PETERS: Well, let's -- let's
12 keep on that, Mr. Surminski, and maybe just stay with me
13 for a minute.
14 Manitoba Hydro loosely considers their
15 surplus energy program prices as a proxy for the
16 opportunity export values.
17 Would that be -- would that be true?
18 MR. HAROLD SURMINSKI: Yes, as a proxy.
19 MR. BOB PETERS: And my understanding is
20 that surplus energy prices have fallen of late; is that
21 correct?
22 MR. HAROLD SURMINSKI: If -- you mean in
23 the last two (2) or three (3) months?
24 MR. BOB PETERS: Yes.
25 MR. HAROLD SURMINSKI: Yes, that's

1 correct.
2 MR. BOB PETERS: And -- and would you
3 agree that it also appears that natural gas prices have
4 fallen over that period of time?
5 MR. HAROLD SURMINSKI: Yes. We relate it
6 to directly as being a cause.
7 MR. BOB PETERS: Well, while you relate
8 them -- sorry -- while you relate them directly, you're
9 suggesting that there's an inverse relationship between
10 high natural prices and -- the -- well, the higher the
11 natural gas prices go, the higher the surplus energy
12 prices that you can -- you can extract on the market.
13 MR. HAROLD SURMINSKI: Yes. I call that
14 a direct relationship --
15 MR. BOB PETERS: Yes.
16 MR. HAROLD SURMINSKI: -- instead of
17 inverse, yes.
18 MR. BOB PETERS: Agreed. I -- I thought
19 about that when my mouth was working and it -- you're
20 right.
21 So it is also -- is it also common
22 knowledge that Manitoba Hydro exports probably displace
23 some natural gas fired electrical generation?
24 MR. HAROLD SURMINSKI: Yes.
25 MR. BOB PETERS: And is it your

1 suggestion to the Board, Mr. Surminski, that the direct
2 relationship between natural gas prices and the surplus
3 energy program prices is likely to continue into the
4 future?
5 MR. HAROLD SURMINSKI: Yes, it is likely.
6 Gas generation is -- is likely to remain part of the mix
7 in our export market.
8 MR. BOB PETERS: Well, seeing as you
9 didn't warn me about the dollar a litre on the gasoline
10 can you tell the Board what Hydro's expectations are for
11 natural gas prices and surplus energy prices over the --
12 the next short term?
13
14 (BRIEF PAUSE)
15
16 MR. VINCE WARDEN: We -- short term, we
17 don't know. Seriously, the -- the way the natural gas
18 market operates as you're well aware, Mr. Peters, it's
19 very unpredictable in the short-term. We do do long-term
20 scenarios though for -- for natural gas prices and that
21 is part of our -- our resource planning. So we do see a
22 fairly long-term, stable outlook for -- for natural gas.
23 MR. BOB PETERS: When you're talking
24 long-term are you talking five (5) years and longer?
25 MR. VINCE WARDEN: Longer.

1 MR. BOB PETERS: Ten (10) years?
2 MR. VINCE WARDEN: Typically we go out
3 ten (10) years and longer.
4 MR. BOB PETERS: And in making a -- a
5 gaze out into the -- the future, Mr. Warden, you don't
6 want to go short-term because you know it's going to
7 fluctuate, but you think on the long-term you can -- you
8 can be more accurate?
9 MR. VINCE WARDEN: Well, when I say "we"
10 we've -- we've taken into account -- we have opinions
11 from people that whose business it is to forecast the --
12 the future and we take a consensus view of -- of those
13 opinions.
14 MR. BOB PETERS: You -- you also I think
15 answered to me that your long-term view which is ten (10)
16 years and longer is that rates for natural gas will be
17 relatively stable. Do I understand that correctly?
18 MR. VINCE WARDEN: Stable in terms of
19 alignment with other indicators such as inflation over
20 that period of time.
21 MR. BOB PETERS: And I suppose I'm -- I'm
22 wondering what is the base starting point for that
23 expectation of being stable?
24 Is it going to be stable at the rates at
25 the -- at the gas prices -- the natural gas prices that

1 we find May 1st or back to November of last year or where
2 -- at what point are they stable?
3
4 (BRIEF PAUSE)
5
6 MR. VINCE WARDEN: Well, we try to -- or
7 the forecasters try to factor out the volatility that's
8 current in the marketplace so the starting point is
9 somewhat lower, significantly lower, than what it is
10 today.
11 MR. BOB PETERS: I take from that answer
12 that over the long term you expect natural gas prices to
13 be no higher than they are today then over the long term?
14
15 (BRIEF PAUSE)
16
17 MR. VINCE WARDEN: Well, I would have to
18 look at that forecast specifically to see -- to see where
19 they are relative to today's price of natural gas, but
20 yeah, I -- without having a review of that I -- I
21 probably wouldn't be able to confirm your last statement.
22 MR. BOB PETERS: Well, then maybe to
23 close off this section could I -- could I ask, Mr.
24 Warden, that you and your Panel Members, perhaps more so
25 Mr. Surminski undertake to advise the Board as to what is

1 the Corporation's long-term expectation for natural gas
2 and surplus energy prices?
3
4 (BRIEF PAUSE)
5
6 MR. VINCE WARDEN: We might have some
7 difficulty with that, Mr. Peters, in terms of our market
8 position -- our marketing position in export markets. I
9 don't think it's the type of information we would like to
10 divulge publicly.
11 So we would have to have some discussions
12 with the people back at the office to see, whether or
13 not, that is something we could provide.
14 MR. BOB PETERS: Then maybe I'll just
15 amend that request and maybe you can advise the Board
16 through your counsel, as to whether you are prepared to
17 make public that undertaking?
18 MR. VINCE WARDEN: Yes, we can do that.
19 MR. BOB PETERS: At that point, the Board
20 can consider what, if any, additional information it has.
21 THE CHAIRPERSON: Excuse me, leaving that
22 as was -- with you thinking about it, returning just to
23 the general question.
24 Just to re-state then, you're not
25 expecting any significant downturn in the value of energy

1 unit prices sufficient to cause you to re-evaluate your
2 recommended COSS model?
3 MR. VINCE WARDEN: No.
4 THE CHAIRPERSON: Thank you.
5
6 CONTINUED BY MR. BOB PETERS:
7 MR. BOB PETERS: Just on that last
8 undertaking matter. In the event that the Corporation
9 determines that that information, or perhaps any
10 information arising at this Hearing is one that they
11 would prefer not to put on the public record, you can
12 also consider whether the Corporation, through maybe the
13 advice of your counsel, is prepared to provide
14 information, if specifically requested by the Board on a
15 confidential basis. We can leave that with you.
16 MR. VINCE WARDEN: Certainly.
17
18 --- UNDERTAKING NO. 2: To advise the Board if the
19 Corporation is prepared to
20 make public their long-term
21 expectation for natural gas
22 and surplus energy prices,
23 and if not, if they are
24 prepared to provide the
25 information to the Board on a

1 confidential basis.
2
3 MR. BOB PETERS: Okay. I want to turn
4 with the Witness Panel to understand some of the issues
5 of timing with the prospective cost of service study that
6 you have before the Board.
7 And specifically, I think the evidence is
8 that you used the IFF-04-1, that's found at document 3 of
9 the book of documents.
10
11 (BRIEF PAUSE)
12
13 MR. CHIC THOMAS: That's correct.
14 MR. BOB PETERS: Now, Mr. Thomas, at Tab
15 number 3 of the book of documents, the integrated
16 financial forecast MH-04 was prepared in approximately
17 the fall of zero -- of 2005?
18 Let me rephrase the question. The
19 prospective cost of service study '06 was prepared in the
20 fall of '05?
21 MR. CHIC THOMAS: Yes.
22 MR. BOB PETERS: And at the time you
23 prepared it, you did not yet have available the new IFF-
24 05 from the electric side of the operation?
25

1 (BRIEF PAUSE)
2
3 MR. CHIC THOMAS: Mr. Wiens' date
4 expertise has reminded me that when we filed our original
5 four (4) scenarios without the backup was February 1st,
6 '05. So -- so I'll take that back and we prepared it in
7 '04.
8
9 (BRIEF PAUSE)
10
11 MR. BOB PETERS: When you prepared it in
12 '04 the then most current IFF you had was the IFF-04?
13 MR. CHIC THOMAS: That's correct.
14 MR. BOB PETERS: And Mr. Thomas, one (1)
15 of the assumptions that's built into the IFF-04 is that
16 Manitoba Hydro would receive approval for a 2005
17 condition rate increase of about 2.25 percent on October
18 1st of '05; is that also correct?
19 MR. CHIC THOMAS: Yes, that's correct.
20 MR. BOB PETERS: And that's not factual.
21 MR. CHIC THOMAS: No.
22 MR. BOB PETERS: Didn't turn out that
23 way?
24 MR. CHIC THOMAS: Correct.
25 MR. BOB PETERS: So the IFF-04 that the

1 Board has built into it some additional revenues from
2 general consumer rates that didn't materialize?
3 MR. CHIC THOMAS: Yes.
4 MR. BOB PETERS: Can you tell the Board
5 what impact the inclusion of that 2.25 percent rate
6 increase that wasn't requested or granted has on the IFF
7 -- has on the -- the Cost of Service Study when we --
8 when the Board's considering this?
9 MR. CHIC THOMAS: I believe that we had
10 covered that in an IR or perhaps in some of the
11 documentation but the effect is minimal because the --
12 the increased revenue would be offset by the cost as the
13 cost of service is always in unity so the -- the net
14 effect on the 2 percent is minimal.
15 MR. ROBIN WIENS: I -- I might add, Mr.
16 Peters, that the overall effect -- I mean assuming
17 everything else in the forecast materialized except the
18 rates on an annualized basis is probably in the order of
19 1 percent and as it's across the board for all classes it
20 -- it would not be -- it would not materially affect the
21 results for sure.
22 MR. BOB PETERS: I appreciate that. So
23 there's no need for us to factor in any adjustments to
24 the recommended methodology that's based on an IFF that
25 contains some revenue that wasn't actually obtained?

1 MR. CHIC THOMAS: That's correct.
2 MR. BOB PETERS: All right. And -- and
3 Mr. Wiens' point is -- is perhaps not insignificant in
4 that even if you did apply for the 2.25 percent and even
5 if the Board did allow it you assume it would have been
6 across the board which I think, Mr. Wiens, means every
7 customer class would receive the same percentage class
8 increase?
9 MR. ROBIN WIENS: That's correct.
10 MR. BOB PETERS: And because of that, Mr.
11 Wiens, it puts everybody in a relative position to the
12 other and -- and doesn't distort the final results in any
13 significant way?
14 MR. ROBIN WIENS: Again, correct.
15 MR. BOB PETERS: Is there going to be a
16 perspective cost of service study for '07?
17 MR. CHIC THOMAS: In terms of what will
18 be filed with the Board is yet to be determined. Usually
19 our -- our section does a prospective cost of service on
20 an annual basis. Whatever document is ultimately filed
21 with the Public Utilities Board though is another matter.
22 MR. BOB PETERS: I need some help with
23 that last answer, Mr. Wiens. You task Mr. Thomas to --
24 to do it but whether you share it is -- is up to you and
25 Mr. Warden is that what I'm gathering?

1 MR. ROBIN WIENS: We don't even always
2 task Mr. Thomas to do it. If -- if it -- you're talking
3 about '06/'07 which would be the current fiscal year and
4 at this stage it may be that unless we were
5 contemplating, which we are not, applying for a rate
6 increase in the fiscal year '06/'07 it's a very likely
7 prospect that we would not undertake an '06/'07
8 prospective cost of service study but would go straight
9 to '07/'08 and carry that out.
10 MR. BOB PETERS: I thought I heard Ms.
11 Harms give a sigh of relief there but I understand your
12 point and -- and a decision has not yet been made, Mr.
13 Wiens, or has it been made that you're not going to do
14 one (1)?
15 MR. ROBIN WIENS: The decision has not
16 yet been made but I -- I guess it's safe to say that in
17 the circumstances where we would not be applying for an
18 increase in that particular fiscal year the incentive or
19 the pressure to do it would be somewhat lessened.
20 MR. BOB PETERS: I think we can
21 understand that. Mr. Wiens and Mr. Thomas, even if you
22 had a -- an IFF -05 available when you did the '06 Cost
23 of Service Study the numbers may change but the outcome
24 would be relatively the same.
25 Would it -- would that also hold true?

1 MR. ROBIN WIENS: I believe that.
2 MR. BOB PETERS: And -- and why do you
3 believe that, Mr. Wiens?
4 MR. ROBIN WIENS: A couple of reasons.
5 Yes, things do change from year to year but very often
6 they do not change enough to make a difference. I think
7 if you go back in history and look at the cost of service
8 studies that have been filed with this Board usually on
9 an annual basis, not always, you will find that in broad
10 outline that there are not huge changes from year to
11 year.
12 MR. BOB PETERS: And so even though --
13 and -- and I'm going to maybe try to pin Mr. Warden down
14 here, I -- I wrote down in my notes from yesterday, I'm
15 not sure if it came from Mr. Warden but net income could
16 be a record net income in the range of $375 million
17 anticipated for the fiscal year ending 2006.
18 MR. VINCE WARDEN: It will be record net
19 income for sure. I did indicate the three seventy-five
20 (375) is what we -- the public number that we had
21 released in our quarterly report for December 31st of
22 2005.
23 That was our projection at that time and
24 it will be higher than that number.
25 MR. BOB PETERS: And when I looked at

1 your -- your IFF-05, even though it's not part of the
2 formal application here, Mr. Warden, that's telling the
3 Board and the parties in this room that your extra-
4 provincial revenue will probably exceed $800 million.
5 MR. VINCE WARDEN: Yes.
6 MR. BOB PETERS: And, if anything, that -
7 - that magnifies the problem that we're talking about in
8 -- in the methodology review that we're conducting today.
9 MR. VINCE WARDEN: Not really, no. We
10 shouldn't look at any one (1) year in terms of export
11 sales. We -- we should be looking at a year of median
12 water flows, so what we would expect under -- under
13 median conditions.
14 So, yes, we -- we have droughts in some
15 years, we have high water flows in other years, so we
16 should not look at any one (1) year actual results in
17 isolation.
18 THE CHAIRPERSON: Just to support your
19 comment, Mr. Warden, it's more than just the water flows
20 though in this case, isn't it? It's also the unit sale
21 prices with the natural gas situation?
22 MR. VINCE WARDEN: As it affects its past
23 fiscal year, absolutely, yes.
24 THE CHAIRPERSON: Thank you.
25

1 CONTINUED BY MR. BOB PETERS:
2 MR. BOB PETERS: In the book of documents
3 that you have, if you could flip to Tab 2. And in Tab 2
4 there's actually a total of three (3) documents and the
5 first one, by design, has very few if any numbers on it.
6 And this overview of the Cost of Service
7 Study schematic, as I can call it, is really the process,
8 Mr. Wiens and Mr. Thomas, that you -- that you run
9 through.
10 Would that generally be correct?
11 MR. CHIC THOMAS: Yeah.
12 MR. BOB PETERS: And if -- you run
13 through this -- this process where you have your source
14 data and you've told the Board that it was in IFF and
15 particular IFF-04 this time and on Mr. -- on Mr. Warden's
16 point, so I don't lose it, you base your cost of service
17 study not on the current year but you try to project out
18 into a median -- a median year that you use on your IFF.
19 Would that be correct?
20 MR. CHIC THOMAS: That's correct.
21 MR. BOB PETERS: And so that's always the
22 second year out on the IFF.
23 MR. CHIC THOMAS: In the case of the Cost
24 of Service Study, yes.
25 MR. BOB PETERS: Yes. You use a median

1 year which in the IFF is the second year on -- out in the
2 IFF.
3 MR. CHIC THOMAS: Yes.
4 MR. BOB PETERS: And the first year is
5 actual results to the extent you know them and if you're
6 not quite sure of them, you might use some median
7 adjustments for the first year.
8 MR. HAROLD SURMINSKI: Yes, that's
9 correct.
10 MR. BOB PETERS: And we've already agreed
11 the second year you used median results, and by median
12 I'm understanding that there's a 50 percent chance that
13 the -- that the numbers will be higher and a 50 percent
14 chance the numbers will be lower.
15
16 (BRIEF PAUSE)
17
18 MR. HAROLD SURMINSKI: Yeah. Well, it's
19 median in the sense that it's median inflows given the
20 starting conditions that you have at the time. So in the
21 first year you're starting with flows as you know them at
22 the time and median precipitation following that.
23 And by the end of that year, that's from
24 the fall into the spring into the next fiscal year of
25 April the 1st, you've already got known -- you have a

1 pretty good idea of your reservoir storages at that point
2 and -- and your flows and then you continue with median
3 precipitation after that.
4 So the starting point is a factor here.
5 It's not as if you're starting from some unknown
6 condition. The starting point in the fall is important
7 in all this.
8 MR. BOB PETERS: All right. And -- and
9 the starting year, in the fall, before you get to the
10 year that you use for the Cost of Service Study, you then
11 want to use median flows from your starting position?
12 MR. HAROLD SURMINSKI: That's correct.
13 MR. BOB PETERS: All right. And -- and
14 then for the other years in the IFF that go out, fourteen
15 (14), fifteen (15) years, or however long it is, you're
16 using average.
17 MR. HAROLD SURMINSKI: We use the -- we
18 use all flow conditions, either eighty-six (86) -- we had
19 previously used eighty-six (86) and now we've increased
20 that ninety-three (93) flow conditions. And we calculate
21 the -- the impacts of each of those flow conditions and
22 we average the impacts or average the costs and revenues.
23 So we don't take the single average of all
24 those, we actually do the analysis of revenues, costs,
25 for each of the ninety-three (93). And we do that

1 because they're -- they is very -- I guess it's not
2 uniform. The effect in low flows is not offset
3 necessarily by effects in highs.
4 The distribution is skewed so it's not
5 appropriate to just take a single value; let's say, a
6 middle or average value. It is more appropriate to take
7 the entire range and do the analysis on the entire range.
8 MR. BOB PETERS: But once you have done
9 the entire range what do you do with those ninety-three
10 (93) different numbers?
11 MR. HAROLD SURMINSKI: We average those.
12 MR. BOB PETERS: And using the median is
13 consistent with regulatory process for rate increases and
14 the like, where historically they've been based on
15 weather normalized values?
16 MR. ROBIN WIENS: We may be expanding the
17 discussion here, Mr. Peters. The flow conditions are, as
18 Mr. Surminski has stated, that you take the starting
19 point in the fall when the IFF is prepared and you
20 project forward to the next two (2) years on a median
21 basis.
22 Weather normalization does figure into the
23 Cost of Service Study too, but it doesn't figure in to
24 the flows, it figures into the forecast of the customer
25 loads.

1 MR. BOB PETERS: So I'm mistaken if I
2 equate using median flows to equate to weather
3 normalization, if you will, of the water flows?
4 MR. HAROLD SURMINSKI: It's more of an
5 expected value as opposed to -- expected values of the
6 impacts of the various flows. So it's not -- it is
7 considering the possibility of the whole range, but in a
8 way that all ninety-three (93) conditions are considered
9 separately and then averaged.
10 MR. BOB PETERS: All right. Thank you
11 for that.
12 Back to the first document at Tab 2 of the
13 book of documents, you went through the cost allocation
14 methodology process for all four (4) of the methodologies
15 filed in the materials?
16 MR. CHIC THOMAS: That's correct.
17 MR. BOB PETERS: And Mr. Thomas, can you
18 indicate to the Board the time it takes for the Utility
19 to run a cost of service study on any one (1) of those
20 methodologies?
21 MR. CHIC THOMAS: Well, I guess the first
22 one is always -- takes the longest and then based on that
23 we can -- we can adjust our model to incorporate the
24 other changes. How long it takes depends on the
25 availability of the data that we need to make up the

1 model, but I guess on average, we could say six (6)
2 months.
3
4 (BRIEF PAUSE)
5
6 MR. BOB PETERS: I take from your answer,
7 Mr. Thomas, that before you can do your job Mr. Warden
8 has to get some numbers to you and that adds to the
9 timeframe in that six (6) month period; that's included
10 in the six (6) months?
11 MR. CHIC THOMAS: Yes, correct and we --
12 MR. BOB PETERS: When you get all the
13 information you need, approximately how long does it take
14 your group to churn the numbers and come out with a
15 prospective cost of service study?
16 MR. CHIC THOMAS: About two (2) months.
17 MR. BOB PETERS: You've told the Board
18 that you did this process for all four (4) methodologies
19 and one (1) that I'm going to turn to on just a
20 discussion level here, is the generation vintaging
21 methodology.
22 This is one that -- that came at the
23 Corporation from the last general rate adjustment where
24 the Board asked the Company to consider that, correct?
25 MR. CHIC THOMAS: Yes, I believe that was

1 an idea championed by TREE/RCM.
2 MR. BOB PETERS: Yes and you actually did
3 a review of it and came back with some numbers on it and
4 it's one (1) that you don't recommended?
5 MR. CHIC THOMAS: That's correct.
6 MR. BOB PETERS: Can you tell the Board
7 succinctly, why you don't recommend them -- recommend the
8 Board consider further generation vintaging option in the
9 materials?
10 MR. CHIC THOMAS: I guess there's two (2)
11 primary reasons. Number 1, it's the difficulty in
12 assigning what is low cost generation of -- for the
13 purpose of the -- the generation vintaging we did for the
14 EO6 (phonetic) it was determined to be Winnipeg River as
15 suggested by TREE.
16 And then the other reason is that
17 materially it doesn't affect the results and again I --
18 you know it comes back to the allocation of export
19 revenue which is -- which is the primary driver. If you
20 exclude that factor out of it the results aren't
21 materially different from any of the other scenarios.
22 MR. BOB PETERS: I understand your --
23 your second reason for not recommending it, I just need
24 some help with the first one, Mr. Thomas.
25 And -- and you say that there's difficulty

in assigning what is low cost generation?

(BRIEF PAUSE)

MR. CHIC THOMAS: It's -- yeah, it's the -- you know we do know the cost of the older plants, but I guess if we were -- you know if we were to take an extreme example and there is all kinds of money spent on the Winnipeg River Plant for example all of a sudden some of those plant would not be the lowest cost.

So it's -- you know we -- you could -- you -- you could rank the -- the generating stations by costs and rank it that way. So you know there's -- there's a number of ways you can do it and to explicitly define what is low cost is -- is hard to do going forward.

MR. BOB PETERS: So I take from your answer that while the Winnipeg River System Plants may be the lowest cost generators today, that may change in five (5) years based on capital improvements that may be necessary or some other circumstances that affect other generation?

MR. CHIC THOMAS: Yeah, that's fair.

MR. BOB PETERS: And so for the long-term purposes of a cost of service study you see that as introducing a variable that doesn't -- doesn't bring any

1 value to the Cost of Service Study?
2 MR. CHIC THOMAS: Well, everything I
3 think brings value to the Cost of Service Study in terms
4 of evaluating different -- different results but overall
5 in terms of a recommended way to go forward, yes.
6
7 (BRIEF PAUSE)
8
9 MR. BOB PETERS: Back to Tab 2 of our
10 book of documents and the first document there, the one
11 without the numbers. In terms of the source data the
12 numbers that you use from the IFF, Mr. Thomas, are those
13 the very same numbers this Board would see if you came
14 before it with a general rate application?
15
16 (BRIEF PAUSE)
17
18 MR. CHIC THOMAS: Yes, the IFF is the
19 same document that we would be using in -- in this review
20 or any general rate application.
21
22 (BRIEF PAUSE)
23
24 MR. BOB PETERS: One (1) of the costs
25 that you want to include in your cost of service study --

1 well, let me -- let me rephrase that.
2 In your cost of service study, Mr. Thomas,
3 you want the total costs equal to the total revenue,
4 correct?
5 MR. CHIC THOMAS: Yes, that's correct.
6 MR. BOB PETERS: And to make the -- the
7 numbers work you have to consider net income then as one
8 (1) of the, I'll call it costs, but that has to be
9 included in the Cost of Service Study?
10 MR. CHIC THOMAS: Also correct.
11 MR. BOB PETERS: And we -- we heard Mr.
12 Surminski yesterday talk about a drought and he was
13 perhaps putting on his worst case scenario hat which --
14 which is something -- something I try to do too when we -
15 - we discuss these points.
16 And I know, Mr. Surminski, you talked
17 about a $1.5 billion cost for a five (5) year drought and
18 then you really worried about it and it could be as much
19 as $2 billion
20 is what I -- what I recall you saying?
21 MR. HAROLD SURMINSKI: Yes, that what's I
22 stated in my direct.
23 MR. BOB PETERS: And --
24 THE CHAIRPERSON: Bob, or Mr. Peters, I
25 think you also added 200 million for imputed interest

1 cost on top of that did you not?
2 MR. HAROLD SURMINSKI: Yes, they would be
3 above the $2 billion.
4
5 CONTINUED BY MR. BOB PETERS:
6 MR. BOB PETERS: Is the -- is the $1.5
7 billion figure reflect -- reflected in the IFF-04?
8 MR. HAROLD SURMINSKI: Yes. It's
9 reflected in every estimate of the IFF's, but it's --
10 it's weighted according to its probability of occurrence.
11 So it's -- it's the worst I -- it would be
12 the weighting of one (1) in ninety-three (93) or in that
13 particular o-four (04) when there was only eighty-six
14 (86) of them and it would be the one (1) in eighty-six
15 (86).
16 MR. BOB PETERS: What is the projected
17 frequency of the $1.5 billion drought impact? Is it --
18 it's more than one (1) in ninety-three (93)?
19 MR. HAROLD SURMINSKI: Yeah. As an
20 estimate I think it would be something like one (1) in
21 twenty (20).
22 MR. BOB PETERS: And whether the -- and
23 whether the -- whether it's one (1) in twenty (20) or
24 whether it's 1.5 billion or 2 billion or 2.2 billion,
25 that number has never been tested before the Board in any

1 -- in any significant way; would that be fair to say?
2
3 (BRIEF PAUSE)
4
5 MR. HAROLD SURMINSKI: I did, in my 2004
6 testimony, indicate it was a qualitative assessment. And
7 yes, we were not able to -- to exactly quantify because
8 it's a -- a judgment on the probability of several
9 extreme events occurring. And you could work out
10 scenarios of high natural gas prices, and any one of them
11 to an extreme could -- could come close and then -- or
12 lesser magnitudes of four (4) factors in combination.
13 So there are many different combinations
14 that could have the outcome of the $2 billion.
15 MR. BOB PETERS: You've not filed any --
16 any backup, I suppose, numbers and probability studies
17 and -- and detail on -- on those numbers but you're
18 saying it's -- it's qualitative from where you sit.
19 MR. HAROLD SURMINSKI: Yes. And we have
20 filed information on the 1.3 billion in the past, the
21 components that make that up.
22 MR. BOB PETERS: Mr. Surminski, while
23 you're on the mic, I have a note here to ask you about
24 whether or not you're spilling any water on your -- out
25 of your reservoirs at this point or are you putting

1 everything through -- through a turbine?
2 MR. HAROLD SURMINSKI: It varies across
3 the basins. I know the Winnipeg River is definitely in
4 spill. Flows are -- are higher than the plants can
5 handle. The Lower Nelson, it takes a lot to get spill
6 there, so it's not at that point.
7 MR. ROBERT MAYER: You're moving a lot of
8 water out of the Notigi, I think. I'm assuming it's
9 being held at Kettle, but the Burntwood River is pretty
10 high.
11 MR. HAROLD SURMINSKI: Yes, the Burntwood
12 flows are high but Kettle and downstream plants are
13 designed for very high flows, so they don't spill until
14 the flows are maybe 10 or 20 percent higher than they are
15 now.
16 MR. BOB PETERS: Do I take from that
17 answer, Mr. Surminski, that the generating stations are,
18 on the Winnipeg River, where you're spilling, are being
19 run to the maximum?
20 MR. HAROLD SURMINSKI: Yes. But, in
21 fact, spill is not good because there is too much water
22 and it raises your tail water level. So actually you get
23 less than maximum generation when you have too -- too
24 much flows.
25 MR. BOB PETERS: I appreciate that. And

1 that, I'm sure, will excite the engineers in the room.
2 But -- but the -- but the point is, it's -- you've
3 maximized the generating capacity of your plants. It's
4 not that you're choosing to spill because you have no
5 export market for the -- for the product.
6 MR. HAROLD SURMINSKI: Yes. The plants
7 are generating at maximum capability. It's just the --
8 the maximum happens to be less than under ideal
9 conditions.
10 MR. BOB PETERS: No. And I -- I do
11 understand there's a -- there's an engineering reason and
12 a -- for that to happen.
13 MR. ROBERT MAYER: I found it rather
14 interesting when I did hear the engineer several months
15 ago on CBC Radio saying, Now we have too much water. I
16 was wondering when we stop complaining.
17
18 CONTINUED BY MR. BOB PETERS:
19 MR. BOB PETERS: Mr. Surminski, you gave
20 a qualitative estimate of your -- of your drought impacts
21 and tried to quantify that as happening perhaps one (1)
22 out of twenty (20) years.
23 Can you indicate to the Board that within
24 the ninety-three (93) years that you have the data on,
25 how many years have significant losses in it?

1 MR. HAROLD SURMINSKI: By losses you mean
2 the bottom line in the IFF?
3 MR. BOB PETERS: Yes.
4
5 (BRIEF PAUSE)
6
7 MR. VINCE WARDEN: We can take an
8 undertaking on that, Mr. Peters.
9 MR. HAROLD SURMINSKI: I'm not sure we
10 could actually -- we don't -- we don't look at the bottom
11 line in that way on an individual basis, so we would have
12 to have some criteria to -- to make that judgment.
13 MR. BOB PETERS: Well, I'm not asking you
14 to run all ninety-three (93) models through the IFF and
15 then come out with a number. But now I take it you're
16 now down to, again, an estimate, your own estimate as to
17 how many of the years -- of those ninety-three (93) years
18 would result in a loss for the Corporation?
19
20 --- UNDERTAKING NO. 3: Indicate to the Board that
21 within the ninety-three (93)
22 years that Manitoba Hydro
23 have the data on, how many
24 years have significant losses
25 in it. (bottom line in the

1 IFF)

2

3 MR. HAROLD SURMINSKI: And it's not just
4 a single year, it's like a five (5) year sequence of
5 flows that we were talking about. So there was
6 persistence in stream flows. There were several years of
7 highs and several of lows.
8 So it's not just individual years that are
9 looked at, it is a combination of years. And usually the
10 effects compound. Because you start with low reservoir
11 levels and then you continue having low inflows, the
12 impact of that gets more and more severe.
13 MR. BOB PETERS: And you're -- I
14 understood your 1.5 billion number, which may be 2
15 billion, which may be 2.2 billion, qualitatively, was one
16 (1) out of twenty (20), was the number you used, right?
17 MR. HAROLD SURMINSKI: Yes. And one (1)
18 of the reasons for that is because it's a five (5) year
19 drought.
20 MR. BOB PETERS: And that really means
21 it's one (1) out of four (4) years would be a drought,
22 but you put them all together for this -- for this five
23 (5) year occurrence, and five (5) out of your ninety-
24 three (93) years is roughly the one (1) out of twenty
25 (20)?

1 Let me rephrase the question then, Mr.
2 Surminski.
3 Is your one (1) out of twenty (20) years
4 equivalent to the five (5) year drought out of a hundred
5 (100) years?
6 MR. HAROLD SURMINSKI: That is -- yes,
7 that's one (1) way you could think of the probability of
8 occurrence. It is the worst five (5) year period we had
9 and it's about a hundred (100) years of record. So you
10 could think of it happening, the probability is one (1)
11 in twenty (20).
12 MR. BOB PETERS: And I recall there being
13 other periods of drought that the Corporation had,
14 including, I think, in the late '70's?
15 MR. HAROLD SURMINSKI: The second worst
16 drought was 1987 to about 1992, '93.
17 MR. BOB PETERS: And so can you then
18 maybe get back to us with an undertaking as to how many
19 years out of the ninety-three (93) you estimate that
20 there has been a loss to the Corporation as a result of
21 the water flows?
22 MR. HAROLD SURMINSKI: We can provide
23 some indication of probably generation costs and
24 interchange revenue, which is the significant component
25 that we provide to the IFF.

1 So by providing the -- that number, the
2 net of generation costs and interchange revenue, you'll
3 get a very good idea of the variability over the years.
4 MR. BOB PETERS: Thank you.
5 THE CHAIRPERSON: I just have a simple
6 question along those lines. When you're taking a look at
7 those bad situations, just like when you're looking at
8 very good situations, like you've just had, you're
9 looking at modern days, like with respect to the premium
10 price that you've paid and the effect of high natural gas
11 prices and things like that.
12 So you're reflecting on maybe past
13 experiences in water flows, but you're combining it with
14 current experience with pricing?
15 MR. HAROLD SURMINSKI: Yes, certainly,
16 our model is a forward simulation and we use our
17 projections of export prices in this, the cost of natural
18 gas for our own natural, cost of coal for our coal
19 plants, and imports. But, it is all going forward.
20 THE CHAIRPERSON: Because I recall in the
21 2004 the comment was made that the losses that were
22 incurred, which over 2002/'04, probably as a result of
23 that, if you added it all up, I presume was over $600
24 million.
25 The -- it could have been a lot worse

1 other than the mitigating actions that were taken into
2 place. So when you make the projection of the one point
3 five (1.5), or two (2), or two point two (2.2) I assume
4 you're assuming that you would be taking those types of
5 mitigating actions to restrain the loss?
6 MR. HAROLD SURMINSKI: Yes, that's
7 correct. So it -- it is all based, as I stated, on our
8 best estimate and our best estimate is to consider all
9 actions that we could take to protect ourselves.
10 THE CHAIRPERSON: You've also said that
11 that's not your worst risk, that your worst risk has to
12 do with infrastructure failure or something of those
13 lines, or loss of markets and something like that.
14 You don't take that into account in the
15 forecast, do you? They're sort of outside of the IFF's?
16 MR. VINCE WARDEN: Well, we -- we do take
17 that into account in terms of assessing the total risk --
18 risks of the Corporation and the level of equity that we
19 deem prudent to strive for.
20 THE CHAIRPERSON: No, I realize that, Mr.
21 Warden, I was just -- think I was saying the obvious.
22 When you look out at your ninety-three (93) years, for
23 example, you don't work on some -- you never had an
24 experience where you had a major catastrophic
25 infrastructure loss.

1 You're not doing some probabilities and
2 factoring in some sort of leveled off loss for that
3 happening once in ninety-three (93) years or something of
4 that nature. You're doing it -- you're looking at it
5 from a risk perspective but you're not integrating that
6 risk perspective into the IFF's.
7 MR. VINCE WARDEN: We're not -- we're not
8 going through the simulation model that Mr. Surminski
9 described for water flows, for sure. We are, though,
10 certainly -- the Corporate Risk Management Report that we
11 filed with these proceedings and the IFF are somewhat
12 companion documents, so we do consider all those risks in
13 making recommendations to our Board for the appropriate
14 level of retained earnings.
15 THE CHAIRPERSON: Yes, that was my
16 understanding.
17 MR. ROBERT MAYER: And I know The Chair
18 has asked this question in previous hearings, but having
19 just said -- talking about catastrophic risk, I'm
20 assuming that's a loss of a major dam, not just a
21 generating station, a major dam that loses a significant
22 amount of -- creates a significant amount of damage and
23 loses a significant amount of ability to create power.
24 Are you insured against those kinds of
25 catastrophic losses?

MR. VINCE WARDEN: No. No, we self-insure for those catastrophic losses.

THE CHAIRPERSON: And that comes back to your discussions about the level of retained earnings that you feel that you should hold?

MR. VINCE WARDEN: It does.

CONTINUED BY MR. BOB PETERS:

MR. BOB PETERS: Thank you. Mr. Surminski, from your -- your answers and Mr. Warden's answers to The Chair's questions, the ninety-three (93) years of forecasts that you have, those are forecasts of water flows that you're talking about, correct?

MR. HAROLD SURMINSKI: They're forecasts in the way we use our historic -- our previous ninety-three (93) years as being an indicator of what could happen in the future. We make adjustments to these for present use conditions so we don't use 1912 as it occurred, but as 1912 would occur now for present use conditions.

MR. BOB PETERS: Always dealing with water flow and expected or -- or possible flows today?

MR. HAROLD SURMINSKI: Yes, that's the proxy for the range of possible flow conditions.

MR. BOB PETERS: And you don't go down to

1 the financial impact level of -- of those different flows
2 in -- in today's terms; that's not something that you
3 study?
4 MR. HAROLD SURMINSKI: By financial
5 impact we do -- we do provide the information on the
6 generation costs and interchange revenue and the loss of
7 exports. So we do it from that perspective.
8 MR. BOB PETERS: But not -- but -- but
9 you don't, in essence, run an IFF for each of those
10 ninety (90) -- those ninety-three (93) years?
11 MR. HAROLD SURMINSKI: That's right.
12 MR. BOB PETERS: What you do do, is you
13 determine what -- what we've now had a refinement on a --
14 a better understanding of what this median flow level
15 would be, and it's based on that median flows, but then
16 you do run the numbers through the IFF, or at least
17 someone in the Corporation does?
18 MR. HAROLD SURMINSKI: Again, it's not
19 median flows, it's the median impact --
20 MR. BOB PETERS: Yes.
21 MR. HAROLD SURMINSKI: -- of -- of all
22 the conditions. And also our financial planning people
23 do obtain the lowest flow conditions and the highest from
24 our range, and they use that as a sensitivity.
25

1 (BRIEF PAUSE)
2
3 MR. BOB PETERS: How does that
4 sensitivity enter into the IFF?
5 MR. HAROLD SURMINSKI: I believe it's --
6 as I recall, there are graph -- a graphical
7 representation saying what the lowest and highest is, as
8 well as the expected.
9 MR. BOB PETERS: All right. They're one
10 (1) of the ninety -- the lowest is one (1) of the ninety-
11 three (93) years and the highest is one (1) of the
12 ninety-three (93) years, and those are the bookends for -
13 - for what you present.
14 MR. HAROLD SURMINSKI: That's correct.
15 MR. BOB PETERS: All right. Moving along
16 then with the IFF, at Tab --
17 THE CHAIRPERSON: Mr. Peters...?
18 MR. BOB PETERS: Yes.
19 THE CHAIRPERSON: Before the Board moves
20 into a spill situation as to knowledge, perhaps we could
21 have our break.
22 MR. BOB PETERS: As long as it's just
23 knowledge, okay, yes. Thank you.
24
25 --- Upon recessing at 10:30 a.m.

1 --- Upon resuming at 10:52 a.m.
2
3 THE CHAIRPERSON: Mr. Peters, any time
4 you're ready.
5 MR. BOB PETERS: Thank you.
6
7 CONTINUED BY MR. BOB PETERS:
8 MR. BOB PETERS: And I think I've been
9 trying to be economical in my request of undertakings of
10 the Corporation, and in like response I believe Mr.
11 Surminski is able to address probably the last
12 undertaking that we had talked about and provide some
13 information to the Board at this time and I'll ask him to
14 provide his answer.
15 MR. HAROLD SURMINSKI: Thank you, Mr.
16 Peters. Yes, as I was indicating earlier I recalled that
17 there was a graphic in the IFF and have since found --
18 it's in the '04 IFF on page 22.
19 And there's a graph indicating the export
20 revenue due to water flow conditions, the net export
21 revenue. So the variability of --
22 MR. BOB PETERS: Just before I -- if I
23 could interrupt Mr. Surminski, only to help people find -
24 - find it, because I know with my book of documents I
25 just excised one of the pages.

1 But it's found in Volume II of the 06/07
2 and 07/08 general rate application filing. It's Volume
3 II appendices, and, in fact, it is the appendix 5.2, is
4 where I've located it, Mr. Surminski. Is that the one
5 (1) you're referring to?
6 MR. HAROLD SURMINSKI: I don't have the
7 document.
8 MR. BOB PETERS: Oh, I'm sorry. All
9 right.
10
11 (BRIEF PAUSE)
12
13 MR. HAROLD SURMINSKI: We have it. Yes,
14 so the graph indicates the variability of our export
15 revenues -- net export revenues based on the lowest of
16 the flow conditions and the highest.
17 So the -- in the IFF the expected is used,
18 so this provides the range and as I had indicated, the
19 downside is more extreme than the upside.
20 So it's -- in our process we -- we use the
21 weighting of -- of all conditions and -- and the downside
22 is always, well, more costly, because we end up having to
23 import expensive energy or run thermal -- thermal
24 generation. Whereas on the upside, in high flow
25 conditions there's a maximum, we spill water and -- and

1 drive down the price.
2 THE CHAIRPERSON: Are the -- are the
3 downsize and the upsize, on a number basis, relatively
4 equivalent?
5 In order words, do you have the very good
6 water flows about the same level of frequency you have
7 the droughts?
8 MR. HAROLD SURMINSKI: It's -- it's
9 difficult to -- to respond to that because it's -- it's a
10 matter of degree. Like, this is the worst and there are
11 a number of -- of situations like this, you know,
12 decreasing in magnitude until you get to median, and then
13 a number on -- on the upside.
14 So it's all -- it's variable for -- you
15 know, the extent is variable and varies with each of the
16 flow conditions.
17 THE CHAIRPERSON: Just reflecting on the
18 fact that it's not a zero sum gain. When it's really
19 bad, it's really, really bad, and the good ones really
20 don't make up for it.
21 But you've already indicated that with
22 respect to your IFF's, all of the data is factored in.
23 MR. HAROLD SURMINSKI: Yes, that's
24 correct. And I guess --
25 THE CHAIRPERSON: In other words, in a

1 normal medium year, leaving all these asides, there's a
2 little bit of drift downwards to account for this
3 differential between the excess of bad compared to the
4 abundance of good.
5 MR. HAROLD SURMINSKI: Yes. And I guess
6 you could judge the -- the relative magnitudes from this
7 because the expected is the middle, is the zero. And so
8 it means there must be fewer of these extreme lows in
9 order to arise in the middle.
10 THE CHAIRPERSON: Mr. Peters...?
11 MR. BOB PETERS: I think there was one
12 other matter of housekeeping from Ms. Ramage, only to
13 indicate that she has provided a -- and filed with the
14 Board a copy of a letter that I requested yesterday by
15 way of undertaking, and has had the foresight to label it
16 as Exhibit number 9 in response.
17 And I would just indicate that has been
18 filed and --
19 MS. TAMARA MCCAFFREY: Mr. Peters, if I
20 may, I don't think this is the right letter. There was
21 another letter, an earlier letter in fact, talking about
22 system extension policy.
23 I don't think -- this seems to be a -- a
24 response to a letter written by one of the
25 representatives from one of the industries that received

1 the system extension policy letter, saying, What is this
2 all about, We have some concerns.
3 So this is a -- a letter that, oh,
4 response, you know, sort of placates with respect to the
5 -- the concerns. That's not the original letter -- by
6 mistake. There seems to be an earlier one, I think, that
7 you'll find that --
8 MS. PATTI RAMAGE: Can you give -- just
9 to make it clear, can you give me the date? Or maybe
10 offline we'll discuss the date so we make sure --
11 MS. TAMARA MCCAFFREY: I --
12 MS. PATTI RAMAGE: -- we have the right
13 letter.
14 MS. TAMARA MCCAFFREY: I may -- I
15 probably have it with me. And if I have it, I'll give it
16 to you right away. But otherwise, we'll get back to you
17 with that date. Thanks.
18 MS. PATTI RAMAGE: Okay. Thank you.
19 THE CHAIRPERSON: Perhaps you wouldn't
20 mind providing it to Mr. Barron and we can make copies
21 for everyone.
22 MS. PATTI RAMAGE: That would be helpful
23 because we read the letter in the free press, so --
24 MS. TAMARA MCCAFFREY: Yeah. Well --
25 MS. PATTI RAMAGE: -- if you know if --

1 MS. TAMARA MCCAFFREY: -- it is a letter
2 from Manitoba Hydro but I -- I may have it with me. And
3 if I do, we'll -- we'll provide that to you.
4 MS. PATTI RAMAGE: Thank you, Ms.
5 McCaffrey.
6 MS. TAMARA MCCAFFREY: And then go from
7 there.
8 THE CHAIRPERSON: Thank you.
9 MS. PATTI RAMAGE: I'm sure we'll have
10 it, it's just to make sure we're all working from the
11 same page.
12 MR. ROBERT MAYER: And since obviously
13 there is more than one (1) piece of correspondence, I --
14 I think it would be kind of nice if we could assemble the
15 -- all of the correspondence that ended up resulting in
16 that May 1st article.
17 MS. PATTI RAMAGE: I think --
18 MR. ROBERT MAYER: Because now I'm really
19 confused.
20 MS. PATTI RAMAGE: I think it might be
21 helpful for Ms. McCaffrey and I to work together because
22 we don't know what was behind the May 1st article. We --
23 we're sort of a little bit guessing which letter is being
24 referred to because there's not a specific letter
25 referenced.

1 THE CHAIRPERSON: We're confident that
2 when you get together you'll be able to figure out some
3 form of audit trail that will allow the Board to
4 understand it. Thank you. That's all we're looking for.
5 MR. BOB PETERS: I'll thank my colleague
6 Ms. McCaffrey and also Ms. Ramage for assisting the Board
7 on that matter.
8 I would now like, Mr. Chairman, to -- to
9 spend between now and the lunch hour running through some
10 numbers which, if the engineers got excited about the
11 water flows and the spilling, this will be helpful to the
12 accountants in the room to -- to run through these
13 numbers, so.
14 MR. BYRON WILLIAMS: Mr. Peters or Mr.
15 Chairman, if I might interrupt for just one (1) second.
16 Just for -- for -- I have a hard enough
17 time keeping track of my exhibit book so I'm not -- to
18 mark this as -- or this has not been marked as an exhibit
19 at this point in time?
20 THE CHAIRPERSON: I would hold it until
21 they get it all together.
22 MR. BYRON WILLIAMS: Okay. Thank you.
23
24 CONTINUED BY MR. BOB PETERS:
25 MR. BOB PETERS: A good clarification,

1 Mr. Williams, thank you for that.
2 I think before the break we had -- Panel
3 agreed that as a starting point you were at Tab 3 of the
4 book of documents dealing with the -- the one (1) page of
5 the IFF that provided the electrical operations,
6 projected operating statement and that's the -- that's
7 the number where you started from. Have I got that
8 right?
9 MR. CHIC THOMAS: That's correct.
10 MR. BOB PETERS: And you also told the
11 Board that you would include net income in the Cost of
12 Service Study, so the $208 million that is forecast back
13 in -- in the IFF '04, that $208 million would be included
14 in the Cost of Service Study?
15 MR. CHIC THOMAS: As a cost, yes.
16 MR. BOB PETERS: And the fact that that
17 $208 million may look a lot more like $375 million or
18 more, it doesn't change the net effect of the Cost of
19 Service Study in the Corporation's view?
20 MR. CHIC THOMAS: We use the two hundred
21 and eight (208) regardless of what the -- the actual
22 comes in at.
23 MR. BOB PETERS: And before people get
24 their calculators out, adjustments are made, Mr. Thomas,
25 to the information in the IFF so that you can take the

1 information over to the Cost of Service Study. Would
2 that also be correct?
3 MR. CHIC THOMAS: That's correct.
4 MR. BOB PETERS: And those adjustments
5 are found in document -- Tab 4 of the book of documents.
6 And the adjustments that you make are set out in -- in
7 chart form, and I don't want to go through them all, but
8 for example, one (1) of the adjustments that you do make
9 is that you remove $48.4 million of variable costs and
10 you directly allocate that to the opportunity export
11 class in the Manitoba Hydro recommended cost of service
12 methodology?
13 MR. CHIC THOMAS: Yes, that's correct.
14 MR. BOB PETERS: And in terms of costs to
15 be allocated, we look under the column that's PCOSS, and
16 the major headings there show us that for depreciation
17 there's $290 million that's going to be carried forward
18 to the Cost of Service Study together with finance of 727
19 million, and O&M costs around $492 million, correct?
20 MR. CHIC THOMAS: Yes.
21 MR. BOB PETERS: And if the -- the
22 operating costs that are down at four ninety eight (498)
23 are also further adjusted for miscellaneous revenue that
24 you have to credit back?
25 MR. CHIC THOMAS: That's correct.

1 MR. BOB PETERS: And that brings it down
2 to 492 million?
3 MR. CHIC THOMAS: Yes.
4 MR. BOB PETERS: All right. And if you
5 can read the handwriting on the page, and if the
6 calculator was right it's approximately $1.509 million?
7 MR. CHIC THOMAS: Yes, will -- which will
8 correspond to Schedule B-4, I believe it is -- in the
9 Cost of Service Study, it is the total allocated cost.
10 MR. BOB PETERS: All right --
11 MR. CHIC THOMAS: Or total cost. My
12 mistake.
13 MR. BOB PETERS: And when you said B-4
14 you were -- it's also known as in the tab of documents
15 Number 9, the first document in Tab 9? It comes up with
16 the five point -- sorry the $1.509 --
17 MR. CHIC THOMAS: That's correct.
18 MR. BOB PETERS: -- billion? Now, if we
19 turn to Tab 2, and page 2 of Tab 2, which will be one (1)
20 that I'd like you to keep relatively handy, we see the
21 total expenses in the first column, Mr. Thomas, and the
22 numbers that I read to you and you agreed with are shown
23 in the first column, Total Expenses, correct?
24 MR. CHIC THOMAS: Second column, you
25 mean?

1 MR. BOB PETERS: Yes. Yes, second
2 column. The only costs flowing from plant expenditures,
3 the historic plant expenditures, is the $290 million
4 shown for the depreciation together with some financing
5 costs; would that be correct?
6 MR. CHIC THOMAS: That's correct.
7 MR. BOB PETERS: And the column beside
8 the $290 million indicates that the depreciation expenses
9 are approximately 19 percent of the total costs that get
10 allocated; you'd agree with that?
11 MR. CHIC THOMAS: That looks about right,
12 yes.
13 MR. BOB PETERS: And the cost of plant is
14 not expressly contained in the Cost of Service Study;
15 that's also correct? That is the capital cost to the
16 plant?
17 MR. CHIC THOMAS: We have supporting
18 schedules in the Cost of Service Study somewhere in
19 section C, I believe, that highlight gross investment and
20 accumulated depreciation, and so on and so forth,
21 functionalized by our six (6) functions that Mr. Wiens
22 had alluded to earlier.
23
24 (BRIEF PAUSE)
25

1 MR. BOB PETERS: But all you've done
2 there is you've showed the Board how you've calculated
3 the total expenses that get carried forward to the Cost
4 of Service Study?
5 MR. CHIC THOMAS: That's right.
6 MR. BOB PETERS: All right.
7
8 (BRIEF PAUSE)
9
10 MR. BOB PETERS: So the next step in this
11 process, Mr. Thomas, that you undertook, was to
12 functionalize those total expenses; would that also be
13 correct?
14 MR. CHIC THOMAS: Yes.
15 MR. BOB PETERS: And if we just look at
16 the document at Tab 2, the first one, the one without the
17 numbers on it -- the functionalization is the preliminary
18 arrangement of cost according to the functions that are
19 performed by the Utility?
20 MR. CHIC THOMAS: That's right.
21 MR. BOB PETERS: And before you -- before
22 you point it out, the ancillary services that you mention
23 as one (1) of the functions isn't expressly shown on that
24 chart, but, that can be attributed to the fact that those
25 expenses are functionalized back into other -- into the

1 other headings, as well?
2 MR. CHIC THOMAS: Yes, the transmission,
3 I believe.
4 MR. BOB PETERS: And if we turn the page
5 to the second document at Tab 2, that's the schematic,
6 what you've done is you've taken the total expenses and
7 you have put them into five (5) categories based on the
8 functions performed by the Utility, in other words,
9 you've functionalized them into five (5) categories?
10 MR. CHIC THOMAS: Yes.
11 MR. BOB PETERS: And I think it was
12 either your evidence or Mr. Wiens' evidence through to
13 Ms. Ramage, that in terms of sub-transmission,
14 distribution plant and distribution services, there's no
15 change being proposed by Manitoba Hydro in this cost of
16 service methodology that it's recommending?
17 MR. CHIC THOMAS: That's correct.
18 MR. BOB PETERS: And so the changes that
19 are coming affect the generation and the transmission
20 functions, which comprise approximately 71 percent of the
21 total costs to the Utility?
22 MR. CHIC THOMAS: Yes, that's right.
23
24 (BRIEF PAUSE)
25

1 MR. BOB PETERS: Would it also be
2 correct, Mr. Thomas, that of the distribution plant and
3 the distribution services, those end up being primarily
4 put into the residential customer classes?
5 MR. CHIC THOMAS: I wouldn't say
6 primarily, but residential general service small, general
7 service medium and the less than thirty (30) GSL class,
8 the actual percentages to each class, I don't have it
9 right on hand, but.
10 MR. BOB PETERS: What you're indicating
11 is that it's more than just residential who gets
12 distribution costs, but you'd agree with me that the
13 residential is the bulk of the distribution class --
14 distribution costs, sorry?
15 MR. CHIC THOMAS: Probably.
16 MR. BOB PETERS: Yeah. All right. Well
17 we can -- we've got the material, the back up material if
18 we need to check that further, so.
19 The next step of what we're doing, looking
20 at that schematic at Tab 2, page one (1), is we would
21 then take our functionalized costs, which are $1.5
22 billion, and then you would classify them into one (1) or
23 more of demand related costs, energy related costs or
24 customer related costs, correct?
25 MR. CHIC THOMAS: Yes.

1 MR. BOB PETERS: Now, the customer
2 related costs are associated with the Utility carrying
3 customers on the power system or the addition of
4 customers to the power system; is that correct?
5 MR. CHIC THOMAS: The customer related
6 costs?
7 MR. BOB PETERS: Yes.
8 MR. CHIC THOMAS: Yes.
9 MR. BOB PETERS: And -- and I think an
10 important point here is when we turn to demand costs the
11 concept is that the costs associated -- that get
12 classified into demand are associated with the rate of
13 flow of electricity that is demanded at one point in
14 time.
15 MR. CHIC THOMAS: That's fair.
16 MR. BOB PETERS: It may also include the
17 -- the maximum size or capacity of the facilities that
18 are required to serve customers.
19 MR. CHIC THOMAS: Yes.
20 MR. BOB PETERS: The energy costs that
21 you have classified are associated with the consumption
22 of electricity over a period of time by consumers.
23 MR. CHIC THOMAS: Over the course of the
24 year, yes.
25 MR. BOB PETERS: Well it doesn't have to

1 -- in this it could be over the course of the year but --
2 but energy in general would be, for example, a
3 kilowatt/hour, how many kilowatts you use per hour.
4 MR. CHIC THOMAS: Yes, that's correct.
5 MR. BOB PETERS: All right. And when we
6 talk about demand we could talk about megawatts as
7 opposed to over a time unit.
8 MR. CHIC THOMAS: Yes.
9 MR. BOB PETERS: All right. So in --
10 what we've done on this page is you have classified
11 customer costs as 12 percent, demand costs as 30 percent,
12 and energy costs as 58 percent, and again we total the
13 $1.509 billion in the Cost of Service Study.
14 MR. CHIC THOMAS: Yes.
15 MR. BOB PETERS: Now, the -- the
16 breakdown of those -- of those costs can be found on Tab
17 6. So the breakdown of the classification of
18 functionalised costs is shown in detail on Tab 6 of the
19 book of documents, in what is Manitoba Hydro's response
20 to PUB/MH First Round Question 37.
21 MR. CHIC THOMAS: Yes.
22 MR. BOB PETERS: And what you're showing
23 here is what you had functionalized as generation, some
24 of that ends up in customer, some of that ends up in
25 demand, and most of it ends up in energy, when you're

1 classifying it.
2 MR. CHIC THOMAS: That's right.
3 MR. BOB PETERS: And one of the points
4 that I think we'll jump to right now, Mr. Thomas, is in
5 your rebuttal evidence you -- you indicate that on the
6 line where transmission is classified into demand and
7 energy, the Corporation is -- is suggesting to the Board
8 that that may not be the right way to go at this point in
9 time.
10 MR. CHIC THOMAS: I don't think it was
11 the right way to -- to characterize it as the right way
12 to go. But I think if I recall my direct it was it -- it
13 really isn't having a lot of effect for -- for the -- for
14 doing what we did there, so.
15 MR. BOB PETERS: What you're suggesting
16 is that if you had to redo this, you're recommending the
17 Board tell you to put that classified energy cost back
18 into -- into the demand costs, along with the rest of the
19 $168 million.
20 MR. CHIC THOMAS: Yes, that's right.
21 MR. BOB PETERS: And is the only reason
22 you're doing that is because the -- the significance of
23 having separated it into demand, the transmission
24 functional costs into demand and energy has improved to
25 provide any -- any significant impact on the Cost of

1 Service Study?
2 MR. ROBIN WIENS: That's true. And --
3 and it's also true that when you look at who the costs
4 are allocated to, and exports bear a share of both types
5 of transmission, that domestic customers do, in fact, use
6 what has been characterized as -- as export related
7 transmission.
8 In the end, although the -- the report
9 that -- and the recommendations that we received from
10 NERA were suggesting that we certainly consider this,
11 they weren't definitive on that.
12 And following some subsequent internal
13 review we had determined that for all the difference it
14 makes and for all -- for the complicating factors, that
15 it was probably just as well to put them together again.
16 MR. BOB PETERS: And so what you're
17 asking by way of your rebuttal evidence and your direct
18 evidence is that you'd like the Board to indicate that --
19 that the energy classified costs related to transmission
20 be included in the demand classified costs of
21 transmission?
22 MR. ROBIN WIENS: I guess at this point
23 we're saying we would not be adverse to that type of a
24 determination.
25 MR. BOB PETERS: Yes, and you're not

1 asking to study this further and come back at some later
2 date, you're saying you're ready to -- to move on that
3 now if the Board is of -- of like mind?
4 MR. ROBIN WIENS: That's correct.
5 MR. BOB PETERS: All right. Thank you.
6
7 (BRIEF PAUSE)
8
9 MR. BOB PETERS: All right. Following up
10 from -- from the document at Tab 6, once the costs have
11 been functionalised and classified by a cost component,
12 you then allocate them to customer classes; would that be
13 correct?
14 MR. CHIC THOMAS: Yes.
15 MR. BOB PETERS: And that can be seen in
16 the document at Tab 2, second page, and in the allocation
17 columns the customer classes are set out together with
18 the dollar values that the company is recommending be
19 allocated to each of those customer classes?
20 MR. CHIC THOMAS: Yes.
21 MR. BOB PETERS: Now the last two (2)
22 columns on the second page of the document at Tab 2 were
23 put in there to show what the current situation is.
24 And subject to check, you will accept
25 those as being reflective of the current situation?

1 MR. CHIC THOMAS: I will.
2 MR. BOB PETERS: Thank you. Mr. Thomas,
3 to get the costs from the classification stage to the
4 allocation stage, there's a number of allocation factors
5 that are used and -- and different method -- different
6 allocators that are used to do that, correct?
7 MR. CHIC THOMAS: Yes.
8 MR. BOB PETERS: And Mr. Wiens, perhaps
9 inadvertently, but told us about some of the allocation
10 issues related to using RCC's pre-export, which would
11 have different impacts for the street lighting class, but
12 that came -- that came about as a result of the
13 allocation factors that were used?
14
15 (BRIEF PAUSE)
16
17 MR. CHIC THOMAS: No, I think the -- in
18 terms of the area and roadway lighting it was the -- it
19 was the direct costs that Mr. Wiens was -- was alluding
20 to.
21 MR. BOB PETERS: All right. Let me --
22 let me go at this way: Once we -- we have your costs,
23 would you agree with me that one (1) way to deal with the
24 costs is to directly identify the cost and assign it to a
25 customer class?

1 MR. CHIC THOMAS: Yes.
2 MR. BOB PETERS: And when would you do
3 that? When would you directly assign a cost to a
4 customer class?
5 MR. CHIC THOMAS: It's hard to say when -
6 - when we'd do it but we can -- we can identify direct
7 costs during -- during the process of functionalization.
8 And then once we've identified that in the
9 functionalization stage we separate that out from the
10 allocation tables.
11 MR. BOB PETERS: So as you're going
12 through all your costs at the functionalization stage, if
13 there's a cost that you come across that is used solely
14 and directly by one (1) of the customer classes, you'll
15 take that out of the cost of service methodology and put
16 it directly over to that customer class?
17 MR. CHIC THOMAS: Yes.
18 MR. BOB PETERS: Another thing that I
19 suggest you might do is you will allocate the classified
20 costs based on the class' share of the load as a ratio to
21 the system load?
22 MR. CHIC THOMAS: Yes.
23 MR. BOB PETERS: And -- and that can be
24 for the kilowatts demanded, or it can be on the kilowatt
25 hours of energy consumed?

1 MR. CHIC THOMAS: Correct.
2 MR. BOB PETERS: And finally, you would
3 take some of those classified costs and allocate them to
4 a customer class, based on the number of customers that
5 there are in that class?
6 MR. CHIC THOMAS: Yes, that's right.
7 MR. BOB PETERS: And sometimes you apply
8 a weighting factor so that just because there is a
9 certain number of customers, you may weight the customers
10 differently between classes?
11 MR. CHIC THOMAS: That's correct.
12 MR. BOB PETERS: At Document Number 7 in
13 the book of documents we see how you took the classified
14 costs and then allocated those to the various customer
15 classes; is that correct?
16 MR. CHIC THOMAS: That's right.
17 MR. BOB PETERS: And so while that --
18 that document, which was a summary prepared based on PUB
19 first round question 38, it shows how the three (3)
20 classified areas of costs, that is customer demand and
21 energy, end up getting allocated by the Corporation to
22 each of the customer classes?
23 MR. CHIC THOMAS: That's correct. And
24 that's excluding export revenue, of course.
25 MR. BOB PETERS: All right. Well let's -

1 - let's go down to that. What you're excluding here is
2 the allocation of the net export credit, however it's
3 defined?
4 MR. CHIC THOMAS: That's correct.
5 MR. BOB PETERS: But you have on -- we're
6 looking at the recommended methodology, not any of the
7 other three that you put forward, correct?
8 MR. CHIC THOMAS: I'm sorry?
9 MR. BOB PETERS: We're looking at the
10 recommended cost of service methodology that you're
11 asking the Board to approve?
12 MR. CHIC THOMAS: Yes.
13 MR. BOB PETERS: And in the recommended
14 methodology you do have two (2) export classes, or one
15 (1) export class with two (2) subclasses, whatever you
16 want to call it --
17 MR. CHIC THOMAS: True --
18 MR. BOB PETERS: -- and the one (1)
19 export class is for firm energy, only?
20 MR. CHIC THOMAS: Yes.
21 MR. BOB PETERS: And the firm energy only
22 is shown up and it's the -- it's identified in the class,
23 and if you follow it over it gets allocated $196 million
24 of costs.
25 MR. CHIC THOMAS: Yes.

1 MR. BOB PETERS: You would call that an
2 indirect allocation of costs?
3 MR. CHIC THOMAS: I would call it an
4 allocation of costs.
5 MR. BOB PETERS: All right. So you told
6 me earlier that if you could identify a cost at the
7 functionalization stage, that related to a particular
8 customer class, you would directly assign it to a
9 customer class, or directly allocate it; what's the right
10 word?
11 MR. CHIC THOMAS: Directly assign.
12 MR. BOB PETERS: Directly assign. All
13 right. So you don't directly assign any costs here to
14 the export class?
15 MR. CHIC THOMAS: The firm export class.
16 MR. BOB PETERS: Okay. But you do
17 allocate costs to the opportunity export class? You
18 directly assign -- you directly assign $48 million of --
19 MR. CHIC THOMAS: That's correct.
20 MR. BOB PETERS: -- variable cost to the
21 opportunity export class?
22 MR. CHIC THOMAS: Yes.
23 MR. BOB PETERS: All right. I'll try to
24 keep those straight and if I don't I'm sure you'll
25 correct me. What we see on the document at Tab 7, is we

1 end up with our $1.509 billion number again, Mr. Thomas,
2 and that tells the Board that you're forecast of 2006
3 embedded costs from IFF-04 have ended up in all of the
4 customer classes?
5 MR. CHIC THOMAS: Yes.
6
7 (BRIEF PAUSE)
8
9 MR. BOB PETERS: Turning back to our
10 document at Tab 2 and page 2, Mr. Thomas, I want you to
11 walk the Board across the page and indicate to the Board
12 where the recommended changes are by Manitoba Hydro.
13 So to start off with, under the total
14 expense columns there's really no difference in your cost
15 of service methodology that you're proposing than there
16 was in your previous cost of service methodology; would
17 that be correct?
18 MR. CHIC THOMAS: That's correct.
19 MR. BOB PETERS: And under
20 functionalization, you've already told the Board that the
21 only area of change relates to generation and
22 transmission, but not related to the sub-transmission,
23 distribution plant or distribution services?
24 MR. CHIC THOMAS: Correct.
25 MR. BOB PETERS: All right. What about

1 classification?
2 MR. CHIC THOMAS: Classification is
3 changed because on the generation side we are now, with
4 the exception of the curtailable credit that we've
5 defined, which is a small portion in the demand part,
6 most of the generation cost is now classified as energy,
7 as opposed to energy and demand.
8 MR. BOB PETERS: Can you tell the Board
9 why you did that?
10 MR. CHIC THOMAS: That's usually in our
11 time -- our marginal cost values for the four (4)
12 periods, that we believe is a better indicator.
13 MR. BOB PETERS: And it was NERA who
14 suggested that you go to some time differentiated
15 weighting to do that.
16 MR. CHIC THOMAS: That's correct.
17
18 (BRIEF PAUSE)
19
20 MR. BOB PETERS: Once we get past the
21 allocation methodol -- sorry, the classification
22 methodology and turn to the allocation, what -- what
23 changes, if any, are you asking the Board to consider at
24 -- at that level?
25

1 (BRIEF PAUSE)
2
3 MR. ROBIN WIENS: Well, since we haven't
4 got to the issue of allocation of export revenue, yeah,
5 there are changes here obviously between the -- between
6 the recommended and the current method. And you can see
7 that all the way down in terms of the actual impact on
8 the costs that are allocated to the classes.
9 But you can also see it at the bottom, in
10 -- because we are now -- we have a -- a larger quantum of
11 costs because of the fact that we have an export class
12 which is being allocated some of the costs.
13 So that is one (1) change in the
14 allocation.
15 The other changes would flow through from
16 the classification changes that Mr. Thomas has described.
17 We have, as he noted, we -- virtually all the generation
18 costs are -- are classified as energy related. And then,
19 at least implicitly, sub classified according to weighted
20 -- the weighted marginal cost in each of the four (4)
21 time periods.
22 So the allocation to the customer classes
23 is going to be different in the recommended method than
24 it is in the -- in the current method because of the allo
25 -- because of the allocator that we're using.

1 MR. BOB PETERS: Let me just back up on
2 that, Mr. -- Mr. Wiens.
3 Other than the creation of the export
4 class, are the allocation methodologies the same?
5 MR. ROBIN WIENS: No, they're not. But
6 to the extent they're different it's because they flow
7 through from the classification changes.
8 In the current method the generation cost,
9 for example, is first classified approximately 80 percent
10 as energy related and 20 percent as demand related. The
11 demand related portion is then allocated on the basis of
12 a -- of a -- two (2) -- two (2) coincident peak
13 allocator and the energy portion is allocated on annual
14 energy.
15 In the recommended method virtually all
16 the costs have -- are classified as energy related. And
17 the energy allocator has changed, it is now the customer
18 -- the class usage of energy but weighted in the four (4)
19 time periods by the marginal cost.
20 So they are -- there is a different
21 classification method and it implies a different
22 allocator.
23 MR. BOB PETERS: Thank you. And we'll --
24 we'll come back to a couple of those.
25 You had said, Mr. Wiens, that we hadn't

1 included the -- the net export revenue in these -- in
2 this information and you're correct.
3 And I would be correct if I suggested
4 that from the Corporation's perspective that would be the
5 most critical aspect of your revised cost of service
6 methodology?
7 MR. ROBIN WIENS: Yes and the one (1)
8 that has the most significant changes in the end results.
9 MR. BOB PETERS: Would you agree with me
10 that we could -- we can break that issue down, about
11 export revenue down to three (3) different issues, and
12 the first would be how to define export class or classes
13 if at all?
14 Would you agree that's one (1) of the
15 issues the Board has to consider?
16 MR. ROBIN WIENS: Yes.
17 MR. BOB PETERS: Presently we don't have
18 an export class, even though you do net some costs
19 against export revenue, correct?
20 MR. CHIC THOMAS: In the current method,
21 yes.
22 MR. BOB PETERS: Presently, that's what
23 I'm suggesting, yes.
24 MR. ROBIN WIENS: Yes, Mr. Peters. We
25 take them out of both costs on the revenue side.

1 MR. BOB PETERS: Yes. You net -- you net
2 costs through the export revenue and -- and come up with
3 a net export revenue amount that you credit back to the
4 classes.
5 MR. ROBIN WIENS: That's correct.
6 MR. BOB PETERS: And the Board is, I'm
7 sure, clear that Manitoba Hydro is recommending there be
8 two (2) export classes, one (1) for firm exports and one
9 (1) for opportunity; correct?
10 MR. ROBIN WIENS: That's what we're
11 recommending, yes.
12 MR. BOB PETERS: And the NERA
13 recommendation was to use only one (1) export class,
14 correct?
15 MR. CHIC THOMAS: Yes.
16 MR. BOB PETERS: All right. We'll --
17 we'll delve into that -- we'll delve into that issue.
18 A second issue related to the export
19 revenue would be what costs should be charged to any
20 export class or classes?
21 MR. CHIC THOMAS: That's correct.
22 MR. BOB PETERS: And, Mr. Thomas, those
23 costs could be directly assigned or allocated?
24 MR. CHIC THOMAS: Well done, yes.
25 MR. BOB PETERS: And the answer to that

1 question impacts on the third issue which is how to
2 allocate the resulting net export credit to the customer
3 classes?
4 MR. ROBIN WIENS: Not quite, Mr. Peters,
5 it impacts on the quantum of net export revenues that
6 will be allocated but not on your choice of allocator.
7 MR. BOB PETERS: Maybe I misspoke or I --
8 once you know what costs are charged to the export class
9 whether directly assigned or allocated you're left with a
10 net export revenue and from that stage you then have to
11 determine how to allocate the resulting net export
12 revenue to the customer classes?
13 MR. CHIC THOMAS: Yes.
14 MR. BOB PETERS: Now to -- to look at
15 that the IFF-04 at Tab 3 indicates that under the extra-
16 provincial revenue line for 2006 that there was a
17 forecast of $547 million of export revenue for the year
18 ending '06, correct?
19 MR. CHIC THOMAS: That's right.
20 MR. BOB PETERS: And you've already
21 indicated that whatever the actual amount is it -- it
22 doesn't matter because you want to base it on a forecast
23 and this forecast is the one (1) that has the median
24 values in it?
25 MR. CHIC THOMAS: Yes.

1 MR. BOB PETERS: In the book of documents
2 at Tab 8 there are three (3) calculations before the
3 Board.
4 That's the document at Tab 8 page number
5 1 where we look at the calculation and the allocation of
6 net export revenue and three (3) of the four (4) methods
7 are shown here, correct?
8 MR. CHIC THOMAS: Yes.
9 MR. BOB PETERS: And in the current
10 methodology whether they're firm, exports, or opportunity
11 they come up to the $547.4 million as they do in all
12 three (3) of the -- the methodologies?
13 MR. CHIC THOMAS: That's correct.
14 MR. BOB PETERS: But under the current
15 methodology that's presently approved by the Board, Mr.
16 Thomas, there are costs that are directly assigned
17 against the export revenue?
18 MR. CHIC THOMAS: On the opportunity
19 side, yes.
20 MR. BOB PETERS: Well I'm talking about
21 the current methodology.
22 MR. CHIC THOMAS: Yes, sorry.
23 MR. BOB PETERS: So in the current
24 methodology you don't distinguish between firm and
25 opportunity do you?

1 MR. CHIC THOMAS: Correct.
2 MR. BOB PETERS: So -- but you do assign
3 costs against the revenue and in total there's $107
4 million of costs that are assigned?
5 MR. CHIC THOMAS: That's correct.
6 MR. BOB PETERS: And under the current
7 methodology the net export revenue that would have to be
8 -- would be available to be allocated is the $440 million
9 number before you consider the uniform rate adjustment?
10 MR. CHIC THOMAS: Yes.
11 MR. BOB PETERS: And if we look at the
12 NERA recommended method they have the same total amount
13 of export revenue as you would expect, correct, a 547
14 million?
15 MR. CHIC THOMAS: Yes.
16 MR. BOB PETERS: And what appears next is
17 that there is no assignment by NERA of any costs directly
18 against export revenues, that's correct?
19 MR. CHIC THOMAS: Yes, the whole portion
20 is allocated.
21 MR. BOB PETERS: That's correct. All
22 right. So what you then are telling the Board is that
23 NERA ends up as a customer class along with the other
24 customers and the allocation methodology determines how
25 much of the export -- how much the export class is

1 allocated in terms of total system costs?
2 MR. CHIC THOMAS: Yes.
3 MR. BOB PETERS: And under the
4 methodology that's presented, $324 million would be
5 NERA's recommendation to allocate against the export
6 class, the single export class that they have in their
7 report?
8 MR. CHIC THOMAS: Yes.
9 MR. BOB PETERS: And the resulting net
10 export revenue to be credited to the customer classes is
11 therefore only $222.9 million and I use the word, only,
12 advisedly?
13 MR. CHIC THOMAS: Yes.
14 MR. BOB PETERS: Mr. Thomas, is it also
15 correct that the NERA and the vintaging methodology would
16 come to the same result?
17 MR. CHIC THOMAS: Not exactly the same
18 but -- oh, you mean in terms of the net export amount?
19 MR. BOB PETERS: Yes.
20 MR. CHIC THOMAS: I believe so, yes.
21 MR. BOB PETERS: All right. Well then
22 let's turn to the recommended method which is in Tab 8,
23 page 1 of the document.
24 Now, the basic distinction here, Mr.
25 Thomas, that the Board will see, is that you allocate

1 costs directly to one of the export classes and you
2 allocate costs to the other export class.
3 MR. CHIC THOMAS: Yes.
4 MR. BOB PETERS: And the direct
5 assignment of 45 percent of the variable costs goes to
6 the opportunity class -- the opportunity export class
7 only, correct?
8 MR. CHIC THOMAS: Yes.
9 MR. BOB PETERS: And that's the $48.4
10 million?
11 MR. CHIC THOMAS: Yes.
12 MR. BOB PETERS: Can you indicate to the
13 Board why there is no direct assignment of any costs of
14 any kind to the firm export class?
15 MR. ROBIN WIENS: The firm export class
16 in the recommended method is treated in the same way as
17 the entire export class is treated in the NERA method,
18 which is to say that they bear a share of all these
19 costs.
20 So the -- in the recommended method the
21 firm export class does, in fact, bear a share of the
22 water levels, the purchase power imports and the
23 applicable portion of fuel costs.
24 It's just not directly assigned. It's
25 allocated to that class along with all the other costs

1 related to generation and transmission, in the same way
2 that the domestic customer classes bear a share of those
3 costs in the current method and in the recommended
4 method.
5 MR. BOB PETERS: What you're saying in my
6 words, Mr. Wiens, is that once you know what costs are
7 left over after the direct assignment of costs, you put
8 them all into a big hopper, you run them through the
9 allocation methodology and they get allocated to the
10 export class in the same fashion as they would be to the
11 other customer classes?
12 MR. ROBIN WIENS: Exactly.
13 MR. BOB PETERS: And so that even though
14 there is a cost that is used to facilitate firm exports,
15 it's not directly assigned, but, a portion of that will
16 end up coming back being allocated through the allocation
17 methodology to the export -- the firm export class?
18 MR. ROBIN WIENS: That's correct.
19 MR. BOB PETERS: And on the first
20 document on Tab 8, you've agreed with me that 48.4
21 million was directly assigned to the opportunity class
22 and am I correct then, that $196 million gets -- I'm
23 sorry I mis-spoke I think, $48 million is directly
24 assigned to the opportunity export class and 198 million
25 is allocated to the firm export class?

1 MR. ROBIN WIENS: Yes.
2
3 (BRIEF PAUSE)
4
5 MR. BOB PETERS: While we still see the
6 numbers on page -- sorry -- on document at Tab 8, first
7 page, if we go down to the bottom line as we often do,
8 there's an adjustment made to all three (3) methodologies
9 for the uniform rate adjustment, correct?
10 MR. CHIC THOMAS: Correct.
11 MR. BOB PETERS: And that arose as a
12 result of Provincial legislation, Mr. Thomas?
13 MR. CHIC THOMAS: The uniform rates
14 legislation, yes.
15 MR. BOB PETERS: And when the first
16 calculation was done for uniform rates the resulting
17 financial impact was, in my memory, closer to fourteen
18 (14) or $15 million; is that also your memory?
19 MR. CHIC THOMAS: Yes.
20 MR. BOB PETERS: And so can you explain
21 to the Board why you're using 16.8 million as a uniform
22 rate adjustment in your cost of service proposals?
23 MR. ROBIN WIENS: It reflects the
24 increase in the numbers in the residential class.
25 Residential revenue from rates has increased and we have

1 more residential customers than we had back in 2000 and -
2 - when we first calculated the impact of uniform rates
3 was in 2001.
4 We've moved five (5) years down the road.
5 So the revenues associated with that change have grown
6 accordingly.
7 MR. BOB PETERS: What about the revenues
8 to other classes of customers, Mr. Wiens, was that also
9 factored into this number?
10 MR. ROBIN WIENS: You -- you're referring
11 to the general service, small and medium class.
12 MR. BOB PETERS: Yes.
13 MR. ROBIN WIENS: Yeah. The impacts
14 would not have been so large but, yes, the same steps
15 were taken.
16 MR. BOB PETERS: If it was approximately
17 $14 million at the time the uniform rates came in,
18 certainly 12 million of that related to residential?
19 MR. CHIC THOMAS: The bulk of it is
20 residential.
21 MR. BOB PETERS: Yeah. And in terms of
22 going forward, Mr. Wiens and Mr. Thomas, is the uniform
23 rate adjustment going to be ratcheted up every time you
24 do a cost of service study?
25 MR. CHIC THOMAS: How do you mean

1 ratcheted up?
2 MR. BOB PETERS: Will it be increased as
3 a result of growth in residential revenues?
4 MR. CHIC THOMAS: Well, I think as we've
5 explained in the pre-hearing conference and in some of
6 the documentation through this proceeding thus far, is
7 that it -- it is based on a percentage in each class. So
8 naturally if revenues grow, that number, using your term,
9 will be ratcheted up.
10 MR. BOB PETERS: And it will be ratcheted
11 up or increased by the same percentage as the growth in
12 class revenues?
13 MR. CHIC THOMAS: Correct.
14 MR. BOB PETERS: At the bottom of the
15 document on Tab 8, document number 1, is the bottom line
16 net export revenue that's to be allocated to the customer
17 classes, and there are significant differences between
18 the three (3) methodologies, correct?
19 MR. CHIC THOMAS: That's fair.
20 MR. BOB PETERS: And under the current
21 methodology used you would have to allocate 423 million,
22 under NERA only two hundred and six (206), and your
23 recommended method is two hundred and eighty-five (285).
24 MR. CHIC THOMAS: Yeah.
25 MR. BOB PETERS: In terms of how that

1 breaks down by class, if you can turn the page to the
2 second document at Tab 8. I want to make sure the Board
3 is clear with what the proposals are in terms of the
4 allocation of the export revenue that is considered net.
5 If we focus just on the residential class,
6 under the current methodology 34 percent of the $423
7 million would go to the residential class, correct?
8 MR. CHIC THOMAS: I'll accept that.
9 MR. BOB PETERS: And under the NERA
10 methodology the percentage increases and the absolute
11 dollar value decreases.
12 MR. CHIC THOMAS: Yeah.
13 MR. BOB PETERS: And, I think as may have
14 been picked up, the recommended methodology in terms of
15 the percentage of the recommended and the NERA, one says
16 forty-three (43) and one says forty-two (42), they are
17 essentially the same and maybe just different here
18 because of rounding?
19 MR. CHIC THOMAS: Correct.
20 MR. BOB PETERS: You would expect them to
21 be the same because you would use the same methodology in
22 terms of allocating them over total system costs?
23 MR. CHIC THOMAS: Yeah.
24
25 (BRIEF PAUSE)

1 MR. BOB PETERS: So the -- so what --
2 what's happened here on this second document found in Tab
3 8 of the book of documents, is that there's a percentage
4 change in the various methodologies and there's an
5 absolute dollar amount change in the methodologies as
6 well?
7 MR. CHIC THOMAS: Yes.
8 MR. BOB PETERS: And that's as a result
9 of a couple of factors at play, Mr. Thomas, one (1) of
10 which is that the pie gets smaller when you go from the
11 current methodology to your recommended methodology; that
12 is the absolute amount of money that's available to be
13 allocated as net export revenue is a smaller amount?
14 MR. CHIC THOMAS: Yes.
15 MR. BOB PETERS: And that's also as a by-
16 product of having allocated or assigning costs directly
17 to the export class to a -- to a smaller amount than --
18 than what you currently do?
19 MR. CHIC THOMAS: Yes.
20 MR. BOB PETERS: So the pie is getting
21 smaller and in addition to the pie getting smaller the
22 residential class is getting a bigger piece of the
23 smaller pie?
24 MR. CHIC THOMAS: Sure.
25 MR. BOB PETERS: All right. I -- now you

1 understand how my mind works.
2 What I'm saying is that the allocation of
3 the net export revenue to the residential class is a
4 higher percentage because you now use all system costs as
5 the denominator on which to base that class' share of the
6 export credit?
7 MR. CHIC THOMAS: Yes, that would be the
8 biggest factor.
9 MR. BOB PETERS: And -- and that -- that
10 using all systems cost has resulted in the most
11 significant changes for the other classes as well?
12 MR. CHIC THOMAS: That's right.
13 MR. BOB PETERS: And I suppose if I
14 didn't bring it out I'm sure Ms. McCaffrey would, if we
15 go down to the general service large greater than 100 kV
16 the current situation for that class is 23 percent of
17 $423 million and that would end up being 15 percent of
18 $285 million under the recommended methodology, correct?
19 MR. CHIC THOMAS: That's correct.
20 MR. BOB PETERS: So instead of 96.5
21 million the allocated amount to the general service large
22 greater than 100 kV would be 44 million as opposed to
23 ninety-six point five (96.5)?
24 MR. CHIC THOMAS: Yes.
25 MR. BOB PETERS: And they end up getting

1 a smaller piece of a smaller pie in my words?
2 MR. CHIC THOMAS: Absolutely.
3 MR. ROBIN WIENS: Mr. Peters, if -- I --
4 I may not be advancing any understanding with my
5 intervention here but on the off-chance that it will let
6 me try this.
7 The current methodology has the largest
8 net export revenue and when it goes back to the customer
9 classes all of that is allocated back on the basis of
10 generation and transmission costs only.
11 So that is -- that is why the numbers fall
12 out the way they do and that is why the percentage for
13 general service large is so much higher than in the other
14 methods and conversely so much lower for residential than
15 in the other methods.
16 When you move across to the NERA method
17 what we have happening is that the difference between the
18 four hundred and twenty-three (423) and the two hundred
19 and six (206) is not precisely, but I think we can say at
20 least conceptually is allocated to the export class.
21 So that share is in effect being allocated
22 on the basis of generation and transmission because
23 that's how we allocate the export class its costs and the
24 remainder is being allocated on total costs.
25 So you -- you would -- this is what you

1 would expect the results that you get. Similarly when
2 you go to the recommended method we have a larger share
3 than the current method but a smaller share than the NERA
4 method which is being allocated to the export class and
5 therefore treated as generation and transmission related
6 only.
7 Has that been helpful to you?
8 MR. BOB PETERS: It's always helpful, Mr.
9 Wiens, to me but it's going to matter if it's helpful to
10 -- to --
11 MR. ROBIN WIENS: Right.
12 MR. BOB PETERS: -- the Panel and I'm
13 sure it is. I -- I think I understand your point and I
14 think they will -- they -- the Board will as well.
15 If we do look at the current methodology
16 the current methodology and the distinction you want to
17 remind the Board is that the net export revenue is
18 credited based on the class' share of generation and
19 transmission costs only?
20 MR. ROBIN WIENS: Yes.
21 MR. BOB PETERS: And the generation and
22 transmission costs lie in a higher proportion to the
23 general service large and including a hundred (100) --
24 over 100 kV than they may to other customer classes?
25 MR. ROBIN WIENS: Yes.

1 MR. BOB PETERS: And so if you change the
2 way you allocate the net export revenue by distributing
3 it across all the costs, you should expect that the
4 general service large class would receive less of the
5 credit?
6 MR. ROBIN WIENS: It will receive less of
7 the credit, but, I believe they will -- of course this
8 table is just looking at exports, but, if you look at the
9 generation transmission cost side of the equation, they
10 would also get a substantial reduction in the assignment
11 of that cost, due to the fact that they were being
12 allocated to the export class.
13 MR. BOB PETERS: And your point is, that
14 you've used the difference between the NERA and the
15 current methodology is reflective that there has been an
16 allocation to the export class on the basis of generation
17 and transmission, the very costs that would be reduced to
18 the GS large customer class?
19 MR. ROBIN WIENS: Yes and also the very
20 costs that are responsible for the reduction in the
21 availability of net export revenue and those methods.
22
23 (BRIEF PAUSE)
24
25

1 MR. BOB PETERS: As we continue and work
2 towards the crescendo Mr. Wiens and Mr. Thomas, document
3 number 9 in the book of documents, and we had a peek at
4 that earlier today, being the first page was schedule B.4
5 and the purpose of schedule B.4 or B4, in the book of
6 documents, you can look at the recommended RCC's post
7 allocation and if you turn the page to page 2, you can
8 see the dollar amount being allocated amongst, in the
9 four (4) different methodologies that you utilized.
10 The third page looks at it in terms of
11 percentages and the last page is in dollars per kilowatt
12 hour. But comparing the total allocated costs by
13 customer class in dollars, which is page 2, and I'm
14 looking at column two (2), Mr. Wiens, to try to amplify
15 your last point or understand it.
16 Is that where there is a change at the
17 general service large greater than 100 kV the change of
18 $44 million, that change you say, is as a result of
19 generation and transmission costs being taken out of that
20 classes previous allocation or the current allocation
21 that the Board has to get to the recommended one.
22 MR. ROBIN WIENS: Yes, that's true.
23 Chronologically so because as exports take a share of the
24 costs the share to the remaining classes is
25 proportionately reduced.

(BRIEF PAUSE)

MR. BOB PETERS: I want to then turn before the lunch break to document number 10 in the book of documents and this is a comparison of the revenue to cost ratios by the four (4) methodologies and I appreciate there's a lot of numbers on the page.

But, column one (1), three (3), five (5) and seven (7), are the resulting revenue to cost ratios, having done the cost of service methodologies, in those -- in those ways, correct?

MR. CHIC THOMAS: That looks correct, yes.

MR. BOB PETERS: And while we looked at the percentage numbers and the dollar amounts of actual export revenue credits being different and the percentages, if we look to column eight (8), we can see that the change between the current and recommended methodology is such that the residential revenue to cost coverage ratios increase by 4.8 percentage points.

And we can go down to the general service large greater than 100 kV, where there is an adjustment of 11.5 percentage points to that class, RCC, as well by the basis of the methodology changes.

MR. CHIC THOMAS: Yes.

1 MR. BOB PETERS: And, Mr. Thomas, those -
2 - those changes in the RCC's is the cumulative effect of
3 creating an export class or classes, it's the fact that
4 costs have been either assigned or allocated to the
5 export class, and also it's as a result of allocating the
6 net export revenue on the basis of all system costs, not
7 just generation and transmission?
8 MR. CHIC THOMAS: Yes.
9 MR. BOB PETERS: And by far the biggest
10 impact is the latter one, which was the allocating of the
11 net export revenue according to all system costs and not
12 just based on generation and transmission?
13 MR. CHIC THOMAS: That would be the key
14 driver, yes.
15 MR. BOB PETERS: If we look at column 9
16 and the Board looks to see what your current methodology
17 compared to the NERA methodology is, the -- the change is
18 not as significant or pronounced.
19 Do you agree with me?
20 MR. CHIC THOMAS: Yes.
21 MR. BOB PETERS: And in fact if the
22 residential class would only see a one point three (1.3)
23 percentage point adjustment and the general service large
24 greater than 100 kV, would experience only a three point
25 one (3.1) percentage point downward adjustment?

1 MR. CHIC THOMAS: Yes.
2 MR. BOB PETERS: In that particular case,
3 Mr. Thomas, would you agree that under the NERA
4 methodology, again, the most significant aspect driving
5 those changes is the allocation of the net export revenue
6 on the basis of all system costs and no longer on
7 generation transmission?
8 MR. CHIC THOMAS: I think that fair, yes.
9 MR. BOB PETERS: Just to add to the -- to
10 the lunch hour discussion amongst the Board Members, I
11 just want to note that the diesel class shows up on the
12 document here at Tab 10, the revenue to cost coverage
13 ratios and it also is shown up on some of the other
14 pages.
15 But can you explain to the Board why the
16 diesel customer class shows up in the grid customer
17 service?
18 MR. CHIC THOMAS: We just do that to show
19 that we've balanced all the costs together, of which the
20 diesel is one (1) part of that.
21 MR. BOB PETERS: And the diesel has its
22 own cost of service study, correct?
23 MR. CHIC THOMAS: Yes.
24 MR. BOB PETERS: A much different cost of
25 service study but still a separate cost of service study?

1 MR. CHIC THOMAS: Yes.
2 MR. BOB PETERS: And if we turn back to
3 Tab 2, document number 3, I don't think we've been to
4 this document yet but Tab 2, the third document in the
5 tab, it looks at an allocation of export credit.
6 We go down to the left-hand column and we
7 find diesel shows up again and we find that Manitoba
8 Hydro is recommending an allocation of $2.4 million to
9 the diesel class; correct?
10 MR. CHIC THOMAS: Yes.
11 MR. BOB PETERS: And, sir, this is as a
12 result of a negotiated settlement with the diesel
13 communities?
14 MR. ROBIN WIENS: Mr. Peters, this is as
15 a result of the recommended methodology and the manner in
16 which the -- the export -- net export revenues are
17 allocated on the basis of total costs, not only on the
18 basis of generation and transmission as in the current
19 method.
20 The discussion about the agreement is --
21 has some relevance as to whether and when that allocation
22 would actually be actualize, but it does fall out of the
23 method that is being recommended by Manitoba Hydro.
24 MR. BOB PETERS: I'm not sure if I've hit
25 a sore point or not but let me probe further, Mr. -- Mr.

1 Wiens.
2 I appreciate it's your recommended
3 methodology but it wasn't under your current methodology,
4 correct?
5 MR. ROBIN WIENS: The diesel zone did not
6 share in grid generation and transmission costs, which
7 was the basis of our current methodology. Therefore,
8 there was no allocation of export revenues to the diesel
9 class of service.
10 With the expansion -- the creation of the
11 export classes and allocation of costs to them and the
12 expansion of the basis on which the then net export
13 revenues are allocated.
14 In terms of the methodology the -- the
15 diesel class of service then becomes entitled to a share
16 of the net export revenue.
17 MR. VINCE WARDEN: If I might just add to
18 that comment subject to the final approval of that
19 agreement the parties have not signed off on that
20 agreement yet and in the event that for whatever reason
21 they don't there might be some backing out of that -- of
22 that allocation of export revenues to the diesel class.
23 We would have to re-think that.
24 MR. BOB PETERS: I think it's a matter
25 before this public record and it was before this Board

1 that there was a tentative settlement in place and as
2 part of that tentative settlement there was an
3 expectation that the diesel class would receive a share
4 of the net export revenue, is that -- is that agreed?
5 MR. ROBIN WIENS: As part of the overall
6 agreement. It cannot be viewed in isolation from the
7 remainder of the agreement.
8 MR. BOB PETERS: All right. And as part
9 of the overall agreement the amount that was allocated to
10 the diesel class was going to be used to reimburse
11 Manitoba Hydro for expenses that had been incurred but
12 not billed or surcharged to any customers in the diesel
13 class?
14 MR. ROBIN WIENS: Yes.
15 MR. BOB PETERS: And the allocation of
16 the net export credit to the diesel customers would
17 continue until such time as Manitoba Hydro was made whole
18 in terms of those costs that were incurred but not
19 charged, is that correct?
20
21 (BRIEF PAUSE)
22
23 MS. PATTI RAMAGE: Mr. Peters, we're just
24 a little concerned about how far we're going into the
25 diesel in -- in terms of our confidentiality provisions

with the other parties to the agreement but you are generally correct. But there's some -- some finer points and -- and I'm not sure that we might want to have a -- I'm not sure if this is the place we want to discuss it.

CONTINUED BY MR. BOB PETERS:

MR. BOB PETERS: All right. I don't need to go further in that direction but I'm still not going to get rid of this bone for a minute.

The -- if we go back to the document at Tab 10 and the Board sees that under your current methodology the revenue to cost ratio is eighty-five point nine (85.9) which in general terms would indicate that that class is returning approximately 85 percent of its costs incurred to -- to provide service?

MR. CHIC THOMAS: Yes.

MR. BOB PETERS: And then we see under the Recommended column which is column 7 that that RCC jumps to one oh eight point 1 (108.1) indicating that by way of an allocation from the net export revenues this class' RCC will by virtue of mathematics jump up to one-o-eight point one (108.1)?

MR. CHIC THOMAS: Yes, and I'd also like to point out that as with the area and roadway lighting class a large proportion of that of course in the cost of

1 service is a direct cost so the same sort of effect is --
2 is happening.
3 MR. BOB PETERS: The diesel rates that
4 are presently in place approved by the Board are approved
5 on an interim basis, is that also agreed?
6 MR. ROBIN WIENS: Yes.
7 MR. BOB PETERS: And is it also agreed
8 and not subject to any confidentiality that that is on an
9 interim basis pending finalization of a settlement that
10 was to be entered into amongst the parties relative to
11 accounts owing and amounts unbilled?
12 MR. ROBIN WIENS: Yes.
13 MR. BOB PETERS: Are you able, Mr. Wiens
14 or Mr. Warden, to put on the record as to whether that --
15 when that agreement is expected to be finalized?
16 MR. VINCE WARDEN: The latest information
17 we have is that it could take some time yet and we could
18 be into fall before it's signed off.
19 MR. ROBERT MAYER: I sure hope that ain't
20 going the same way as the Kelowna Accord?
21
22 CONTINUED BY MR. BOB PETERS:
23 MR. BOB PETERS: Is the -- is the
24 settlement agreement sitting waiting for an order of this
25 Board relative to cost of service methodology?

1 MR. VINCE WARDEN: The settlement
2 agreement is not dependent on an order of this Board at
3 this time, no.
4 MR. BOB PETERS: All right, and is it
5 also --
6 MR. VINCE WARDEN: Not at this time,
7 sorry.
8 MR. BOB PETERS: Is the -- is it also
9 understood by the Corporation that the last set of diesel
10 rates are now potentially out of -- out of balance in
11 terms of what the costs are to serve that community, or
12 those four (4) communities?
13 MR. VINCE WARDEN: With the increase in
14 fuel costs, yes, we have a concern about that.
15 MR. BOB PETERS: And is that concern
16 serious enough that you're bringing an application or
17 planning to before the Board on diesel rates?
18 MR. VINCE WARDEN: Yes.
19 MR. BOB PETERS: Would that be brought
20 independent of whether there is a settlement agreement
21 signed?
22 MR. VINCE WARDEN: Yes it would.
23 MR. BOB PETERS: Has any timeframe been
24 discussed that you're available to -- that's available to
25 inform the Board?

1 (BRIEF PAUSE)
2
3 MR. VINCE WARDEN: Yeah, the -- actually
4 the only reason we haven't filed up until now is because
5 the people that are involved in preparing that diesel
6 cost of service study are here but -- I am informed it
7 will only take a couple of weeks, when those people are
8 free -- after those people are free.
9 MR. BOB PETERS: All right. And to
10 conclude then, the RCC that's shown on the document at
11 Tab 10 of the book of documents of 108.1 under the
12 recommended methodology, is not reflective of current
13 costs to serve that community?
14 MR. ROBIN WIENS: We believe not.
15 MR. BOB PETERS: All right.
16 Mr. Chairman, this might be an appropriate
17 time for the lunch recess.
18 THE CHAIRPERSON: Thank you Mr. Peters.
19 Thank you to the Panel. We will see you all at 1:30.
20
21 --- Upon recessing at 12:06 p.m.
22 --- Upon resuming at 1:34 p.m.
23
24 THE CHAIRPERSON: Okay, Mr. Peters.
25 MR. BOB PETERS: Thank you, Mr. Chairman,

1 Board Members and Panel.
2
3 CONTINUED BY MR. BOB PETERS:
4 MR. BOB PETERS: I want to perhaps
5 illustrate some of the matters we talked about before
6 lunch to the Board by your turning to a document at Tab
7 11, and it's the first document in the Tab, to look at
8 the changes in the class RCC's under the current
9 methodology and going to the recommended methodology.
10 And this document is from MIPUG First Round Question
11 Number 6.
12 Have you located that, Mr. Thomas?
13 MR. CHIC THOMAS: I have.
14 MR. BOB PETERS: And if we look at the
15 top part of the page and we look to the left-hand column,
16 you talk about the current methodology and you see a
17 residential RCC of ninety-two point two (92.2).
18 You're telling the Board under existing
19 methodology that's where that class sits in terms of its
20 RCC.
21 MR. CHIC THOMAS: Yes.
22 MR. BOB PETERS: And if we go down, still
23 the top part of the page but down to the recommended
24 method, we see that the RCC changes to ninety-seven point
25 zero (97.0) and that's as a result of the recommendations

that are before this Board.

MR. CHIC THOMAS: Correct.

MR. BOB PETERS: Would it be fair for the Board to conclude that the various issues and matters that they have to decide along the way have incremental impact in getting from 92.2 down to 97 percent?

MR. CHIC THOMAS: That's fair, yes.

MR. BOB PETERS: And what you've tried to do in this response is demonstrate what types of impact and what -- and quantify the impact of the various changes that lead down to the recommended methodology which results in a 97.0 percent RCC for residential customers?

MR. CHIC THOMAS: That's fair, yes.

MR. BOB PETERS: Can the Board therefore conclude that to go from ninety-two point two (92.2) down to ninety-seven (97), it's a change of 4.8 percentage points, as I call it? And you'd agree with that, just based on math?

MR. CHIC THOMAS: I would.

MR. BOB PETERS: And of the -- of the 4.8 percentage points, four point seven (4.7) of those are as a result in the change in how you share the net export credits?

MR. CHIC THOMAS: Also fair.

1 MR. BOB PETERS: And the same can be said
2 if you go down and you check, and as we had before the
3 lunch, the general service large greater than 100 kV it -
4 - that class goes from one hundred and fourteen point
5 seven (114.7) down to a hundred and three point two
6 (103.2), from the current methodology to the recommended?
7 MR. CHIC THOMAS: Yes, it does.
8 MR. BOB PETERS: And again, of the 11.5
9 percentage point change in those current recommended RCC
10 numbers, all of that can be attributed to the change in
11 the way you're proposing to allocate the net export
12 credits?
13 MR. CHIC THOMAS: It seems to work out
14 that way, yes.
15 MR. BOB PETERS: Yeah. And it works out
16 that way because the other ones do net each other off, to
17 cancel each other out, to some extent, but --
18 MR. CHIC THOMAS: Absolutely.
19 MR. BOB PETERS: -- that does demonstrate
20 the significance of the decision and the recommendation
21 you're making to the Board to go from allocating the
22 export credit based on generation and transmission under
23 the current methodology, to allocating it to customer
24 classes based on their total share of the costs incurred
25 by the Corporation?

1 MR. CHIC THOMAS: Right.
2
3 (BRIEF PAUSE)
4
5 MR. BOB PETERS: Mr. Thomas, if we wanted
6 to be more particular and parse those numbers a little
7 further, when we go to the residential column under the -
8 - and -- and look to see what happens on the allocation
9 of exports on a share of total allocated costs, and we
10 see 4.7 percentage points change, that change is
11 comprised of at least two (2) circumstances at play, two
12 (2) of the recommended changes you've made working
13 together; would that be correct?
14 MR. CHIC THOMAS: Yes.
15 MR. BOB PETERS: And specifically,
16 there's been a -- a change in how -- how much export
17 credit is available to be allocated, and there's also a
18 change in the percentage share that that class would
19 receive?
20 MR. CHIC THOMAS: Yes, that's correct.
21 MR. BOB PETERS: And I'm not sure if
22 you've broken down the numbers but it appears to -- it
23 appears that of the $26 million change that's
24 attributable to the allocation of exports in a different
25 fashion, 17 million will be due to that class getting a

1 larger share of the net export revenue credits.
2 Can you confirm that?
3 MR. CHIC THOMAS: I haven't explicitly
4 done the calculation but -- but it looks reasonable.
5 MR. BOB PETERS: All right. And then
6 that would leave $8 million of that change would be due
7 to there being fewer costs allocated to the residential,
8 because they've been put into the export class?
9 MR. CHIC THOMAS: Fewer costs available
10 to be allocated to the residential class because some
11 costs that would normally be there have now been diverted
12 to the export class.
13 MR. BOB PETERS: All right. I think
14 we're saying the same thing, are we? Or are you
15 disagreeing that --
16 MR. CHIC THOMAS: I hope so.
17 MR. BOB PETERS: Oh. That -- that was --
18 okay.
19
20 (BRIEF PAUSE)
21
22 MR. ROBIN WIENS: Mr. Peters, I -- I
23 might just try to provide a bit of context here because I
24 -- I don't want you to take from this discussion that we
25 can necessarily isolate these factors in a hard and fast

1 way so that they are precisely what they appear to be
2 here.
3 And the reason I say this is because the
4 way we carry out this analysis is simply, we begin with
5 the current method, and then we introduce each of these
6 changes sequentially. So there is some potential that
7 you would have somewhat different results if the sequence
8 were changed, if you get my meaning.
9 MR. BOB PETERS: Would you agree that the
10 net -- or the end result wouldn't change?
11 MR. ROBIN WIENS: The end result would
12 not change, that's correct. But the relative magnitude
13 of the changes on the way there might change. I still
14 would say that -- that in most cases, if not all of them,
15 that the fifth item, the exports being allocated on the
16 share of total allocated costs, would have the largest
17 significance, however you put it in there.
18 MR. BOB PETERS: But you just chose to
19 put it in last, is that what you're showing here?
20 MR. ROBIN WIENS: That was the order in
21 which the analysis was undertaken.
22 MR. BOB PETERS: And the only way you'd
23 know what difference there would be along the way is if
24 you ran the different permutations and combinations of
25 that to test it, and that's not what you've done?

1 MR. CHIC THOMAS: Yes, that's correct.
2 But it's also important to note, though, that this is our
3 -- you know, because it's not exactly in that order, but
4 that's our -- in terms of the process that we follow,
5 this is pretty much the process that we follow in going
6 through the steps and preparing the cost of service.
7 So we thought it most appropriate to put
8 them in this order because the allocation of exports is
9 also the last step, if you'll -- you know, if you go back
10 to schedule B4 or something like that.
11 So -- so in terms of the order, it is
12 loosely in the order that we would prepare the document.
13 MR. BOB PETERS: While we have page 1 of
14 Tab 11 available, the bottom half of that information
15 request response also does a variance analysis from unity
16 on a dollar basis.
17 Is that something that you also prepared,
18 Mr. Thomas?
19 MR. CHIC THOMAS: I'm sorry, Mr. Peters,
20 I missed that, I was --
21 MR. BOB PETERS: All right. Looking at
22 the bottom half of page 1 at Tab 11, in the rest of the
23 answer to this information request, you take the
24 information essentially at the top of the page and you
25 convert it into dollars and get the information at the

1 bottom of the page; would that be fair?
2 MR. CHIC THOMAS: Yes.
3 MR. BOB PETERS: So what you're telling
4 the Board in the bottom half of the page, is that from
5 the current methodology for residential customers, their
6 sitting $47 million away from unity in their rates?
7 MR. CHIC THOMAS: You could express it
8 that way, sure.
9 MR. BOB PETERS: And by the time you get
10 to the recommended methodology, they're only $16 million
11 away?
12 MR. CHIC THOMAS: Yes.
13 MR. BOB PETERS: And so with no rate
14 increases there's a $30 million impact favourable to that
15 class?
16 MR. CHIC THOMAS: Based on this analysis,
17 yes.
18 MR. BOB PETERS: And you're telling the
19 Board that of that $30 million impact, $26 million under
20 your sequence comes and is attributed to the allocation
21 of exports on a share of total allocated costs?
22 MR. CHIC THOMAS: Yes.
23 MR. BOB PETERS: And the same -- we won't
24 go through the other classes, but the same -- the same
25 line of thinking goes through, and the Board can

1 therefore deduce in the order in which you've done it,
2 what the financial impacts are to each class, in the Cost
3 of Service Study for the changes you've made?
4 MR. CHIC THOMAS: Notwithstanding Mr.
5 Wiens' comments that some of the numbers might vary a
6 little bit, yes, that's a fair assumption.
7 Just one clarification, Mr. Peters, I was
8 advised that the IR that this was based on MIPUG 1-6,
9 MIPUG had specifically ordered us to do it in this order.
10 We might have, you know, might of flipped some things
11 around, but basically that would have been the order that
12 we would have followed, as well.
13 MR. BOB PETERS: But nothing in your
14 answer changes your view in terms of the relative
15 impacts, at least, to these -- to these changes?
16 MR. CHIC THOMAS: That's right, yes.
17 MR. BOB PETERS: If we could turn,
18 please, to page 2 of Tab 11, and then let's look at this
19 from the basis of another analysis, and this source was
20 from -- a lot of the information came out of MIPUG first
21 round question five (5).
22 But under column number one (1) to the
23 current methodology, what the Board needs to note here,
24 Mr. Thomas, is that the Corporation is allocating the
25 export revenue on the basis of generation and

1 transmission, and that's the only column in which its
2 doing that of the -- of the first four (4) columns,
3 correct?
4 MR. CHIC THOMAS: Yes.
5 MR. BOB PETERS: And what happens in the
6 second column is, let's call it a refinement on a
7 process, or you -- you change one of the ways you prepare
8 the materials, and column 2 represents you're making all
9 of the recommended changes except for the allocation of
10 the net export revenue, which is also allocated only on
11 generation and transmission.
12 MR. CHIC THOMAS: Not looking at the IR
13 that is referenced here, yeah, that -- that looks like
14 the case.
15 MR. BOB PETERS: And so what you've done
16 in column number 2 is you've made all of the recommended
17 changes except for the one that's most hotly contested,
18 and that one you've left alone.
19 MR. CHIC THOMAS: Again, I apologize, Mr.
20 Peters.
21 MR. BOB PETERS: Yes. What you've done
22 in the second column, Mr. Thomas, is you have made all of
23 the recommended changes except for how you now are
24 proposing to treat the net export credit.
25 MR. CHIC THOMAS: Yes, that's true.

1 MR. BOB PETERS: You left it the way it
2 is currently done, you didn't change it in this column 2.
3 MR. CHIC THOMAS: Yes.
4 MR. BOB PETERS: So when we compare
5 column 1 with column 2, which is done for you in -- in
6 column number 5 on this page, the changes probably can be
7 considered minimal.
8 You'd agree with that?
9 MR. CHIC THOMAS: I'd agree with that.
10 MR. BOB PETERS: But if we look to see
11 how the recommended methodology compares with the -- the
12 column 2 where you did everything that you wanted except
13 the change in allocation of export credits, there again
14 it draws to the Board's attention the significance of the
15 impact of the way net export credit is allocated.
16 MR. CHIC THOMAS: Yes, that's true.
17 MR. BOB PETERS: I had one (1) point that
18 came out of the rebuttal evidence, maybe I'll get to it
19 now.
20
21 (BRIEF PAUSE)
22
23 MR. BOB PETERS: Mr. Thomas, it had to do
24 with the classification of generation, which you've told
25 the Board you propose to classify generation costs based

on energy, correct?

MR. CHIC THOMAS: Marginally weighted energy, correct, yes.

MR. BOB PETERS: Well, you say "marginally weighted" and that's with the four (4) time periods that you've used?

MR. CHIC THOMAS: That's correct.

MR. BOB PETERS: And one of the complaints that's made against -- against Manitoba Hydro is that by doing that you're ignoring capacity as a valid cost driver in the system.

Do you understand that it's one (1) of the concerns?

MR. CHIC THOMAS: I think we've discussed in the rebuttal evidence that not -- even though it's not explicitly defined as capacity, by using this technique there is some capacity component inherent in -- in those weightings.

MR. BOB PETERS: So -- so in that answer you -- you do recognize that capacity is a valid cost driver?

MR. ROBIN WIENS: Yes, we do.

MR. BOB PETERS: And certainly that's given rise to all of your demand charges?

MR. ROBIN WIENS: In the past, yes, it

1 has been. Our demand charges are intended to be related,
2 certainly conceptually, to the capacity element in the --
3 in the generation, transmission and distribution
4 functions.
5 MR. BOB PETERS: And so in -- in
6 classifying generation cost based now on marginally
7 weighted values of energy you're expressly taking out of
8 that a -- a capacity component that previously you
9 considered expressly.
10 MR. ROBIN WIENS: We haven't separately
11 identified it.
12 MR. BOB PETERS: I'm -- I'm sorry?
13 MR. ROBIN WIENS: We have not separately
14 identified it.
15 MR. BOB PETERS: You have not separately
16 identified it in your recommended methodology?
17 MR. ROBIN WIENS: Correct.
18 MR. BOB PETERS: And what, Mr. Thomas, I
19 understood you to be telling the Board was even though
20 you don't expressly recognize it in your recommended
21 methodology, there is some implicit recognition that
22 capacity costs have been considered.
23 MR. CHIC THOMAS: That's -- yes.
24 MR. BOB PETERS: And -- and that's
25 implicit because you have selected what time periods in

1 which to marginally weight the value of that -- of those
2 costs?
3 MR. CHIC THOMAS: Yes.
4 MR. BOB PETERS: Implicit in that is that
5 capacity has a higher value in the peak period?
6 MR. CHIC THOMAS: That's -- that's true,
7 yes.
8 MR. BOB PETERS: And if your energy
9 prices are higher in the peak period you can attribute
10 that, at least implicitly, to being reflective of
11 capacity costs as well?
12 MR. ROBIN WIENS: At least in part, Mr.
13 Peters.
14 MR. BOB PETERS: When you say "in part",
15 Mr. Wiens, you're saying that you don't absolutely know
16 that but -- but it's -- it's intuitive or at least
17 inherent in -- in using those weightings?
18 MR. ROBIN WIENS: Well, the -- the data
19 source that we've used to identify these weightings is
20 the five (5) year history of the surplus energy program.
21 These are -- the surplus energy program is based on, in
22 significant part, values in the opportunity market.
23 The opportunity market will recognize in
24 the time periods there is some energy component and some
25 capacity component. We believe that it reasonably

1 reflects the capacity component as well as some energy
2 variability.
3 MR. BOB PETERS: Mr. Wiens, would you
4 agree that by -- by the four (4) -- by the four (4)
5 timeframes or period that you've utilized you've blended
6 the shoulder prices in with the peak at the off peak
7 prices?
8 MR. ROBIN WIENS: I, yeah, I guess that
9 was -- by definition if you -- if you are to define a
10 shoulder period in between the peak and the off peak, the
11 fact we've only used four (4) periods here means that we
12 have taken some shoulder hours and moved them into the
13 peak period and -- and the remainder have been moved into
14 the off peak period.
15 MR. BOB PETERS: And when we talk about
16 four (4) time periods we're talking about summer peak,
17 summer off peak, winter peak, winter off peak?
18 MR. ROBIN WIENS: Yes.
19 MR. BOB PETERS: And the shoulder periods
20 are the timeframes between the -- between the peak and
21 the off peak by definition?
22 MR. ROBIN WIENS: Yes. Yes, they are.
23 MR. BOB PETERS: And by blending the
24 shoulder prices in with the peak and the off peak prices
25 that would dilute the impact of peak and off peak prices?

1 (BRIEF PAUSE)
2
3 MR. ROBIN WIENS: I think you could say
4 that it -- it reduces the disparity between peak and off
5 peak prices, but by the same token that disparity is
6 spread over a larger number of hours so it recaptures at
7 least some of it back in that...
8 MR. BOB PETERS: Does that mean it
9 smooths out the results, moderates them to what they
10 would otherwise be?
11 MR. ROBIN WIENS: No, it means that you
12 don't lose all of the distinction. You may lose some of
13 it but you don't lose all of it because you're now taking
14 the gap between -- the gap between peak and off peak may
15 be smaller because of the fact that you have a shoulder
16 in some of them but it's also spread over a larger number
17 of hours. So you do capture some of it back that way.
18 MR. BOB PETERS: Would you agree, Mr.
19 Wiens, that if more time periods are used the weightings
20 would change?
21 MR. ROBIN WIENS: The weightings of the
22 time periods would change, there's no question about
23 that. Would -- would the end results change?
24 I think we provided some evidence here in
25 our rebuttal that they do not change very substantively

1 even though the -- you have more time periods and as a
2 result you have a, you know, larger differences between
3 the peak and the off peak in terms of energy value
4 weightings.
5 MR. BOB PETERS: And -- and just for the
6 record you do on page 41 of 43 of the -- of the rebuttal
7 evidence do provide some charts showing four (4) time
8 periods compared to twelve (12), Mr. Wiens, and the Board
9 can look at that and see what -- what variation there is.
10 And your suggestion is that even though you go to more
11 time periods the weighting factors don't change
12 significantly?
13 MR. ROBIN WIENS: That's correct.
14 MR. BOB PETERS: Would they change
15 significantly if you built into your recommended
16 methodology a firm export class which isn't presently
17 included?
18 MR. ROBIN WIENS: Could you say that
19 again please?
20 MR. BOB PETERS: Well, I was looking on
21 page of 40 to 43, to be specific, of your rebuttal and I
22 don't see that there's a firm export class included under
23 the recommended methodology.
24 MR. ROBIN WIENS: I -- I think our intent
25 here was to show how the costs are shared among the

1 domestic classes. The -- the recommended methodology
2 certainly does in the original calculation that was done
3 using this. It is covered by it, but we've simply taken
4 it out and then re-expressed the percentages as a share
5 of -- that the domestic classes have.
6 We did not ignore the existence of the
7 firm export class. We thought it was easier to make a
8 comparison if we -- if we took that single and somewhat
9 significant percentage difference out of the -- out of
10 the recommended column.
11 MR. BOB PETERS: Okay. I appreciate that
12 clarification then. Do I -- do I take from your evidence
13 when you consider four (4) time periods, versus twelve
14 (12) time periods, versus I guess rec -- or comparing it
15 also to six (6) time of use energy periods that
16 additional information is helpful, but it doesn't change
17 the results to any significant degree?
18 MR. ROBIN WIENS: Yes.
19 MR. BOB PETERS: Do I take from that
20 answer that -- I thought you also in the rebuttal said
21 even though that appears to be the case Manitoba Hydro's
22 prepared to consider additional time periods; have I
23 understood that correctly?
24 MR. ROBIN WIENS: Well, the idea here is
25 not just to be correct, but to have -- for the parties in

1 this process to have confidence, as well, we're correct.
2 So if the party -- if the confidence of
3 the parties is enhanced by increasing the number of
4 periods, we see that as a worthwhile change to make.
5 MR. BOB PETERS: So that again is
6 something that, in essence, you're inviting the Board to
7 suggest be included in whatever determination they make
8 on the appropriate cost of service methodology going
9 forward?
10 MR. ROBIN WIENS: Yes we are.
11 MR. BOB PETERS: Does it follow that if
12 four (4) is good, six (6) time periods are better and
13 twelve (12) is even better yet?
14 MR. CHIC THOMAS: Well, I think as we
15 express somewhere in the documentation, and MIPUG, as
16 well, alluded to this, is that in a perfect world we
17 could theoretically use eighty-seven hundred and sixty
18 (8760) hours of the year and move down from there.
19 And as MIPUG suggested perhaps a more
20 pragmatic approach would be to use the twelve (12)
21 periods so that's what we focussed on.
22 MR. ROBIN WIENS: Yes, Mr. Peters,
23 there's a couple of trade-offs at work here in increasing
24 the number of periods. As you'll appreciate the
25 information regarding the class use in each of the

1 periods is derived from load research.
2 And the larger the number of individual
3 hours included in a period the more confident we have
4 that load research sample is representative of the whole
5 class. So you'll appreciate that if we got up into the
6 thousands of hours, we might not have the same degree of
7 confidence in the results.
8 And then, of course, the other factor is
9 the amount of work that is required, even though, you
10 know computers can handle an incredible amount of data,
11 we still have to design the program and the expression of
12 the results, if we're using eight thousand seven hundred
13 and sixty (8760) hours.
14 So, we feel that that -- you know, the
15 benefits of that trade-off are probably captured fairly
16 early on; if four (4) is not enough, twelve (12) probably
17 is and you're not going to get --
18 MR. BOB PETERS: But stop there, don't go
19 any further.
20 MR. ROBIN WIENS: Yes, don't take us into
21 the hundreds or the thousands.
22 MR. BOB PETERS: All right. I'll see if
23 the Board has heard your plea on that later, Mr. Wiens.
24 Before I close up on the rebuttal, I think we covered it
25 earlier on page 43 of 43, your concluding sentence is

1 that:
2 "Consequently Manitoba Hydro now
3 believes it would be appropriate to
4 classify the entire transmission system
5 as demand related and allocate its
6 costs on the basis of the two (2)
7 coincident peak allocator."
8 That's what we talked about earlier Mr.
9 Thomas and again, that's something that you would be
10 quite satisfied with if the Board was to require that be
11 part of any revised cost of service study going forward?
12 MR. CHIC THOMAS: Yes, that's correct.
13 MR. BOB PETERS: And can you confirm that
14 the transmission demand allocation or -- is based on the
15 2-CP for domestic loads?
16 MR. CHIC THOMAS: I can.
17 MR. BOB PETERS: And on -- for firm
18 export?
19 MR. CHIC THOMAS: 2-CP, as well.
20 MR. BOB PETERS: And what about
21 opportunity export?
22 MR. CHIC THOMAS: Nothing.
23 MR. BOB PETERS: Only because you -- you
24 suggest that it's not a variable cost that gives rise to
25 the opportunity in the first place, the opportunity

1 export in the first place?
2 MR. ROBIN WIENS: That's correct.
3 MR. BOB PETERS: In terms of the export,
4 Mr. Wiens, you commissioned or certainly Manitoba Hydro
5 commissioned a report from NERA on this subject -- and
6 you're familiar with that report, you and Mr. Thomas,
7 probably to a greater extent than others?
8 MR. ROBIN WIENS: Yes.
9 MR. BOB PETERS: And was it NERA's
10 conclusion that exports are variable due to the hydraulic
11 capacity and due to market fluctuations and changes?
12 MR. ROBIN WIENS: I'm not sure what
13 you're -- the question that you're asking Mr. Peters.
14 I'm not sure of what you're intending to mean by use of
15 the word 'variable'.
16 MR. BOB PETERS: The -- the export
17 revenue is variable based on your capacity and your
18 market.
19 MR. ROBIN WIENS: I -- I don't know that
20 that's necessarily a result that you'd take from the NERA
21 report. You would take that from our experience.
22 MR. BOB PETERS: They didn't disagree
23 with it then.
24 MR. ROBIN WIENS: But they certainly
25 didn't disagree with it.

1 MR. BOB PETERS: But would it be a
2 correct conclusion that Manitoba Hydro specifically plans
3 and operates their system with exports in mind?
4 MR. ROBIN WIENS: The capability to make
5 exports is of course considered at the time that we're
6 planning on making system operating decisions, yes.
7 MR. BOB PETERS: And in making your plans
8 and in working through your operations, consideration of
9 exports is important because that will help you determine
10 the size of the facility to -- to build?
11 MR. HAROLD SURMINSKI: We don't -- I
12 don't think we really change the size of the facility
13 based on exports. Size of facility is more determined by
14 the -- the hydraulic conditions by the water available at
15 the site.
16
17 (BRIEF PAUSE)
18
19 MR. ROBERT MAYER: It would however
20 assist -- assist you in making a decision as to which of
21 the various possible sites you would build. Wuskwatim as
22 opposed to Conawapa, Keeyask or upgrade Notigi.
23 MR. HAROLD SURMINSKI: Only, and it's not
24 obvious that that is the case, the size is a disadvantage
25 in many -- or it used to be a disadvantage because of the

1 lumpiness -- and the larger you build, the more of that
2 you don't need for your own system. But more recently,
3 with the value of high exports, that -- that hasn't been
4 the case or hasn't been a problem in our system.
5 MR. ROBERT MAYER: But, as I understood
6 Mr. Peters' questions and -- of the answer he received,
7 I'm trying to interpret that into when -- when you are
8 planning exports it's been fairly public knowledge that
9 unless we get a significant amount of money or a
10 significant amount of export into Ontario, we're not
11 going to build Conawapa right away.
12 And there's been some -- we say we're --
13 want to build -- one of the reasons we want to build
14 Wuskwatim, two (2) reasons given; 1, is we can use the
15 energy for export; 2, is we'd sort of like to practice
16 because we haven't built a dam since -- for quite some
17 time.
18 And so I'm assuming that depending upon
19 your perceived ability to export the power extra-
20 provincially, no matter whether it go to Ontario,
21 Saskatchewan or to somewhere into the United States, that
22 will significantly impact on where you go next with
23 respect to adding generation.
24 MR. HAROLD SURMINSKI: Again, that is
25 related, I would say, to the size of the facility.

1 Conawapa is a large addition and -- and there's a lot of
2 risk of undertaking such a large project without having a
3 -- a sale beforehand, whereas a smaller plant you don't
4 have that big risk.
5 But, Mr. Peters, your question of do we
6 specifically consider exports in designing the size of
7 facilities or characteristics of facilities; there really
8 isn't much of a factor coming from exports in -- in the
9 characteristics of a particular generating facility,
10 hydraulic facility.
11
12 CONTINUED BY MR. BOB PETERS:
13 MR. BOB PETERS: Well, I'm not sure if I
14 can understand that, Mr. Surminski. Maybe it's because
15 I'm not an engineer.
16 But when you're building -- when you're
17 building a generating station, one (1) of the decisions
18 that has to be made is how many units or turbines to put
19 into the place; would that be fair?
20 MR. HAROLD SURMINSKI: Yes, that's
21 correct.
22 MR. BOB PETERS: And would it also be
23 fair to say that if you -- if you were just going to have
24 that facility serve nothing but domestic load, it might
25 influence you to put in a certain number of turbines, but

1 if you had an opportunity to export that energy, you
2 might put in a few more?
3 MR. HAROLD SURMINSKI: No, I would not
4 agree with that. It is more related to the incremental
5 cost of -- of this site, incremental cost of adding the
6 additional turbine and utilizing the water at the site.
7 It is the amount of water at the site that
8 determines how many units you're putting in, so you put
9 in more and more units until you get to the point of
10 having little spill. You balance the cost of adding the
11 last unit to the percentage of time that you will be
12 spilling at the site.
13 So it really has nothing to do with the
14 export market, it just has to do with the optimal
15 utilization of water at the site.
16 MR. BOB PETERS: But we know that water
17 levels fluctuate and they vary, correct?
18 MR. HAROLD SURMINSKI: Yes, but we
19 consider the entire of range of -- of flow conditions
20 over the long term.
21 MR. BOB PETERS: So do you bill to the
22 maximum flow condition?
23 MR. HAROLD SURMINSKI: No, we do not.
24 Again, it's a balance. Over all possible flow conditions
25 we have our simulation models that'll consider -- like we

1 use the ninety-three (93) years of record and considered
2 all the possibilities, and over the expected possibility
3 of flows we determine the maximum, or the optimal
4 utilization of water at the site.
5 MR. BOB PETERS: How do you know what's
6 going to be optimum if you don't know what the flows are
7 going to be?
8 MR. HAROLD SURMINSKI: We -- by
9 considering the range and --
10 MR. BOB PETERS: Are --
11 MR. HAROLD SURMINSKI: -- the range gives
12 us the -- the expected possibility of the -- of possible
13 events.
14 MR. BOB PETERS: And is that sized based
15 on -- on -- it can be on something other than dependable
16 flows then on which you size your plant?
17 MR. HAROLD SURMINSKI: Oh, certainly, we
18 don't size on dependable, we --
19 MR. BOB PETERS: It's something more than
20 that.
21 MR. HAROLD SURMINSKI: It's -- it's much
22 more, yes.
23 MR. BOB PETERS: You -- will you agree
24 with me, Mr. Surminski, that the time in which a plant is
25 brought into service may be determined and influenced by

1 whether or not there are export opportunities?
2 MR. HAROLD SURMINSKI: Yes, I would agree
3 with that statement.
4 MR. BOB PETERS: Although I think
5 yesterday you or one (1) of your colleagues didn't agree
6 with me that Limestone was brought in service sooner than
7 it need otherwise have been, just to capture some export
8 opportunity?
9 MR. VINCE WARDEN: No, Mr. Peters, just
10 for clarification, we did agree that Limestone was
11 brought in one (1) year before it was required to serve
12 the Manitoba load. It was advanced by one (1) year.
13
14 (BRIEF PAUSE)
15
16 MR. BOB PETERS: Mr. Wiens, I remember,
17 and maybe you don't have the same memory, but your being
18 at a previous hearing before the Board and urging the
19 Board not to go to the point of establishing an export
20 class.
21 Do you have that in your databank
22 somewhere?
23 MR. ROBIN WIENS: I don't have the
24 specific timing or context of it, but I do have that
25 recollection, Mr. Peters.

1 MR. BOB PETERS: And you weren't alone,
2 Mr. Wiens. From what I recall is that you were joined by
3 -- I wouldn't say holding hands with CAC/MSOS but you
4 were certainly onside with them and with MIPUG and I
5 think the -- the harmony was to the effect that it wasn't
6 something that was being recommended that the Board
7 consider?
8 MR. ROBIN WIENS: Not at that time.
9 MR. BOB PETERS: And next time you came
10 before the Board you were recommending, or at this -- at
11 least at this point in time you were recommending an
12 export class. So what's changed in the interim?
13 MR. ROBIN WIENS: Well, in order to
14 discuss that I probably am going to have to reach back in
15 some of those rusted data points and come up with some of
16 the context that we discussed at that time.
17 And -- and I believe at that time we may
18 well have been looking at -- we may well have been
19 looking at favouring the methodology which would credit
20 the net export revenues back to the various customer
21 classes on the basis of total costs.
22 And we had -- if my memory serves me
23 right, this would have been in 2002, when we appeared
24 before the Board in 2002, and the Board at that time did
25 express some concerns about assurances with respect to

1 whether or not export revenues actually recovered the
2 costs.
3 And in their subsequent discussions,
4 following, I believe, the issue of Order 7/'03, we had
5 some internal discussions about that and, in fact, 7/'03
6 actually directed specific recommendations with regard to
7 an export class.
8 So we certainly -- we certainly took that
9 under advisement. And although -- when we came back in
10 2004 we did not -- we were not specifically, in all
11 instances, able to comply fully with that directive.
12 I believe at that time the directive in
13 7/'03 had been precisely what you're seeing before you
14 now, two (2) export classes. And we were not -- we did
15 not feel we were in a position to do that at that time.
16 So we came back with one (1) export class in the NERA
17 report that was filed with the Board in April of 2004.
18 Subsequently, we have responded to the
19 directives that came out of the hearing in 2004, I think
20 specifically Order 101/'04, and I think the follow-up
21 order on that one, 43/'04, and that brought us to the
22 point where we felt that -- we felt that we were able to,
23 and it would be appropriate to fully comply with what was
24 set out in 7/'03, which was the creation of two (2)
25 export classes.

1 And that's what you have seen in our
2 recommended method that's before this Board for
3 consideration today.
4 MR. BOB PETERS: Did you understand the
5 Board's previous orders to say, You must establish a cost
6 of service methodology that includes two (2) export
7 classes?
8 Or did you understand that is was open for
9 Manitoba Hydro to bring forward their recommended view?
10 MR. ROBIN WIENS: Oh, Mr. Peters, you're
11 really taxing those databanks now.
12 I -- I took from the order that the Board
13 was looking for two (2) export classes.
14 MR. ROBERT MAYER: My memory is similar
15 to Mr. -- to Mr. Peters. I thought we ordered an export
16 class and that the two (2) export classes came as a
17 result of Hydro's recommendations. And relatively
18 recently, if I'm correct.
19 MR. ROBIN WIENS: Actually, I think if
20 you go back to Order 7/'03 there was a direction that
21 there be two (2) export classes. We -- we did not feel
22 at the time that we could make that distinction. And so
23 with what we brought back in 2004, we did not.
24 We subsequently determined that that was a
25 distinction that we -- we could make and -- and so we

1 brought it forward at this time, having arrived at,
2 first, the -- the determination that we had a basis on
3 which to make that distinction and, second, that it would
4 be appropriate to do so.
5 MR. BOB PETERS: Well, Mr. Wiens, is the
6 only reason that there are two (2) export classes in the
7 Manitoba Hydro Recommended Methodology because it is
8 Hydro's interpretation that's what the Board wanted?
9 MR. ROBIN WIENS: No. It is -- as I
10 stated, my belief on reading 7/'03, without any further
11 interpretation, was that the Board was looking for
12 something along those lines.
13 But we made the determination
14 subsequently, post 2004, because we felt we had a basis
15 on which we could make the distinction without having to
16 get into providing information that might be commercially
17 sensitive, and because we thought that, in terms of the
18 opportunity sales, that they really should carry variable
19 costs and -- and not much more, if anything.
20 MR. BOB PETERS: So your decision to go
21 with two (2) export classes was independent of -- of what
22 you felt the Board was -- was inclined to -- to be
23 looking for?
24 MR. ROBIN WIENS: As I say, it was based
25 on those two considerations, that (a) it was possible,

1 and (b) it was -- it was appropriate. I won't say that
2 we did not have in mind Order 7/'03 when we made the --
3 when we made the determination to go that way.
4 But the determination to go that way was
5 more primarily based on the subsequent determination.
6 MR. BOB PETERS: All right. And let me
7 close off on that by saying you do accept that the Board
8 may, at the end of this process, determine that one (1)
9 export class is more appropriate than two (2)?
10 MR. ROBIN WIENS: I think that's within
11 the purview of the Board to do -- to decide.
12 MR. BOB PETERS: All right. Well I was
13 just trying to get at that you didn't -- that Hydro
14 wasn't operating under the precept that it was pre-
15 ordained that there was going to be two (2) export
16 classes. But I hear you saying that the two (2) export
17 class is your recommended methodology, and the Board can
18 accept it, reject it, or modify it?
19 MR. ROBIN WIENS: I think that's been the
20 position that --
21 MR. BOB PETERS: Thank you. Mr. Wiens,
22 will you acknowledge that by setting up an export class,
23 that will help determine whether the export class
24 recovers the fully embedded cost of service?
25 MR. ROBIN WIENS: It will -- it will

1 determine that the export class recovers what, to the
2 best of our ability, we can determine are the costs that
3 are associated with providing that service.
4 MR. BOB PETERS: And we heard from Mr.
5 Surminski that it doesn't determine whether or not it
6 recovers the -- you know, whether export prices recover
7 the embedded costs under which they -- they are based,
8 but more so Mr. Surminski is concerned about whether the
9 incremental revenue exceeds the incremental costs in
10 pricing of the actual product?
11 MR. ROBIN WIENS: Mr. Surminski is
12 concerned about the decision to actually go ahead and
13 conclude an export sale. And the export sale involves
14 costs and benefits. And that's certainly appropriate
15 when you're doing a commercial evaluation of that, that
16 you look at the costs and benefits as they are associated
17 with that sale.
18 Embedded cost is not the basis on which
19 you would make that determination.
20 MR. BOB PETERS: Mr. Surminski, before I
21 lose the point, Mr. Wiens indicated that when you're
22 making an export sale you might also consider, in
23 addition to the costs, the benefits.
24 Do the benefits that you consider, are
25 they anything more than monetary benefits?

1 MR. HAROLD SURMINSKI: They are more than
2 that, yes. Our decisions are made from the social and
3 environmental perspective, as well as the economic.
4 MR. BOB PETERS: Help me understand that,
5 or perhaps explain it to the Board, that when you have an
6 opportunity to do -- to conduct an export sale with a
7 counter party, rather than get as much -- as much money
8 as you can for that kilowatt -- kilowatt hour, you are
9 prepared to accept a lower -- a lower value if some other
10 benefits are at play?
11 MR. HAROLD SURMINSKI: Generally, that
12 would be the case, because we do consider, you know,
13 sustainable development, environmental factors in
14 decisions. But on exports I was thinking more on the
15 decision in a new generating plant and the benefits from
16 those. They may not be just economic, they may be social
17 and environmental, also.
18 MR. BOB PETERS: All right. I was asking
19 my questions based on export contracts, and I'm still
20 having trouble with that thought you might take less
21 money on an export contract sale to a counter party if
22 you know you're displacing coal, which you think has some
23 environmental benefit in our global world.
24 Is that what I'm hearing?
25 MR. HAROLD SURMINSKI: We don't directly

1 consider that, but -- but we use -- we use that argument
2 that we do displace emissions through use of our exports.
3 So whether we actually are willing to discount the price
4 in doing that is another factor.
5 MR. BOB PETERS: I think you're -- I've
6 taken you as far you're prepared to go voluntarily on
7 that, Mr. Surminski.
8 No matter which method we use, if there's
9 an export class included, Mr. Wiens, one of the effects
10 of that is that it will reduce the export revenue which
11 is available for crediting back on a net basis to
12 consumers?
13 MR. ROBIN WIENS: Double entry
14 bookkeeping, Mr. Peters, it reduces the net export
15 revenue and it also reduces the cost that those domestic
16 consumer classes incur prior to the allocation of export
17 revenue.
18
19 (BRIEF PAUSE)
20
21 MR. BOB PETERS: Do you agree, and does
22 Manitoba Hydro agree, that if costs are incurred for
23 export, they should be directly assigned to the export
24 class before the allocation process begins?
25 MR. ROBIN WIENS: You know, I think

1 generally speaking, if we could solidly identify some
2 costs as being related only to exports, that by the same
3 principles that usually apply to direct assignments, if
4 you can avoid the steps of functionalization,
5 classification, and allocation, and go directly to where
6 the costs are incurred, that you should do that.
7 MR. BOB PETERS: But you don't do that,
8 Mr. Wiens, for firm export, do you?
9 MR. ROBIN WIENS: For the firm export
10 class we have not done that, no, we have -- we have not.
11 We have taken an allocation process and allocated a share
12 of those costs to the firm export class on the same basis
13 as to the domestic classes of service.
14 MR. BOB PETERS: Is that because you
15 cannot determine expenses and costs that should be
16 directly assigned to the firm export class?
17 MR. ROBIN WIENS: It becomes -- it
18 becomes a matter of judgment, in some cases. Arguably,
19 you can look at a certain cost and say, Aren't you
20 incurring that in order to facilitate exports. And if
21 you're -- if you have a great deal of confidence in that,
22 then you might do a direct allocation.
23 If your confidence is -- is somewhat
24 diminished then -- then you would take the step of -- of
25 putting those costs into the pool and allocating them.

1 MR. BOB PETERS: From your answer, the
2 Board would take that you don't have the confidence that
3 you can accurately identify specific costs that should be
4 directly assigned to export.
5 MR. ROBIN WIENS: Either that or that we
6 have been unable to carry out the necessary studies that
7 would allow us to be able to identify those costs with
8 some degree of confidence.
9 MR. BOB PETERS: Which one is it? Is it
10 -- is it that you're not able to or you just haven't had
11 the resources, including time, to be able to carry out
12 that analysis?
13 MR. ROBIN WIENS: In -- in some cases it
14 may be one and in some cases the other.
15 MR. BOB PETERS: Mr. Wiens, is this fair
16 criticism of the Corporation to say -- you come before
17 the Board and you say that 50 percent of your revenues
18 are going to come from extra provincial exports, and yet
19 not one (1) penny of your $1.5 billion of cost of service
20 is directly assigned to the firm export class?
21
22 (BRIEF PAUSE)
23
24 MR. ROBIN WIENS: We believe that the
25 process that we've undertaken, while assuredly not

1 perfect and 100 percent concise, and what cost of service
2 study is that -- that precise, we believe that it
3 reasonably depicts the costs that -- that the firm export
4 class incurs on the system.
5 Yes, there are probably some costs out
6 there that could be assigned directly, but there is also
7 the situation where an allocation of -- of embedded
8 costs, on the same basis as to a domestic customer,
9 overstates those costs because of the fact that we're not
10 dealing with the same level of firmness and because of
11 the fact that those -- those types of export sales cannot
12 be made with certainty at all times and in all periods.
13 MR. BOB PETERS: So rather than go down
14 the road partway and -- and deal with the specific
15 matters of judgment that arise, the approach that
16 Manitoba Hydro wants to take for the firm exports is to
17 say, Put all of those generation and transmission costs
18 into the hopper with a whole bunch of other costs and
19 allocate them the same way to the export firm class as
20 you would to any other domestic class?
21 MR. ROBIN WIENS: That's what we're
22 saying, yes.
23 MR. BOB PETERS: But for the opportunity
24 export class, Manitoba Hydro is able to identify that
25 there are costs that can be directly assigned to that

1 class?
2 MR. ROBIN WIENS: We can be pretty
3 certain about those variable costs, that they are
4 associated with those incremental sales, yes.
5 MR. BOB PETERS: But when you say you're
6 pretty certain, you don't go down on a line by line basis
7 and allocate those variable costs to the opportunity
8 class, you take them as a whole and then multiply that by
9 the percentage in which opportunity exports are in
10 relation to your firm exports?
11 MR. ROBIN WIENS: Yes.
12 MR. BOB PETERS: And the resultant number
13 that we saw earlier, if I remember, was $48 million that
14 goes to the opportunity side, by way of direct
15 assignment?
16 MR. ROBIN WIENS: Yes.
17 MR. BOB PETERS: And so this process,
18 that you go down with the two (2) export classes on
19 behalf of Manitoba Hydro, changes what used to be
20 assigned, which was $107 million was netted off against
21 the export revenues.
22 And now 45 percent of that 107 million
23 goes to the opportunity class, and then, as it turns out,
24 196 million through cost allocation study ends up in a
25 firm export class.

1 MR. ROBIN WIENS: Yes. And that 196
2 million includes a share of all of those generation and
3 transmission related costs, including the variable costs.
4
5 (BRIEF PAUSE)
6
7 MR. BOB PETERS: If it includes a share
8 of all generation and transmission, including variable
9 costs, Mr. Wiens, that's probably about 20 percent, is
10 it, of the costs that are allocated to the firm export --
11 or to that class?
12 MR. ROBIN WIENS: I think that's -- that
13 would be close.
14 MR. BOB PETERS: Okay. So 20 -- the
15 Corporation is using 20 percent of its resources to
16 generate the $800 million that we can expect in the '06
17 fiscal year from net export revenue?
18
19 (BRIEF PAUSE)
20
21 MR. ROBIN WIENS: Yes.
22
23 (BRIEF PAUSE)
24
25 MR. BOB PETERS: Is it correct, years

1 ago, Mr. Surminski, that Manitoba Hydro used to describe
2 its export contracts as long term firm, short term firm,
3 and opportunity? Or maybe opportunity used to be called
4 interruptible?
5 MR. HAROLD SURMINSKI: All those
6 terminologies have been used.
7 MR. BOB PETERS: They've all been -- are
8 they still used today?
9 MR. HAROLD SURMINSKI: By various people,
10 yes. I noted the National Energy Board uses
11 interruptible, even though we do not.
12 MR. BOB PETERS: When you report to
13 National Energy Board, you have to fit your contacts into
14 their pigeon hole definitions?
15 MR. HAROLD SURMINSKI: Yes, I would say
16 that's the case.
17 MR. BOB PETERS: You don't get to call
18 them what you would otherwise call them?
19 MR. HAROLD SURMINSKI: I am actually not
20 familiar, I don't do the reporting to the -- so I'm not
21 familiar exactly the format of that.
22 MR. BOB PETERS: Would you agree, Mr.
23 Wiens and Mr. Thomas, that one (1) of the aspects of
24 fairness is that when the results -- well fairness does
25 result when there's equal treatment of equals?

1 MR. ROBIN WIENS: Yes.
2 MR. BOB PETERS: And if you're doing that
3 from a rate category point of view, you're going to tell
4 the Board that there are no two (2) customers in your
5 system -- I think put the numbers in Tab 2, document 3, I
6 think there's a depiction of six hundred and sixty-two
7 thousand, four hundred and forty-four (662,444) customers
8 on your system, in the PCOSS-6 calculations.
9 And no two (2) customers are exactly the
10 same, is the theory?
11 MR. ROBIN WIENS: If they are we wouldn't
12 know about it, Mr. Peters.
13 MR. BOB PETERS: Good answer.
14 MR. ROBIN WIENS: There's a lot that are
15 pretty similar.
16 MR. BOB PETERS: I'll leave it to Mr.
17 Buhr to explain why there's a hundred and forty-seven
18 thousand (147,000) similar customers on the street
19 lighting area and who those people are, but --
20 MR. DOUG BUHR: I'll leave it to Manitoba
21 Hydro to try and explain that, Mr. Chairman.
22
23 CONTINUED BY MR. BOB PETERS:
24 MR. BOB PETERS: A preview of what may be
25 coming.

1 But, you try to get customers with similar
2 characteristics grouped together, and that's axiomatic in
3 rate design?
4 MR. ROBIN WIENS: Yes.
5 MR. BOB PETERS: And that leads you to --
6 Manitoba Hydro to say that you agree that there should be
7 at least one (1) export class, as NERA says, but you
8 think you can go better than that and go to as many as
9 two (2)?
10 MR. ROBIN WIENS: Yes. And I -- and I
11 might add that when we made that determination that we
12 would file this recommended method as having two (2)
13 export classes, we did discuss the matter with NERA and
14 they did not see a problem with that and they were
15 perfectly happy to recommend that along with us.
16 MR. BOB PETERS: You're going to have to
17 be careful how much weight the lawyers are going to want
18 to put on what somebody told somebody to tell somebody
19 else, and -- and you can understand that.
20 MR. ROBIN WIENS: Fair enough.
21 MR. BOB PETERS: But -- but what you're
22 telling the Board and -- and I accept it, is that they
23 didn't jump up and down and oppose you on it and say,
24 That's not a good idea.
25 MR. ROBIN WIENS: No, they didn't.

1 MR. BOB PETERS: But whether they think
2 it's a better idea than theirs, we're not going to be
3 able to ask them that and we're just going to deal with
4 how you've proposed it; would that be fair?
5 MR. ROBERT MAYER: We could ask them if
6 you believe it's necessary, Mr. Peters.
7
8 CONTINUED BY MR. BOB PETERS:
9 MR. BOB PETERS: We won't need to go
10 there, I don't believe, Mr. Vice-Chairman. I think
11 that's unnecessary.
12 But we did see, back on -- on the review
13 of the allocation of the net export, back on Tab number
14 8, the first document, whether you go the current system,
15 the NERA methodology, or your recommended methodology, it
16 makes a pretty big difference in terms of the end amount
17 of money that's available to be allocated amongst the
18 domestic customers, correct?
19 MR. ROBIN WIENS: In terms of the net
20 export revenue that gets explicitly treated in each case,
21 yes, it makes a difference.
22 MR. BOB PETERS: It's $80 million between
23 you and NERA, between Manitoba Hydro's recommended and
24 NERA.
25 MR. ROBIN WIENS: That's correct.

1 MR. BOB PETERS: I take from your filing
2 that the distinction that Manitoba Hydro wants this Board
3 to reach is the reason there should be two (2) export
4 classes is based on the degree of firmness of the export
5 sales.
6 Would you agree with that?
7 MR. ROBIN WIENS: Yes.
8 MR. BOB PETERS: And when we talk
9 firmness we're talking about an obligation to supply?
10 MR. ROBIN WIENS: Yes.
11 MR. BOB PETERS: Not to alarm my
12 colleague, Ms. Fernandes, but when we say "an obligation
13 to supply" we are meaning a legal obligation to supply.
14 Is that your understanding or is that
15 something you want to consider?
16
17 (BRIEF PAUSE)
18
19 MR. BOB PETERS: Let me rephrase the
20 question, I'm seeing it's causing you to pause.
21 Why don't you tell the Board --
22 MR. ROBIN WIENS: I'm -- I'm not -- I'm
23 not able to interpret what the law is.
24 MR. BOB PETERS: You're far too modest,
25 Mr. Wiens, but let me ask it this way.

1 When you tell the Board that you have a
2 firm class of exports and an interruptible class of
3 exports, what is the distinction between the two (2)?
4 MR. HAROLD SURMINSKI: First of all,
5 "firm" is probably a misnomer. And -- and really what we
6 mean by firm are long-term contracts that are served by
7 dependable resources. And Mr. Cormie is -- is actually
8 use -- calling these sales dependable sales as opposed
9 to firm, because they're -- they're backed up by
10 dependable resources and they're long-term contracts that
11 we can be guaranteed to supply because we have dependable
12 energy.
13 So it's -- it's sort of a history of why
14 we've ended up with this terminology of long-term firm,
15 and in fact in my work I have also eliminated the use of
16 'firm' and -- and I called them long-term transactions.
17 MR. ROBERT MAYER: I'm now getting into a
18 bit of a problem here, and I am a lawyer.
19 I would understand that your legal
20 obligation will be set out in your contract. And that
21 contract, even if it is for power that is only over six
22 (6) months, you have an obligation, if you have a --
23 contracted to supply power to this particular utility for
24 six (6) months, you have an obligation to supply it.
25 Which means that if we don't have enough

1 water, you've got to buy power to sell it back to them.
2 And we heard about that happening during the drought.
3 And so that, in my opinion, is firm power
4 admittedly for a fairly short period of time and you have
5 the long-term contracts which run out as I understand it
6 over five (5) years in some cases.
7 And as I understand your classification of
8 firm and opportunity you have taken the contract that
9 lasts for one (1) year whether it's for firm power or for
10 interruptible power. Am I -- am I correct in
11 understanding that is the distinction that is being made
12 in the two (2) classes?
13 MR. HAROLD SURMINSKI: We do not have
14 long-term contracts for interruptible or opportunity
15 power. They just do not exist. We have the capability
16 to negotiate those but there is no counter party that --
17 that really is willing to -- to buy that product.
18 MR. ROBERT MAYER: Okay. So then the
19 distinction between what you're calling opportunity --
20 the opportunity sales or the opportunity class and the
21 firm class is the difference between one (1) year and
22 greater than one (1) year contract; is that the
23 distinction that we are now looking at in the difference
24 between these two (2) classes?
25 MR. HAROLD SURMINSKI: Yes, because we do

1 not have any long-term contracts that are opportunity
2 based. Our long-term contracts are all based on
3 dependable energy resources that we have. We -- we do
4 not want to sell a long-term product that we do not have
5 a guarantee of supply for.
6 MR. ROBERT MAYER: Then what do you call
7 the one (1) year contract, is that for interruptible
8 power or not necessarily so?
9 MR. HAROLD SURMINSKI: One (1) year out
10 in time and longer, is that what you mean?
11 MR. ROBERT MAYER: Up to one (1) year.
12 MR. HAROLD SURMINSKI: Basically, the
13 opportunity or six (6) month -- forward six (6) month
14 type of sales we consider to be opportunity transactions.
15 We make transactions on a monthly basis, one (1) month at
16 a time.
17 Like now we could be selling power in --
18 in July and August; one (1) month contracts. We do make
19 six (6) month summer sales, so in March we would be
20 negotiating and we -- our water conditions look good we
21 could be guaranteeing supply over all six (6) open water
22 summer months.
23 So those are sales that we call short-term
24 because the water conditions are -- just happen to be
25 available this year. We had very healthy water coming in

1 so we would be making extra transactions based on the
2 short-term knowledge of the water supply.
3 So anything on the long-term knowledge of
4 water supply we call dependable sales or long-term or
5 long-term firm sales.
6 MR. ROBERT MAYER: And in the -- for the
7 purpose of the cost application here the distinction
8 seems to have been drawn at the one (1) year contract; is
9 that correct?
10 MR. HAROLD SURMINSKI: Yes, it has been
11 in this case.
12 MR. ROBERT MAYER: And in addition to the
13 -- you mentioned the one (1) month, the four (4) month,
14 and the six (6) month and the one (1) year contract, do
15 you actually sell on the spot market for like an hour?
16 MR. HAROLD SURMINSKI: Yes, there is a
17 day ahead and a realtime market but that -- that is more
18 of a -- a balancing market. Most of the transactions are
19 made ahead of time through bilateral contracts but we do
20 leave some for the day ahead and the -- and the realtime
21 hourly.
22 So that's a new market that's -- that's
23 existing now with the MISO. They thought you got a
24 central market for day ahead and realtime; five (5)
25 minutes. Actually, on a five (5) minute basis in the

1 realtime.
2 MR. ROBERT MAYER: Thank you.
3
4 CONTINUED BY MR. BOB PETERS:
5 MR. BOB PETERS: Mr. Surminski, following
6 up on those questions I'm not sure I've -- I've got the
7 answer that I asked initially.
8 In the firm export class every contract to
9 be considered so that the revenues would flow into the
10 firm export class must be underpinned by dependable
11 resources?
12 MR. HAROLD SURMINSKI: Yes, that's how we
13 negotiate our contracts.
14 MR. BOB PETERS: And it doesn't -- does
15 it matter whether those dependable resources are one (1)
16 year out or six (6) months out; there's no timeframe on
17 them but as long as they're dependable?
18 MR. HAROLD SURMINSKI: Yes, but usually
19 we -- we're sold out of our longer term product. We --
20 we -- all our dependable resources have been sold
21 forward, so what's left is the shorter term opportunity.
22 MR. BOB PETERS: Well, you interchange
23 the words much more quickly than I can, but the -- bu the
24 term firm means to the Board, that when they see the firm
25 export class, that's the class against which costs are

allocated to generate export sales that are underpinned by dependable energy, of whatever duration that dependable energy is?

MR. HAROLD SURMINSKI: Yes, we'll see where that goes.

MR. BOB PETERS: All right. And opportunity export class would be the class that generates export revenue to the Corporation that is not underpinned by dependable flows, but is made on a short term decision, based on what's available in the reservoirs?

MR. HAROLD SURMINSKI: Yes, that's okay so far.

MR. BOB PETERS: I'll keep pushing it here. I can see then that a firm export contract can be a year out, if you have the confidence in what your dependable flow is, a year out, correct?

MR. HAROLD SURMINSKI: We -- our dependable flow is -- is estimated much more than a year out. It's estimated twenty (20) years out because our dependable resources, we know -- we estimate our dependable flow and we have our generating resources estimated over that time period.

So we know how much energy we can depend on twenty (20) years out from now.

1 MR. BOB PETERS: All right. And in my
2 mind, I'm thinking dependable energy is the energy that
3 you can depend on having when you have the lowest flow
4 conditions that you can experience?
5 MR. HAROLD SURMINSKI: That's how we base
6 our dependable definition, yes.
7 MR. BOB PETERS: All right. And you
8 know, and we'll come to some numbers here, that show that
9 historically you have a pretty good idea of where that
10 dependable level will be?
11 MR. HAROLD SURMINSKI: That's how we base
12 our dependable is --
13 MR. BOB PETERS: Yeah.
14 MR. HAROLD SURMINSKI: -- analysis of our
15 history of a hundred (100) years or so.
16 MR. LEN EVANS: I wonder if I could
17 interject with a question of clarification.
18 How does -- how do the various utilities
19 compare in term of their definition of firm and
20 opportunity or interruptible?
21 I mean you're describing firm versus
22 opportunity or interruptible, you have certain
23 definitions. Are those same definitions used in BC or
24 Quebec, Ontario?
25 I mean, if you were trying to make some

1 calculations for Canada, as a whole, as to how much firm
2 power was sold and how much opportunity power was sold,
3 and you want to add them up together, there's got to be
4 some comparability.
5 Is it easy -- easily compared?
6 MR. HAROLD SURMINSKI: I don't think it
7 is that easy. But I think, generally, long term
8 transactions versus opportunity, I'd say there basically
9 are two (2), two (2) major classes that one (1) could
10 consider.
11 Long term being sales you make well in
12 advance, one (1) year out from now, maybe going five (5)
13 or ten (10) years, versus the opportunity from one (1)
14 hour ahead to, you know, the next six (6) months.
15 THE CHAIRPERSON: Just to follow on that
16 then, what you're saying basically is there's no
17 generally accepted industry term that separates firm from
18 opportunity?
19 MR. HAROLD SURMINSKI: No, and
20 particularly a hydro electric resource. A hydro type of
21 resource has very specific characteristics and this is
22 why, you know, we call them dependable. A thermal
23 resource would not have those dependencies on water
24 supply.
25 THE CHAIRPERSON: Mr. Peters, I think

1 we've absorbed about as much as we can for this first
2 part of the afternoon. If you don't mind, we'll take a
3 break now.
4 MR. BOB PETERS: Yes certainly.
5 THE CHAIRPERSON: Thank you.
6
7 --- Upon recessing at 2:44 p.m.
8 --- Upon resuming at 1:36 p.m.
9
10 THE CHAIRPERSON: Ms. Fernandes is back.
11 Mr. Peters, anytime. You want to take us home?
12
13 CONTINUED BY MR. BOB PETERS:
14 MR. BOB PETERS: Yes. Let's -- let's
15 head down that road.
16 Before the break, Mr. Surminski, we were
17 talking about firm and opportunity export classes and the
18 kind of contracts that would find themselves generating
19 costs and revenues that would be attributable to each of
20 those classes.
21 And one of the things we didn't discuss
22 was whether or not your opportunity contracts have
23 transmission obligations to them as well.
24 MR. HAROLD SURMINSKI: What do you mean
25 by -- I'm not sure what you mean by opportunity

1 obligation -- or "transmission obligations."
2 MR. BOB PETERS: When you enter into a --
3 into an opportunity contract, do you have to have firm
4 transportation -- committed transportation available?
5 MR. HAROLD SURMINSKI: I believe not for
6 opportunity transactions. It depends on -- on the -- no,
7 I would say not for opportunity transactions.
8 MR. BOB PETERS: Okay. Before the
9 afternoon recess we talked about starting with dependable
10 energy, and that's the energy you told the Board that the
11 Corporation's going to have even in the worst years of
12 water flows, right?
13 MR. HAROLD SURMINSKI: That's correct.
14 MR. BOB PETERS: And it's based on
15 historic data.
16 MR. HAROLD SURMINSKI: We base it on
17 that, yes.
18 MR. BOB PETERS: And then from that
19 dependable energy -- well that dependable energy also
20 includes thermal energy, doesn't it?
21 MR. HAROLD SURMINSKI: Yes. We include
22 our thermal resources as well as import contracts that we
23 may have.
24 MR. BOB PETERS: And from that total of
25 dependable energy, you're going to subtract the domestic

1 load that you need to -- to serve Manitobans?
2 MR. HAROLD SURMINSKI: Yes, in order to
3 determine surplus energy.
4 MR. BOB PETERS: And do you have to also
5 subtract from that dependable energy a reserve amount
6 that you have to keep committed for Manitobans?
7 MR. HAROLD SURMINSKI: Yes, correct. And
8 for export sales if -- if they require reserves.
9 MR. BOB PETERS: Well, let's not get
10 ahead of ourselves. But you keep a reserve of how much
11 for domestic -- domestic --
12 MR. HAROLD SURMINSKI: Yes, we're talking
13 only domestic so far. Yes, that's correct.
14 MR. BOB PETERS: And how big of a
15 reserve?
16 MR. HAROLD SURMINSKI: 12 percent.
17 MR. BOB PETERS: Is it 12 percent energy
18 reserve?
19 MR. HAROLD SURMINSKI: 12 percent on
20 energy.
21 MR. BOB PETERS: And --
22 MR. HAROLD SURMINSKI: Not on -- not on--
23 MR. BOB PETERS: Not on --
24 MR. HAROLD SURMINSKI: No, sorry. 12
25 percent on demand and not -- nothing on energy.

1 MR. BOB PETERS: You told the Board that
2 dependable energy includes hydraulic, thermal, plus
3 imports, correct?
4 MR. HAROLD SURMINSKI: Yes, that's
5 correct.
6 MR. BOB PETERS: And would you also agree
7 that the dependable hydraulic energy is roughly
8 equivalent to the dependable -- sorry the -- the
9 dependable hydraulic energy is equivalent to what the
10 domestic customers in Manitoba will typically need?
11
12 (BRIEF PAUSE)
13
14 MR. HAROLD SURMINSKI: Not only
15 hydraulic, no, it's the combination of the three (3) that
16 -- that are used to serve domestic customers.
17 MR. BOB PETERS: But you don't need
18 import and thermal to serve your domestic customers in a
19 -- to -- to serve the dependable load of Manitoba
20 customers?
21 MR. HAROLD SURMINSKI: Yes, we do. We --
22 that is -- the maximum load that we can serve is the
23 combination of all three (3). And that's how we
24 determine the in-service date of our next plant, is when
25 the load has grown to the point where hydraulic plus

1 thermal plus import equals that domestic load.
2
3 (BRIEF PAUSE)
4
5 MR. BOB PETERS: I'll just see if I can
6 find it here. Tab 13, Mr. Surminski, might be a place to
7 start. See if I'm of the correct understanding with you.
8
9 (BRIEF PAUSE)
10
11 MR. BOB PETERS: Let me correct myself.
12 I'm going to use Tab 19 to start with and ask you to look
13 at the first page which talks about hydraulic facilities
14 and their annual dependable flow generation. Have you
15 found the document at Tab 19?
16 MR. HAROLD SURMINSKI: Yes, I have it.
17 MR. BOB PETERS: And if you added up all
18 of the annual dependable flow generation from the -- from
19 the first column for those hydraulic facilities, subject
20 to check, would you agree that you come up with
21 approximately 21,000 gigawatt hours of -- of energy?
22 MR. HAROLD SURMINSKI: Subject to check,
23 yes.
24 MR. BOB PETERS: That's -- is that 21,000
25 gigawatt hours a rough and dirty number that -- that you

1 use for what is the dependable generation from hydraulic
2 resources?
3 MR. HAROLD SURMINSKI: Yes, I recall a
4 number very similar to that.
5 MR. BOB PETERS: And if I then turn you
6 back to Document 13, which is PUB Manitoba Hydro First
7 Round Information Request Number 22, you're telling the
8 Board in that, that your domestic sales are in the
9 approximate 21,000 gigawatt hour range as well, for
10 domestic sales; am I correct?
11 MR. HAROLD SURMINSKI: In recent years,
12 correct.
13 MR. BOB PETERS: And so when I suggest to
14 you that your domestic sales is roughly equal to your
15 dependable hydraulic generation, you'd now agree with me?
16 MR. HAROLD SURMINSKI: Yes, but, that's
17 because we have a surplus plant on our system.
18 MR. ROBERT MAYER: And you also have --
19 can use the 12 percent can't you -- your thermal
20 generators for your 12 percent reliability factor, right?
21 MR. HAROLD SURMINSKI: The 12 percent,
22 no, Mr. Mayer, is only on the demand side and this is on
23 energy. So the 12 percent doesn't apply here.
24
25 CONTINUED BY MR. BOB PETERS:

1 MR. BOB PETERS: Your answer -- your
2 last answer to me, Mr. Surminski, indicated that yes
3 you'd agree with me that dependable hydraulic generation
4 is roughly equivalent to domestic sales. And then you
5 went on to qualify that answer, as if it was only because
6 you have bigger generating stations or something, in
7 place, than you otherwise would.
8 Did I misunderstand you?
9 MR. HAROLD SURMINSKI: No, I guess why I
10 am saying that is, well first of all, we haven't had
11 dependable flows, dependable stream flows, so we cannot
12 really judge whether our system is in surplus or not,
13 just from these numbers. But, I'll let you go on, we'll
14 see where we go.
15 MR. BOB PETERS: I think -- thank you --
16 what you then tell the Board is what -- of that
17 dependable energy, which has three (3) parts to it,
18 hydraulic, import and thermal, and if the hydraulic
19 portion of the dependable energy is roughly equivalent to
20 domestic sales, which I think you've now agreed with me
21 it is, at least under some conditions, you then are left
22 with some more dependable energy that you can use to
23 enter into firm export contracts?
24 MR. HAROLD SURMINSKI: Yes, but, that
25 would indicate the dependable energy is not hydraulic,

1 it's thermal or import.
2 MR. BOB PETERS: Well, let's not -- let's
3 not be too concerned about the source of it, but,
4 factually that would have to -- that would factually be
5 true if you did the subtraction the way I'm doing it,
6 right?
7 You'd have to go to other resources to
8 meet your export commitments?
9 MR. HAROLD SURMINSKI: That's correct.
10 MR. BOB PETERS: And I think it was you
11 and others who told the Board, that the only reason you
12 built these hydraulic generating stations to date, was to
13 serve domestic customers, correct?
14 MR. HAROLD SURMINSKI: Yes, that's right.
15 MR. BOB PETERS: So it's not unreasonable
16 for -- for someone to conclude that the dependable
17 domestic energy that comes out of these plants, should
18 first be given to or allocated to or used by Manitobans?
19 MR. HAROLD SURMINSKI: Yes.
20 MR. BOB PETERS: So whatever is left
21 over, if any dependable energy, that's something that you
22 can use to see if you can enter into some export
23 contracts on a firm basis with a counter party?
24 MR. HAROLD SURMINSKI: Yes, correct.
25 MR. BOB PETERS: And all that's left

1 then, is that you have to, from an -- over and above
2 dependable flows, you only have thermal generation and
3 imports out of which you can source energy to export?
4 MR. HAROLD SURMINSKI: Yes, correct.
5
6 (BRIEF PAUSE)
7
8 MR. BOB PETERS: Does it at least follow
9 in a theoretical basis that, if you did not have, firm
10 export contracts you would have no need to import power
11 into Manitoba?
12 MR. HAROLD SURMINSKI: In order to meet
13 obligations that would be the case. But, we undertake
14 imports in order to create exports by increasing the
15 value.
16 MR. BOB PETERS: Okay. You're agreeing
17 with me mathematically that if you -- if you didn't have
18 any export contracts you wouldn't have to import anything
19 because there's be no need.
20 You're meeting your domestic requirements
21 through your dependable energy, through your hydraulic
22 system and if you had no firm exports, you wouldn't have
23 to import anything, at least theoretically?
24 MR. HAROLD SURMINSKI: Yes.
25 MR. BOB PETERS: Now, you go further than

1 that and you're telling the Board, well you do have to do
2 imports because you've got kind of a -- I forget the
3 word, but a reciprocity type of arrangement, with some
4 utilities where you'll buy from them in the winter, if
5 they buy from you in the summer.
6 Is that what you're saying?
7 MR. HAROLD SURMINSKI: Well, that's one
8 aspect. The diversity -- we call those the diversity
9 arrangements.
10 MR. BOB PETERS: All right. That's the
11 word I was thinking of. Sure.
12 So it is then the diversity contracts that
13 cause you to have to purchase and import power?
14 MR. HAROLD SURMINSKI: We -- if you're
15 asking why we -- we have imports in this table, a lot of
16 it is, except for the low flow period, these imports were
17 undertaken in order to make economic transactions by
18 importing in the off-peak hours and exporting in the on-
19 peak.
20 MR. BOB PETERS: That wasn't my question.
21 But what you're telling the Board is, whether or not you
22 have a firm export commitment, you do what amounts to
23 day-trading of electricity, that is you will -- you will
24 store it in your reservoirs when it's more valuable than
25 the cost of you importing power.

1 MR. HAROLD SURMINSKI: We import and
2 store it in reservoirs and export it at a profit; it
3 could be a short time later or it could be a -- a whole
4 season later. If -- if there's an advantage to importing
5 in summer and exporting in winter, we put it into
6 reservoir storage in that way also.
7 MR. BOB PETERS: Okay. Well, I'm --
8 we're getting off the track I was hoping to be on. But
9 we come back to the dependable energy that comes off your
10 generating system, all your plants, your hydraulic
11 generation is roughly equivalent to what domestic sales
12 are on an annual basis and, therefore, you still have
13 some imports that you can -- that you bring into
14 Manitoba.
15 And I suggest that those imports, at least
16 on paper, are there to support the firm exports, and I
17 think you agreed notionally that that can be conceived.
18 MR. HAROLD SURMINSKI: Yes. Well, these
19 are not -- we only use firm import contracts to support
20 firm export sales.
21 MR. BOB PETERS: Okay. My -- my question
22 then, let's -- let's get a little bit more focussed on
23 it, is those exports cost money, correct?
24 MR. HAROLD SURMINSKI: Correct.
25 MR. BOB PETERS: Those exports -- some of

1 those exports are firm -- export -- or sorry, those
2 imports cost money and those imports, some of those are
3 firm?
4 MR. HAROLD SURMINSKI: Yes.
5 MR. BOB PETERS: And those firm imports
6 support firm exports.
7 MR. HAROLD SURMINSKI: Yes.
8 MR. BOB PETERS: But Mr. Wiens doesn't
9 use those firm import costs and allocate them or assign
10 them against the firm export class; is that correct?
11 MR. ROBIN WIENS: That's correct. As
12 we've stated, they are lumped in with the rest of the
13 generating costs and they're allocated to the firm export
14 class and to the domestic customer classes.
15 MR. BOB PETERS: And it was also correct
16 though, Mr. Wiens, that if you could identify a specific
17 cost that would be attributed to export, you would agree
18 that it should be directly assigned to export?
19 MR. ROBIN WIENS: This is where we get to
20 the point where we say you may be able to do it in a
21 specific year but that doesn't mean to say you can do it
22 in all years.
23 If -- if you take a look for example at
24 the page that we're looking at, in response to PUB/MH-
25 122-C, there is a year, 2003/2004, where you'll see that

1 our hydraulic generation was substantially below the
2 domestic sales.
3 And so, therefore, the domestic sales had
4 to be serviced out of either thermal or imports, as well
5 as out of hydraulic. And 2003/2004 is not a year where
6 we run up against where we would be expecting to bring
7 generation in, in -- in the following year.
8 So there are going to be situations, there
9 are going to be years -- and the probability of those
10 years arriving is higher the closer we get to when we
11 would add the next generating station -- where we require
12 these resources to serve domestic customers.
13 So it's -- it may be true that you can
14 look at any point in time, like, you can look at this
15 year and look at the available water and the domestic
16 load and say, There's more than enough water to serve the
17 domestic load, and, of course, it's true.
18 And it would be tempting to therefore go
19 on and say, Well all these other resources are surplus to
20 the domestic load, so therefore they're only required to
21 serve exports. But while that may be true at a point in
22 time it's not true at all or even most even of the
23 conceivable points in time.
24 So when we do a prospective cost of
25 service study we're not trying to represent that

1 particular year as much as we're trying to represent the
2 domestic load at this time under a range of circumstances
3 that we could encounter.
4 The data we have to use in the prospective
5 cost of service study is maybe not fully adequate to
6 address all those possibilities. I -- I will grant that,
7 because it's based on a median year unlike the IFF where
8 we take the -- the impacts of each of ninety-three (93)
9 different scenarios. We don't do that in the Cost of
10 Service Study.
11 But I think conceptually we still what to
12 recognize that those resources are not just there to
13 support opportunity or even firm exports but they are
14 there to assure firmness to the domestic load as well.
15 MR. BOB PETERS: I appreciate the answer,
16 Mr. Wiens, but if I go back to your year of 2003/'04 on
17 Document Number 13 which is the PUB/MH First Round 22 and
18 I do the simple math from domestic sales compared to
19 hydraulic generation I come up with maybe 3,500 gigawatt
20 hours of imports needed to support and to make sure the
21 domestic load was served with the balance then being
22 available for exports.
23 On a high level you'd agree with that?
24 MR. ROBIN WIENS: On a high level, and
25 mostly firm exports as you can see.

1 MR. BOB PETERS: Yeah. And then -- and
2 then on a high level why wouldn't we simply assign those
3 costs then to the export class based on the allocation
4 that you and I just did on the microphone?
5 MR. ROBIN WIENS: That's a judgment that
6 you could make I think, but our judgment is based on
7 looking at this from the long-term.
8 And in a year like 2003/2004 when a
9 sizable portion, albeit not all of the -- of the thermal
10 generation or imports is required to serve domestic load
11 you're typically looking in a year like that that the
12 cost of those resources is going to be higher;
13 particularly the purchased resources because you've got
14 drought in Manitoba so therefore you've got -- you've got
15 pressure, upward pressure on prices throughout the
16 region.
17 So you've got both of those factors at
18 work and admittedly the choices that we've made here may
19 not depict that situation perfectly but they are intended
20 to at least recognize it.
21 MR. BOB PETERS: Thank -- thank you, Mr.
22 Wiens.
23 Mr. Surminski, Mr. Wiens picked out the
24 year 2003/'04 as showing hydraulic generation falling
25 below domestic sales and my recollection of that was that

1 a conscious decision was made by the Corporation in the
2 fall preceding that '03/'04 year to -- to keep exporting
3 or -- or to keep drawing down water, I guess is the
4 engineering term?
5 MR. HAROLD SURMINSKI: Yes, I believe we
6 talked about it at the last 2004 GRA.
7 MR. BOB PETERS: And you -- you chose to
8 draw down water so that you could spin the turbines and
9 export more power and receive the export revenue as a
10 result?
11 MR. HAROLD SURMINSKI: Yes, it was a
12 judgment call thinking that and hoping that the next year
13 would not be a drought.
14 MR. BOB PETERS: And as it turns out
15 judgment happened to be in error, but you didn't have the
16 benefit of the rearview mirror at the time?
17 MR. HAROLD SURMINSKI: That's correct.
18 MR. BOB PETERS: All right. Can you tell
19 the Board if you know from memory when was the previous
20 time that domestic loads exceeded hydraulic generation?
21 MR. HAROLD SURMINSKI: I suspect in
22 '87/'88; that was our last major drought. We'd have to
23 go at least that far back.
24 MR. BOB PETERS: And in dealing with the
25 -- the opportunity exports, Mr. Surminski, I'm deducing

1 that your opportunity exports are only possible if you
2 take the total available generation that you have,
3 subtract the dependable, and the dependable again is used
4 for domestic and for firm contract on export and
5 whatever's left over is available for opportunity?
6 MR. HAROLD SURMINSKI: Yes, you did
7 consider firm in that picture?
8 MR. BOB PETERS: I deducted firm from the
9 total resources.
10 MR. HAROLD SURMINSKI: Yes, you're right
11 then.
12 MR. BOB PETERS: Okay. And that
13 opportunity can still be -- that opportunity export sale
14 could still be feasible, coming out of hydraulic water in
15 a good year, when the water flows exceed what you need
16 for your dependable energy commitments, or it could come
17 from thermal or it could come imports, as well?
18 MR. HAROLD SURMINSKI: Yes.
19 MR. BOB PETERS: Okay. And the argument
20 that I believe the Corporation makes in its allocation
21 through the Cost of Service Study, is that you can only
22 enter into an opportunity contract when the market and
23 water or generation conditions permit, and therefore it
24 only attracts variable costs because it's the variable
25 costs that allow you to meet that opportunity export

1 commitment?
2 MR. HAROLD SURMINSKI: Yes, we become
3 price takers. When we have the energy available we
4 cannot store it, we have limited storage, so we have to
5 sell it and only variable costs are involved.
6
7 (BRIEF PAUSE)
8
9 MR. BOB PETERS: Put another way, Mr.
10 Surminski, the customers with whom you enter into those
11 opportunity sales, the Corporation doesn't see them as
12 putting any demands on the fixed costs of the system?
13 MR. HAROLD SURMINSKI: Yes. That's a
14 very good way of putting it.
15 MR. BOB PETERS: You don't dispute that
16 those opportunity sales are spun by the same turbines
17 that -- that meet domestic and firm obligations, but it's
18 at a time when it -- when it can be done under
19 appropriate conditions, including the water and market
20 conditions, that it will be done?
21 MR. HAROLD SURMINSKI: Yes.
22 MR. BOB PETERS: I must say that before
23 the afternoon break I probably didn't -- didn't follow
24 one (1) aspect of the -- of the questioning in coming to
25 an understanding, and I don't want it to come down to a

1 legal matter.
2 But, the idea of a legal obligation to
3 deliver or pay a penalty, does that have any part of the
4 criteria in whether it is a firm export contract or an
5 interruptible export contract?
6 MR. HAROLD SURMINSKI: No. Contracts can
7 be -- what we call firm contracts are often system
8 participation contracts. Our Excel Energy large contract
9 is, in fact, a system participation contract, which is --
10 does not have legal requirements for us to -- to supply.
11 And we have many clauses under which we
12 don't -- do not have to supply, contingencies in our
13 system, outages of transmissions, HBDC, water supply, we
14 have -- it's written into the contract.
15 We call them firm contracts, but we do
16 have clauses that allow us not to deliver.
17
18 (BRIEF PAUSE)
19
20 MR. BOB PETERS: So for the -- for the
21 year that Mr. Wiens pointed out to us on -- on document
22 number 13, in that year 2003/'04 that's sometimes called
23 the flood year, or Mr. Warden probably has a much worse
24 word for it that we won't use on the record, but that's
25 the year the Corporation suffered significant financial

1 loss?
2 MR. HAROLD SURMINSKI: Drought year that
3 is.
4 MR. BOB PETERS: Yes. I certainly mis-
5 spoke and I don't even know if that was Freudian but, we
6 call it the drought year and that was the year in which
7 Mr. Warden was flooded with red ink; would that be fair?
8 MR. HAROLD SURMINSKI: Yes. That's been
9 the most severe since the '80's.
10 MR. BOB PETERS: And it's -- it is a
11 matter of public record that one (1) of the reasons there
12 was a significant financial loss to the Corporation is
13 based, in some measure, on its export obligations; would
14 that be fair?
15 MR. HAROLD SURMINSKI: Yes. Export
16 obligations were a factor of adding to our losses.
17 MR. BOB PETERS: And you just told me
18 that on the Xcel contract you -- you gave it a -- a name,
19 called it a system participation contract, which
20 indicated that you didn't have to export to them if you
21 couldn't. Those are my words, but do you accept that?
22 MR. HAROLD SURMINSKI: Yes. There are a
23 number of clauses that allow us to -- to stop deliveries.
24 MR. BOB PETERS: Did you stop deliveries
25 to them in 2003/'04?

1 MR. HAROLD SURMINSKI: No, I believe not.
2 But I believe some of the -- some transactions took place
3 in the US to -- to supply them with the energy. So we --
4 we chose -- in order to maintain our reputation as a good
5 supplier, we chose to supply by purchasing.
6 MR. BOB PETERS: What you're saying is
7 that for reasons that you interpreted as you weren't
8 legally required to keep them whole or deliver the
9 energy, but for business reasons you chose to make sure
10 they were kept whole with the energy that you were
11 supposed to deliver, by either providing them with a --
12 with the energy or providing them with a cheque so they
13 could go buy the energy at the then market price.
14 MR. HAROLD SURMINSKI: Yes, that's
15 correct.
16
17 (BRIEF PAUSE)
18
19 MR. BOB PETERS: Did you do the same type
20 of arrangements for firm contracts that you had at the
21 time of the drought year?
22 MR. HAROLD SURMINSKI: You're
23 differentiating the system participation as being
24 different. But most of our -- our contracts are, in
25 fact, system participation types.

1 MR. BOB PETERS: Okay. Then I'll ask the
2 question before that, it would be: Are system
3 participation contracts considered by Manitoba Hydro to
4 be firm contracts, of the kind that you would include in
5 the firm export class?
6 MR. HAROLD SURMINSKI: Yes.
7 MR. BOB PETERS: All right.
8 MR. HAROLD SURMINSKI: They definitely
9 are.
10 MR. BOB PETERS: All right. So even
11 though you call it system participation and that there's
12 not necessarily a legal obligation, as you understand it,
13 to deliver, you consider it firm because it's supposed to
14 be met out of dependable energy.
15 MR. HAROLD SURMINSKI: That's correct.
16 MR. BOB PETERS: And even though you
17 didn't have the dependable energy on hand, you chose to
18 make the business decision to maintain future
19 opportunities, presumably in that market, by supplying
20 that market with replacement energy or with cash so they
21 could go find replacement energy.
22 MR. HAROLD SURMINSKI: That's correct.
23 MR. BOB PETERS: And in addition to the
24 Xcel contract, I take it you would have treated other
25 firm customers in a like way?

1 MR. HAROLD SURMINSKI: Yes. Generally we
2 try to maintain our reputation as reliable suppliers.
3 MR. BOB PETERS: Well, what about -- did
4 you do the same thing with any of the opportunity
5 contracts which you've told the Board are not served out
6 of dependable, hydraulic and thermal and import energy?
7 MR. HAROLD SURMINSKI: No. But we -- we
8 did not negotiate opportunity contracts during that
9 summer because we had no energy to -- to sell in that
10 category.
11
12 (BRIEF PAUSE)
13
14 MR. BOB PETERS: At document 12 in the
15 book of documents is an Information Request, Manitoba
16 Hydro Answer for the PUB's Question, Second Round, 8th
17 Question, number C. And it -- it did touch on the
18 NSP/Xcel contract, that's the Northern States Power/Excel
19 Energy, the -- you consider it's the -- one and the same
20 contract?
21 MR. HAROLD SURMINSKI: Yes, it is.
22 MR. BOB PETERS: In addition to what
23 you've explained about this contract, there's a
24 transmission component where service had to be firm under
25 that arrangement, correct?

1 MR. HAROLD SURMINSKI: Yes.
2 MR. BOB PETERS: When you say firm
3 transmission service needs to be in place, is that in
4 Manitoba or is that south of the 49th parallel?
5 MR. HAROLD SURMINSKI: It's both. And
6 Manitoba Hydro has a -- a special arrangement with NSB in
7 -- in the transmission facilities because they were
8 jointly constructed when they originally -- when the
9 transmission was originally constructed it was -- it was
10 a partnership in -- in the facilities in the first place.
11 MR. BOB PETERS: Help me with that.
12 Manitoba Hydro helped construct transmission lines south
13 of the forty-ninth?
14 MR. HAROLD SURMINSKI: No, but the -- the
15 -- to the border. It had -- needed both counter parties
16 to meet up at the border, so.
17 MR. BOB PETERS: So Manitoba Hydro has
18 constructed transmission capabilities in Manitoba that it
19 has -- that it has to dedicate to serve the NSP/Xcel
20 contract?
21 MR. HAROLD SURMINSKI: The transmission
22 was constructed for -- for purposes of long-term
23 transactions like this, and the 500 megawatt sale is --
24 is a major part of that line.
25 MR. BOB PETERS: And yet, Mr. Wiens, you

1 know what the question is: No amount of this is put into
2 the firm export class as a direct assignment of cost, is
3 it?
4 MR. ROBIN WIENS: Not assigned directly
5 but it shares in the cost of that facility.
6 MR. BOB PETERS: It shares in the cost of
7 that facility that was designed to serve the export load,
8 Mr. Wiens, in proportion to its share of all other costs
9 on a generation --
10 MR. ROBIN WIENS: That's correct.
11 MR. BOB PETERS: -- G and T costs --
12 MR. ROBIN WIENS: That's correct.
13 MR. BOB PETERS: And which I think you
14 agreed to me earlier was about 20 percent?
15 MR. ROBIN WIENS: Yes.
16 MR. BOB PETERS: Mr. Surminski, to make
17 sure that there was firm transmission service available
18 to service the NSP/Xcel contract, did Manitoba Hydro have
19 to dedicate a portion of its HVDC system?
20 MR. HAROLD SURMINSKI: No. Internal
21 transmission is not designated specifically for specific
22 export transactions.
23 MR. BOB PETERS: Do you require the use
24 of the HVDC system to service this commitment?
25 MR. HAROLD SURMINSKI: Yes, we certainly

1 do.
2 MR. BOB PETERS: But not on a -- on a
3 dedicated basis?
4 MR. HAROLD SURMINSKI: That's right.
5 MR. BOB PETERS: All right. Can we turn
6 back to...
7
8 (BRIEF PAUSE)
9
10 MR. BOB PETERS: Just maybe bear with me
11 for a second here.
12
13 (BRIEF PAUSE)
14
15 MR. BOB PETERS: Yes, on Document Number
16 13 and also on Document Number 18, I just have a few
17 questions here to help the Board understand again the --
18 the costs related to export.
19 From the Power Resource Plan, Mr.
20 Surminski, which is the document at Tab 18 of the book of
21 documents, that's the system firm energy demand and
22 dependable resource in gigawatt hours. That's out of the
23 Power Resource Plan?
24 MR. HAROLD SURMINSKI: Yes, it is.
25 MR. BOB PETERS: And if I look down to, I

1 guess the 2007/'08 year and look to Manitoba Thermal
2 Plants and I add up the energy component there, roughly
3 40 -- 4,300 gigawatt hours of energy coming out of the
4 domestic thermal plants; is that correct?
5 MR. HAROLD SURMINSKI: Yes, that's
6 correct.
7 MR. BOB PETERS: Do you consider that
8 dependable thermal energy?
9 MR. HAROLD SURMINSKI: Yes, we do.
10 MR. BOB PETERS: But when I go back to
11 Document Number 13, which was PUB/Manitoba Hydro First
12 Round 22, and I look to Thermal Generation, I see that
13 even in the drought year you didn't use your dependable
14 thermal energy, did you -- your dependable thermal
15 generation?
16 MR. HAROLD SURMINSKI: Yes, that's right
17 because -- I can explain why, if you would -- would like.
18 MR. BOB PETERS: It was too expensive?
19 MR. HAROLD SURMINSKI: That's correct.
20 MR. BOB PETERS: Okay. And so even
21 though you have thermal generating capacity in Manitoba,
22 you're not going to fire that up unless it's economic to
23 do so?
24 MR. HAROLD SURMINSKI: Yes. If we can --
25 we can purchase the energy off peak at lower prices, we

do that.

(BRIEF PAUSE)

MR. BOB PETERS: In fact, it looks like you don't use those thermal plants very much at all anymore, or you haven't used them very much.

MR. HAROLD SURMINSKI: That's true of the natural gas fired plants. We currently are using our Brandon coal facility quite extensively.

MR. BOB PETERS: Did the gas one get used this winter, this mild winter?

MR. HAROLD SURMINSKI: No, it did not.

MR. BOB PETERS: Again, it was reasons of economics?

MR. HAROLD SURMINSKI: Yes. High natural gas prices definitely were a factor.

MR. ROBERT MAYER: Why are we using coal fired power in times when we have some of the highest flows we've had in a long time? Why do we have to use coal fire?

MR. HAROLD SURMINSKI: There are various reasons, reliability is one (1) of them, but economics is the big factor. Coal is in the money right now because of the high prices in the US, we can run our coal plants

1 and profit from the exchange, from the sale of the power.
2
3 (BRIEF PAUSE)
4
5 MR. LEN EVANS: I have a supplementary
6 question. My understanding was the use of both Selkirk
7 and Brandon were essentially for peak demand, so that I
8 would have thought Brandon, for instance, would be used
9 essentially at that particular time of the year, you
10 know, January, February, when you didn't have the
11 capacity from your hydro system.
12 But now you're saying because of price
13 differentials in the United States, it makes economic
14 sense to run a coal fired plant through-out the year and
15 have that available?
16 MR. HAROLD SURMINSKI: Yes, that's what's
17 happened. The cost of running a plant could be twenty-
18 five dollars ($25) a megawatt hour, and energy prices on
19 average are double that.
20 MR. LEN EVANS: Yeah. Well I learned
21 something today. That's why you see all those coal
22 trains going by in Brandon.
23
24 CONTINUED BY MR. BOB PETERS:
25 MR. BOB PETERS: Do you extract a high

price from your export sales because it's coming from coal?

MR. HAROLD SURMINSKI: No. We don't differentiate source of energy.

MR. BOB PETERS: All right. The document at Tab 13 of the book of documents, probably prepared on an excel spreadsheet, has room for one (1) more column for 2005/'06 hydraulic generation.

Mr. Surminski, are you able to update the Board on what that might have been?

MR. HAROLD SURMINSKI: I don't have an exact estimate but it's going to be a record year, a record all time high, and it will be in the order of thirty-six thousand (36,000).

MR. BOB PETERS: That's the hydraulic generation, you know it's in the order of magnitude of 36,000 gigawatt hours?

MR. HAROLD SURMINSKI: Yes.

MR. BOB PETERS: And did you run the -- your running of the thermal plants, as you've told the Vice-Chairman, is you run those when it's economic for you to do so, to get an export contract?

MR. HAROLD SURMINSKI: Yes, that's right.

MR. BOB PETERS: Would it be correct that the NSP Excel agreement is approximately 50 percent of

all exports done by Manitoba Hydro?

MR. HAROLD SURMINSKI: Yes, I think it's close to that.

MR. BOB PETERS: Would it be correct to say that the NSP Excel contract is therefore close to 100 percent of the firm exports that are done by Manitoba Hydro?

MR. HAROLD SURMINSKI: No, we do have additional -- so I would think, yeah, that it's less than the 50 percent overall. We do have several -- they're smaller contracts of a 100 megawatts, 50 megawatts and they go out five (5) years, so they may be -- the NSP may be 80 percent of the total.

MR. BOB PETERS: 40 percent of the firm and 80 percent of the total, would you agree with those approximate numbers?

Did I get that wrong again? 80 percent of the firm and 40 percent of the total?

MR. HAROLD SURMINSKI: Yes. And you reversed it.

MR. BOB PETERS: I did. Yeah, okay, that's -- not in my mind I didn't but I'll talk to my ...

(BRIEF PAUSE)

1 MR. BOB PETERS: The next document I'd
2 like to turn to is document 14. And in this document,
3 it's in answer to PUB Manitoba Hydro Second Round 11th
4 Question, Manitoba Hydro was asked whether or not they
5 paid out liquidated damages under any of their short-term
6 contracts.
7 And I might use different words if I was
8 to ask that question again today, but the answer
9 indicates that the sales to the MISO market are
10 financially firm.
11 Do you see that in the answer, Mr.
12 Surminski?
13 MR. HAROLD SURMINSKI: Yes, I do.
14 MR. BOB PETERS: Yeah. And I'm looking
15 in the book of documents, document 14, for those who are
16 still looking.
17 When you say "Sales to the MISO market" --
18 M--I-S-O market -- "are financially firm," you're
19 equating that to a legal obligation that you have to
20 deliver or find replacement energy or maybe even, as a
21 third alternative, cut the cheque.
22 MR. HAROLD SURMINSKI: Yes. And that's a
23 new phenomenon since April of '05.
24 MR. BOB PETERS: And that's not something
25 you had any choice in the negotiations. If you wanted to

1 participate in that market, you had to come up and -- and
2 agree with those terms.
3 MR. HAROLD SURMINSKI: Yes, that's
4 correct.
5 MR. BOB PETERS: And heretofore, before
6 April 1st of 2005 many of your sales into the MISO market
7 would be -- would be considered opportunity contracts for
8 you.
9 MR. HAROLD SURMINSKI: Yes, that's right.
10 MR. BOB PETERS: And you still consider
11 them opportunity contracts, do you, even though there's a
12 financial firmness associated with them?
13 MR. HAROLD SURMINSKI: Yes, that's right.
14 MR. BOB PETERS: And there was no failure
15 to perform in the drought year on any opportunity
16 contracts to MAPP or MISO or any region that you were
17 selling into on -- on an opportunity basis?
18 MR. HAROLD SURMINSKI: We did not have
19 this obligation at the time, so by failure to perform I'm
20 not sure what that would mean at the time.
21 MR. BOB PETERS: You didn't -- you didn't
22 have any opportunity contracts in the drought year that
23 were outstanding and therefore you couldn't -- you
24 weren't in a position that you would fail to perform
25 them.

1 MR. HAROLD SURMINSKI: Yes, that would be
2 right.
3 MR. BOB PETERS: On these -- on these
4 MISO contracts, is there a capacity charge on them?
5 MR. HAROLD SURMINSKI: Sorry, can you
6 repeat it, please.
7 MR. BOB PETERS: I'm sorry. On the MISO
8 contracts, are there capacity charges?
9 MR. HAROLD SURMINSKI: Transactions can
10 have capacity and energy, depending on -- on the type of
11 contract that is.
12 MR. BOB PETERS: And I was trying to
13 equate it to the contracts where you sell into the MISO
14 market, recognizing they're financially firm, are -- is
15 there also a firm requirement on capacity?
16
17 (BRIEF PAUSE)
18
19 MR. HAROLD SURMINSKI: I would say not.
20 These are energy type of transactions that are -- the
21 MISO itself is day-ahead and -- and realtime, so you
22 either deliver in that hour or not. So capacity no --
23 when you get down to defining timeframe, capacity no
24 longer means anything. You're either delivering it and
25 have the capacity there or you're not delivering at all.

1 MR. BOB PETERS: So, in essence, realtime
2 trading of electricity and providing of electricity
3 doesn't -- doesn't have a capacity component because
4 otherwise you wouldn't be in the -- in the market at that
5 time.
6 MR. HAROLD SURMINSKI: That's correct.
7 MR. BOB PETERS: And I understood from
8 your previous answer to me that the MISO agreements that
9 you enter into, the financial firmness means there's a
10 guarantee either of -- of delivery or -- or cash in -- in
11 lieu of delivery.
12 MR. HAROLD SURMINSKI: That's correct.
13 MR. BOB PETERS: And yet those MISO
14 contracts are not considered firm sales, those are still
15 considered by the Corporation as opportunity sales.
16 MR. HAROLD SURMINSKI: Yes, because they
17 are first of all negotiated based on the knowledge and
18 the expectation that the water supply will be there.
19 MR. BOB PETERS: And roughly half of
20 Manitoba Hydro's export, well, I guess I can use the
21 numbers you use, 55 percent on -- on average are firm,
22 and forty-five (45) are opportunity by the definitions
23 employed by Manitoba Hydro?
24 MR. HAROLD SURMINSKI: That was the going
25 forward for the next five (5) year period, yes.

1 MR. BOB PETERS: Yeah. I think you based
2 that on a -- on a -- I thought you based it on a
3 historical -- maybe I'm wrong on that, but.
4 MR. HAROLD SURMINSKI: It was going
5 forward, starting one (1) year out '07 -- '07 and five
6 (5) years following --
7 MR. BOB PETERS: All right. So it was a
8 forward forecast and -- and that's correct because
9 historically -- that's right, historically those numbers
10 don't quite fit in, but going forward you're -- you're
11 forecasting that they would?
12 MR. HAROLD SURMINSKI: Yes.
13 MR. BOB PETERS: All right. And if -- if
14 45 percent of your export contracts are considered
15 opportunity -- are -- are -- what percentage of that is
16 into the MISO market?
17
18 (BRIEF PAUSE)
19
20 MR. HAROLD SURMINSKI: I'd say about 80
21 to 90 percent is into MISO. The Canadian basically is
22 the Ontario market, and we sell very little to
23 Saskatchewan. But the Ontario market has been quite good
24 recently.
25 MR. BOB PETERS: Any particular reason

1 Saskatchewan's not -- not buying our power?
2 MR. HAROLD SURMINSKI: Well, they're
3 self-sufficient and they -- they do not require our
4 power.
5
6 (BRIEF PAUSE)
7
8 MR. BOB PETERS: From our discussions,
9 Mr. Surminski, perhaps the one (1) conclusion I can reach
10 then is that your firm contracts, your firm export
11 contracts are -- are defined as such, only because they
12 fit into the dependable energy available for Manitoba
13 Hydro?
14 MR. HAROLD SURMINSKI: Yes, they are
15 supported by -- by a hydraulic generation that -- that we
16 have had -- that we have installed.
17 MR. BOB PETERS: Well not necessarily
18 just from hydraulic, they'd be available from other
19 dependable energy, whether it was import or thermal?
20 MR. HAROLD SURMINSKI: Yes, other, but it
21 -- it is -- I was trying to get the point of -- of
22 assets, it is tied to -- to assets that we have.
23 MR. BOB PETERS: Okay. Good point and --
24 and it seems to me, from our discussion, that there
25 probably is not any one (1) other characteristic that is

then common or that can differentiate between firm and opportunity.

Would you agree that the -- that the distinction really comes from whether there is dependable generation underpinning the agreement?

MR. HAROLD SURMINSKI: Yes. That is the -- the differing factor.

(BRIEF PAUSE)

MR. BOB PETERS: Mr. Surminski, in the order of magnitude, how many times in the last, say, decade, did Manitoba Hydro enter into the six (6) month ahead summer sales, or something less than six (6) months ahead summer sales?

MR. HAROLD SURMINSKI: Many times.

MR. BOB PETERS: Ten (10) -- ten (10) out of ten (10) years?

Every year except -- well, except the drought --

MR. HAROLD SURMINSKI: Yeah.

MR. BOB PETERS: -- year which we sometimes also call the flood year?

MR. HAROLD SURMINSKI: Yes, that would be right.

1 MR. BOB PETERS: So it -- so it would be
2 -- it would be -- you would enter into these forward
3 summer month sales every year you were -- every year but
4 the drought year.
5 MR. HAROLD SURMINSKI: But they're not
6 only six (6) month forwards, they're one (1) months or
7 two (2) months or three (3). It's a whole range.
8 So when you look at the portfolio you'll
9 see a wide range. And the six (6) months are negotiated
10 when we are confident that we will have water for the
11 entire six (6) months.
12 So if we are not that confident, we'll go
13 one (1) or two (2) months.
14
15 (BRIEF PAUSE)
16
17 MR. BOB PETERS: Is it Manitoba Hydro's
18 position that that list is a matter that's to be kept
19 confidential?
20 MR. ROBIN WIENS: List of?
21 MR. BOB PETERS: The list of sales?
22 MR. HAROLD SURMINSKI: Generally, the
23 entities would be considered to be confidential, but I
24 think the terms of these sales would not be, or the
25 prices. The prices may be somewhat but --

1 MR. BOB PETERS: Well, let me leave it on
2 this basis and let Ms. Fernandes consider that over the
3 weekend because I'm sure she'll be working.
4 And maybe you can take that as an
5 undertaking, only to get back to me through your counsel
6 as to, whether or not, Manitoba Hydro's prepared to
7 disclose that list with as many terms as possible, but
8 excluding the counter party, if that's the sensitive
9 aspect of it.
10 Could you consider that and Ms. Fernandes
11 could let us know?
12 MS. ODETTE FERNANDES: We'll do that.
13 MR. BOB PETERS: Thank you.
14
15 --- UNDERTAKING NO. 4: To advise Board whether or
16 not, Manitoba Hydro's
17 prepared to disclose the list
18 re historical with as many
19 terms as possible, but
20 excluding the counter party,
21 if that's the sensitive
22 aspect of it.
23
24 MR. ROBERT MAYER: I'm assuming, since
25 we're almost going to break, that we're not going to see

1 the rest of those letters between Hydro and MIPUG?
2 MR. BOB PETERS: Mr. Vice-Chairman, I
3 can indicate that over the lunch recess I was speaking
4 with both Ms. McCaffrey and Ms. Ramage and they are
5 sorting it out, and it apparently needs some sorting out.
6 So you won't be seeing them over the
7 weekend either, and we'll probably have an update early
8 next week. Perhaps in light of those comments, this is
9 an appropriate time, Mr. Chairman, to take the afternoon
10 break -- or no, sorry to adjourn for the day and --
11 THE CHAIRPERSON: We just have one (1)
12 question here.
13 MS. KATHI AVERY-KINEW: I just have one
14 (1) question of clarification.
15 Within the MISO market can you still have
16 this system participation contract, where you have to
17 guarantee delivery? I missed something there.
18 MR. HAROLD SURMINSKI: Yes, I believe we
19 still can because the bi-laterals are still part of the
20 overall marketplace there. So we have the bi-lateral
21 contract with Xcel in this case.
22 But everything goes through the clearing
23 house, it goes through the independent system operator,
24 the MISO now. So they're just a clearing house and
25 they're responsible for all loads being served and

1 everything goes through there.
2 But our transaction actually goes -- you
3 know -- our terms are still consistent with the past. We
4 don't -- we have not changed in terms of our contract.
5 MS. KATHI AVERY-KINEW: I just wondered
6 because you said to participate in the market you had to
7 guarantee delivery, but you have these system
8 participation contracts where you don't have to.
9 MR. HAROLD SURMINSKI: Yes. So it's NSP
10 or Xcel now, when they're in -- they have to be the ones
11 that are guaranteeing supply because our contract just
12 requires us, you know, with the terms and conditions that
13 we have to supply.
14 So if they have to provide the guarantee
15 to the independent system operator, it's their obligation
16 to have the support to cover their loads.
17 THE CHAIRPERSON: Thank you. Thank you
18 Mr. Peters. And thank you to the Panel. You've had a
19 very busy couple of days. I look forward to a return to
20 it on Monday morning.
21 We understand on Monday that there's some
22 possibility that CAC/MSOS will be up later on in the day
23 and then we'll move on.
24 And I think the presentations that we now
25 have scheduled are for Tuesday afternoon, correct?

1 MR. BOB PETERS: That is correct.
2 Tuesday just after lunch, probably 1:30 is what we're
3 anticipating, Mr. Chairman.
4 THE CHAIRPERSON: Have we heard anything
5 from Mr. Anderson?
6 MR. BOB PETERS: We've heard nothing
7 further from yesterday. He indicated that the
8 individuals who he would hope would make the
9 presentations to the Board are being consulted. And only
10 when he hears as to whether they are prepared to make the
11 presentation, will be able to advise us as to who and
12 when.
13 THE CHAIRPERSON: And at that time, if
14 you wouldn't mind inquiring as to how much time he
15 estimates the presentations to take?
16 MR. BOB PETERS: Yes, thank you.
17 And I can indicate that in prior
18 discussions with Ms. McCaffrey, she doesn't expect her
19 presentation to -- to exceed an hour and probably more in
20 the range of thirty (30), forty (40) minutes was what she
21 was anticipating from her people. But that was
22 admittedly some time ago and I haven't refreshed that
23 number.
24 THE CHAIRPERSON: Okay.
25 MR. ROBERT MAYER: One -- one other

1 thing. When we're considering the presentations or the
2 presenters by Mr. Anderson, from the description of the
3 evidence he's trying to call, I think we better be clear
4 as to whether or not we're going to need translation
5 services, because I'm suspecting he's calling some people
6 who are not only Elders but are probably aged.
7 MR. BOB PETERS: That's a good point that
8 I'll check him and see if translation is necessary, and
9 if it is, work with him on that.
10 MR. ROBERT MAYER: Thank you.
11 THE CHAIRPERSON: Very good. Well then,
12 good afternoon everyone, I hope you enjoy your weekend.
13
14 --- Upon adjourning at 4:03 p.m.
15
16
17 Certified Correct
18
19
20
21
22 _____
23 Ryan Pickering
24
25