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MANITOBA PUBLIC UTILITIES BOARD

Re: MANITOBA HYDRO
 COST OF SERVICE STUDY

Before Board Panel:

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

HELD AT:

Public Utilities Board
400, 330 Portage Avenue
Winnipeg, Manitoba
May 23rd, 2006
Volume VI
Pages 1111 to 1304

APPEARANCES

1
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R.F. Peters) Board Counsel

Patti Ramage) Manitoba Hydro
Odette Fernandes)

Bryon Williams) CAC/MSOS
Myfanwy Bowman (np))

Doug Buhr) City of Winnipeg

Peter Miller) TREE

Tamara McCaffrey) MIPUG
Patrick Bowman (np))
Andrew McLaren (np))

Jurgen Feldschmid) CCEP

Michael Anderson) MKO

	TABLE OF CONTENTS	
		Page No.
1		
2		
3	List of Exhibits	1114
4	List of Undertaking	1115
5		
6	Discussion	1116
7	MANITOBA HYDRO PANEL:	
8		
9	VINCE WARDEN, Resumed	
10	ROBIN WIENS, Resumed	
11	CHIC THOMAS, Resumed	
12	HAROLD SURMINSKI, Resumed	
13	DAVID CORMIE, Sworn	
14		
15	Continued Cross-Examination by Mr. Byron Williams	1124
16	Continued Cross-Examination by Ms. Tamara McCaffrey	1156
17	Re-Cross-Examination by Mr. Bob Peters	1249
18	Cross-Examination by Mr. Michael Anderson	1274
19		
20	Certificate of Transcript	1304
21		
22		
23		
24		
25		

1	LIST OF EXHIBITS		
2	EXHIBIT NO.	DESCRIPTION	PAGE NO.
3	MH-16:	Customer waiting for street	
4		lighting document	1118
5	MH-17:	Undertaking number 16.	1119
6	MH-18:	Undertaking number 17.	1119
7	MH-19:	Undertaking number 19.	1119
8	MH-20:	29 pre-asked questions and	
9		corresponding answers.	1120
10	MH-21:	Undertaking number 9.	1122
11	MIPUG 7:	Summary of alternative COCC	
12		methods based on PUB/MH-11	1207
13	MIPUG-8:	Three-page table, 2-A, 2-B and 2-C.	1213
14	MKO-2:	Extract from the Corporation's	
15		financial statements	1273
16	MKO-3:	Extract of the transcript for	
17		November 24th, pre-hearing conference	1282
18			
19			
20			
21			
22			
23			
24			
25			

	LIST OF UNDERTAKINGS		
	Number	Description	Page No.
1			
2			
3	20	Provide record of power usage	
4		in 03/04	1132
5	21	Manitoba Hydro to do a calculation, re:	
6		the percentage of costs incurred to serve	
7		domestic load and for firm exports from	
8		1995/96 through 2004/05	1145
9			
10			
11			
12			
13			
14			
15			
16			
17			
18			
19			
20			
21			
22			
23			
24			
25			

1 --- Upon commencing at 9:10 a.m.

2

3 THE CHAIRPERSON: Good morning, everyone.
4 Welcome back from our fairly lengthy adjournment. To
5 begin this morning I think I'll call on Mr. Peters to
6 bring us all up to date. It might serve as a useful
7 summary for us.

8 MR. BOB PETERS: Thank you, Mr. Chairman.
9 Good morning, ladies and gentlemen. In terms of the
10 procedures that are envisioned for today and even the
11 balance of this week, I can briefly indicate that this
12 morning there are a series of undertakings that Manitoba
13 Hydro would like to have marked as Exhibits.

14 That will be followed by the continuation
15 and conclusion of the cross-examination by Mr. Williams
16 on behalf of CAC/MSOS. Mr. Williams will be followed by
17 the continuation and completion of the cross-examination
18 by Ms. McCaffrey on behalf of MIPUG.

19 That will be followed by Michael Anderson
20 cross-examining on behalf of MKO and that will be
21 followed by Mr. Jurgen Feldschmidt cross-examining on
22 behalf of CCEP.

23 That is the order left to be done and the
24 time permitting today that will be accomplished and of
25 course, if not, it will move into tomorrow. And tomorrow

1 is also the day that we expect Mr. Harper will attend as
2 a witness on behalf of CAC/MSOS.

3 And tomorrow, being Wednesday, is a day, I
4 know the Board has to adjourn early, approximately 3:00
5 or 3:30 and we'll deal with that tomorrow. There's a
6 possibility that the Panel may be available to sit later
7 into the early evening, as well, tomorrow but we'll
8 decide that I think as the day goes on.

9 On Thursday of this week Mr. Lazar will be
10 with us to testify as a witness for RCM/TREE. And then
11 Friday of this week Messrs. Bowman and McLaren are
12 scheduled on behalf of MIPUG to be the witnesses.

13 We do have some question marks still with
14 closing argument and I'll be meeting with My Friend, Ms.
15 Ramage to talk about possible dates and I'll bring that
16 back to the Board and see if we can firm up the dates on
17 which the Board and the parties are available.

18 So with that general outline, Mr.
19 Chairman, I believe the first matter of business is to
20 turn to the undertakings and before we do that the last
21 Exhibit that was marked on the transcript from my review
22 from when we met on May the 10th was Manitoba Hydro
23 Exhibit 15 and it was Undertaking 10.

24 And it was a -- it was a undertaking
25 provided to CAC/MSOS and answered and it was explained I

1 believe by Mr. Wiens. There was also a document filed by
2 Manitoba Hydro that on the record, doesn't appear to have
3 been marked as an Exhibit and I just want to make sure it
4 was Manitoba Hydro's intention that it be marked. And it
5 was the customer waiting for street lighting document and
6 this document was part of a report. And I believe the
7 electronic copy of the report was filed at PUB/Manitoba
8 Hydro second round, 30 or perhaps it was 29.

9 But, if it was intended to be marked as an
10 Exhibit it should be given Manitoba Hydro Exhibit 16 and
11 I'll look to My Friend Ms. Ramage for confirmation.

12 MR. GERALD MAYER: My copy is already
13 marked in red, MH-16, I'm assuming -- I thought that was
14 done.

15 MR. BOB PETERS: Well then that takes the
16 mystery out of it and that updates the record Mr. Vice-
17 Chair.

18
19 --- EXHIBIT NO. MH-16: Customer waiting for street
20 lighting document

21
22 MR. BOB PETERS: In turning to the
23 additional documents, last week Manitoba Hydro was busy
24 working on some undertakings and they filed three (3)
25 undertakings that were given to MIPUG. They were

1 undertaking number 16, number 17 and number 19, and those
2 were circulated by e-mail.

3 I propose, in light of the -- in light of
4 the exhibits, that Undertaking number 16 be marked as
5 Exhibit 17, Undertaking number 17 by marked as Exhibit
6 18, and Undertaking number 19 be marked as Exhibit 19.

7

8 --- EXHIBIT NO. MH-17: Undertaking number 16.
9 --- EXHIBIT NO. MH-18: Undertaking number 17.
10 --- EXHIBIT NO. MH-19: Undertaking number 19.

11

12 MR. BOB PETERS: The last group of
13 undertakings were provided to Mr. Williams and they
14 provided in -- the transcript shows to some extent they
15 were referred to as pre-asked questions or written notice
16 given to Manitoba Hydro of various questions. And I
17 believe there's approximately twenty-nine (29) such
18 questions and answers, and they have all been answered in
19 -- in the written material circulated.

20 And with the concurrence of My Friend
21 Ms. Ramage and Mr. Williams we will mark those as
22 Manitoba Hydro Exhibit 20. We'll mark them all as one
23 exhibit --

24 MR. ROBERT MAYER: Slow down. How many
25 pieces of paper are we supposed to have? I have, it was

1 on our desk this morning, something said CAC/MSOS 1.2.3,
2 and that's a two (2) page document. It says "2 of 8" on
3 the sheet I have, but I don't have eight (8).

4 MR. BOB PETERS: We -- I have counted,
5 and of course it was somewhat informal, but I think there
6 was twenty-nine (29) such questions and their
7 corresponding answers. And we'll just have to clarify
8 that at the break.

9 But whatever the number is, I propose we
10 give them all Exhibit number Manitoba Hydro 20. And if
11 they are properly numbered we'll be able to locate them
12 in any reference made by Mr. Williams or Ms. Ramage.

13

14 --- EXHIBIT NO. MH-20: 29 pre-asked questions and
15 corresponding answers.

16

17 MS. PATTI RAMAGE: It might of
18 assistance, I -- I seem to be short one (1) of the two
19 (2) packages. They went out in two (2) e-mails and I
20 believe the first was eight (8) pages, the second was
21 thirty (30) pages.

22 Manitoba Hydro has -- Manitoba Hydro has
23 additional copies that we'll distribute. And I -- that's
24 all subject to check on my page numbers because My
25 Learned Friend is not behind me right now who keeps track

1 of this.

2 THE CHAIRPERSON: Yes. We certainly
3 don't have that volume of material.

4 Mr. Barron, if you could arrange with Ms.
5 Ramage and we'll return to it after the break.

6 Mr. Peters, anything else?

7 MR. BOB PETERS: I'll turn to Ms. Ramage,
8 she may have one (1) more undertaking to be marked. And
9 then Mr. Williams may have some matters, unless it's
10 related to the same matter.

11 MR. BYRON WILLIAMS: I just, in terms of
12 the -- the material which is -- I think Mr. Peters has
13 suggested be marked as MH number 20, which is the two (2)
14 packages that Ms. Ramage was kind enough to file, I will
15 be making reference to some of -- some of those documents
16 this morning.

17 So it might be helpful -- there's only a
18 few that I'll be making reference to but it might be
19 helpful for the Board to have them at hand if they so
20 choose.

21 THE CHAIRPERSON: Mr. Barron, if you
22 could make sufficient copies then, now, if you don't
23 mind.

24 Ms. Ramage...?

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(BRIEF PAUSE)

MS. PATTI RAMAGE: Ms. Fernandes advises me that we're making packages right now, Mr. Barron --

THE CHAIRPERSON: Very good.

MS. PATTI RAMAGE: -- Mr. Chair, and so we will get those out momentarily. But while those are being copied, Manitoba Hydro is also distributing right now Undertaking number 9, dealing with seasonal diversity sales. And I would suggest that be marked as Exhibit 21.

THE CHAIRPERSON: Thank you.

--- EXHIBIT NO. MH-21: Undertaking number 9.

MS. PATTI RAMAGE: And I also note that we've brought a new panel member -- not new to this Board but new to this hearing, with us today -- Mr. David Cormie. Mr. Cormie hasn't been sworn yet but we thought it would be helpful if he was here for Mr. Williams' line of questioning.

THE CHAIRPERSON: Mr. Barron, would you mind attending to that task.

DAVID CORMIE, Sworn

1 THE CHAIRPERSON: Thank you, gentlemen.

2 Is that it?

3 MS. PATTI RAMAGE: That's it. I'm just
4 looking to Mr. Williams to see if he would like to begin
5 or like to get those copies out before we get started.
6 We could have Ms. Fernandes --

7 MR. BYRON WILLIAMS: I'm fine to begin,
8 Mr. Chairman. Most of my questions initially are to --
9 probably to Mr. Thomas, Mr. Cormie, and Mr. Surminski and
10 they relate to the -- the issue of purchased power, so.

11 THE CHAIRPERSON: Okay. When you get to
12 the one that involves the material being passed out just
13 pause. Okay, Mr. Williams.

14 MS. PATTI RAMAGE: Mr. Chair, it might be
15 helpful, with your leave, I could ask Ms. Fernandes to
16 quietly distribute them once they come up --

17 THE CHAIRPERSON: Yes.

18 MS. PATTI RAMAGE: -- so that without
19 having to have a break, if we can get away with that.

20 THE CHAIRPERSON: Very good.

21 MR. BYRON WILLIAMS: Thank you. And just
22 for the assistance of both the Hydro Panel and the Board
23 I, in the next few minutes, I'm going to be making
24 reference to primarily three (3) documents. One, being
25 the CAC/MSOS book of references, Tab 24. Second --

1 secondly, the Hydro rebuttal evidence page 33 and third
2 the Public Utilities Board book of reference, Tab 13.

3 THE CHAIRPERSON: Thank you, Mr.
4 Williams.

5 MR. BYRON WILLIAMS: And just because I
6 know it's been sometime since we were on this subject,
7 this discussion started on Day 4 of the hearing and the
8 transcript references are around page 809 to 817. So
9 that's -- I'm going to kind of backtrack for a couple of
10 minutes to put -- and then bring us back up to speed.

11 And, again, I'm not sure which of the
12 Hydro Panel to direct this to, but I'm thinking it's to
13 my left side of the Panel; Mr. Surminski; Thomas and
14 Cormie. And what I'm trying to do to -- to start with is
15 clarify Manitoba Hydro's use and reporting of the terms
16 purchase and -- and imports.

17

18 CONTINUED CROSS-EXAMINATION BY MR. BYRON WILLIAMS:

19 MR. BYRON WILLIAMS: And I think actually
20 my first question, Mr. Thomas, you can -- because I don't
21 ask you enough questions, you'll just confirm that
22 purchases under the current treatment are assigned 100
23 percent to export; is that right?

24 MR. CHIC THOMAS: Yes, that's right.

25 MR. BYRON WILLIAMS: And under the

1 recommended treatment, again, they'll be assigned 100
2 percent to export initially and then there will be the
3 fifty-five (55), forty-five (45) split with fifty-five
4 (55) going to -- to firm export and forty-five (45) going
5 to opportunity; is that right?

6 MR. CHIC THOMAS: That's right. And the
7 55 percent that's firm ends up in the generation pool.

8 MR. BYRON WILLIAMS: Thank you. And my
9 understanding is that when Manitoba Hydro uses the term
10 "purchase power" I can think of that really as capturing
11 two (2) concepts. One is energy imported into Manitoba;
12 is that right?

13 MR. DAVID CORMIE: That's correct.

14 MR. BYRON WILLIAMS: And the other one
15 I'm not sure what to call it but I'm going to call it the
16 non-import into Manitoba which you purchase and you use
17 it to fulfil an export sale obligation; would that be
18 correct?

19 MR. DAVID CORMIE: That's correct.

20 MR. BYRON WILLIAMS: Do you have a fancy
21 word for that, Mr. Cormie?

22 MR. DAVID CORMIE: No, you have got a
23 taste there.

24 MR. BYRON WILLIAMS: I was hoping there
25 might be one to -- to assist me. Turning to the --

1 first, to the Public Utilities Board book of references
2 Tab 13 which is the Manitoba Hydro response to PUB/I-
3 22(c), and I want to start on the subject of imports,
4 and, again, we did cover a bit of this territory in -- on
5 day four (4) of the hearing.

6 But if I turn to this table, the fourth
7 column encaptures imports into the Manitoba Hydro system
8 from the years 1995/96 through to 2004/05; is that
9 correct?

10 MR. DAVID CORMIE: That's correct.

11 MR. BYRON WILLIAMS: And we'll see that
12 imports range in terms of the amount in each year from a
13 low, it appears, of 333 Gigawatt hours in 2000/01 up to a
14 high of in excess of 7,000 Gigawatt hours in the drought
15 year of 03/04; is that right?

16 MR. DAVID CORMIE: That's correct.

17 MR. BYRON WILLIAMS: And Mr. Thomas, I
18 think was -- was kind enough to check my math on this,
19 but if I totalled that column I get to about 16,300
20 Gigawatt hours; would you accept that, subject to check?

21 MR. DAVID CORMIE: I accept that.

22 MR. BYRON WILLIAMS: Now, and again this
23 is just to recapture where we were on day four (4) of the
24 hearing. In the course of the interrogatory process the
25 Public Utility Board posed interrogatory first round

1 24(d) which is in Tab 24 of the CAC/MSOS book of
2 references.

3 And again just to confirm that the two (2)
4 -- we're still focussing on imports. The two (2)
5 principal reasons for imports are for economics and for
6 energy security, is that correct?

7 MR. DAVID CORMIE: That's correct.

8 MR. BYRON WILLIAMS: And when we speak of
9 economics, we're looking at again two (2) sub-types for
10 economics. One (1) you import to pursue arbitrage
11 opportunities and secondly you also import to avoid using
12 more expensive generation in Manitoba in median -- median
13 flow years, is that right?

14 MR. DAVID CORMIE: That's correct.

15 MR. BYRON WILLIAMS: And during droughts,
16 of course, the use of imports and the purpose to which
17 they're put changes somewhat, would you agree with that?

18 MR. DAVID CORMIE: The imports in
19 droughts are used to serve the Manitoba load or to
20 support reservoirs. So although there may be energy in
21 reservoir storage that could be used, imports are used to
22 displace the hydraulic generation so that water could be
23 kept in reservoir storage.

24 MR. BYRON WILLIAMS: So in the drought
25 years the purpose to which imports is put, there's a

1 greater focus on domestic purposes, is that correct?

2 MR. DAVID CORMIE: That's correct.

3 MR. BYRON WILLIAMS: And in fact, during
4 the drought year of 03/04 all 7053 gigawatt hours of
5 imports were made either to support reservoir storages or
6 to serve the domestic load directly, rather than operate
7 more expensive gas fired generation, correct?

8 MR. DAVID CORMIE: That's correct.

9 MR. BYRON WILLIAMS: And my understanding
10 is during that year, in particular, and this is
11 referenced in the very last line of this interrogatory
12 response, you indicate imports to support reservoir
13 storages for firming export sales were not required as
14 export sales were firming up from the market during this
15 period, is that correct?

16 MR. DAVID CORMIE: That's correct.

17

18 (BRIEF PAUSE)

19

20 MR. BYRON WILLIAMS: And that goes back
21 to the point we were making earlier that there's two (2)
22 types of -- when we're discussing the concept of
23 purchases there's two (2) distinct concepts. One (1) one
24 is imports into Manitoba and then the other one that we
25 cannot name, but the firming up export sales which are

1 not imported into Manitoba?

2 MR. DAVID CORMIE: And that's correct.
3 In the drought, we purchased over 10,000 gigawatt hours,
4 7000 were brought into Manitoba. The other 3000 were
5 used to serve our export sales obligations.

6 MR. BYRON WILLIAMS: Could you repeat
7 that Mr. Cormie, sorry?

8 MR. DAVID CORMIE: During the drought, we
9 purchased over 10,000 gigawatt hours of power; 7000 were
10 delivered into Manitoba, the other approximately 3000
11 were used to serve our export obligations.

12 The difference between imports are metered
13 power, it's the power that flows through the meters that
14 it comes into the Province. Exports are powered -- is
15 power that flows through the meters and goes to service
16 sale. So it's the flow of power in and out of the
17 Province.

18 And that's different from purchased power
19 or sales, sales includes all power that's sold. The
20 stuff that's exported and the stuff that is from --
21 revenue that's generated from energy that's not sourced
22 in Manitoba.

23 So purchases and sales deal with the money
24 side. Imports and exports deals with the physical flow
25 of the electrons.

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(BRIEF PAUSE)

MR. BYRON WILLIAMS: And that's of great assistance and just to follow up on this point, I'm just going to draw you back to Tab 13 of the Board book of documents which is the response to PUB/Manitoba Hydro I-22(e), do you have that Mr. Cormie? Sub (c), excuse me.

MR. DAVID CORMIE: Yes, I have that.

MR. BYRON WILLIAMS: Now, I think in my discussion with Mr. Surminski at -- because I was looking for something on this document that wasn't there, which is kind of the 3000 gigawatt hours in terms of purchases that didn't flow into the Province.

And I -- I think the point that Mr. Surminski was making to me at page 812 of the transcript, you probably don't need to -- to turn there, but he was suggesting to me -- excuse me, page 814, that if you were, kind of, to do the math on this table looking at what is either generated through hydraulic generation, thermal generation, or imports, and then to compare it to what is being either sold through firm exports, opportunity exports, or domestic sales there would be a shortfall of some magnitude; would that be right?

MR. DAVID CORMIE: Yes. And the shortfall is the difference attributable to the power

1 that's purchased that doesn't flow into the province and
2 there's a difference associated with energy at generation
3 and energy in Southern Manitoba.

4 There's system losses -- transmission
5 system losses to move the energy from our northern
6 stations to Winnipeg, approximately 10 percent. So the
7 table won't balance because those two (2) factors aren't
8 shown and they weren't asked for.

9 MR. BYRON WILLIAMS: Yeah. And I'm not
10 suggesting that it was inaccurate. It was -- we were
11 interpreting -- using this table for perhaps a wrong
12 purposes.

13 So just so I understand then, there's
14 probably about 3,000 Gigawatt hours in 03/04 that are not
15 reflected in this table?

16 MR. DAVID CORMIE: Approximately, yes.

17 MR. BYRON WILLIAMS: Now, that's during a
18 drought year. Would -- would there be -- presumably
19 there are purchases outside the province in other years
20 that would be captured in this period, the 95/96 through
21 to 04/05; or would there be?

22 MR. DAVID CORMIE: I believe it was only
23 -- it was purchases for serving our export sales that
24 didn't involve delivery. Those were done for the first
25 time during that drought.

1 MR. BYRON WILLIAMS: So, in other words,
2 purchases that did not involve delivery they would only
3 be from the year -- in the year 03/04; is that right?

4 MR. DAVID CORMIE: Up to 03/04 there were
5 probably no purchases that didn't -- that weren't
6 included in the imports. After that its become common
7 business practice.

8 MR. BYRON WILLIAMS: Okay. So for 04/05
9 would you have an idea of the magnitude of that?

10 MR. DAVID CORMIE: I don't have that
11 handy. No.

12 MR. BYRON WILLIAMS: Would you undertake
13 to provide that?

14 MR. DAVID CORMIE: We can do that, yeah.

15

16 --- UNDERTAKING NO. 20: Provide record of power usage
17 in 03/04

18

19 MR. DAVID CORMIE: Mr. Williams, I
20 suspect it's a very small number if it -- if it -- it
21 anything. Yes.

22

23 CONTINUED BY MR. BYRON WILLIAMS:

24 MR. BYRON WILLIAMS: And just so -- and
25 this goes back to a question -- I think I understand the

1 answer to this now, but if I'm looking at imports under
2 diversity agreements in terms of the IFF those would be
3 reported as purchased power; is that right?

4 MR. DAVID CORMIE: If the IFF included
5 purchases under diversity that's where they would show
6 up; yes.

7 MR. BYRON WILLIAMS: And those imports
8 under diversity agreements, I would also see them when I
9 look at PUB/I-22(c) in the imports column; would they be
10 captured there?

11 MR. DAVID CORMIE: Yes, they would.

12 MR. BYRON WILLIAMS: And I'm not sure if
13 you used the words "purchases not delivered" but I -- I
14 think that was the term you used; those purchases not
15 delivered I would also find those -- I would not find
16 them on this table PUB/I-22(c)?

17 MR. DAVID CORMIE: That's correct.

18 MR. BYRON WILLIAMS: Okay. I'm going to
19 -- I'm going to come back to that point in just a second
20 with reference to your rebuttal evidence, but before I --
21 I do, I just want to look to the implications of the
22 drought on purchases for opportunity exports as well as
23 firm exports; that's where I'm going to go now.

24 Just so as I understand it, in normal
25 years opportunity sales will come mainly from hydro with

1 some purchases for resale; is that correct?

2 MR. DAVID CORMIE: The world has changed
3 quite dramatically, Mr. Williams, since we last talked.
4 And that's -- used to be true, it's not necessarily true
5 this year.

6 MR. BYRON WILLIAMS: So let's break this
7 down into two (2) parts then, this may be of more
8 assistance. So let's deal with the world pre-03/04 and
9 then -- would that help you in answering my question, and
10 then with the world 03/04 moving forward.

11 MR. DAVID CORMIE: Yes, let's do it that
12 way.

13 MR. BYRON WILLIAMS: So pre-03/04,
14 opportunity sales came mainly from Hydro with some
15 purchases for resale; is that right?

16 MR. DAVID CORMIE: Yes.

17 MR. BYRON WILLIAMS: What's happened
18 03/04 moving forward?

19 MR. DAVID CORMIE: With the MISO market
20 there's now one opportunity to purchase power from the
21 MISO market and -- and meet our export obligations and
22 then taking the surplus that's made available through
23 those purchases into the Ontario market, in effect taking
24 our surplus to the highest market that's available
25 between those two (2).

1 And so there can be significant purchase
2 costs to serve our export obligations that freeze up
3 power for sale into the Ontario market, and vice versa,
4 trying to capture the spread between the two (2) markets.

5 Do I need to explain that further?

6

7 (BRIEF PAUSE)

8

9 MR. DAVID CORMIE: That was -- and that's
10 become available since May the 1st, 2005.

11 MR. BYRON WILLIAMS: No. I think I've
12 got Mr. Harper listening in the next room, so if he feels
13 the need for me to explain that further he'll come in and
14 tap me on the -- on the shoulder, I'm hoping.

15 MR. DAVID CORMIE: And -- and so that,
16 you know, there can be significant purchase costs that
17 are occurring. Even though we have high water levels
18 this year and -- and last year we had record high water,
19 there still can be very, very significant purchase costs
20 showing up on our books.

21 And those costs are made -- are incurred
22 in order to make more profitable export sales, regardless
23 of whether we're in -- in low water or high water.

24 MR. BYRON WILLIAMS: And just so I
25 understand, those -- the majority of those will be

1 reflected as imports, given our recent conversation, or
2 no?

3 MR. DAVID CORMIE: No. Those won't be
4 shown as imports because we have a -- we have an export
5 obligation and we're choosing to serve that export
6 obligation with a power purchase. So no electricity
7 actually floats across, flows through the meter, and just
8 settle financially in the US market, but it frees up
9 power in Manitoba that now will flow across another
10 meter, into another market, and so there will be an
11 export.

12 So the export will show up as a sale and
13 as an export. The purchase will show up as a purchase
14 only and it won't show up as a purchase -- it won't show
15 up as an import.

16 THE CHAIRPERSON: Can we assume that such
17 transactions are always profitable to Manitoba Hydro?

18 MR. DAVID CORMIE: Always?

19 THE CHAIRPERSON: Always.

20 MR. DAVID CORMIE: I would say the very
21 vast majority of those transactions are profitable.

22 THE CHAIRPERSON: Why would there be a
23 transaction that wasn't profitable in that limited
24 category you just created?

25 MR. DAVID CORMIE: It has to do with the

1 -- the timing of settlement. Some of the transactions
2 settle in the day-ahead market and some of them settle in
3 the real time. And so there's a possibility that there
4 could be -- the outcome could be different than was
5 expected.

6 But I would say more than 99 percent of
7 the transactions are profitable.

8 THE CHAIRPERSON: So it's not speculative
9 in nature then?

10 MR. DAVID CORMIE: No. Speculative in
11 nature would be transactions that would -- you know, 50
12 percent of the time would be rolling the dice. These
13 transactions are entered into when there's a very high --
14 only when there's a high probability that they -- they
15 will be profitable.

16 THE CHAIRPERSON: Thank you.

17

18 CONTINUED BY MR. BYRON WILLIAMS:

19 MR. BYRON WILLIAMS: Thank you for this
20 assistance, Mr. Cormie. And you had kind of thrown me
21 off track with your qualification to my question about
22 four (4) questions ago.

23 Now, I just want to focus on the pre-MISO
24 world, the drought year, the 03/04 year. Would I be
25 right in understanding that during the drought year

1 opportunity exports were substantially reduced, would
2 that be right?

3 MR. DAVID CORMIE: That's correct.

4 MR. BYRON WILLIAMS: Would I also be
5 right that in terms of the drought year, in terms of
6 purchases and support of firm exports those would be
7 increased, would that be correct?

8 MR. DAVID CORMIE: That's correct.

9 MR. BYRON WILLIAMS: And how about in
10 terms of purchases to support opportunity sales during
11 the drought year, would they be increased, decreased or
12 about the same?

13 MR. DAVID CORMIE: As we -- as we go into
14 a drought it's a gradual transition -- a gradual
15 transition into more extreme conditions. And so our
16 market activities and our purchases move from purchases
17 for resale to purchases to support our export sales and
18 to support reservoir levels.

19 And as you can see from the record, our
20 opportunity exports were significantly down in that year
21 and so the purchases to support those opportunity sales
22 that would have been very low.

23 MR. BYRON WILLIAMS: Thank you. During -
24 - I just like to turn you to the rebuttal evidence of
25 Manitoba Hydro which appears at page 33 of 43. And

1 specifically lines 15 to 22. Do you have that Mr.
2 Cormie?

3

4 (BRIEF PAUSE)

5

6 MR. DAVID CORMIE: I do.

7 MR. BYRON WILLIAMS: I'm going to read to
8 you the first four (4) lines and I'm going to focus on
9 the choice of wording in line 18, in particular. So I'm
10 going to read it to you and get you to confirm I've read
11 it correctly, first of all:

12 "During drought years power purchases
13 are made to serve domestic load and
14 firm exports. Drought years are
15 relatively infrequent, however when
16 they do occur power purchases are much
17 greater than during normal years.

18 For example, over the ten (10) year
19 period 1995/96 through 2004/05, a total
20 of 16,300 gigawatt hours of energy were
21 purchased from outside Manitoba.

22 Did I read that to you correct, sir?

23 MR. DAVID CORMIE: That's correct.

24 MR. BYRON WILLIAMS: Now, would I be
25 right when I look -- focussing on the words on line 18,

1 you say:

2 "A total of 16,300 gigawatt hours were
3 purchased from outside Manitoba."

4 Would I be right in adding the qualifier,
5 for import to Manitoba, to the extent that the figure of
6 16,300 doesn't include the 3000 gigawatt hours of
7 purchases not delivered?

8 MR. DAVID CORMIE: I believe, Mr.
9 Williams that the 16,300 does include all imports. So
10 the 16,300 is purchased power, a portion of which is
11 power that's imported, a portion of which is not
12 imported, it stays at the border to serve our export
13 obligations.

14 MR. BYRON WILLIAMS: Mr. Cormie, if I
15 could assist you --

16 MR. DAVID CORMIE: Yes, I see the problem
17 is in the very first line, it talks about purchases are
18 made to serve firm exports. And I've been made aware
19 that that 16,300 is the sum of all the imports on the
20 table of PUB/MH 1-22. So I stand corrected.

21 MR. BYRON WILLIAMS: And so just so I
22 understand this and I'm not -- I'm trying to get clarity
23 just for my witness for his closing.

24 When we looking at this figure, 16,300 it
25 doesn't refer to all purchases, it refers to imports,

1 correct?

2 MR. DAVID CORMIE: I believe that's
3 correct, yes.

4 MR. BYRON WILLIAMS: And if we were
5 looking at the figure for all purchases, in terms of
6 gigawatt hours we would have to add in the 3000 gigawatt
7 hours for the 03/04 drought year, would that be right,
8 that were purchased and not delivered in Manitoba?

9 MR. DAVID CORMIE: That's correct.

10 MR. BYRON WILLIAMS: And what -- we would
11 -- we might have to also add in some small amount for
12 2004/05 in terms of, again, purchases that are not
13 imports; correct?

14 MR. DAVID CORMIE: Yes, subject to check.

15

16 (BRIEF PAUSE)

17

18 MR. BYRON WILLIAMS: Just moving on in
19 this same paragraph, you can see that lines 19 through 22
20 Hydro is arguing that over the past ten (10) years as
21 much as 60 percent of the purchased power costs were
22 incurred to serve domestic load and firm exports; do you
23 see that, sir?

24 MR. DAVID CORMIE: I see that, yes.

25 MR. BYRON WILLIAMS: And as I understand

1 that calculation, that calculation would essentially be
2 taking the 10,000 Gigawatt hours purchased during the
3 drought periods of 02/04 and dividing it for import for
4 that period and divide it by the 16,300 Gigawatt energy;
5 is that correct?

6 MR. DAVID CORMIE: That's correct.

7 MR. BYRON WILLIAMS: And if just for
8 greater clarity, the language you used in -- in -- on
9 line 22 says "purchased power costs". What Hydro's
10 really saying here, I think, but you're actually doing a
11 calculation solely on -- on imports; is that right?

12 And what I'm trying to say is that it's
13 excluding the 3,000 Gigawatt hours that were used -- that
14 were purchased in 03/04 but not delivered?

15

16 (BRIEF PAUSE)

17

18 MR. DAVID CORMIE: Yes. The 16 percent
19 is -- is based on the ratio of energy rather than the
20 costs.

21 MR. BYRON WILLIAMS: Yeah. And my
22 question was very inarticulate. What I'm trying to get
23 at is your -- so it's the ratio of energy, I understand
24 that. In terms of the ratio of energy, though, you're
25 only using the ratio of imports in the drought year

1 versus -- versus the total amount of imports over that
2 period; correct?

3 MR. DAVID CORMIE: That's correct. Yeah.

4 MR. BYRON WILLIAMS: And so this
5 calculation doesn't make any reference to the -- the
6 3,000 Gigawatt hours in 03/04 that are not imports but
7 which were purchases?

8 MR. DAVID CORMIE: That's correct. Yeah.

9 MR. BYRON WILLIAMS: And so to the extent
10 that I wanted to use a calculation to get a sense of how
11 much of my total imports as well as purchases that are
12 not delivered over the last decade were being used to
13 serve domestic load and firm exports; would I also have
14 to include the 3,000 Gigawatt hours or more from
15 purchases not delivered?

16 MR. DAVID CORMIE: Could you repeat that?

17 MR. BYRON WILLIAMS: I'm not sure but the
18 -- let me put it this way, the inference I drew from this
19 -- this paragraph was that about 60 percent of purchases
20 were for -- to serve domestic load or firm exports. But
21 I think we've agreed that that -- the inference for 60
22 percent refers only to imports.

23 So what I'm suggesting to you is if we're
24 trying to get the -- the percentage of purchases that are
25 serving domestic load and firm exports we'd also have to

1 take into account the 3,000 Gigawatt hours that are used
2 -- that are -- that were -- that were bought in 03/04 but
3 which are not imports; is that correct?

4 MR. DAVID CORMIE: I would suggest that
5 it's more appropriate just to use the dollars and not to
6 do the energy in calculating that ratio.

7 MR. BYRON WILLIAMS: That's fair enough.
8 Except that you used the energy in this rate -- in this
9 calculation; didn't you?

10 MR. DAVID CORMIE: Line 22 refers to the
11 cost.

12 MR. BYRON WILLIAMS: So has Manitoba
13 Hydro actually done the calculation of the -- the costs
14 over this ten (10) year period?

15 MR. DAVID CORMIE: No, we haven't.

16 MR. BYRON WILLIAMS: So perhaps we could
17 -- we could do that if -- would Manitoba Hydro be able to
18 do that calculation, looking at the -- the percentage of
19 costs incurred to serve domestic load and for firm
20 exports over the -- from 1995/96 through 04/05?

21

22 (BRIEF PAUSE)

23

24 MR. DAVID CORMIE: We can do that
25 calculation, Mr. Williams.

1 --- UNDERTAKING NO. 21: Manitoba Hydro to do a
2 calculation, re: the percentage of
3 costs incurred to serve domestic load
4 and for firm exports from 1995/96
5 through 04/05?
6

7 CONTINUED BY MR. BYRON WILLIAMS:

8 MR. BYRON WILLIAMS: And that
9 calculation, just so I'm clear, would include the costs
10 associated with imports plus the costs associated with
11 the -- the non-delivered purchases; correct?

12 MR. DAVID CORMIE: We can do that
13 calculation.
14

15 (BRIEF PAUSE)
16

17 MR. ROBERT MAYER: I think somebody
18 better use the word "undertaking."
19

20 (BRIEF PAUSE)
21

22 CONTINUED BY MR. BYRON WILLIAMS:

23 MR. BYRON WILLIAMS: Just to -- to follow
24 up, Mr. Cormie, I'm not even sure if it's you or maybe --
25 perhaps I'm heading into Mr. Weins' territory.

1 But, as I understand it, purchased
2 power -- and we've covered this but I just want to sum up
3 because I've gone through some tedious calculations with
4 you -- during non-drought periods purchased power is used
5 either for economic purposes primarily, either for
6 arbitrage -- actually, we've clarified that though,
7 haven't we? So I'm not going to walk down that path
8 because it would be too confusing.

9

10 (BRIEF PAUSE)

11

12 MR. BYRON WILLIAMS: Perhaps I'll put
13 this question to Mr. Weins and you can assist me on this.

14 When -- when we're looking at the
15 assignment of 100 percent of -- of purchases to -- to
16 exports, I'd suggest to you that this -- I'd suggest to
17 you that that doesn't reflect the fact that purchases in
18 low water conditions are primarily to support or -- or
19 are to a large degree to support domestic purposes; would
20 that be fair?

21 MR. ROBIN WIENS: Yeah, that would be
22 fair. That's -- that's what the table in fact in PUB-22
23 -- I 22-C shows.

24 MR. BYRON WILLIAMS: So when I look at
25 the -- when I'm trying to come to principle basis for the

1 assignment of 100 percent of purchases to exports, would
2 I be assuming that you're doing that based upon the
3 principle that during median flow years purchases are
4 primarily to support exports?

5 MR. ROBIN WIENS: I think that would be
6 fair to say.

7 MR. BYRON WILLIAMS: And so that
8 assignment of 100 percent of purchases to exports, one
9 might argue, doesn't reflect the circumstance in drought
10 year; would that be fair?

11 MR. ROBIN WIENS: I think that would be
12 fair to say. I think we probably mentioned this earlier,
13 that if we were to -- if we wanted to try to fully
14 reflect all those factors, we -- we would actually have
15 to undertake some eighty-six (86) cost of service
16 studies, reflecting all the water conditions and then
17 average the results of those studies rather than taking a
18 median flow year to do the study.

19 MR. BYRON WILLIAMS: Would you accept the
20 suggestion that that may result in an over assignment of
21 purchase costs to exports, for the purposes of cost
22 allocation?

23 MR. ROBIN WIENS: You mean simply taking
24 a median year?

25 MR. BYRON WILLIAMS: Sorry. Well, I'm

1 suggesting to you that 100 percent assignment of the
2 costs of purchases to export over-allocates the costs of
3 purchases to exports because it doesn't reflect the
4 experience of Manitoba Hydro in the past ten (10) years
5 and it doesn't reflect, in particular, your experience in
6 drought years.

7 MR. ROBIN WIENS: That would be correct.

8 MR. ROBERT MAYER: I'm confused. We're
9 talking 100 percent of costs of purchases assigned. And
10 I'm looking at line 27 of Hydro's rebuttal and it's
11 talking 46 percent, 41 percent and 13 percent. Have I
12 missed something here?

13 MR. ROBIN WIENS: I think probably Mr.
14 Williams was referring to the current method rather than
15 the recommended method. In the current method we offset
16 all of the import costs against exports.

17

18 CONTINUED BY MR. BYRON WILLIAMS:

19 MR. BYRON WILLIAMS: I just have a --
20 thank you Mr. Wiens. I just have a bit of clean up on
21 the -- I believe it's undertaking 20, has that been
22 handed out Ms. Ramage?

23

24 (BRIEF PAUSE)

25

1 MR. BYRON WILLIAMS: It's not number
2 undertaking 20, but it's Manitoba Hydro Exhibit 20, which
3 was this -- this series of questions. I'm not sure if
4 the Board has that in front of them.

5 MS. PATTI RAMAGE: I believe it's been
6 handed out. No, I'm getting -- Dr. Avery-Kinew is
7 shaking her head.

8 MR. BYRON WILLIAMS: Mr. Chairman, I only
9 have probably fifteen (15) minutes of questions. I could
10 either step down very briefly to let it be distributed,
11 or whatever pleases the Board?

12 THE CHAIRPERSON: Okay. Well, Mr. Barron
13 is going to distribute it right now.

14 MS. PATTI RAMAGE: Mr. Barron, I think
15 they've gone to everyone in the room, except for the
16 Board.

17

18 (BRIEF PAUSE)

19

20 MS. PATTI RAMAGE: And while Mr. Barron
21 is handing that out, I would just indicate that I was
22 close in that this entire Exhibit exists -- is -- there
23 was an eight (8) page document, a thirty (30) page
24 stapled document and then finally a one (1) page which is
25 numbered as CAC 3.2.3.

1 And so perhaps to back up the first -- in
2 numerical order begins at -- and this is CAC's numbering
3 system, not my own, it is CAC 1.2.3. The second group of
4 documents begin at 1.9.3.2. And that's the thirty (30)
5 pages. And the last is the one (1) page that's 3.2.3.

6 MR. BYRON WILLIAMS: Could I perhaps get
7 a copy in the same version that you have from Ms.
8 Fernandes so that I can assist -- so that the Board and I
9 are working through it in the same order.

10 THE CHAIRPERSON: And the proposal is to
11 aggregate these three (3) and call them all MH-20?

12 MS. PATTI RAMAGE: That's correct.

13 THE CHAIRPERSON: Thank you.

14

15 (BRIEF PAUSE)

16

17 MR. ROBERT MAYER: If this is in
18 different format Mr. Williams, do you need some time to
19 adjust your questions to the new format?

20 MR. BYRON WILLIAMS: It's just that I'm
21 working off the same pages in the order that it will
22 appear so hopefully it will not take too much time to
23 organize.

24

25 CONTINUED BY MR. BYRON WILLIAMS:

1 MR. BYRON WILLIAMS: Especially because
2 the first document I want to refer you to is the very
3 first on that appears before you, which is the response
4 to CAC 1.2.3. The weird numbering, these are the
5 questions that we were going to do in cross-examination
6 and weren't posed.

7 I want to address your attention to page 2
8 of that response, sub (b), and my understanding that is
9 when we're looking at -- this table was seeking to get
10 the value to determine the value by which SEP rates were
11 set and that SEP rates can be set either by the fact that
12 they displace export sales or require energy purchases or
13 additional generation in Manitoba, is that right?

14 MR. DAVID CORMIE: That's correct.

15 MR. BYRON WILLIAMS: And if I turn to the
16 attachment to this response, which is appearing on page 3
17 of 8 of this response, I'll see what you've done is
18 indicated the source for the pricing for surplus energy
19 prices under three (3) headings. One (1) being imports,
20 one (1) being exports and one (1) being Manitoba Hydro
21 generation, is that right?

22 MR. DAVID CORMIE: That's correct.

23 MR. BYRON WILLIAMS: And so what this
24 table attempts to do is to capture, on a weekly basis,
25 the degree to which SEP prices reflected export prices,

1 imports or Manitoba Hydro generation; is that correct?

2 MR. DAVID CORMIE: It -- it -- it's not
3 intended to reflect the prices. It's intended to reflect
4 the accuracy of the supply source.

5 MR. BYRON WILLIAMS: And what it's
6 telling us is the degree to which the prices that flow
7 from SEP reflect export -- prices in the export market or
8 reflect purchases imported to Manitoba or reflect the
9 replacement costs in Manitoba Hydro generation; is that
10 right?

11 MR. DAVID CORMIE: Again, it reflects
12 this -- the -- the source not the price.

13 MR. BYRON WILLIAMS: Excuse me, the
14 source. And when I -- when I see -- when I go to the
15 response to this (b) page 2, it -- it indicates that
16 imports and Manitoba Hydro generation sources were used
17 to serve SEP customers 41 percent of the time; is that
18 right?

19 MR. DAVID CORMIE: That's correct.

20 MR. BYRON WILLIAMS: And if I do the math
21 correctly that would mean that the export market sets SEP
22 prices about 59 percent of the time; would that be
23 correct?

24 MR. DAVID CORMIE: That's correct.

25 MR. BYRON WILLIAMS: When I go through

1 this table which is set out as the attachment to this
2 response, would I be correct in setting -- drawing the
3 conclusion that the SEP prices over the -- the period
4 indicated were never set as a reflection of Manitoba
5 Hydro generation; would that be correct?

6

7 (BRIEF PAUSE)

8

9 MR. DAVID CORMIE: That -- that's correct
10 and it's indicated at the bottom of page 8 where the
11 overall averages are shown.

12 MR. BYRON WILLIAMS: Now, Mr. Cormie,
13 I'll -- when one -- when one looks at this information in
14 terms of the -- essentially what it's telling us is that
15 about 51 percent of the time the -- the source used to
16 serve SEP was imports and about 59 percent of the time it
17 was the export; is that right?

18 MR. DAVID CORMIE: That's correct.

19 MR. BYRON WILLIAMS: And the large
20 percentage of imports would, to a high degree, be
21 reflective of the drought year periods when -- when there
22 -- really; is that correct as well?

23 MR. DAVID CORMIE: Could you repeat that?

24 MR. BYRON WILLIAMS: If we're trying to
25 understand why imports are such a high percentage, we

1 turn to the drought years where imports were a much
2 higher percentage than in other years; would that be
3 right?

4 MR. DAVID CORMIE: I -- I think the
5 reason is because we have some very low cost generation
6 or hydro and we have some very high cost generation which
7 is our natural gas-fired units. So our natural gas-fired
8 units are rarely competitive with market prices. And our
9 hydro is very rarely close to being valued at market.

10 So market is always -- almost always is
11 the marginal source of energy. I think that's the
12 reason. It's not the reason of -- of drought.

13 MR. BYRON WILLIAMS: And whether it's --
14 whether it's imports or whether it's the exports column,
15 that's reflective of market prices not -- is that
16 correct?

17 MR. DAVID CORMIE: Yes, I think so. Yes.

18 MR. BYRON WILLIAMS: Just a couple of
19 final follow ups. And buried in -- in these responses --
20 you know, Mr. Chairman, I probably have two (2) minutes
21 of questions but it will take me a couple of pages to
22 find the references in the material before you. So if we
23 could stand down?

24 Thanks for your advice before, Mr. Vice
25 Chair.

1 (BRIEF PAUSE)

2

3 MR. BYRON WILLIAMS: On page 28 of 30
4 you'll see that the -- the question posed essentially was
5 whether -- we asked where transmission service was
6 included in the -- in the costs. And you see the
7 response states it's transmission service revenues are
8 used as an offset to transmission service costs in the
9 PCOSS with the -- the net allocated in a certain way.

10 By "transmission service costs" do you
11 mean the costs of Manitoba Hydro transmission or the
12 costs of purchasing transmission service from MISO?

13 MR. CHIC THOMAS: It's the latter, Mr.
14 Williams.

15 MR. BYRON WILLIAMS: By the latter;
16 that's the costs of purchasing transmission services from
17 MISO?

18 MR. CHIC THOMAS: Correct.

19 MR. BYRON WILLIAMS: And the last
20 question is the response to 1.12.3.2, amazing numbering,
21 which appears at page 21 of 30 -- page 20 of 30, excuse
22 me.

23 MS. PATTI RAMAGE: Mr. Williams you said
24 -- just I have that as 20 is 1.12.3.1, just to clarify.

25 MR. BYRON WILLIAMS: Yes, and I don't

1 actually seem to have a 1.12.3.2. here. That page seems
2 to be missing. Perhaps, Mr. Chair, I have one (1)
3 question but perhaps I'll ask it after the break. I'll
4 just try and find it in here and I apologize for the
5 confusion.

6 THE CHAIRPERSON: It's no problem. Ms.
7 McCaffrey, could you begin and then we'll have the break
8 after twenty (20) minutes or so. Thank you.

9

10 (BRIEF PAUSE)

11

12 THE CHAIRPERSON: Mr. Williams, how about
13 we return to you just before we go to Mr. Anderson?

14 Ms. McCaffrey...?

15 MS. TAMARA MCCAFFREY: Thank you and good
16 morning. Since we have Mr. Cormie with us this morning
17 I'll -- I'll start my chat with you, sir, if you don't
18 mind.

19

20 CROSS-EXAMINATION BY MS. TAMARA MCCAFFREY:

21 MS. TAMARA MCCAFFREY: We've heard the
22 phrase "fundamental change" being tossed around quite a
23 bit in this hearing and I'd like to explore with you in
24 some detail what's changed and what hasn't.

25 We've focussed on change in the price of

1 exports that have been increasing since 1996 but also,
2 Mr. Cormie, would you agree that as a result of those
3 export price increases Hydro is back in development mode
4 which it -- which it wasn't really in in 1996 -- or Mr.
5 Warden?

6 MR. VINCE WARDEN: We are contemplating
7 new development. I wouldn't necessarily express that as
8 being "in development mode". But there are projects on
9 the horizon, yes.

10 MS. TAMARA MCCAFFREY: It's a -- it's a -
11 - they're on the horizon now but they weren't perhaps in
12 1996 is that I'm getting at. There's more development
13 being contemplated now by Hydro than there were ten (10)
14 years ago as a result in part of -- well, I think largely
15 because of the increases in the export market; do you
16 agree?

17 MR. DAVID CORMIE: I don't think that's
18 changed. For example, we were prepared to build Conawapa
19 to support the export sale of 1,000 Megawatts to Ontario
20 in the early 1990's. We're prepared to build new
21 generation today for the export market. I don't think
22 that strategy has changed.

23 MS. TAMARA MCCAFFREY: Well, you're
24 looking now at -- at new northern hydro like Conawapa and
25 Wuskwatim and that's, as I understand it, driven by the

1 increase in the export market. So maybe it was something
2 you were considering in the early 1990's. The export
3 market just wasn't supporting it then, was it Mr. Cormie?
4 Didn't really justify it back then?

5 MR. DAVID CORMIE: No --

6 MR. ROBERT MAYER: Ms. McCaffrey, they
7 started to build Conawapa.

8 MR. DAVID CORMIE: We had a business case
9 to sell to Ontario and we still need a business case to
10 build merchant plants. The prices are more attractive
11 but we had an attractive market at that time given our --
12 given our cost of generation.

13

14 CONTINUED BY MS. TAMARA MCCAFFREY:

15 MS. TAMARA MCCAFFREY: And would you
16 agree then that the market now is getting more attractive
17 over time?

18 MR. DAVID CORMIE: I would agree, yes.

19 MS. TAMARA MCCAFFREY: You're also
20 looking at wind development in the south, as I understand
21 it?

22 MR. DAVID CORMIE: Manitoba Hydro is not
23 -- will not be the developer per se, but we will -- we
24 are -- have purchased wind power from independent power
25 producers, yes.

1 MS. TAMARA MCCAFFREY: And what about DSM
2 programming is that expanding as well?

3 MR. DAVID CORMIE: Yes, there's been
4 significant expansion of our demand side management
5 program.

6 MS. TAMARA MCCAFFREY: And is Manitoba
7 Hydro now more actively pursuing SSE's like rerunning
8 projects at Kelsey for example and --

9 MR. DAVID CORMIE: Yes, those types of
10 projects are -- are more economic now because they
11 generally generate interruptible energy and the
12 opportunity market is stronger than it was previously.
13 And so those types of projects that produce additional
14 energy above our dependable energy are now more
15 attractive. And so there are more of those projects that
16 are being undertaken.

17 MS. TAMARA MCCAFFREY: Thank you Mr.
18 Cormie. Now, would you agree that increases in the
19 export prices have been particularly focussed on on-peak
20 times? Prices in on-peak are the ones that have really
21 increased? Am I right in my understanding?

22 MR. DAVID CORMIE: There have been much
23 larger on-peak price increases than off-peak, yes.

24 MS. TAMARA MCCAFFREY: Is it also true
25 that at those on-peak times, such as on a hot summer day,

1 Hydro would seek to export all the power it can in order
2 to maximize revenues?

3 MR. DAVID CORMIE: That's true, but we
4 try and maximize whether it's on-peak or off-peak.
5 Whenever we can make margin we do.

6 MS. TAMARA MCCAFFREY: And the better
7 margin is during the on-peak times, is that right?

8 MR. DAVID CORMIE: Absolutely.

9 MS. TAMARA MCCAFFREY: Now, does this
10 lead to tie line constraints on the export side, how does
11 it impact them?

12 MR. DAVID CORMIE: The tie line
13 constraints occur during the summer season when the
14 Manitoba load demand is much lower than it is in the
15 wintertime. And so there is more surplus power available
16 in Manitoba that can be taken to market. And at times,
17 that surplus can exceed the capacity of our
18 interconnections. And so tie lines constrain our ability
19 to export.

20 MS. TAMARA MCCAFFREY: And what follows
21 from that then is that without having additional tie
22 lines, Hydro can't really take any more advantage of the
23 really peak prices than it's already doing? You need
24 more -- you only have so much room on the tie lines, so
25 without building more tie lines you can only make so many

1 sales, is that right?

2 MR. DAVID CORMIE: What happens is that
3 over time the Manitoba load grows, so the amount of
4 surplus that Manitoba Hydro has diminishes. And we have
5 a fixed transmission line capability. So over time tie
6 line constraints become less of a problem rather than
7 more of a problem.

8 And tie line constraints are usually most
9 severe when we build new generation and bring new
10 generation -- at that point we have a large increase in
11 surplus power at times of year. And -- for example, if
12 we were to bring Conawapa on line today, we wouldn't have
13 sufficient tie line capacity to export all the capacity
14 from Conawapa.

15 But over time the Manitoba load would grow
16 and Conawapa would be absorbed and tie line constraints
17 would become less of an issue over time.

18 MS. TAMARA MCCAFFREY: That's very
19 helpful, Mr. Cormie.

20

21 (BRIEF PAUSE)

22

23 MR. ROBERT MAYER: So, Mr. Cormie, so
24 when I heard at another place that Manitoba Hydro can
25 sell all the energy it was producing, and I'm coming out

1 of the hearings on Wuskwatim, that's not correct then, is
2 it, because you can't sell all the power you -- you
3 couldn't sell -- assuming the development of Conawapa you
4 could not -- sorry, of Wuskwatim, you could not sell all
5 the surplus power you could produce; is that correct?

6 MR. DAVID CORMIE: I believe it is
7 correct, that we can sell all the power. We may not be
8 able to sell it in -- in the on-peak period but the
9 energy could be sold in the off-peak period.

10 And -- and by the time Wuskwatim comes
11 into service in 2012 there will be several hundred more
12 megawatts of Manitoba load that needs to be served. And
13 -- and so that, in effect, there's less surplus and more
14 room on the transmission line.

15 So I -- I believe that is correct.

16

17 CONTINUED BY MS. TAMARA MCCAFFREY:

18 MS. TAMARA MCCAFFREY: Now, domestic load
19 has been growing; is that right?

20 MR. DAVID CORMIE: That's correct.

21 MS. TAMARA MCCAFFREY: Now, Hydro has
22 been able to sustain its level of exports by pursuing
23 other supplies, and that's some of the things we adverted
24 to a moment or two (2) ago, systems planned enhancements,
25 wind, DSM, extending the life of thermal plants,

1 increased imports, all these things are -- are things
2 that Manitoba Hydro has taken advantage of in order to
3 support its export market; am I correct in that, sir?

4 MR. DAVID CORMIE: To -- to the extent
5 that those activities are economic, we do those, yes.

6 MS. TAMARA MCCAFFREY: And in terms of
7 the economics of whether you do them, you would agree
8 with me, sir, that some of these are not exactly low
9 cost, for example, wind; is that right?

10 MR. DAVID CORMIE: Wind is a very
11 expensive supply source for electricity.

12 MS. TAMARA MCCAFFREY: And, again, the
13 economics of these projects are judged based on prices
14 that are also generally higher than the embedded or
15 average bulk power costs. It would need to be so,
16 wouldn't it, in order to justify the business case?

17 MR. DAVID CORMIE: Some of the projects
18 are -- are very economic because you're not starting from
19 scratch. You're -- you're making incremental
20 improvements in the generating station. For example,
21 like Kelsey we -- we would put runners in, new -- new
22 turbine runners.

23 And -- and so you don't have to build all
24 the infrastructure. So it's not necessarily true that
25 the costs of incremental upgrades are higher than

1 embedded costs. They could be lower than embedded costs.

2 New generation, for example Wuskwatim, the
3 costs there are probably going to be higher than embedded
4 costs. So they could be higher or lower but depending on
5 whether, you know, which costs -- whether you're
6 incurring complete costs or just incremental costs.

7 MS. TAMARA MCCAFFREY: With respect to
8 Kelsey, for example, that's -- is that being developed or
9 rerunnered -- enhanced for the purpose of opportunity
10 exports?

11 MR. HAROLD SURMINSKI: We do an
12 assessment of program, like the system efficiency
13 improvement for -- for Kelsey based on the business case
14 which -- which considers all possible flow conditions.
15 And in the process, opportunity energy comes in and firm
16 energy, if there is any.

17 In -- in that plant there really wasn't
18 any but I would say opportunity energy is a big part of
19 the justification.

20 MS. TAMARA MCCAFFREY: You've talked a
21 little bit about MISO in Ontario. These are situations
22 where you have a committed supply obligation to the
23 export market; is that right?

24 MR. DAVID CORMIE: The MISO markets are -
25 - we have no contracts with the markets themselves. We

1 do have contracts with certain customers.

2 MS. TAMARA MCCAFFREY: That's a better
3 way of putting it.

4 MR. DAVID CORMIE: Yeah. And -- and if
5 we have energy that is available for sale that's not sold
6 under a contract, we have the option of taking it to --
7 just to the market and selling it at the market clearing
8 price, both in Ontario and the United States.

9 In -- in -- prior to the Ontario market
10 developments and the MISO market developments we always
11 had to find a customer. We needed to find somebody who
12 was willing to buy our power. Now that there's a market
13 there the market will take our power. We get to -- we
14 have the -- we have -- a market player we can just sell
15 it and they can't -- they don't -- they don't have the
16 choice of refusing us.

17 If our price is competitive they will
18 purchase it.

19 MS. TAMARA MCCAFFREY: Is that a firm
20 export?

21 MR. DAVID CORMIE: No. Those are --
22 those are opportunity exports and -- and the market --
23 those market sales are essentially real time sales that
24 occur either a day ahead or in real time.

25 MS. TAMARA MCCAFFREY: And with respect

1 to the firm exports, these are contracts that you have
2 for a specific amount of power -- carry on?

3 MR. DAVID CORMIE: Yes. Firm exports can
4 be sold from our dependable capability or they can be
5 sold in the short-term forward markets, either a month in
6 advance, a year in -- you know, up to a year in advance.
7 But they are not necessarily out of our dependable
8 capability. They can be -- you know, if we have a high
9 water year like this year or last year we would enter
10 into the forward markets and sell power under -- firm
11 power under contract. All firm power is not necessarily
12 sold under our -- from our dependable portfolio.

13 It can be sold from our opportunity
14 portfolio. And -- and those contracts are always bi-
15 lateral contracts. They're between Manitoba Hydro and a
16 specific customer.

17 MS. TAMARA MCCAFFREY: Now, instead of
18 supplying a firm export with your power you can buy power
19 also in MISO to supply the firm contract as well; is that
20 -- is that one of the ways you can get power?

21 MR. DAVID CORMIE: Yes. In -- in
22 calculating whether we have a surplus available we -- we
23 look at all our -- our supply sources. And one supply
24 source could be our combustion turbines at Brandon that
25 are very expensive.

1 When it actually comes to making the
2 decision on which generator to turn on we find that we
3 can go to the market and buy the power cheaper in the
4 market than from our gas turbines. And so the gas
5 turbines are there as a back stop but it's generally or
6 almost -- almost in all circumstances less expensive to
7 purchase the power from the marketplace to serve our sale
8 than to generate it using our combustion turbines.

9 But, you know, about 3 percent of the time
10 -- 3 percent of the hours in a year the combustion
11 turbines do run just to -- to serve -- to serve load. So
12 it's -- it's not never but just it's very infrequent.

13 MS. TAMARA MCCAFFREY: So as I understand
14 it sometimes you purchase power, say, for example,
15 through MISO when it's cheaper to do so than what you can
16 sell it for and when you -- when you do that it frees up
17 some of Manitoba Hydro's own power that they can then
18 sell, for example, to Ontario on an opportunity basis; is
19 that -- am I understanding it?

20 MR. DAVID CORMIE: That's pretty close.

21 MS. TAMARA MCCAFFREY: Help me out.

22 MR. DAVID CORMIE: We don't -- we don't
23 buy and sell at the same time into the same market. Like
24 you can buy and sell in arbitrage from a single market.
25 But we have an -- let's say we have an obligation to sell

1 to a customer in the United States.

2 So -- but we realize that we can probably
3 buy the power in the United States to serve the sale and
4 -- and then take the power that's freed up in Manitoba
5 and sell it into the Ontario market and -- and make more
6 margin doing it that way than just to sell directly into
7 the United States and serve this US sale with Manitoba
8 Hydro generation.

9 MS. TAMARA MCCAFFREY: What would that
10 margin be? Like, how big a spread would you -- would you
11 have between Ontario, for example, and what you could
12 purchase on MISO to just -- to justify doing this?

13 Do you -- do you have an idea?

14 MR. DAVID CORMIE: The margins can be
15 huge. The MISO clearing price could be sixty dollars
16 (\$60) and the Ontario price could be a hundred and sixty
17 dollar (\$160).

18 MS. TAMARA MCCAFFREY: I wonder if you --
19 if you know what it might be in a -- we've been talking a
20 lot about unit value in this hearing, and cents per
21 kilowatt hour; do you have an idea of what -- what the
22 spread would be; the margin? Or maybe --

23 MR. DAVID CORMIE: I don't have the
24 average numbers. But in -- in -- in cents per kilowatt
25 hour a hundred dollar (\$100) is a -- a hundred dollar

1 (\$100) a megawatt spread is like a ten (10) cent a
2 kilowatt hour spread.

3 And the thing is that we don't enter into
4 any -- any forward transactions that obligate us to make
5 these sales. We just, as the market develops and the
6 prices are there we take advantage of these spot market
7 opportunities and -- and whatever they are and as I
8 mentioned to Mr. Lane earlier, we enter into those
9 transactions and 99 percent of the time we capture those
10 -- those -- those differentials.

11 MS. TAMARA MCCAFFREY: I'm wondering if
12 it -- if you would be able to -- to give us just
13 something a little more concrete in terms of the -- of a
14 kilowatt hour breakdown as to what -- what that pricing
15 would have to be, for example, in Ontario to justify
16 buying it in -- in MISO?

17 Like how -- how high it would have to be.
18 I'm trying to -- to look at basically what the -- what
19 the cost of the power is versus what you're getting and
20 we're using the Ontario example just to see what kind of
21 spread you'd need to justify the business case to do
22 that?

23 MR. DAVID CORMIE: We have pretty sharp
24 pencils and if there's a spread to be captured we're in
25 there whether it's a one (1) cent a kilowatt hour or a

1 ten (10) cent a kilowatt hour spread. We'll try and
2 capture those.

3 MS. TAMARA MCCAFFREY: Okay, so it
4 doesn't necessarily have to be a big spread. It could be
5 something as small as one (1) cent per kilowatt hour?

6 MR. DAVID CORMIE: Yes. If we're
7 confident that we can capture that spread, just a one (1)
8 cent a kilowatt which is a ten dollar (\$10) a megawatt
9 hour spread we will -- we will -- we will make those two
10 (2) transactions.

11 MS. TAMARA MCCAFFREY: So -- because they
12 would be profitable whether it's a smaller profit or a
13 larger profit as long as it's on the right side of the
14 ledger?

15 MR. DAVID CORMIE: That's correct.

16 MS. TAMARA MCCAFFREY: So you would agree
17 then that these types of transactions can -- can be high
18 priced to serve, though, that sometimes the spread's not
19 that high? It may be as small as one (1) cent per
20 kilowatt hour?

21 MR. DAVID CORMIE: Margin is margin.

22 THE CHAIRPERSON: You're saying, Mr.
23 Cormie, you have the staff and there's -- you know what
24 the sale price is and the purchase price is so it's all
25 incremental gain when you can get it?

1 MR. DAVID CORMIE: Yes. We -- we operate
2 a twenty-four (24) hour a day power trading office and we
3 have staff there continuously who are in these markets
4 who monitor the prices, watch them and we participate
5 very actively and in -- as you -- as you mentioned
6 before, these aren't speculative transactions.

7 These are -- are -- these transactions are
8 entered into by highly skilled and trained staff and --
9 and we do judge there is some risk there and there has to
10 be -- there has to be enough margin to justify the risk
11 and the transaction costs. We're not going to do it for
12 -- for nothing.

13 So but -- but we're constantly buying and
14 selling electricity to maximize the value of Manitoba
15 Hydro's assets.

16

17 CONTINUED BY MS. TAMARA MCCAFFREY:

18 MS. TAMARA MCCAFFREY: But would you
19 agree with me then, sir, that some of these opportunity
20 sales are -- are also high costs to deal with it? Albeit
21 the margin is there; a margin is a margin, but they're
22 not necessarily low cost power; would you agree with
23 that?

24 MR. DAVID CORMIE: Yes. We -- we -- you
25 know, we may have to purchase some expensive power in

1 order to -- in order to -- to make the offsetting sale
2 and -- and so there are significant costs and I -- as I
3 mentioned to Mr. Williams earlier that you'll see some
4 significant purchase costs on Manitoba Hydro's statements
5 last year and this year and -- and -- and we had record
6 high water levels last year.

7 So it's not an energy issue. It's --
8 there are other opportunities that -- that come along
9 that -- that in spite of our high water conditions we
10 purchased power in order to resell it and capture the
11 difference between the two market prices.

12 MS. TAMARA MCCAFFREY: Thank you very
13 much. I might just have a couple of questions for Mr.
14 Warden before we stand down. I can do this in just a
15 couple of minutes.

16 Mr. Warden, I was a little confused, I
17 think, last week when we talked about reserves and
18 provisions. You remember that conversation; we talked
19 about thermal decommissioning provisions and I was asking
20 you questions about -- about that?

21 MR. VINCE WARDEN: Maybe you could remind
22 me.

23 MS. TAMARA MCCAFFREY: Well, I'm hurt
24 that it's not emblazoned on your memory. Maybe that's a
25 good thing. Let's try again then.

1 Manitoba Hydro has thermal decommissioning
2 provisions, for example; is that right?

3 MR. VINCE WARDEN: We do. Yes.

4 MS. TAMARA MCCAFFREY: And I think, to
5 remind you, sir, we had a discussion and I think the
6 point you were trying to make is that thermal
7 commissioning provisions, they're not funds, it's not a
8 pot of money sitting there in the bank, waiting until
9 it's time to take a -- a plant down; is that right?

10 MR. VINCE WARDEN: That's correct.

11 MS. TAMARA MCCAFFREY: And that would
12 differ from a sinking fund, for example, where there's a
13 real external investment, cash or otherwise, underlying
14 the item on the balance sheet; is that right, sir?

15 MR. VINCE WARDEN: Right.

16 MS. TAMARA MCCAFFREY: It's also
17 different than a trust where there's funds that an entity
18 maintains on behalf of a third party; correct?

19 MR. VINCE WARDEN: Correct.

20 MS. TAMARA MCCAFFREY: But these -- in
21 accounting language though, these provisions, like a
22 thermal decommissioning provision, provide a place to
23 charge one (1) time future payments, in this case those
24 required to take down thermal plants, so as not to
25 adversely impact net income in that year.

1 MR. VINCE WARDEN: You have that right,
2 yes.

3 MS. TAMARA MCCAFFREY: Now, if someone
4 was to think about some form of self-insurance reserve to
5 deal with exposure to certain types of risks, one way
6 could be through building up a higher equity as you do
7 now for -- for drought; is that right?

8 MR. VINCE WARDEN: That's right.

9 MS. TAMARA MCCAFFREY: And, in fact, this
10 is Hydro's preferred way to deal with developing risk-
11 related reserves; am I -- am I right in that?

12 MR. VINCE WARDEN: For -- for certain
13 risks, yes.

14 MS. TAMARA MCCAFFREY: For certain risks.
15 Do you want to elaborate on that?

16 MR. VINCE WARDEN: Well, the example you
17 used is drought. There are other major risks the
18 Corporation faces, like, for example, the loss of export
19 markets is a major risk that we -- we face and we self-
20 insure for.

21 We have infrastructure risks that we also
22 need sufficient reserves or -- or retained earnings to
23 provide for.

24 MS. TAMARA MCCAFFREY: And -- and with
25 respect to these risks also, what you look at again is

1 your -- is your equity, debt equity ratio; is that what--

2 MR. VINCE WARDEN: For -- for the risks I
3 just referenced, yes, we look at equity.

4 MS. TAMARA MCCAFFREY: Another way might
5 be through developing new provisions analogous to a
6 thermal decommissioning provision. In other words, start
7 creating a new expense on the income statement to build
8 up a provision that can be drawn down when required.

9 Is that another way that -- that could be
10 looked at?

11 MR. VINCE WARDEN: Well, that could be
12 done. It's not one that I would advocate but that could
13 be done, yes.

14 MS. TAMARA MCCAFFREY: Is it one that
15 you'd consider?

16 MR. VINCE WARDEN: Well, no. Not
17 seriously because it -- it would in effect be taking
18 money from our customers twice.

19 We have a depreciation expense, which is
20 to recover the cost of assets over their useful life.
21 That's charged against operations in the current year.
22 To have yet another charge on our operating statement
23 would in effect be doubling up on depreciation expense
24 and taking monies away from ratepayers prematurely.

25 MS. TAMARA MCCAFFREY: So the first part

1 of your answer was that you hadn't really considered it.

2 MR. VINCE WARDEN: Well, I think I just
3 answered why it's not appropriate to consider that.

4 MS. TAMARA MCCAFFREY: Yes, I have your
5 answer. I'm just -- in terms of how much consideration
6 you've given to it though, I -- I think that you said,
7 sir, that you hadn't actually considered that before.

8 I appreciate your -- you've considered it
9 briefly and given me an answer, but it's not something
10 that -- that Hydro has looked at or examined before; is
11 that fair to say?

12 MR. VINCE WARDEN: Well, we -- we
13 consider anything that has merit. I don't consider that
14 to have merit and therefore not worthy of consideration.

15 MR. ROBERT MAYER: Or not worthy of
16 further consideration. You've obviously considered it
17 and rejected it, out of hand.

18 MR. VINCE WARDEN: I'll accept that, yes.

19

20 (BRIEF PAUSE)

21

22 CONTINUED BY MS. TAMARA MCCAFFREY:

23 MS. TAMARA MCCAFFREY: You've summarily
24 dismissed it but I -- there hasn't been any actual
25 discussion with it among your people at Manitoba Hydro;

1 just so that we're completely clear?

2 MR. VINCE WARDEN: We -- we have not
3 discussed that concept, no.

4 MS. TAMARA MCCAFFREY: And you've already
5 told us this type of provision is not equity, it's on the
6 -- it would be part of the depreciation. You -- you
7 capture currently thermal decommissioning on the
8 depreciation line; is that right?

9 MR. VINCE WARDEN: Yes.

10 MS. TAMARA MCCAFFREY: I'm not sure I
11 understand your -- your doubling up on depreciation. I'm
12 going to think about it and I may come back to that with
13 you, sir.

14 But a third way might be through
15 transferring a new annual appropriation to a new fund or
16 -- or a trust, which does have underlying cash or other
17 investments. And by a third way I'm talking of course
18 about ways of self-insuring beyond simply the equity --
19 debt equity ratio.

20 MR. VINCE WARDEN: Well, putting monies
21 in a fund is not too dissimilar from the concept we just
22 discussed, but it -- it could be done.

23 MS. TAMARA MCCAFFREY: Is there an
24 appetite for a break now, Mr. Chair?

25 THE CHAIRPERSON: Yes, I think so. Thank

1 you.

2 MS. TAMARA MCCAFFREY: Thank you.

3 THE CHAIRPERSON: We'll come back in
4 fifteen (15) minutes.

5

6 --- Upon recessing at 10:34 a.m.

7 --- Upon resuming at 10:57 a.m.

8

9 THE CHAIRPERSON: Okay, folks, if we
10 could get back at it.

11

12 (BRIEF PAUSE)

13

14 THE CHAIRPERSON: Mr. Cormie, if I may
15 just -- not looking for specific numbers but just roughly
16 -- this business of the arbitrage transactions, the, sort
17 of, supplanting otherwise export sales with export
18 purchases so that power can be moved to Ontario is quite
19 interesting.

20 I know that Hydro regularly provides some
21 sort of aggregate estimate of SEP revenues and expenses
22 and nets pretty well on an annual basis.

23 Just so that we have sort of some quantum
24 range in our minds, what type of annual volume would
25 these sales represent, these arbitrage transactions

1 opportunity nature that you were describing before, are
2 they a significant revenue source for Hydro with this new
3 ability since the MISO trading area came into place?
4

5 (BRIEF PAUSE)
6

7 THE CHAIRPERSON: By material, I mean,
8 are we talking about millions of dollars a month?

9 MR. DAVID CORMIE: Yes, we are. For
10 example, this year we -- we sold into Ontario probably
11 \$160 million of electricity for which it was sold into
12 the market rather than under a contract. There were no
13 contracts with Ontario.

14 So that would normally be energy that
15 would have been sold into the United States and we moved
16 it from the United States into -- into Canada in order to
17 capture the additional value that the Canadian markets
18 bring versus having -- selling it into the United States
19 this year.

20 THE CHAIRPERSON: But it provides
21 significant then additional revenue opportunity for
22 Manitoba Hydro?

23 MR. DAVID CORMIE: That's correct. And -
24 - and -- and the new world of selling into a market now
25 means that we are no longer captive suppliers to our

1 traditional customer base. We can now sell into a market
2 and we're not, for example, we don't have to always sell
3 our surplus to Excel Energy.

4 We don't have to sell it to customers. If
5 we can displace a more expensive generator in the United
6 States or in Ontario we can -- we have the opportunity,
7 so.

8 THE CHAIRPERSON: One of the Panel
9 Members earlier had mentioned, I think in response to
10 another question, that Manitoba Hydro was a price taker.
11 This changes the situation; doesn't it? With respect to
12 export sales?

13 MR. DAVID CORMIE: Well, when it comes to
14 the market we are a price taker. Normally we offer our
15 energy and -- at our cost and the -- the market operator
16 compares our offer to the other offers that it has and
17 then it -- it adds -- it finds enough offers to serve the
18 load.

19 The most expensive offer that serves the
20 load sets the market clearing price and then Manitoba
21 Hydro gets paid the market clearing price. So we may
22 offer our -- our hydro in at six dollars (\$6) a megawatt
23 hour. The market may clear at sixty (60). We then get
24 paid sixty dollars (\$60) for energy that we offered at
25 six (6). So our margin there would be fifty-four dollars

1 (\$54).

2 Our gas turbines, we would offer in at a
3 hundred and sixty (160). The market clears at sixty
4 (60). The market says, well, Manitoba Hydro, we don't
5 want your power it's too expensive. Keep that unit shut
6 down and so we don't run that unit. It wasn't accepted.
7 It wasn't economical supply.

8 And -- but we take the market clearing
9 price and that's not a bad thing when your -- when your
10 cost of production is six (6) and the market is clearing
11 at sixty (60) or eighty (80) or a hundred (100) or two
12 hundred (200). Like, you know, as I mentioned before,
13 the margins can be huge.

14 So our challenge in -- in -- in -- when we
15 have two (2) markets is well which market do we want to
16 offer our power in today. Do we want to offer it in the
17 United States or offer into the Ontario market? And this
18 is where we -- we have -- if we'd previously sold the
19 power into the United States and -- and we expect the
20 Ontario market to clear higher than the MISO market then
21 we will buy the power to serve the sale and move all the
22 physical power into Ontario.

23 But we're restricted in what we can do
24 there because we only have a small transmission
25 capability into Ontario compared to the United States.

1 You know, and maybe one-tenth (1/10) of the capacity. So
2 there's not an infinite capability to do that because
3 we're just selling to round our assets. We're only
4 selling the surplus that we have. We're either selling
5 it in the United States or in -- in Canada.

6 And we don't just go and sell ten thousand
7 (10,000) because we can buy. We only sell what we have
8 surplus. There's not a speculative portion to it. It's
9 -- it's managing the assets that we have.

10 THE CHAIRPERSON: Thank you for the
11 clarification. I find it quite interesting.

12 MR. ROBERT MAYER: This is clearly off
13 the topic but where is your inter-connect to Ontario?

14 MR. DAVID CORMIE: There are three (3)
15 transmission lines that go into Ontario within a few
16 miles of the -- where the TransCanada highway crosses the
17 Ontario/Manitoba border. There are --

18 MR. ROBERT MAYER: Near Kenora somewhere?

19 MR. DAVID CORMIE: Yeah, year. Near Kaby
20 Lake.

21 THE CHAIRPERSON: Thank you.

22 Ms. McCaffrey...?

23 MS. TAMARA MCCAFFREY: Thank you.

24

25 CONTINUED BY MS. TAMARA MCCAFFREY:

1 MS. TAMARA MCCAFFREY: Mr. Warden, you
2 say that you self-insure for Manitoba Hydro's risk;
3 correct, sir?

4 MR. VINCE WARDEN: I identified a series
5 of risks -- major risks that the Corporation faces that
6 we self-insure for.

7 MS. TAMARA MCCAFFREY: You do not have a
8 provision or a liability for the purpose of self-
9 insurance on your balance sheet; correct?

10 MR. VINCE WARDEN: That's correct.

11 MS. TAMARA MCCAFFREY: Are you aware that
12 Manitoba Public Insurance does have such a provision for
13 self-insurance?

14 MR. VINCE WARDEN: Manitoba Public
15 Insurance Corporation doesn't face the same type of risks
16 that Manitoba Hydro does. The type of risk that we're
17 talking about self-insuring for are the calamity,
18 catastrophe type risks that MPI does not have -- have
19 that exposure.

20 MS. TAMARA MCCAFFREY: However, they do
21 have risk and they do have exposure and they also have a
22 provision on the balance sheet for self-insurance and
23 that was my question; are you aware of that?

24 MR. VINCE WARDEN: I'm not specifically
25 aware of how they account for their self-insurance.

1 MS. TAMARA MCCAFFREY: Fair enough. Mr.
2 Warden, if we're talking about a provision, and I'd like
3 to just for another moment or two, would you agree with
4 me, sir, that you could build up a provision by a charge
5 to earnings in each year; that's one way it could be
6 done?

7 MR. VINCE WARDEN: Do you -- I'm sorry,
8 did you refer to a build up of equity by a -- through a
9 charge to earnings?

10 MS. TAMARA MCCAFFREY: I'm talking about
11 a build of up a provision; be it in -- a provision
12 contained in your equity? I -- I don't know exactly how
13 you do it. I'm not an accountant, sir. But you could
14 build up -- we're talking at a theoretical level here,
15 Mr. Warden, you could build up a provision by a charge to
16 your earnings in each year?

17 MR. VINCE WARDEN: Well, we do do that
18 and that's how we build up equity through a charge to
19 earnings every year. In -- in years when we have better
20 than -- or normal or better water flow conditions.

21 MS. TAMARA MCCAFFREY: Are you talking
22 about equity?

23 MR. VINCE WARDEN: I'm talking about net
24 income which results in a build up in equity, yes.

25 MS. TAMARA MCCAFFREY: But I'm talking

1 about having a provision like you do for a thermal
2 decommissioning provision, for example? You could have
3 an item, a self-insurance provision, on a balance sheet
4 and one way you could build that up would be by a charge
5 to earnings in each year?

6 MR. VINCE WARDEN: No. You mentioned you
7 weren't an accountant and that would not be an
8 appropriate way to account for risks the Corporation
9 faces. It's very different from a provision for a cost
10 that we know will be incurred in the future such as
11 thermal decommissioning in which case the liability is
12 appropriate. It's appropriate. It's appropriate to
13 build up a liability for that.

14 But for a drought provision the
15 appropriate way to prepare -- prepare for that type of a
16 risk, and really drought isn't a risk, we know that
17 drought will be incurred, we just don't know when.

18 But the appropriate way to account for
19 that is to -- is through equity.

20 MS. TAMARA MCCAFFREY: I know how you do
21 it --

22 MR. ROBERT MAYER: Mr. Warden, you don't
23 know when -- you don't know when you're going to
24 decommission your thermal units either?

25 MR. VINCE WARDEN: Oh, we definitely have

1 a plan for decommissioning. We know which date we plan
2 on decommissioning the -- the units at -- at Brandon.
3 Whether that may be extended, we may seek another licence
4 to extend; that's possible. But at this time in our --
5 in our forecasts we have a decommissioning date.

6

7 CONTINUED BY MS. TAMARA MCCAFFREY:

8 MS. TAMARA MCCAFFREY: Drought is one of
9 your risks and it will happen; right? That's what I
10 heard you say?

11 MR. VINCE WARDEN: Well, we often refer
12 to drought as a -- as our major -- one of our major risks
13 and it -- I was just indicating that we know for sure
14 that drought does occur, as we've seen in 2003/04. We
15 had a major drought and we know we have -- it cycles
16 around approximately every ten (10) years but we don't
17 know precisely when it will occur.

18 MS. TAMARA MCCAFFREY: Right. But it's
19 good planning to -- to plan for it. To plan for the
20 Corporation's worse case scenario; would you agree with
21 that, sir?

22 MR. VINCE WARDEN: And that's why we are
23 building up our retained earnings for that event.

24 MS. TAMARA MCCAFFREY: And that's how
25 Hydro likes to do it. But what I'm trying to do and

1 you're resisting me, Mr. Warden, but what I'm trying to
2 do is talk to you on a theoretical level to discuss this
3 because you've already said you haven't given this
4 consideration. It hasn't been kicked around at Manitoba
5 Hydro and I want to talk to you about the possibility --
6 other utilities do it, other corporations can do it.

7 I just want to talk to you about the
8 possibility of having a provision. It's just a different
9 way of looking at it. I know you're not doing it. I
10 know you don't like to do it and you don't want to do it.
11 But I just want to have a conversation, sir, with respect
12 to the possibility of doing it.

13 And for that purpose I just want you to
14 answer my questions. One way to do it would be that you
15 could have a liability that would be available to be
16 drawn down for future costs. And one way you could do
17 that is by having such a provision that you could charge
18 and build up through a charge to earnings in each year.

19 Is that possible or is it not?

20 MR. VINCE WARDEN: Ms. McCaffrey, I'm not
21 resisting you to be difficult, believe me. You mentioned
22 you're not an accountant. I have certain principles I
23 have to follow as an accountant, and what you're
24 suggesting would not be appropriate.

25 What we are doing at Manitoba Hydro is

1 appropriate.

2 MS. TAMARA MCCAFFREY: You're not
3 answering my question, Mr. Warden.

4 THE CHAIRPERSON: In the interest of
5 trying to be helpful, you could restrict retained
6 earnings. You could create restricted accounts within
7 the retained earnings.

8 MR. VINCE WARDEN: Mr. Chairman, that
9 isn't what I -- the way I interpret the question to be.
10 The -- the question is can we set up a liability similar
11 to what we do for decommissioning thermal facilities, and
12 I am saying it would not be appropriate to set up a
13 liability.

14 It's just -- it's just really an
15 accounting question of where you put the credit, is it in
16 retained earnings or in -- as a liability, and I'm saying
17 the appropriate place is retained earnings, but it's
18 really an academic question.

19

20 (BRIEF PAUSE)

21

22 CONTINUED BY MS. TAMARA MCCAFFREY:

23 MS. TAMARA MCCAFFREY: So whether you do
24 it the way you're talking about doing it, or whether you
25 do it through restricting the equity, or whether you do

1 it through a provision, the -- the reality is that it
2 would remain available for those costs that would occur
3 in the future, when the risks materialize, and ultimately
4 there wouldn't be a double counting.

5 MR. VINCE WARDEN: Ms. McCaffrey, if
6 you're referring to restricted retained earnings, which I
7 apologize if that's what you are referring to, I had
8 interpreted your -- your question to be recording a
9 liability.

10 We started this discussion by comparing it
11 to the thermal decommissioning scenario, whereby we do in
12 fact set up a liability for that purpose.

13 If you're talking though, as the Chairman
14 suggested, as -- as just a -- an apportionment of
15 retained earnings, so taking our retained earnings and
16 splitting out a piece for drought, sure, we could do
17 that. It doesn't really accomplish all that much but we
18 could do that and would not necessarily result in -- in
19 another charge against net income.

20 MS. TAMARA MCCAFFREY: That's the point I
21 wanted to clear up. Thank you.

22

23

(BRIEF PAUSE)

24

25 MS. TAMARA MCCAFFREY: Would you agree,

1 Mr. Warden, that it could result in a charge to net
2 earnings if you wanted to build up the equity faster for
3 that purpose, that is risk insurance?

4 MR. VINCE WARDEN: Sure. That's the
5 only way we could -- we could build up retained earnings
6 faster. We've stated many times we want to get to the
7 seventy-five/twenty-five (75/25) debt equity ratio as
8 soon as possible.

9 What we've considered prudent is to get
10 there by 2011/12 with rate increases approximately equal
11 to inflation. If we wanted to get there quicker, then we
12 would have to have rate increases higher than the average
13 rate of inflation.

14 MS. TAMARA MCCAFFREY: And just so that
15 it's perfectly clear on the record, that wouldn't result
16 in double counting, though, because that -- that would be
17 available to pay for the costs in the future, should
18 there arrive, so there wouldn't actually be a double
19 counting there.

20 MR. VINCE WARDEN: That would not be
21 double counting, that would be rate increases higher than
22 -- than what we have in our forecast. It would result in
23 net income higher than it would otherwise be.

24 MS. TAMARA MCCAFFREY: That's -- that's
25 really the point I wanted to clarify from our earlier

1 discussion. Thank you, Mr. Warden.

2

3

(BRIEF PAUSE)

4

5

MS. TAMARA MCCAFFREY: While we have Mr. Cormie here, I'm not sure if you're planning to be here all day or -- or if you're going to be gone by lunch, so I better now deal with the issue of opportunity versus firm sales.

10

In essence, the Manitoba Hydro proposal with respect to the export costs is to assign capital or fixed costs against the firm exports, but only variable costs, which are considerably smaller, against opportunity exports; correct?

15

MR. CHIC THOMAS: That's right.

16

MS. TAMARA MCCAFFREY: You're not assigning capital costs to opportunity sales?

18

MR. CHIC THOMAS: That's right.

19

MS. TAMARA MCCAFFREY: Is this because you're suggesting that Manitoba Hydro does not incur capital costs to serve opportunity sales?

22

MR. CHIC THOMAS: No, we're not saying that. We're just saying that the variable is -- is just that, it's variable. So there's no fixed costs associated with -- all you're trying to make is, as Mr.

25

1 Cormie was alluding to before, any opportunity is an
2 opportunity. And if you can, you know, if there's a
3 margin to be had, we'll take it.

4 MS. TAMARA MCCAFFREY: But there are
5 capital costs associated with opportunity sales then?

6 MR. CHIC THOMAS: The way we've defined
7 it in the cost of service study, we're not assigning any
8 capital costs to opportunity sales.

9 MS. TAMARA MCCAFFREY: I recognize that
10 and I'm trying to explore -- explore that idea for the
11 purposes of testing it in this hearing to determine
12 whether that's a good idea, or not. And I'm trying to
13 understand why you're done that.

14 You agree that Manitoba Hydro does incur
15 capital costs, as well, to support opportunity sales
16 though?

17 MR. ROBIN WIENS: Manitoba Hydro may
18 incur some capital costs to facilitate the future
19 opportunity sales.

20 MR. ROBERT MAYER: I'm -- after what Mr.
21 Cormie told us a little earlier about the rather
22 significant change in the export market that has occurred
23 in the last little while, would Manitoba Hydro now -- we
24 used to be told that you're not going to -- you're not
25 going to build Conawapa until you sign a pretty solid

1 export agreement with Ontario, preferably one that's a
2 little stronger than the last one.

3 Am I now lead to believe or could I now
4 assume that with the new market conditions would you
5 consider new generation for the purpose of serving this
6 new opportunity that Mr. Cormie describes?

7 MR. VINCE WARDEN: Mr. Mayer, that's what
8 Wuskwatim's all about, but Wuskwatim is 200 megawatts,
9 Conawapa is 1300 megawatts. So there's a huge difference
10 in terms of capital costs and associated risk.

11 MR. ROBERT MAYER: But if Wuskwatim was
12 all about that, I heard about Wuskwatim before the market
13 condition changed, in fact, I thought I sat on a hearing
14 that approved Wuskwatim before I thought I heard the
15 market condition has changed.

16 MR. DAVID CORMIE: Mr. Mayer, the --
17 with regard to Wuskwatim it is still our intention to
18 sell the dependable output of Wuskwatim under contract.
19 It's just that we don't have the contracts in place prior
20 to making the commitment. And so a large portion of the
21 -- a large portion of the dependable output from
22 Wuskwatim will be sold under fixed price forward
23 contracts.

24 A portion of it will not be sold under
25 contract and that's the -- that will be the variable

1 portion and that will be taken to the opportunity market.
2 So the Wuskwatim output has in effect, two (2) products.
3 One (1) that is dependable and one (1) that's going to
4 vary, the variable portion.

5 And with regard to Wuskwatim we have
6 chosen, because of the dollar amounts involved to commit
7 to construction prior to having all the contracts in
8 place, but it is our intention still to sell a good
9 portion it as dependable power.

10 Whereas with Conawapa we would want to
11 have a contract in place before we did any work. And
12 it's just a matter of timing because the risks are so
13 huge.

14 MR. ROBERT MAYER: I recognize that, but
15 when Mr. Warden said that was what Conawapa was all
16 about, those market conditions did not exist when
17 Manitoba Hydro made its business case for advancing
18 Wuskwatim, did they?

19 MR. DAVID CORMIE: We anticipated that
20 the power prices would escalate in real terms. They've
21 jumped up in the last year or so. We expect that they
22 will settle down over the long run and then, you know,
23 our forecast for future power prices haven't
24 significantly changed over the last -- last few years,
25 the long range prices.

1 There's some short-term anomalies; high
2 prices. And that's -- and -- and so that's the -- that's
3 the prices that we're seeing. The -- the change with
4 regard to the market is whether we are selling under
5 bilateral contracts or whether we're selling to a market.
6 And -- and -- and in selling into markets is a
7 fundamental change.

8 High prices, I don't think that's a market
9 change. We know that market prices are volatile. They
10 are going to a high in the -- in the future. They are
11 going to be low in the future. They're just becoming
12 more volatile than we have in the past.

13 MR. ROBERT MAYER: My questions was
14 related to the market change; the fact that you can now
15 sell into the market. The fact is, although you may
16 still be price takers, you can now choose which market to
17 take that price from as opposed to what you used to have
18 when you built your business case for Wuskwatim?

19 MR. DAVID CORMIE: And I think, Mr.
20 Mayer, is the -- the outcome is that it's favourable to
21 Wuskwatim. Like it -- it -- it -- you know, it's -- it
22 doesn't detract from the business decision.

23 MR. HAROLD SURMINSKI: I can add a bit.
24 Yes, on -- in terms of, say, average price, you know,
25 we're talking about two (2) different markets. But we're

1 only talking about 10 or 20 percent change in price. So
2 it's not like there's been a fundamental increase in the
3 market.

4 We're talking about the incremental change
5 here.

6

7 CONTINUED BY MS. TAMARA MCCAFFREY:

8 MS. TAMARA MCCAFFREY: Mr. Cormie, you
9 indicated that a large portion of Wuskwatim would be used
10 for dependable -- dependable energy supplies?

11 MR. DAVID CORMIE: That's correct.
12 There's not a lot of variability in the output of
13 Wuskwatim between the amount that we would produce in a
14 low water year versus the amount that we produce in a
15 high water year.

16 So the ratio of the average to -- or the
17 minimum to the average is relatively high. The -- the
18 capacity factor of the plant is relatively high. It's
19 about -- so 85 percent of the time it can run at full
20 output. Whereas with a plant on the Lower Nelson it has
21 much more generators, there's much more variability in
22 the water and it might run only 65 percent of the time.

23 So Wuskwatim produces a relatively
24 constant amount of power, whether we have a low water
25 year or a high water year. So we can depend on the --

1 the minimum amount of power that's produced at Wuskwatim
2 can be -- is high relative to the average. And so it has
3 a high dependable capability.

4 MS. TAMARA MCCAFFREY: Do you know what
5 portion, roughly, would be related to firm exports and
6 which portion would be variable? Do you have a rough
7 number for me?

8 MR. DAVID CORMIE: The dependable
9 capability is 1250 Gigawatt hours a year and the -- and
10 the average production is 1525 Gigawatt hours a year. So
11 you can see the -- the -- the minimum amount of power
12 that that -- or energy that that station will produce in
13 a year is a high percentage of the average.

14 Whereas with a plant on the Nelson River,
15 something like our Limestone Plant, in an average year it
16 will produce around 7,000 Gigawatt hours. And in a low
17 water year, a dependable year, it might produce something
18 like 4,000 or 3,800 Gigawatt hours. So there's the ratio
19 of the minimum to the average is -- is quite high for
20 Wuskwatim compared to a plant on the Nelson River.

21 So it -- and so we call that 1250 the
22 dependable portion; that's a relatively high number
23 relative to the average.

24 MR. ROBERT MAYER: Do you have that same
25 kind of dependability at Grand Rapids?

1 MR. DAVID CORMIE: No. Grand Rapids has
2 -- it's ratio is around 35 percent. So it has a lot less
3 water available to run the turbines. So those turbines
4 are shut down much more often than a turbine at -- on the
5 Lower Nelson and then as compared to a turbine at
6 Wuskwatim.

7 And I mentioned earlier the gas turbines
8 at Brandon, they only run 3 percent of the time. So
9 they, you know, have a very, very low capacity factor.

10

11 CONTINUED BY MS. TAMARA MCCAFFREY:

12 MS. TAMARA MCCAFFREY: And just for the
13 clarify of the numbers, the 1525 Gigawatt hours was an
14 average; can it run higher?

15 MR. DAVID CORMIE: Yes, there will be
16 years when it produces more than that but not
17 significantly more.

18 MS. TAMARA MCCAFFREY: But that's an
19 average number?

20 MR. DAVID CORMIE: That's the average,
21 yeah.

22 MS. TAMARA MCCAFFREY: When you're doing
23 the business case, the economics on the Wuskwatim plant,
24 for example, you're looking to ensure that it's going to
25 be profitable and pass the Manitoba Hydro hurdle rate.

1 Revenues are going to exceed costs by some
2 margin; correct, Mr. Surminski?

3 MR. HAROLD SURMINSKI: Yes, that's
4 correct.

5 MS. TAMARA MCCAFFREY: Now, when you do
6 that assessment, does the revenues include only expected
7 firm sales or do you include opportunity sales as well?

8 MR. HAROLD SURMINSKI: No. We include
9 all revenues in the business case. That is the business
10 case, to -- to compare costs versus revenues.

11 MS. TAMARA MCCAFFREY: Do you
12 differentiate then when you're looking at the business
13 case or do you look at the -- you look at the bottom
14 line, what -- what the revenues are going to be for all?

15 MR. HAROLD SURMINSKI: It is the bottom
16 line.

17

18 (BRIEF PAUSE)

19

20 MS. TAMARA MCCAFFREY: So then, taking
21 from that then, opportunity sales are integral to your --
22 to your system planning then, it's part and parcel of the
23 export market and you take them into account when you --
24 when you plan to advance new generations; correct?

25 MR. HAROLD SURMINSKI: Yes. They're part

1 of the total picture of revenues.

2 MR. DAVID CORMIE: And -- and we are
3 actively selling or trying to sell the -- the dependable
4 portion of Wuskwatim today. And -- and so we will lock
5 up the sale of that power and the price of that power
6 before that plant comes into service.

7 And, you know, 80 percent of the output of
8 the plant will have -- will be locked in under dependable
9 -- under firm contracts. The variable output, the
10 difference between the 1525 and the 1250 is -- will -- we
11 won't sell that in advance because it's an -- it may be
12 there, it may not be there.

13 And -- and so we can't -- we don't expose
14 the plant to the variability of the market prices for the
15 entire output. We lock in a -- a large portion of -- we
16 lock in the dependable portion with fixed-price
17 contracts. And then -- then the risk is whether the
18 opportunity market will be sufficient.

19 But in this case it's -- the risk is -- is
20 much lower because there's only a few hundred gigawatt
21 hours of opportunity energy there.

22 MS. TAMARA MCCAFFREY: So I guess there's
23 some -- there's some risk in terms of whether the
24 opportunity market will be there, but I think -- you're
25 not alluding, Mr. -- Mr. Surminski's point though in

1 terms of the --

2 MR. DAVID CORMIE: Oh, no. No. No.

3 MS. TAMARA MCCAFFREY: -- you take into
4 account the economics of opportunity before you decide to
5 advance new generation. You don't carve it out.

6 MR. DAVID CORMIE: I'm -- I'm supporting
7 Mr. Surminski. We're a team.

8 MS. TAMARA MCCAFFREY: Okay. I just
9 wanted to make sure that -- I didn't want to get that
10 muddled on -- on the record.

11 MR. DAVID CORMIE: Right. And we -- and
12 we would never build a plant like Wuskwatim on -- on
13 purely the opportunity, it's just a huge -- a huge risk
14 to -- to make an investment and then to have prices go
15 into the tank and -- and that's why our policy is to --
16 to have sales but not necessarily -- in this case, we're
17 -- we're starting construction before we have the sales
18 and there's a parallel track of building the plant and
19 selling the dependable output.

20 MS. TAMARA MCCAFFREY: And just like you
21 wouldn't build Wuskwatim purely on opportunity, you
22 wouldn't build Wuskwatim purely on firm sales. I mean,
23 you're looking at what you think you have to --

24 MR. DAVID CORMIE: It's a mix.

25 MS. TAMARA MCCAFFREY: -- assess a --

1 MR. DAVID CORMIE: Yeah. It's the
2 economics.

3 MS. TAMARA MCCAFFREY: Folks, do you have
4 Mr. Williams' book of documents handy? At Tab 9 of that
5 book there's a list of committed system supply
6 enhancement projects.

7 This is an excerpt from the CEC hearing,
8 as I understand it. And do you see there in -- in the
9 table that there's the second -- the second row would be
10 Kelsey -- Kelsey?

11 MR. HAROLD SURMINSKI: Yes, I see that.

12 MS. TAMARA MCCAFFREY: And, Mr. Cormie,
13 you had referred to Kelsey briefly earlier. So I wanted
14 to -- to look at this particular example.

15 And just so that we're clear, system
16 supply enhancements, this list is -- is a list of
17 projects that Hydro would like to advance to enhance
18 their supply of energy or their -- their potential
19 output; is that right?

20 MR. HAROLD SURMINSKI: We -- we developed
21 this list based on economics and our ability to -- to
22 undertake the work in a timely fashion.

23 MS. TAMARA MCCAFFREY: Is this project --
24 is Kelsey done? Is Kelsey completed?

25 MR. HAROLD SURMINSKI: No, it's currently

1 -- in the early stages, actually.

2 MR. ROBERT MAYER: Have you done
3 anything?

4 MR. HAROLD SURMINSKI: We've done design,
5 we've done consultation --

6 MR. ROBERT MAYER: Nobody's constructed
7 anything?

8 MR. HAROLD SURMINSKI: I believe that
9 they've built a camp of the -- they put infrastructure in
10 at Kelsey's so that the workers can stay there. I'm not
11 sure if we've let any turbine -- or any turbine contracts
12 at this moment.

13 But it's a -- it's a project that's
14 started and we haven't shut down any of the units at
15 Kelsey because we're taking them out of service, as of
16 yet. But the work is ongoing, it's just not direct
17 construction work.

18

19 CONTINUED BY MS. TAMARA MCCAFFREY:

20 MS. TAMARA MCCAFFREY: If you turn to
21 page 2 of that document, you'll see there's note 1 and
22 it's discussing the class of Kelsey. If you need to
23 familiarize yourself or refresh your memory, you can have
24 a moment to look that over. I'll just ask you a couple
25 of questions on it.

1 (BRIEF PAUSE)

2

3 MR. HAROLD SURMINSKI: Yes, go ahead
4 please

5 MS. TAMARA MCCAFFREY: Can you confirm
6 this project was not required to serve domestic customers
7 with the exception, of I guess, \$20 million for unit
8 number five (5), which it refers to there had a defective
9 winding.

10 But otherwise this project was not
11 required to serve domestic customers, is that fair?

12 MR. HAROLD SURMINSKI: Yes I can confirm
13 that.

14 MS. TAMARA MCCAFFREY: And can you also
15 confirm that this project of some \$96 million is being
16 undertaken in order to enhance exports, you can look at
17 page 1 if you -- you see that figure there, enhancement
18 costs \$96 million with respect to Kelsey?

19 MR. HAROLD SURMINSKI: Yes there is no
20 firm energy associated with it, so opportunity energy
21 would -- would be counted on -- counting on the export
22 market.

23 MS. TAMARA MCCAFFREY: So this is an
24 example then, Manitoba Hydro is undertaking a substantial
25 capital expenditure related solely to opportunity energy?

1 MR. DAVID CORMIE: Correct. Just to put
2 that in context, Wuskwatim is 200 megawatts, we're
3 spending a billion dollars, we're increasing the capacity
4 here by 77 megawatts for about \$100 million. So it's an
5 incremental improvement to the station and it has a huge
6 rate of return, it's a 20 percent rate of return.

7 MS. TAMARA MCCAFFREY: Thank you.

8

9 (BRIEF PAUSE)

10

11 MS. TAMARA MCCAFFREY: All right. I'd
12 like to turn now to Manitoba Hydro Exhibit 11. This was
13 Manitoba Hydro Undertaking 6, and they were asked to
14 provide from the 2004/05 power resource plan the capital
15 costs of a five (5) unit and a ten (10) unit Conawapa
16 generating station and to provide the average energy
17 generated under each of the five (5) unit and the ten
18 (10) unit scenarios.

19 You have that table now --

20 MR. HAROLD SURMINSKI: Yes I have it.

21 MS. TAMARA MCCAFFREY: -- we can talk a
22 little bit -- okay.

23 THE CHAIRPERSON: We're going to denote
24 this is MIPUG 8, is that right?

25

1 (BRIEF PAUSE)

2

3 MR. BOB PETERS: Mr. Chairman, excuse me,
4 I think the reference Ms. McCaffrey's made is to an
5 Exhibit that has already been marked as Manitoba Hydro
6 Exhibit 11. And this was one filed last -- last time we
7 were together.

8 THE CHAIRPERSON: Very good.

9

10 (BRIEF PAUSE)

11

12 MS. TAMARA MCCAFFREY: That's right.
13 This is a Manitoba Hydro Exhibit that I'm looking at.
14 This is the reference point for the next Exhibit that we
15 haven't had marked yet, but, as I understand has been
16 distributed. And I think we're at MIPUG 7 -- Exhibit 7.
17 It -- it has a heading "Costs of Conawapa,
18 five (5) Unit versus ten (10) Unit" and it's basically
19 extracted the information from that Manitoba Hydro
20 Exhibit number 11; does every -- do you have a copy of
21 that? And the Board has copies?

22 As I understand it, it's the ten (10) unit
23 plant that is really under consideration; that's what
24 Manitoba Hydro would like to build if they can, is that
25 right, Mr. Cormie?

1 MR. HAROLD SURMINSKI: Ideally, yes,
2 because capacity is a valuable resource in our system.
3 It's basically adding capacity as we -- as we add more
4 units.

5 MS. TAMARA MCCAFFREY: Now, if you can
6 look at exhibit -- I -- which I -- Exhibit 7.

7 THE CHAIRPERSON: This is the one (1)
8 summary of alternative COCC methods based on PUB/MH --
9 okay, you're talking about this one (1) sheet that's
10 derived from MH-11 so --

11 MS. TAMARA MCCAFFREY: Has this been
12 marked as an exhibit yet?

13 THE CHAIRPERSON: No.

14 MS. TAMARA MCCAFFREY: Okay, let's --
15 perhaps, Mr. Chair, may we have it marked as an exhibit?
16 Are we at number seven (7) or --

17 THE CHAIRPERSON: We are at Number seven
18 (7).

19 MS. TAMARA MCCAFFREY: Okay, MIPUG 7
20 then.

21
22 --- EXHIBIT NO. MIPUG 7: Summary of alternative COCC
23 methods based on PUB/MH-11
24

25 CONTINUED BY MS. TAMARA MCCAFFREY:

1 MS. TAMARA MCCAFFREY: So if you can have
2 a -- have a look at this for the purposes of the
3 discussion. Now, this -- this is a comparison between
4 the total costs with respect to a five (5) unit and a ten
5 (10) unit Conawapa.

6 Would you agree that the ten (10) unit
7 plant results in \$585 million more in costs than five (5)
8 unit plant would? And there I'm referring to row 3.

9 MR. HAROLD SURMINSKI: Yes, that's what
10 we summarized at the time. This was about two (2) years
11 ago now.

12 MS. TAMARA MCCAFFREY: Would it be
13 changed materially?

14 MR. HAROLD SURMINSKI: I would not
15 suspect materially, no.

16 MS. TAMARA MCCAFFREY: And that's 25
17 percent higher? The cost of a ten (10) unit would be 25
18 percent higher than the five (5) unit version; correct,
19 Mr. Surminski?

20 MR. HAROLD SURMINSKI: Yes, that's
21 correct.

22 MS. TAMARA MCCAFFREY: And this extra
23 cost is not being considered to be spent on enhancing
24 dependable output, I take it, because that's only
25 increased by 2.7 percent under the ten (10) unit version?

1 That's -- I'm looking here at line 4?

2 MR. HAROLD SURMINSKI: Yes, I can confirm
3 that.

4 MS. TAMARA MCCAFFREY: So the extra cost
5 to expand to ten (10) units compared to five (5) units is
6 really, again, to increase the opportunity volumes which
7 are more than doubled; correct? I'm just looking at line
8 6 showing here 109.4 percent increase.

9 MR. HAROLD SURMINSKI: No, that's where
10 your logic starts falling apart.

11 MS. TAMARA MCCAFFREY: Okay. Help me
12 out.

13 MR. HAROLD SURMINSKI: It's only from the
14 planning perspective or only from the average perspective
15 that you see dependable energy. For example, we need
16 more units and more capability at the plant to meet loads
17 in every hour.

18 I think I indicated that to Mr. Peters.
19 We need to -- to follow our load throughout the year. So
20 we can't just have an average generation and, sort of,
21 average load. We need the -- to be able to cycle.

22 MR. DAVID CORMIE: And there's another
23 issue there is if -- if -- if -- we have these gas
24 turbines that are -- are running. So if Conawapa isn't
25 producing the energy then we have to have a replacement

1 for that. And so we may have to run our -- our
2 combustion turbines. And so there's a -- there's an
3 economic cost associated with not putting in -- because
4 you have to -- you may have to serve the load with --
5 with more -- much more expensive generation.

6 So it's not just the export activity.
7 There's -- there's a reduction in purchase costs and a
8 reduction of thermal generation. Although you can't
9 depend on it, on average you will get a -- you will get a
10 -- a significant benefit from the additional energy
11 that's produced.

12 MS. TAMARA MCCAFFREY: And that benefit,
13 again, we're talking here about an increase in
14 opportunity sales?

15 MR. DAVID CORMIE: Right. So you -- so
16 the opportunity, although it's opportunity, it does
17 affect the cost of electricity in Manitoba.

18 MS. TAMARA MCCAFFREY: Thank you, Mr.
19 Cormie.

20 MR. ROBERT MAYER: Ms. McCaffrey, I
21 understand cross-examination is pretty broad but can you
22 tell me is it -- am I going to hear that it's your
23 position that if they build Conawapa they should only do
24 it with five (5) units?

25 MS. TAMARA MCCAFFREY: Not at all. If --

1 if it's not apparent as to where I'm going with it, I
2 want to clarify. I -- we're actually looking at this
3 distinction between firm and opportunity.

4 And the point being of course is that
5 there's a small portion of costs being assigned to
6 opportunity costs but in reality there's a fairly
7 significant portion of capital costs that are incurred to
8 support opportunity sales.

9 THE CHAIRPERSON: I understand.

10 MS. TAMARA MCCAFFREY: Thank you.

11

12 (BRIEF PAUSE)

13

14 CONTINUED BY MS. TAMARA MCCAFFREY:

15 MS. TAMARA MCCAFFREY: Well, I have
16 another table to go through now --

17 MR. DAVID CORMIE: Before you start that,
18 I just want to follow up with one more --

19 MS. TAMARA MCCAFFREY: Sure.

20 MR. DAVID CORMIE: We -- we build not
21 only for energy but for capacity, and I think Mr.
22 Surminski referred to that. If we only put in five (5)
23 units in order -- because it's just -- that just provides
24 the majority of the dependable energy, we may still not
25 have enough capacity.

1 And -- and so we would be building for
2 capacity reasons. And so it -- you maybe not stop at
3 five (5). Maybe nine (9) is the point or eight (8) is
4 the point where you -- where capacity and energy are in
5 balance.

6 But we -- we build for energy and capacity
7 and -- and we look at the all-in costs. And it's not
8 just, does the export market provide enough revenue from
9 the opportunity energy. It's -- it's a bigger problem
10 than that.

11 MS. TAMARA MCCAFFREY: Thank you. Then -
12 - then to clarify what you've said, Mr. -- Mr. Cormie,
13 the five hundred and eighty-five (585) increase -- the
14 \$585 million increase in costs between a five (5) and a
15 ten (10) unit is to enhance both opportunity and
16 capacity; is that what you're saying?

17 MR. DAVID CORMIE: It would be those plus
18 to avoid purchase power and to avoid thermal generation
19 in Manitoba. So it's -- it's the four (4) factors.

20 MS. TAMARA MCCAFFREY: And, again, that -
21 - it includes the opportunity short-term sales as well?

22 MR. DAVID CORMIE: Oh, yes, of course.
23 There is -- there is that.

24

25

(BRIEF PAUSE)

1 MS. TAMARA MCCAFFREY: I have another
2 table. It's a three (3) page table, 2-A, 2-B and 2-C.
3 Has that document now been distributed?

4 THE CHAIRPERSON: We have it.

5 MS. TAMARA MCCAFFREY: With your
6 permission, can I mark it as MIPUG Exhibit 8.

7 THE CHAIRPERSON: Eight (8).

8 MS. TAMARA MCCAFFREY: Thank you.

9

10 --- EXHIBIT NO. MIPUG-8: Three-page table, 2-A, 2-B
11 and 2-C.

12

13 CONTINUED BY MS. TAMARA MCCAFFREY:

14 MS. TAMARA MCCAFFREY: I can't promise
15 you we're going to get through this before lunch but we
16 might as well get started.

17

18 (BRIEF PAUSE)

19

20 MS. TAMARA MCCAFFREY: All right. Just
21 to set the stage here, these tables, looking first at 2-
22 A, it's an attempt to roughly create the results of the
23 NERA approaches, it's keeping all the NERA approaches the
24 same with the exception of the export revenue allocation.

25

Export revenues are retained in this

1 scenario as being allocated to the bulk power components.
2 The reason why we're doing this is of course to highlight
3 what the impact of that change in allocation will be.

4 So if we're all on the same page, let's
5 proceed then.

6 Mr. Thomas, Table 2-A starts at the top
7 with developing a ratio; do you see that? Residual
8 exports?

9 MR. CHIC THOMAS: I do.

10 MS. TAMARA MCCAFFREY: Okay. And this is
11 roughly the ratio of export revenues allocated on the
12 basis of generation transmission costs in the current
13 approach of -- that's 423 million; correct, sir?

14 MR. CHIC THOMAS: Yes.

15 MS. TAMARA MCCAFFREY: And it's compared
16 to the quantum of generation and transmission exports
17 available for allocation under the NERA method, which
18 they calculated at about 206 million, once the export
19 class is created, correct?

20 MR. CHIC THOMAS: That's right.

21 MS. TAMARA MCCAFFREY: Which gives us a
22 ration of about 48.7 percent, sir?

23 MR. CHIC THOMAS: I'll accept that.

24

25

(BRIEF PAUSE)

1 MS. TAMARA MCCAFFREY: Which means then
2 that under the NERA approach if the allocation were
3 maintained to the bulk power system, it would
4 approximately 48.7 percent of what customers get under
5 the existing method?

6 MR. CHIC THOMAS: That's what the ratio
7 is calculating, yes.

8 MS. TAMARA MCCAFFREY: If you want to --
9 I see -- I can just say at the outset we have no problem
10 if Manitoba Hydro wants to do some of their own
11 calculations, if there's any distinction you can let us
12 know. This calculation should be pretty close to what
13 you have for the purpose of discussion, but certainly if
14 there's any distinctions that you want to make that you
15 think are material by all means, you can let us know.

16 In this case we've retained line one (1)
17 from the NERA example and in line two (2), taken the
18 export revenue credits from the current cost of service
19 methodology which we went through last week on table 1(a)
20 and reduced them to the 48.7 percent ratio. Are you with
21 me?

22 MR. CHIC THOMAS: I'm with you but I
23 don't have 1(a) in front of me, so I can't quite confirm
24 but I'll trust the math was correct.

25 MS. TAMARA MCCAFFREY: Subject to check

1 if you like. And the resulting bulk power costs are
2 shown then in line 3, sir, do you see that?

3 MR. CHIC THOMAS: I do.

4 MS. TAMARA MCCAFFREY: Now, not
5 surprisingly they're not that different than under the
6 current method because the allocation has stayed the
7 same, correct?

8 MR. CHIC THOMAS: Yes.

9 MS. TAMARA MCCAFFREY: And again lines 4
10 and 5 on sub-transmission and distribution are the same
11 as all other pages for the same reason, correct?

12 MR. CHIC THOMAS: Yes.

13 MS. TAMARA MCCAFFREY: So, the result
14 then is a relatively modest change from the existing
15 methodology and we can see that change on line 7?

16 MR. CHIC THOMAS: That's right.

17 MS. TAMARA MCCAFFREY: It's a --
18 basically a .1 percent decrease in cost?

19 MR. CHIC THOMAS: Yeah.

20 MS. TAMARA MCCAFFREY: Okay. For
21 residential and the smaller voltage customers and then
22 for general service medium and general service large
23 higher voltage, it's a -- it's a slight increase? Modest
24 change but -- material, but not earth shattering, is that
25 fair, or how would you characterize it?

1 MR. ROBIN WIENS: I think we already have
2 characterized it. The principle impacts of adoption of
3 the NERA method relate to the allocation of net export
4 revenues. And the rest of the method doesn't have a
5 whole lot of impact. And that's what you see in line 7.

6 MS. TAMARA MCCAFFREY: Right.

7 MR. ROBIN WIENS: Right.

8 MS. TAMARA MCCAFFREY: But, again when we
9 look at this scenario the NERA approach, keeping the
10 allocation to the bulk power components, it results in a
11 4 percent increase on the higher voltage customers on the
12 industrial side?

13 MR. ROBIN WIENS: Say that again, please?

14 MS. TAMARA MCCAFFREY: It's a 4 percent
15 increase in costs using the NERA approach but keeping the
16 allocation the same to the customers on the industrial
17 side, versus the 1.5 percent decrease on the residential?

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

19

20 (BRIEF PAUSE)

21

22 MS. TAMARA MCCAFFREY: All right. So
23 drawing from that baseline we're going to look at a
24 different approach and I'm going to take you now to table
25 2(b).

1 Now, in this example we're going to
2 consider that Hydro has developed a revenue requirement
3 that's \$50 million higher than it would otherwise be in
4 order to make an extra \$50 million appropriation to
5 reserves; okay?

6 Are you -- essentially there's going to be
7 \$50 million more in costs and ultimately \$50 million
8 higher rates at the end of the day; are you with me?

9 MR. ROBIN WIENS: Sure.

10 MS. TAMARA MCCAFFREY: Now, if that's the
11 case, this \$50 million came off the top of export
12 revenues then there would only be \$156 million in exports
13 to allocate back or about 75.7 percent of the previous
14 example; you see that ratio there? I'm looking at the
15 top of the page?

16 MR. ROBIN WIENS: Sure.

17 MS. TAMARA MCCAFFREY: So the end result
18 then is that a bulk power cost that's higher than the
19 current method and higher than the previous sheet where
20 there was no special \$50 million charge; agreed? Costs
21 are higher?

22 MR. ROBIN WIENS: Sure.

23 MS. TAMARA MCCAFFREY: And, again, lines
24 4 and 5 are sub-transmission costs and distribution
25 costs; they're the same as all the other cases; agreed?

1 MR. ROBIN WIENS: Sure.

2 MS. TAMARA MCCAFFREY: Now, we looked
3 again at line 7 to look at the change from the existing
4 method and that is an -- an adverse impact on all
5 customers. Given that we've taken \$50 million out of the
6 system this should be no surprise; right? It come -- it
7 comes back through the customers; you see that?

8 MR. CHIC THOMAS: Yes.

9 MS. TAMARA MCCAFFREY: Now, just to be
10 clear though, the result of this approach is higher
11 costs, again, being allocated to industrials as well as
12 residential and other general service; correct? That's
13 what the positive numbers show?

14 MR. CHIC THOMAS: Yes.

15 MS. TAMARA MCCAFFREY: And from the
16 perspective of allocated costs; in effect this proposal
17 is that costs go up a little -- they go up a bit for all
18 the customers in the short term, would you agree with
19 that?

20 MR. CHIC THOMAS: Yes.

21 MS. TAMARA MCCAFFREY: And that's
22 contrasting with the earlier approach where we saw costs
23 go down for some classes and costs go up for others. So
24 now in this scenario costs are going up a bit for all
25 classes.

1 From a perspective of long-term rate
2 making if the \$50 million were available in the correct
3 form of reserves -- \$50 million a year were available in
4 the correct form of reserves, ratepayers may have an
5 offsetting benefit in that come the next drought or
6 catastrophic risk materializing they may not be hit with
7 as quite a large rate increase; would you agree with that
8 logic?

9 MR. ROBIN WIENS: Sure.

10 MS. TAMARA MCCAFFREY: And if such an
11 approach were continued for some period of time such an
12 annual \$50 million appropriation might grow to a balance
13 that would be beneficial come the next drought; would you
14 agree?

15 MR. VINCE WARDEN: No, Ms. McCaffrey.
16 There -- there's an error in the logic here in that
17 you're assuming that there's \$50 million of incremental
18 revenue available to put into a retained earnings or into
19 a reserve fund. There isn't. There's no additional
20 revenue being created with this.

21 All we're doing is changing the RCC ratios
22 which really does not accomplish anything. It does not
23 free up funds to put into a retained earnings fund.

24 MS. TAMARA MCCAFFREY: I don't think
25 you're understanding what I'm trying to do, Mr. Warden,

1 and maybe it's the way I'm wording the questions.

2 MR. VINCE WARDEN: Well, --

3 MS. TAMARA MCCAFFREY: We're not
4 imagining --

5 MR. VINCE WARDEN: Well, I dis -- Ms.
6 McCaffrey, I'm sorry if I'm not understanding. But I
7 just can't agree with your supposition that the \$50
8 million is available to put into this reserve fund unless
9 there are offsetting rate increases to domestic
10 customers.

11 MS. TAMARA MCCAFFREY: That's what I'm
12 saying.

13 MR. ROBERT MAYER: I heard her say that.

14 MR. VINCE WARDEN: Okay. Sorry. I
15 apologize. I didn't -- I didn't pick up on that. But if
16 that's what you're saying, I'll agree with that.

17 MS. TAMARA MCCAFFREY: Yeah, that's what
18 I'm saying. I'm talking about rate increases in the
19 short term. Rate increases for a period of time to -- to
20 allow for this figure -- this is a figure for the purpose
21 of discussion; okay? No one's -- MIPUG isn't going to be
22 advocating a particular magic number.

23

24 CONTINUED BY MS. TAMARA MCCAFFREY:

25 MS. TAMARA MCCAFFREY: So back to -- did

1 someone answer my question then? I just...

2

3

(BRIEF PAUSE)

4

5

6

MS. TAMARA MCCAFFREY: I'll -- give me a moment.

7

8

(BRIEF PAUSE)

9

10

11

MR. VINCE WARDEN: Sorry, please continue.

12

13

14

15

MS. TAMARA MCCAFFREY: I'd be delighted. Line seven (7) the change from the existing approach, we see all costs going up a little bit for all customer classes. Am I right there, Mr. Thomas?

16

17

18

19

MR. CHIC THOMAS: Yes.

MR. ROBIN WIENS: We're assuming, I guess it's implicit, that that increase in cost will be reflected in an average rate which is not shown there.

20

21

22

23

24

MS. TAMARA MCCAFFREY: Yes, we recognize there's a connection there. And again, the difference between the classes then is much smaller, more balanced than for example in the earlier table where some costs went up, some costs went down, right?

25

MR. VINCE WARDEN: Right.

1 MS. TAMARA MCCAFFREY: You know -- you
2 don't have table 1(b) in front of you but that was the --
3 would you agree with that subject to check?

4 MR. ROBIN WIENS: Sure.

5 MS. TAMARA MCCAFFREY: I think, very
6 quickly then, table 2(c) -- I might make it through this
7 before the lunch hour, again we've done the same
8 structure here but now we've taken \$100 million in
9 exports as opposed to the \$50 million figure.

10 Again, just to play around with the
11 scenario and show what the impact would be. Do you see
12 that, Mr. Thomas?

13 MR. CHIC THOMAS: Yes I do.

14 MS. TAMARA MCCAFFREY: Table 2 (c). And
15 again just going right to the line seven (7) here, the
16 change from the existing approach here is we see all
17 class costs go up again and they're very close now,
18 residential is going up .44 cents per kilowatt hour
19 versus general service medium, general service large .55
20 cents per kilowatt hour.

21 They're quite close to being balanced,
22 very similar impact to all classes, yes?

23 MR. CHIC THOMAS: I see that, yes.

24 MS. TAMARA MCCAFFREY: And you can check
25 this, but just for the record, contrasting with line 7

1 from the table 1(c) we did last week, we went through
2 together it had Manitoba Hydro at a -- with -- the
3 approach had the residential class having .49 cents per
4 kilowatt hour less cost versus .51 more costs for the
5 industrial? It's on the record, we went through it last
6 week and you can let me know if I'm --

7 MR. CHIC THOMAS: I see it.

8 MS. TAMARA MCCAFFREY: Thank you. So
9 you'd agree this scenario is more balanced between the
10 different classes?

11 MR. ROBIN WIENS: That's entirely
12 dependent on the \$100 million of additional costs that is
13 being assumed in here. That's the reason that it appears
14 to be balanced. Of course it would be different in a
15 year when the fund has gone down, wouldn't it?

16

17 (BRIEF PAUSE)

18

19 MR. ROBERT MAYER: Fortunately, she
20 doesn't have to answer your questions.

21 MR. ROBIN WIENS: The question was
22 rhetorical, Mr. Mayer.

23

24 CONTINUED BY MS. TAMARA MCCAFFREY:

25 MS. TAMARA MCCAFFREY: I think I want you

1 to pursue that a little bit. The year where the fund is
2 drawn down, you said it would be different in the year
3 that the fund was drawn down. Go ahead Mr. Wiens.

4 MR. ROBIN WIENS: Well, what you are --
5 what you're saying here is that your characterizing this
6 as the NERA method and then you're throwing out 90
7 percent of the significance of the NERA recommendations
8 and you're coming back to a situation, in which
9 fundamentally we've had no change. We're still
10 effectively allocating all of our net export revenues on
11 the basis of generation and transmission.

12 In the years in which we have this draw
13 down, we're showing some -- what you characterize as
14 balance on page 3 in terms of the impact on the different
15 classes.

16 However, in the situation where the funds
17 are ultimately -- are ultimately drawn down, of course
18 the largest beneficiary in that situation is going to be
19 the GSL greater than 100 kV, which will in -- in effect
20 have the largest avoided rate increase or the largest
21 avoided cost allocation relative to the residential
22 class.

23 MS. TAMARA MCCAFFREY: And, again, the
24 inverse is also true. I mean, this is the class that
25 bears the greatest portion of the costs.

1 MR. ROBIN WIENS: Yes. But you -- you're
2 not -- by adding costs, in effect, by adding generation
3 and transmission costs in effect, which this is doing,
4 yes, you are. You are -- proportionately you will --
5 those classes whose larger share of costs is generation
6 and transmission, will bear the largest share of this,
7 relative to a baseline which is substantially the current
8 method of -- of cost allocation. They --

9 MS. TAMARA MCCAFFREY: I just want to
10 clarify --

11 MR. ROBIN WIENS: -- and they also bear
12 the -- the largest benefit in the end.

13 But what hasn't changed is that over time,
14 from the day this is adopted until, you know, whenever
15 the next change in cost of service methodology occurs,
16 that you have retained the methodology whereby all net
17 exports, or virtually all export revenues are either
18 allocated to the export class on the basis of generation
19 and transmission, which takes generation and transmission
20 costs away from all the domestic classes, or are
21 allocated back to benefit the domestic classes on the
22 basis of generation and transmission.

23 This -- this is showing something
24 different in the case where you create a fund, but in the
25 long haul that fund either goes up or it's drawn down and

1 you have -- you have pretty well the current method.

2 You're staying pretty well with the current method.

3 MS. TAMARA MCCAFFREY: It is. And I
4 don't -- I'm only going to say this to clarify, I don't
5 want you to misunderstand what we're trying to do. We're
6 not trying to trick anybody.

7 We're trying to show the impact of the
8 change by looking at a scenario where we do everything
9 the same as what NERA recommended except for that
10 allocation. And that's just to show the impact of the
11 allocation. It's not an attempt to characterize
12 something as being the NERA method. Okay.

13 I know it's a big change but the reason
14 why we did it this way is simply to highlight what that
15 impact is. Okay. So I just -- just so that we're clear
16 on what we're doing, Mr. Weins.

17 THE CHAIRPERSON: You're not making a
18 closing statement, you're just reviewing the schedule
19 that you prepared.

20 MS. TAMARA MCCAFFREY: Absolutely. And I
21 just didn't -- I got the impression from My Friend across
22 the room that -- that he was of the impression we were
23 trying to characterize something as the NERA method when
24 I thought I was trying to make it quite clear, we're
25 trying to show what that big change is, what the impact

1 is by playing around with the scenarios for the purpose--

2 THE CHAIRPERSON: It's quite clear to me.

3

4 (BRIEF PAUSE)

5

6 THE CHAIRPERSON: Do you want to carry on
7 now, Ms. McCaffrey, or --

8 MS. TAMARA MCCAFFREY: I think -- I think
9 I'm almost done.

10 THE CHAIRPERSON: Okay.

11 MS. TAMARA MCCAFFREY: If you can just
12 give me five (5) seconds to...

13

14 (BRIEF PAUSE)

15

16 MS. TAMARA MCCAFFREY: That went faster
17 than I expected. Thank you. I have no further questions
18 in that area. I do have another area to cover after the
19 lunch break. Thank you.

20 THE CHAIRPERSON: Thank you then. So
21 we'll adjourn until 1:15. 1:15 all right with you, Ms.
22 McCaffrey?

23 MS. TAMARA MCCAFFREY: Absolutely.

24 THE CHAIRPERSON: Very good.

25

1 --- Upon recessing at 12:05 p.m.

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

3

4 THE CHAIRPERSON: Okay. Welcome back,
5 everyone. Just to begin with, Mr. Peters has a
6 procedural matter to deal with.

7 MR. BOB PETERS: Thank you Mr. Chairman.
8 My procedural matter is concerning closing submissions,
9 which when your halfway through the evidence sometimes
10 seem too far in advance, but I know lots of the parties
11 are wondering what the firm plans are going to be.

12 And there has been much dialogue and
13 discussion and based solely on the availability of Board
14 Members and the parties, the Intervenor closing
15 submissions will proceed as planned on Monday, May 29th
16 starting at 9:00 in the morning.

17 And they will proceed -- I guess I will go
18 first and then the Intervenors in alphabetical order will
19 follow. And when the Intervenors are finished then we
20 will adjourn, Mr. Chairman, until Friday of that week,
21 that is June the 2nd at 9:00 in the morning to hear
22 Manitoba Hydro's closing submission.

23 I can say that there was an attempt made
24 to try to re-schedule those dates but the availability of
25 the parties and the Board Members made that unworkable.

1 And so it looks like it's now going to work with the
2 Intervenors arguing on Monday, May 29th and Manitoba
3 Hydro's closing submissions coming on Friday the 2nd of
4 June, both starting at 9:00 in the morning. Thank you.

5 THE CHAIRPERSON: Thank you, Mr. Peters.
6 Ms. McCaffrey...?

7

8 CONTINUED BY MS. TAMARA MCCAFFREY:

9 MS. TAMARA MCCAFFREY: Good afternoon
10 everybody. Mr. Wiens, I want to talk to you about your
11 response to the MIPUG Interrogatory Manitoba Hydro I-15.
12 I'll give you a moment to pull that in front of you.

13

14 (BRIEF PAUSE)

15

16 MS. TAMARA MCCAFFREY: I'll give you a
17 moment to look at it and while you're doing so, I'll just
18 read into the record the framework for the question.

19 Is that in a previous GRA in 2004, there
20 was an IR that indicated that the key concerns for
21 utility with respect to pricing those is ensuring that
22 customers and now I'm quoting:

23 "Customers face the marginal cost for
24 marginal consumption decisions."

25 The question you were asked was:

1 "Please confirm that Hydro views that
2 rates for marginal consumption should
3 be designed to reflect as one rate
4 design criteria, among many, the
5 underlying marginal costs of supplying
6 the energy."

7 And your response, sir was, confirmed.

8 And then you go on to elaborate in your answer.

9 And the first sentence you've indicated
10 what appears to be a concern you have with that. And
11 I'll let you read that -- that first sentence into the
12 record. Go ahead. "However..."

13

14 (BRIEF PAUSE)

15

16 MS. TAMARA MCCAFFREY: You've indicated:
17 "However, it is not always possible to
18 apply marginal cost to all marginal
19 consumption."

20 MR. ROBIN WIENS: That's correct.

21 MS. TAMARA MCCAFFREY: As a starting
22 point for our discussion then, Mr. Wiens, how would you
23 define "marginal consumption"?

24 MR. ROBIN WIENS: Well, marginal
25 consumption, strictly speaking, is the last increment of

1 usage or first increment of new usage. In this context
2 it is probably -- it is probably better to view it as --
3 in the case of residential customers that we would want,
4 to the extent possible, to collect the marginal cost from
5 the last X units of consumption; that could be anything
6 from virtually all their consumption to a small portion
7 at the tail end of their consumption.

8 But the idea is that you would want to
9 have a marginal price signal to affect as many customers
10 as possible. This paragraph is simply saying that that's
11 not an easy thing to achieve.

12 MS. TAMARA MCCAFFREY: And we'll go
13 through this paragraph in a little more detail as well.
14 But I'm not clear about how we're defining "marginal".
15 Is "marginal consumption" the last unit of use for
16 existing consumption? Would it include that as part of
17 the definition?

18 MR. ROBIN WIENS: It could, yes.

19 MS. TAMARA MCCAFFREY: And in your way of
20 thinking about marginal cost would it also include new
21 consumption?

22 MR. ROBIN WIENS: It could.

23 MS. TAMARA MCCAFFREY: Would it include
24 all new consumption say, for example, I build a new
25 house, would all my new consumption be marginal? Would

1 you consider that under that definition?

2 MR. ROBIN WIENS: I -- I -- again, my
3 response is, you could consider that as marginal
4 consumption. Now, whether you would for the purposes of
5 rate design is another matter. Because you've got to --
6 you've got to -- you've got to be able to make something
7 workable and manageable in a rate design context.

8 But clearly a customer is building a
9 house. They're anticipating that they will use
10 electricity. You would like them to consider when they
11 build a house what the marginal cost of consumption is.
12 It's not always possible to do that.

13 MS. TAMARA MCCAFFREY: What about a new
14 industry locating in Manitoba would that -- would all the
15 consumption of that new industry be marginal?

16 MR. ROBIN WIENS: Yes, it would.
17 Although you may not define it as such for rate design
18 purposes. But it would be marginal. Ideally, you would
19 want that industry in making its decision to locate in
20 this province or in another province or not to expand at
21 all to see what the marginal cost of its decision is.
22 That's the idea.

23 MS. TAMARA MCCAFFREY: If I -- I'm an
24 existing Hydro customer, I buy a new appliance. I've
25 never had, for example, a microwave. I buy one. I have

1 a new -- an increase in my usage, is -- the usage of that
2 microwave that would be considered marginal; that new
3 usage by an existing?

4 MR. ROBIN WIENS: Yes.

5 MS. TAMARA MCCAFFREY: Similarly, I'm an
6 existing industry but I want to expand and I'm going to
7 increase my usage, this, again, new usage marginal?

8 MR. ROBIN WIENS: Yes.

9 MS. TAMARA MCCAFFREY: I've heard also
10 the term "incremental" being used. Are they
11 interchangeable terms?

12 MR. ROBIN WIENS: In -- it depends on the
13 context. In some contexts, yes, they are used
14 interchangeably.

15 MS. TAMARA MCCAFFREY: In this context?

16 MR. ROBIN WIENS: The new consumption,
17 you could call it incremental or you could call it
18 marginal. In some contexts when you talk about marginal,
19 for example, marginal cost, you're technically referring
20 to the last unit of production that comes on. For the
21 purposes of using the concept you can't always define it
22 so narrowly.

23 MS. TAMARA MCCAFFREY: But would your
24 definition not treat customers differently based on new
25 or old?

1 MR. ROBIN WIENS: It -- yes, it could --
2 yes it could.

3 MS. TAMARA MCCAFFREY: But, from Hydro's
4 perspective a kilowatt hour is a kilowatt hour, whether
5 it's an old -- use by an old customer, an existing
6 customer or a new customer. A kilowatt hour is a the
7 same either way, is that right?

8 MR. ROBIN WIENS: Yes, looking forward
9 from this instant, every kilowatt hour is a new kilowatt
10 hour.

11 MS. TAMARA MCCAFFREY: Thank you. Yes.

12

13 (BRIEF PAUSE)

14

15 MS. TAMARA MCCAFFREY: You've been
16 directed to -- by the Public Utility Board to look at an
17 inverted rate structure, correct?

18 MR. ROBIN WIENS: Yes.

19 MS. TAMARA MCCAFFREY: And you had NERA
20 do some of that for you, they did a study on that, is
21 that right?

22 MR. ROBIN WIENS: Yes, we worked with
23 NERA to develop that report.

24 MS. TAMARA MCCAFFREY: And as I
25 understand and I'm talking about an inverted rate

1 structure, is that the same thing as a stepped rate
2 structure? These are interchangeable terms?

3 MR. ROBIN WIENS: Yes.

4 MS. TAMARA MCCAFFREY: Excuse me.

5

6 (BRIEF PAUSE)

7

8 MS. TAMARA MCCAFFREY: They're
9 interchangeable terms, inverted and stepped rates then.
10 We're talking about -- they mean the same thing?

11 MR. ROBIN WIENS: Well, a stepped rate
12 could be a step up or a step down, so they don't
13 necessary mean the same thing. But the use of that term
14 is common with respect to BC Hydro's industrial rate
15 structure and that is an inverted rate structure.

16 MS. TAMARA MCCAFFREY: And by that you
17 mean you'd have a higher rate applying to the end unit,
18 for example?

19 MR. ROBIN WIENS: A higher rate applying
20 to some level of consumption beyond an initial block
21 however that may be defined.

22 MS. TAMARA MCCAFFREY: And when I'm
23 looking again at your response here to MIPUG/Manitoba
24 Hydro I-15, in the second paragraph, in fact, you -- you
25 talk a little bit about you're telling us today and you

1 say that the difficulty in applying marginal rates to all
2 new load is greatest for large industrial customers.

3 MR. ROBIN WIENS: Yes.

4 MS. TAMARA MCCAFFREY: You go on to say
5 that it captures marginal costs for only the last 10
6 percent of each customer's load.

7 And you're using the example from BC
8 Hydro?

9 MR. ROBIN WIENS: Yes.

10 MS. TAMARA MCCAFFREY: You recognize also
11 in your answer that it provides a good incentive at the
12 margin to encourage DSM or co-generation for that last 10
13 percent of usage, is that right?

14 MR. ROBIN WIENS: Yes.

15 MS. TAMARA MCCAFFREY: And this is a good
16 thing, I take it?

17 MR. ROBIN WIENS: Yes, it's a good thing.

18 MS. TAMARA MCCAFFREY: But you also go on
19 to say and I'm looking at the second last sentence now of
20 the second paragraph,

21 "But it has no impact at all on
22 location or expansion decisions which
23 continue to be driven by the low
24 embedded cost based rate."

25 You see that there, that's your answer?

1 MR. ROBIN WIENS: Yes.

2 MS. TAMARA MCCAFFREY: What impact does
3 Manitoba Hydro want to have on industrial expansion or
4 location decisions?

5 MR. ROBIN WIENS: Well, ideally you would
6 like not just industry but every user to consider their
7 incremental decision when looking at incremental costs.
8 So that they can make their decision where to locate
9 their plant and whether to locate their plant, how to
10 design their plant on the basis of the full incremental
11 or marginal price signal.

12 What we're saying here is that a stepped
13 rate or an inverted rate proposal along the lines of that
14 which was implemented by BC Hydro April the 1st of this
15 year, does not send that price signal to major load
16 expansions or to location of large industry within a
17 jurisdiction.

18 MS. TAMARA MCCAFFREY: But to send that
19 price signal would be -- what you're saying is the idea
20 would -- which would be to charge a marginal price to all
21 new load, for example, if I'm a new industry coming into
22 Manitoba?

23 MR. ROBIN WIENS: From a perspective of -
24 - of economic pricing, yes.

25 MS. TAMARA MCCAFFREY: Which would, of

1 course, treat new customers differently than old
2 customers and if we walk down that road we start messing
3 with the notion of equity -- class equity? The same
4 treatment of customers with similar class
5 characteristics; do we not?

6 MR. ROBIN WIENS: Well, again, in an
7 ideal world where you are looking to do economic pricing
8 it wouldn't matter whether the load was existing or new;
9 that you would price to have the -- you would price to
10 send the correct marginal price signal.

11 We don't do that and we have a number of
12 constraints on what we're able to do. So the idea is
13 that you want to depart from that as little as possible
14 or in ways which disturb the economic choice as little as
15 possible.

16

17 (BRIEF PAUSE)

18

19 MS. TAMARA MCCAFFREY: You've talked a
20 little bit more about inverted rates in your rebuttal
21 evidence, pages 19 to 20. You can turn to it if you
22 like. I'm not going to get too specific but that's the
23 reference point.

24 MR. ROBIN WIENS: Yes.

25 MS. TAMARA MCCAFFREY: All right. Just

1 having a quick look there at that portion of your
2 rebuttal evidence, Mr. Wiens, you'd agree with me, sir,
3 that you're -- the example that you're using to
4 illustrate some problems, as you would characterize it,
5 with an inverted rate structure, is an example that
6 applies to the residential class; am I correct, sir?

7 MR. ROBIN WIENS: It could apply to any
8 class, but in this case we chose an example that applies
9 to the residential.

10 MS. TAMARA MCCAFFREY: You've used a
11 residential example in this portion of your rebuttal
12 evidence?

13 MR. ROBIN WIENS: Yes.

14 MS. TAMARA MCCAFFREY: But, sir, you'd
15 agree with me that this wouldn't necessarily -- that
16 these problems wouldn't necessarily apply to any class,
17 for example, the industrial class?

18 The reality is you could tailor the size
19 of the first block; that is, I guess, the non-inverted
20 rate block, for each customer because there's -- compared
21 to the residential class there's relatively few? Would
22 you agree with that?

23 MR. ROBIN WIENS: Yes. You can do that
24 when there are relatively few customers.

25 MS. TAMARA MCCAFFREY: And in the

1 industrial class that wouldn't be a real obstacle; would
2 it?

3 MR. ROBIN WIENS: From an administrative
4 perspective it would not be a major -- well, it would be
5 a -- it is a lot of work but relatively speaking it's
6 not, compared to, say, the residential or commercial
7 customer groups.

8 MS. TAMARA MCCAFFREY: Manitoba Hydro is
9 not suggesting that industrial consumers are -- are
10 wasteful consumers of energy; I take it?

11 MR. ROBIN WIENS: Manitoba Hydro is not
12 really -- this part of Manitoba Hydro is not really in a
13 position to know whether they are or not. I mean --

14 MS. TAMARA MCCAFFREY: I'll take that as
15 an --

16 MR. ROBIN WIENS: -- people -- people --
17 people on our --

18 MS. TAMARA MCCAFFREY: -- agreement with
19 my --

20 MR. ROBIN WIENS: -- people on our staff
21 who work closely with industrial customers are able to
22 identify places where they can use energy more
23 efficiently. But the fact that they haven't to date
24 doesn't necessarily imply misuse.

25 MS. TAMARA MCCAFFREY: Let's talk about

1 rate schedules. Mr. Peters went through some of that
2 with you and I believe it was Tab 22 of his book of
3 documents.

4

5

(BRIEF PAUSE)

6

7

MS. TAMARA MCCAFFREY: If you look at
8 page 1 you'll see the residential rates; do you have it?

9

MR. ROBIN WIENS: Yes.

10

MS. TAMARA MCCAFFREY: Now, let's look
11 under energy charge. Mr. Wiens, you see here that the
12 first 175 kilowatt hours of consumption is priced at five
13 point seven eight (5.78) cents per kilowatt hour;
14 correct, sir?

15

MR. ROBIN WIENS: Yes.

16

MS. TAMARA MCCAFFREY: Now, the balance
17 of the kilowatt hours are priced at 5.654 cents kilowatt
18 hour, yes?

19

MR. ROBIN WIENS: Yes.

20

MS. TAMARA MCCAFFREY: Now, at present
21 the marginal rate, the end use for residential customers
22 is actually lower than the first block rate, is that
23 right, Mr. Wiens, in this?

24

MR. ROBIN WIENS: That's correct.

25

MS. TAMARA MCCAFFREY: I guess there's

1 room for improvement there with respect to price signal
2 rate, would you agree with that, sir?

3 MR. ROBIN WIENS: There's almost always
4 room for improvement.

5 MS. TAMARA MCCAFFREY: But given what
6 we're talking about -- about marginal use and ideally to
7 send the best price signal you want customers to be --
8 you know -- to be getting the right signal in terms of
9 their usage.

10 Here's an example where actually they pay
11 -- they're actually paying less for their end usage than
12 for their beginning, that's my point.

13 MR. ROBIN WIENS: And if you had looked
14 at this same schedule five (5) or seven (7) years ago,
15 that gap would have been much wider, so what's happening
16 is that gap is being closed, as the opportunity arises.
17 And it's being done on a gradual basis.

18 MS. TAMARA MCCAFFREY: Thank you. And we
19 see a similar theme when we look at the general service
20 small, single phase, the first block again, 6.004 cents a
21 kilowatt watt while the second block is 3.936 cents a
22 kilowatt hour. And the final block is 2.44 cents.

23 The same kind of relationship, is that
24 right, sort of an inverse relationship to an inverted
25 ratio?

1 MR. ROBIN WIENS: Well it is a -- as it
2 appears it's a declining block -- or what we would call a
3 declining block rate. But there's more happening here
4 than just a declining block energy rate that explains, at
5 least a considerable portion of the decline.

6 MS. TAMARA MCCAFFREY: And so I think
7 what you're saying is that these rates could be improved
8 and you've been working to improve them and they have
9 been improving over the years because this -- this
10 relationship is getting smaller, is that right? The gap
11 between them is getting smaller?

12 MR. ROBIN WIENS: Well, you know, really
13 the effect of -- that was strictly a declining block rate
14 for this class would be the two (2) energy blocks that
15 affected the general service small and mainly affected
16 the general service small non-demand class.

17 We used to have -- we used to have another
18 block which was higher priced than the 6.004 cents.
19 Those blocks were blended. So that's the direction we're
20 moving.

21 The rest of the declining block has a
22 different purpose. And even if we did have a fully
23 inverted rate with -- or attempted to design and
24 implement a fully inverted rate for all customer classes
25 and for all customers within this specific group, it

1 doesn't necessarily mean that that particular
2 relationship would change.

3 Because part of that is the transitioning
4 from billing fully on energy to billing on both demand
5 and energy.

6 MS. TAMARA MCCAFFREY: That's part of the
7 reason for that declining block in that example.

8 MR. ROBIN WIENS: Yes, that -- and which
9 is another issue.

10

11 (BRIEF PAUSE)

12

13 MS. TAMARA MCCAFFREY: So you would agree
14 with me then, Mr. Wiens, that the -- in terms of
15 improving price signals these are things that you could
16 deal with in another hearing, for example, in the rate
17 design portion of the hearing, outside of the cost of
18 service, correct?

19 MR. ROBIN WIENS: Of course.

20 MS. TAMARA MCCAFFREY: I've heard
21 something about residential customers that are trying
22 out, with Manitoba Hydro, a pay-as-you-go meter, are you
23 familiar with that?

24 MR. ROBIN WIENS: I am in a very general,
25 high level, familiar with that but I will not be able to

1 answer any questions regarding the details of that plan.

2 MS. TAMARA MCCAFFREY: Are you able to,
3 just for the Board, just describe briefly what it is,
4 what it does?

5 MR. ROBERT MAYER: I've seen them in
6 action and you've got to get yourself another supplier in
7 Thompson because he's not open 24 hours a day.

8

9 (BRIEF PAUSE)

10

11 CONTINUED BY MS. TAMARA MCCAFFREY:

12 MS. TAMARA MCCAFFREY: You know, I might
13 be able to help. I'm talking at a pretty high level in
14 any event. It's just one example of --

15 MR. ROBIN WIENS: Well, you're talking
16 about pre-paid metering where essentially a customer will
17 go, maybe into a Manitoba Hydro office or into a
18 contractor location, and have a card swiped that will put
19 X dollars, say a hundred dollars (\$100) onto the card and
20 then the card is, in turn, put onto the meter.

21 And in effect, that energy has been
22 prepaid and as the customer uses the energy, the
23 prepayment is worked down; is that helpful?

24 MS. TAMARA MCCAFFREY: Sure.

25

1 CONTINUED BY MS. TAMARA MCCAFFREY:

2 MS. TAMARA MCCAFFREY: And it's one way
3 of sending a price signal to -- to a customer in the
4 sense that it actually gives them more immediate, timely
5 information about their usage; would you agree with that?

6 MR. ROBIN WIENS: It -- it --

7 MS. TAMARA MCCAFFREY: I can see my card
8 going down.

9 MR. ROBIN WIENS: It can. It can. And
10 if the customer takes advantage of it and if the
11 necessary hardware and software is installed in the
12 customer's premises, yeah, it can.

13 MR. ROBERT MAYER: The meters you've been
14 installing, the customer can actually push the button
15 after they turn on a new appliance to find out what
16 they're spending per kilowatt hour after they've turned
17 that appliance on. It's absolutely fascinating to go
18 through those machines.

19

20 CONTINUED BY MS. TAMARA MCCAFFREY:

21 MS. TAMARA MCCAFFREY: I just throw that
22 out to you in terms of other rate options for the
23 purposes of this discussion. And we know Manitoba Hydro
24 is also looking at other rate options for new and
25 expanding industrial customers, I take it; am I correct

1 in that?

2 MR. ROBIN WIENS: Yes.

3 MS. TAMARA MCCAFFREY: And the goal of
4 that, of course, is to find new ways to charge -- to
5 charge more not less to all new industrial load; fair
6 enough?

7 MR. ROBIN WIENS: The goal is to examine
8 ways of getting a better price signal to the most rapidly
9 growing portion of our load.

10 MS. TAMARA MCCAFFREY: And we've heard,
11 in terms of the -- the system extension policies, that
12 was one thing that Hydro was considering at and Mr.
13 Warden has already told us that they'll be back before
14 the Board if Manitoba Hydro decides to go that way; is
15 that right?

16 MR. VINCE WARDEN: That's our plan. Yes.

17 MS. TAMARA MCCAFFREY: And so however you
18 decide -- whatever you decide to do in terms of new
19 charges to industrial customers whether it be a one time,
20 like, system extension, a surcharge or a new rate,
21 Manitoba Hydro -- the plan would be to come back before
22 this Board to have it reviewed though, at that time?

23

24

(BRIEF PAUSE)

25

1 MR. VINCE WARDEN: Yes, Ms. McCaffrey, as
2 I indicated before, the plan is to bring an application
3 back to this board at the appropriate time.

4 MS. TAMARA MCCAFFREY: And then can
5 Manitoba MIPUG members expect a call then from Manitoba
6 Hydro regarding some of these new options prior to the
7 time where an application is actually filed with this
8 Board to give them an opportunity to -- to try and work
9 some of these things out with you?

10 MR. ROBERT MAYER: I thought Mr. Brennan
11 already did that with the letter we have filed with us?

12 MR. VINCE WARDEN: Yes, Mr. Mayer. Our
13 objective here is to consult as much as possible going
14 forward to make sure we get, to the extent possible, buy
15 in from our customers.

16 MS. TAMARA MCCAFFREY: We're happy to
17 hear that, Mr. Warden. I think with that I'm going to
18 close my cross-examination of the Panel. Thank you very
19 much everybody. Good afternoon.

20 THE CHAIRPERSON: Thank you, Ms.
21 McCaffrey. Before we move on to Mr. Anderson, I believe
22 Mr. Peters has a few follow ups.

23 MR. BOB PETERS: I do.

24

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

1 MR. BOB PETERS: And I understand that
2 Mr. Cormie's time with us is brief and so to take
3 advantage of that opportunity, Mr. Cormie, in my notes
4 here it indicates that you -- you told the Chairman that
5 you have made for Mr. Warden \$160 million this year on a
6 result of export sales into the Ontario market; did I
7 understand you correctly?

8

9 (BRIEF PAUSE)

10

11 MR. DAVID CORMIE: The \$160 million is
12 the sales revenues. There's significant costs associated
13 with those. But he's a very happy man this year, yes.

14 MR. BOB PETERS: When you say \$160
15 million this year, are you -- are you talking calendar
16 year or fiscal year or whereabouts are you on that?

17 MR. DAVID CORMIE: Oh I think that was
18 for the fiscal year ending March 31st.

19 THE CHAIRPERSON: We wondered if it was
20 for seven (7) weeks.

21 MR. DAVID CORMIE: I wish again.

22

23 CONTINUED BY MR. BOB PETERS:

24 MR. BOB PETERS: All right. So included
25 in the record numbers that are coming forward for extra

1 provincial sales, will be approximately \$160 million as a
2 result of a new method of sales into the Province of
3 Ontario?

4 MR. DAVID CORMIE: Yes, in the financial
5 results for the fiscal year that has just ended, we will
6 show those revenues from Ontario as part of our total
7 gross revenues, but there will also be significant power
8 purchase costs, as well. And the combination of those
9 will result in -- I think it's safe to say record
10 revenues for -- net revenues for the Corporation.

11 MR. BOB PETERS: But those power purchase
12 costs to generate that \$160 million might not show up
13 then as a discreet item on the -- in the IFF as an
14 expense, is that right, Mr. Warden?

15 MR. DAVID CORMIE: Those -- those
16 revenues and costs will show up -- the revenues will show
17 up in the export revenues and the costs will show up in
18 the power purchase cost, as they always have. We don't -
19 - we don't show them by market, we show them as an
20 aggregate.

21 MR. BOB PETERS: They're shown as gross
22 not net numbers when they show up on the IFF, would that
23 be fair to say?

24 MR. DAVID CORMIE: Yes.

25 MR. BOB PETERS: Mr. Warden, that's your

1 understanding, as well?

2 MR. VINCE WARDEN: Yes.

3 THE CHAIRPERSON: Would the IFF -- the
4 last one that would have been done would have been in the
5 fall, would it have reflected on this new opportunity
6 approach?

7 MR. DAVID CORMIE: To the extent that we
8 could have forecast those arbitrage, we include those in
9 the forecast.

10 THE CHAIRPERSON: So it's possible that
11 the next IFF may have some adjusted numbers going into
12 the future based on your actual experience?

13 MR. DAVID CORMIE: Yes, again to the
14 extent that we can forecast. We will undertake that
15 activity and how profitable it will be, we'll include
16 those in the IFF.

17 MR. LEN EVANS: Excuse me, this system
18 you use, is it foolproof? Will you never lose money? I
19 mean it's an arbitrage type of procedure, you're making
20 money which is great, especially if you're on a
21 commission basis, and I'm not suggesting you are. But
22 what about the possibility of losses?

23 MR. DAVID CORMIE: When you look at our -
24 - our activities, we shouldn't judge the success of the
25 activity by whether there are losses. There are risks

1 associated with our activities and my objective in
2 managing our export marketing activities is that overall
3 the activities are profitable.

4 And we have procedures in place to ensure
5 that the vast majority of transactions are prudent and --
6 but in -- as in any area of business, sometimes you make
7 good decisions and sometimes you -- and you weigh the
8 risk of those and is the upside or the benefits on
9 average, do they offset the risks.

10 And in our export activities we set a
11 relatively high standard for successes and we want to
12 have at least 90 percent of our transaction make sense
13 and financially favourable. And I think when we're in
14 that range we're no longer in -- we're not in the
15 speculative range. We're 90 percent sure, 95 percent
16 sure that if we undertake this transaction we're going to
17 make money.

18 And our results speak for themselves.
19 Like we've had a very successful year and when you dig
20 down into the individual transactions the vast majority
21 of them make money. But there's no guarantee.

22 MR. LEN EVANS: Thank you very much.
23 This is good to hear. Manitoba Hydro consumers should be
24 very happy too. Thanks.

25

1 CONTINUED BY MR. BOB PETERS:

2 MR. BOB PETERS: Mr. Cormie, I just want
3 to make sure that the record is clear and my
4 understanding is clear on the nature of those
5 transactions you described when you were answering
6 questions for Mr. Williams.

7 Am I correct to say that Manitoba Hydro
8 will now purchase power in the United States and sell it
9 to another customer in the United States, that currently
10 goes on?

11 MR. DAVID CORMIE: That -- that situation
12 will happen where we have -- we have a customer in the
13 United States and we choose to purchase the energy from
14 the market to serve the sale.

15 So, yes, we have sold and bought power
16 from -- from a supplier in the United States to serve a
17 customer in the United States. The transaction takes
18 place at the border so it's still a sale of electricity
19 at the border in Canada, but that -- that's a
20 possibility.

21 And this is no different than we've always
22 done where we -- for example, we've bought power at night
23 and stored the water in our reservoirs and then sold it
24 back to the market. And so there's a time of day
25 arbitrage. You buy it at low cost periods and you sell

1 it at high cost periods.

2 We're now buying and selling
3 simultaneously and there's no time arbitrage but it's a
4 market arbitrage where you're buying from one market and
5 selling into another market.

6 So, you know, as the opportunities
7 develop, as the markets change, and you know we continue
8 to do our traditional activities and we continue to take
9 on -- enter into new transactions in order to capture the
10 full value.

11 MR. BOB PETERS: I just want to make sure
12 that I'm clear here and your answer is partly helpful.
13 You talked about buying power in the United States to
14 service an existing customer for an existing obligation
15 and that's something that you do do and you have done
16 that on a number of occasions; is that correct?

17 MR. DAVID CORMIE: Yes.

18 MR. BOB PETERS: And when you say "to
19 serve an existing customer"; is that an existing customer
20 but a brand new opportunity with that existing customer
21 or is it an old obligation that you're looking at a new
22 way to fill that obligation?

23 MR. DAVID CORMIE: We're still supplying
24 our -- our -- our customers with power and we're choosing
25 to supply it with purchased power rather than with

1 electricity generated in Manitoba.

2 And -- and then the opportunity now is
3 that having served that customer with purchase power the
4 generators in Manitoba are now free to take to a
5 different market where the overall profitability
6 associated with the sale of Manitoba power is higher than
7 it would otherwise have been.

8 MR. BOB PETERS: Let me ask it this way,
9 if you received a phone call at the coffee break this
10 afternoon from a -- from a customer in the United States
11 or there was an arbitrage opportunity for you to sell to
12 a customer in the United States and you also found that
13 there was an opportunity to purchase power in the United
14 States to serve that customer would you enter into that
15 brand new transaction using purchase power in the United
16 States?

17 MR. DAVID CORMIE: If there was margin to
18 be made, yes, I would.

19 MR. BOB PETERS: All right. And on those
20 cases if there was margin to be made, is that a
21 relatively new type of transaction; this latest one that
22 I'm talking about, or is this something you've always
23 done?

24 MR. VINCE WARDEN: Could I just -- while
25 Mr. Trump -- or Mr. Cormie is -- while he's thinking

1 about that response, I just want to qualify that with
2 this statement and that is I don't believe, and he can
3 correct me if I'm wrong, but he would never enter into
4 that transaction unless we had the capability to deliver
5 from Manitoba resources.

6 So it's not a speculative transaction in
7 any way. There's always the physical capability to
8 deliver.

9 MR. BOB PETERS: I appreciate that and
10 Mr. Cormie, or your new name, I suppose, when you're --
11 when you're making these deals, will you only make the
12 deal if there is power available to back it up in
13 Manitoba or will you make the deal purchasing it in the
14 United States and then reselling it in the United States
15 to capture an opportunity that presents itself?

16

17 (BRIEF PAUSE)

18

19 MR. DAVID CORMIE: First, I have to say
20 Mr. Warden and I are still on the same team. The -- at
21 the end of the day we are only -- we only make delivery
22 of -- of electricity for which we have assets in place.

23 So, you know, there are -- we have -- we
24 have so much surplus power and at the end of the day
25 we're just selling that surplus. We may buy down one

1 obligation and that obligation then goes away; that frees
2 up some surplus. And so when we're actually making
3 delivery it's just that we've redirected the -- we've
4 redirected the power.

5 So what the purchase does is that just --
6 is that it just then makes in effect, we financially
7 settled for one (1) transaction. And that obligation now
8 disappears, frees up capacity in Manitoba to sell to
9 another market.

10 And there's no -- we're not trying to sell
11 the same electricity to different customers
12 simultaneously. We have an -- we have an obligation, we
13 purchase power to serve that obligation and that
14 obligation is now settled and it, in effect, is gone
15 away.

16 But, our -- by making that purchase now,
17 we've now freed up some capacity in Manitoba that we can
18 now redirect to another market.

19 MR. ROBERT MAYER: But Mr. Peters'
20 question was a little different. He said, would you
21 create a new obligation and then satisfy it from an
22 American source? And that's pure speculation.

23 That's what Enron did, right? And I'm
24 hearing you saying, you buy American power to satisfy an
25 already existing American obligation in order to use the

1 excess power which we would have ordinarily sent under
2 that firm contract, so we can send that power into
3 Ontario at a better rate.

4 MR. DAVID CORMIE: We enter into the long
5 term or the forward markets with the intention of making
6 delivery from our generators. And those are done months,
7 years and sometimes decades in advance.

8 And we only enter into those transactions
9 knowing that we have the capability to deliver. When the
10 day of delivery actually comes, it may be profitable for
11 us not to make delivery from our generators, but to
12 purchase the power to serve the obligation. Because we
13 can then -- it now frees up our generation to make
14 another transaction.

15 But the original transactions were entered
16 into with the expectation that we would make delivery.
17 And the vast majority of our sales are as contracted,
18 we're talking now about you know, the last increment of
19 generation and sales as we were talking about the
20 increments before.

21 I can't speak to the Enron issue, Mr.
22 Mayer, it's not fair.

23 MR. ROBERT MAYER: I understood you to
24 have said that from the beginning, sir, but the
25 proposition that Mr. Peters put to you was somewhat

1 different than what you implied.

2 MR. DAVID CORMIE: Well, if an
3 opportunity came along for us to either save the
4 Corporation money at the last minute or to make some
5 money, we will adjust our purchase and sales activity to
6 capture that opportunity. But there are no shell games
7 going on here.

8 THE CHAIRPERSON: Mr. Peters...?
9

10 CONTINUED BY MR. BOB PETERS:

11 MR. BOB PETERS: I take from those
12 answers, Mr. Cormie, that for every contract you enter
13 into, whether it's firm or opportunity, you have to have
14 the ability to service it from Manitoba Hydro generated
15 energy?

16 MR. DAVID CORMIE: Correct. So when we
17 look at our portfolio and we have, including the Manitoba
18 obligation to serve, when we've got 5,500 megawatts of
19 sales in place, we've got 5,500 megawatts of generation,
20 we're sold out. We don't continue to make sales for
21 which we don't have generation assets to back them.

22 MR. BOB PETERS: Just on that point, Mr.
23 Cormie, when you say 5,500 gigawatt hours of firm
24 exports, that's a gross figure then and there's no
25 netting of that by virtue of these purchases made, but

1 delivery not made to Manitoba, arrangements?

2

3

(BRIEF PAUSE)

4

5 MR. DAVID CORMIE: The 5500 was megawatts
6 and I was speaking in the context of --

7 MR. BOB PETERS: Sorry, I was talking
8 about your firm export arrangements which I think in the
9 previous evidence before the Board, the firm gigawatt
10 hours are about 5400 gigawatt hours. And the opportunity
11 was maybe more about 4400 gigawatt hours. Mr. Surminski
12 am I -- am I remembering correctly?

13 MR. DAVID CORMIE: The 5500 gigawatt
14 hours I -- I -- subject to check, that's the amount of --
15 of firm sales that we have under contract.

16 MR. BOB PETERS: And that doesn't -- that
17 doesn't include then these not for delivery purchases
18 that you make in the United States?

19 MR. DAVID CORMIE: No, that -- that --
20 that's the -- our load obligation not our -- not the --
21 and our load -- load obligation is matched by our supply
22 obligation and the question is where do -- where do you -
23 - where do we make those -- where do those sales come
24 from?

25 MR. LEN EVANS: Excuse me. I wonder if I

1 can ask a supplementary question. I'm trying to get this
2 into my head. You describe a situation where
3 circumstances may warrant where you purchase electricity
4 from an American producer and then sell that electricity
5 to an American consuming company or a consumer of some
6 type.

7 So, in effect, you're acting as a
8 middleman. So why -- why wouldn't the American company
9 buy directly from the American electric producer rather
10 than going through Manitoba Hydro?

11 MR. DAVID CORMIE: Because we are fixing
12 the price that the -- that the customer buys the power
13 from. So he chooses to buy from us at our contract
14 price. So it's still a good price, but at the end of the
15 day he doesn't care where it's coming from and our
16 contracts allow us to serve the sale with our hydro
17 generator, our coal generators, our gas generators or
18 purchase power. There's no restriction in the contract
19 where we serve it.

20 But it's being sold at a fixed price. So
21 at the end of the day he still pays the same price for
22 his power and he doesn't -- and -- and it doesn't matter
23 where we're getting it from.

24 So we choose to buy that power to serve
25 the sale. We still charge him exactly the same amount so

1 he's indifferent to where the -- where the purchase is
2 coming from -- or the supply is coming from.

3 But what it does is it allows us to -- by
4 -- by making a purchase it allows us then to free up some
5 generation in Manitoba that can be used to make another
6 sale in another market and capture a higher profit for
7 Manitoba Hydro on the entire transaction.

8 The customer is -- sees the same bill.
9 It's just from our perspective how to optimize our
10 corporate revenues.

11 MR. LEN EVANS: I understand that and I
12 can see that. So what you're saying is you're able to
13 provide this electricity which you've purchased from an
14 American producer, cheaper, to the American consumer than
15 that original American producer would be able to offer
16 it?

17 MR. DAVID CORMIE: Not necessarily, no.

18 MR. LEN EVANS: You wouldn't -- you
19 wouldn't be selling it cheaper. So what's the incentive
20 for the American company buying it from you rather than
21 the American producer?

22

23 CONTINUED BY MR. BOB PETERS:

24 MR. BOB PETERS: If I may, I think there
25 might just be some confusion in the interchange. I think

1 all their saying is that they have a contract to supply
2 energy to a particular company and they're supplying the
3 energy to the company. It's just that they're acquiring
4 that energy from another source so they don't have to
5 generate and supply it themselves.

6 So as far as the other utility goes
7 Manitoba Hydro is still the vendor; is that not correct?

8 MR. DAVID CORMIE: That's correct. We're
9 still in -- we're still in the middle of that
10 transaction.

11 MR. BOB PETERS: You're not the middle
12 man; you're the vendor?

13 MR. DAVID CORMIE: We're the vendor.
14 Yeah.

15 MR. LEN EVANS: I see. Thanks.

16

17 CONTINUED BY MR. BOB PETERS:

18 MR. BOB PETERS: Just to conclude the few
19 questions I did have. On the -- on the Conawapa where
20 was an exhibit from My Friend, Ms. McCaffrey, MIPUG
21 Exhibit 7 which was generated from Manitoba Hydro Exhibit
22 11 which came from some questions we had the last time we
23 were together.

24 The -- the last units that you add to
25 Conawapa, even though this was maybe considered

1 hypothetical; it's expensive to do so, isn't that
2 correct?

3 MR. HAROLD SURMINSKI: Yes, Mr. Peters;
4 that's correct.

5 MR. BOB PETERS: And then if those last
6 units are really there to service the opportunity exports
7 then there is a significant cost to the opportunity
8 exports as well as a result of putting in those
9 additional units; would that also be true?

10 MR. HAROLD SURMINSKI: Yes. If they were
11 all allocated to opportunity revenues.

12 MR. BOB PETERS: All right. And you'd
13 said earlier that you have to be careful about talking
14 about being capacity constrained and that was one of your
15 caveats that you raised; wasn't it?

16 MR. HAROLD SURMINSKI: Yes, it was.

17 MR. BOB PETERS: Is Manitoba Hydro
18 currently capacity constrained?

19 MR. HAROLD SURMINSKI: No.

20 MR. BOB PETERS: And I understand, Mr.
21 Cormie, that you have about 4100 or you said about 4400
22 or 4500 megawatts needed for domestic load and you can
23 generate approximately 5000 megawatts of hydraulic
24 generation, is that correct?

25 MR. DAVID CORMIE: In the -- our peak

1 winter demand is around 4000 megawatts. We have 5000
2 megawatts of hydro, 500 megawatts of gas and coal and
3 diversity agreements for another 550. So we have a total
4 capacity of around 6050 megawatts, at the time of our
5 winter peak compared to our winter demand of around 4100.

6 So there's approximately 2400 megawatts of
7 surplus capacity available to Manitoba in the winter. In
8 the summer there's a different amount of surplus. I'm
9 not -- I don't have the numbers available right now.

10 MR. BOB PETERS: Just looking ahead, Mr.
11 Cormie, in the absence of new generation when would
12 Manitoba Hydro become capacity constrained?

13

14 (BRIEF PAUSE)

15

16 MR. DAVID CORMIE: It's -- it would be in
17 the middle of the second decade, probably 2025, but
18 that's just a guess. We don't have the tables available
19 here.

20 MR. BOB PETERS: Well, you'd have to use
21 up all that incremental surplus for domestic growth which
22 you would say would take us until --

23 MR. DAVID CORMIE: Well there's our
24 diversity sales expiry in the 2014/15/16, up to 2019. So
25 we lose that 500 megawatts of diversity capacity. And so

1 there's a step reduction in our capability. So the
2 surplus that's available in the winter is significantly
3 diminished in you know, between ten (10) and fifteen (15)
4 years from now.

5 MR. VINCE WARDEN: I believe next
6 generation is required in 2020, but that's for energy
7 reasons not capacity.

8 MR. BOB PETERS: Yes, thank you Mr.
9 Warden.

10 MR. DAVID CORMIE: There's one (1) other
11 issue that we didn't talk about in that table with regard
12 to Conawapa, is that a lot of the energy that a five (5)
13 unit Conawapa would produce would be off-peak energy and
14 -- because we wouldn't have the capacity. So a ten (10)
15 unit generating station is able to concentrate a huge
16 amount of its production in the on-peak hours.

17 And so when you look at the -- you're
18 looking at the costs here, but you also have to look at
19 the economics and the value of the product that's being
20 produced.

21 So there's -- there's the capacity issue,
22 there's the energy issues, there's the value proposition
23 that has to be considered. And in the value proposition
24 is when the power is produced and whether it's used to
25 produce -- used to displace gas turbines or purchase

1 power and -- with a five (5) unit there would be no
2 capacity.

3 Like, we would generate that off-peak
4 energy at night, sell it into the market and we'd still
5 have to run our gas turbines in the day time in order to
6 serve our load.

7 So, you know, jumping to the conclusion
8 that it's a bad deal to put ten (10) units in, would be
9 premature I think. You'd need to look at the economics
10 and not just the numbers that simply shown here.

11 MR. BOB PETERS: Mr. Cormie, I wasn't
12 jumping anywhere, at least I wasn't -- trying not too,
13 but I understand from your answer what your concern is.

14 But at five (5) units in the Conawapa
15 there would be dependable energy that would be only 3
16 percent less than if there were ten (10) units?

17 MR. DAVID CORMIE: That's true.

18 MR. BOB PETERS: So to that extent
19 putting in an additional five (5) units would yield a
20 greater opportunity for opportunity sales, as you've
21 called them?

22 MR. DAVID CORMIE: If we were to install
23 a five (5) unit Conawapa, we would probably have to
24 install some capacity on the system, as well. So a five
25 (5) unit station is not the complete picture because we

1 run out of capacity. So we would have to put in, you
2 know, 400 or 500 megawatts of capacity in order to meet
3 our peak demands for power.

4 And so it's really -- where as a ten (10)
5 unit station has enough capacity and energy and makes
6 sense, the five (5) unit is not a complete picture.
7 There's more system resources needed to ensure that the
8 peak load can be met.

9 MR. BOB PETERS: Are you saying then
10 that Manitoba Hydro would be capacity constrained after a
11 five (5) unit Conawapa was put into service?

12 MR. DAVID CORMIE: I would think so if we
13 didn't do anything else -- we'd have a capacity problem.

14 MR. BOB PETERS: But you wouldn't have an
15 energy constraint?

16 MR. DAVID CORMIE: Probably not.

17 MR. BOB PETERS: Mr. Chairman, I want to
18 thank Mr. Cormie for his helping on those areas.

19 THE CHAIRPERSON: Yes, thank you very
20 much, Mr. Cormie. By the way, just as a way of
21 commenting briefly on the discussion, the one thing that
22 hits my mind is it's very interesting to hear of these --
23 this new opportunity has opened up.

24 But I have to remind myself on thinking on
25 that that you've pointed out that you've already

1 reflected on this opportunity when you did the IFF and
2 the conclusion coming in your IFF was that Hydro was
3 still -- looking forward to rate increases going into the
4 future to bring the debt equity ratio up.

5 In other words, these opportunity sales
6 were not solving your financial problem by themselves?

7 MR. VINCE WARDEN: No, definitely not.
8 They help but they certainly don't solve the problem.

9 THE CHAIRPERSON: Thank you.

10 Yes, Mr. Cormie, you can stay or leave at
11 your convenience from our perspective.

12 MR. DAVID CORMIE: Thank you.

13 THE CHAIRPERSON: Now, I'm looking at the
14 schedule and unless you're going to correct me, Mr.
15 Peters, I believe we're on to Mr. Anderson now and MKO?

16 Mr. Anderson do you have a -- do you want
17 to come up to the front or are you fine where you are?

18 MR. MICHAEL ANDERSON: Providing everyone
19 can see, I'm reasonably comfortable where I am.

20 THE CHAIRPERSON: It's better if you move
21 up to the front row --

22 MR. MICHAEL ANDERSON: I'll be happy to
23 move up.

24 THE CHAIRPERSON: -- so that Hydro can
25 see you.

1 MR. MICHAEL ANDERSON: Sure, Mr.
2 Chairman.

3

4 (BRIEF PAUSE)

5

6 THE CHAIRPERSON: As you're doing that,
7 Mr. Anderson, I'll just indicate to you to help you with
8 your presentation that we'll be taking our break at 2:45.
9 So you'll just be getting started by then.

10 MR. MICHAEL ANDERSON: That would be
11 fine, Mr. Chair. I don't have very many questions, but I
12 understand, thanks.

13

14 (BRIEF PAUSE)

15

16 MR. MICHAEL ANDERSON: Mr. Chair, I did
17 have a couple of documents that I just wanted to
18 circulate for simplicity and for Ms. Ramage's assistance.
19 They're just simply extracts from annual reports and one
20 is from the November 24th transcript. They're only
21 circulated for convenience if that's acceptable to Ms.
22 Ramage and Mr. Peters. Thank you.

23 MS. PATTI RAMAGE: I think we need to see
24 it to determine if it's acceptable but --

25 MR. MICHAEL ANDERSON: Right.

1 MS. PATTI RAMAGE: -- circulate away.

2 MR. MICHAEL ANDERSON: Subject to that,
3 thank you.

4 THE CHAIRPERSON: Mr. Barron -- Mr.
5 Barron, could you help Mr. Anderson please. We have Mr.
6 Williams helping out here.

7 MR. MICHAEL ANDERSON: With my thanks to
8 Mr. Williams, Mr. Chair. Thank you.

9

10 (BRIEF PAUSE)

11

12 MR. ROBERT MAYER: Tell me, Ms. Ramage,
13 on exactly what basis would Hydro object to distribution
14 of its annual report in light of the fact that the public
15 has pretty well got it all?

16 MS. PATTI RAMAGE: I -- I can't imagine
17 one but I'd like to identify that it is, in fact, Hydro's
18 annual report.

19 MR. MICHAEL ANDERSON: I can understand
20 that it would be a matter of care to determine that I --
21 as is, I often will bring other materials with me just to
22 ensure I hadn't inadvertently inserted something else.

23 MR. ROBERT MAYER: I trust you wouldn't
24 pass them off as Hydro's annual report though?

25 MR. MICHAEL ANDERSON: Thank you for

1 that, Mr. Vice Chair. Absolutely, if there was an
2 additional document I would bring it squarely to Hydro
3 and the Board's attention prior to seeking permission to
4 circulate it. Thank you.

5 MS. PATTI RAMAGE: Just prudence and
6 training on my part, Mr. Mayer.

7

8 (BRIEF PAUSE)

9

10 MR. MICHAEL ANDERSON: I can say, while
11 we have a moment though, that there were some other
12 materials that I was going to prepare and -- and share
13 with Ms. Ramage that come from other proceedings before
14 this Board that I'd wanted to make reference to in
15 argument so I'll be going through that process a bit
16 later in the week with everyone's permission. Thank you.

17 THE CHAIRPERSON: Okay, Mr. Anderson. We
18 have it all.

19 MR. MICHAEL ANDERSON: Thank you, Mr.
20 Chair. Good afternoon, everyone.

21 THE CHAIRPERSON: We'll give it an
22 exhibit number. Mr. Peters, do you have -- it will be
23 MKO-1 -- well, it wouldn't be one (1). MKO-2, fine.

24

25 --- EXHIBIT NO. MKO-2: Extract from the Corporation's

1 financial statements

2

3 MR. MICHAEL ANDERSON: That would be
4 fine. And if you wanted to be specific, Mr. Chair, that
5 the -- whether you wanted to provide an -- any reference
6 for this extract from the transcript. Or I just wanted
7 to be clear, MKO 2 is explicitly which document or
8 documents, Mr. Barron?

9 THE CHAIRPERSON: The financial
10 statements.

11 MR. MICHAEL ANDERSON: Thank you, Mr.
12 Barron.

13 THE CHAIRPERSON: I should say the
14 extract from the financial statements.

15 MR. MICHAEL ANDERSON: And we'll simply
16 be using the transcript reference as a help. Thank you.

17

18 CROSS-EXAMINATION BY MR. MICHAEL ANDERSON:

19 MR. MICHAEL ANDERSON: I don't have an
20 extract for this particular passage but if reference
21 could be made please to the transcript of May 5th, that's
22 pages 368 and 369. It's the cross-examination of Mr.
23 Peters. Mr. Thomas was responding. I just have a bit of
24 housekeeping item on this exchange that I'd just like to
25 do.

1 So that's May 5th, the bottom of page 368
2 and 369 and the exchange I'm interested begins at pages -
3 - at Page 365 and extends to 371, Mr. Chair. And when
4 Mr. Thomas -- do you have that now, Mr. Thomas?

5 MR. CHIC THOMAS: I do.

6 MR. MICHAEL ANDERSON: Thank you. And if
7 -- if also I could ask that you make reference to
8 Appendix 11.1 Schedule B, if you would, Mr. Thomas?

9

10 (BRIEF PAUSE)

11

12 MR. MICHAEL ANDERSON: Yes -- sorry, I'm
13 answering yes to a visual. Mr. Peters had given me a
14 document. Prospective cost of service study.

15 MR. ROBIN WIENS: Can you give us a page
16 number from the cost of service study please?

17 MR. MICHAEL ANDERSON: I have it as page
18 40 on my extract.

19 MR. ROBIN WIENS: Thank you.

20 MR. MICHAEL ANDERSON: You're welcome,
21 Mr. Wiens.

22

23 (BRIEF PAUSE)

24

25 MR. MICHAEL ANDERSON: Do you have the

1 document? Thank you very much. Looking at the
2 transcript and the Appendix 1 -- 11.1 Schedule B --

3 MR. CHIC THOMAS: Just to be clear, Mr.
4 Anderson, we're looking at Schedule B-4 on page 40 of the
5 cost of service study?

6 MR. MICHAEL ANDERSON: That is correct.
7 Thank you, Mr. Thomas. I wanted to confirm, given the
8 discussion between yourself and -- and Mr. Peters on this
9 matter, that if we look at the column "class revenue for
10 diesel" that the -- it indicates a revenue there of
11 \$9,309,400; is that correct, Mr. Thomas?

12 MR. CHIC THOMAS: That's right.

13 MR. MICHAEL ANDERSON: I just wanted to
14 confirm that that is the revenue that is pre the
15 tentative settlement? That that revenue does not take
16 into account the terms of the tentative settlement
17 agreement; is that correct, Mr. Thomas?

18 MR. CHIC THOMAS: That's correct. They
19 would have reflected the most recently approved rates for
20 the diesel rates.

21

22 (BRIEF PAUSE)

23

24 MR. MICHAEL ANDERSON: I think Mr. Warden
25 knows what my next --

1 MR. CHIC THOMAS: But, yes, it is pre-
2 settlement.

3 MR. MICHAEL ANDERSON: And so that the --
4 the class revenues identified there also similarly do not
5 reflect the interim ex-parte order and the rates that
6 flow from that, is that correct?

7 MR. CHIC THOMAS: Yes.

8 MR. MICHAEL ANDERSON: Thank you very
9 much. And so for the assistance of the Board and those
10 that were looking at the RCC of 108.1 on the extreme
11 right-hand column of this table, that RCC is similarly --
12 does not take into account the terms of the tentative
13 settlement agreement, is that correct?

14 MR. CHIC THOMAS: Yes.

15 MR. MICHAEL ANDERSON: And then the RCC,
16 of course, would be something different than that with
17 the effect of the tentative settlement agreement?

18 MR. CHIC THOMAS: Quite possibly, yes.

19 MR. MICHAEL ANDERSON: And similarly
20 taking into account the rates that are actually in
21 effect, in respect of the interim order, is that correct
22 Mr. Thomas?

23 MR. CHIC THOMAS: Yes.

24 MR. MICHAEL ANDERSON: Thank you.

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(BRIEF PAUSE)

MR. MICHAEL ANDERSON: Similarly, excuse me, My Friends are having a discussion. I'm content, Mr. Warden if you have any clarification you'd like to make based on your discussion, I'm happy to receive it. Thank you.

MR. VINCE WARDEN: Sorry about that, we're just making sure we're all clear on what exactly is before us here. But I think we're clear. Thank you.

MR. MICHAEL ANDERSON: Well and I appreciate that. I just didn't want it for the record -- for everyone to understand what the numbers as presented were in context. What their context was and I appreciate the responses.

MR. ROBIN WIENS: Just by way of further context. The total cost that is shown there, as well, is -- has not taken into consideration the interim sum. This represents the total cost prior to any consideration of the interim settlement. Both the costs and the revenues and treat it on a consistent basis.

MR. MICHAEL ANDERSON: I thank you for answering my next two (2) questions, Mr. Wiens, with one (1) response. No, I appreciate it. That was the purpose of my exchange was to place into context the numbers on

1 diesel and I thank you for that Mr. Wiens.

2 Similarly the -- I wanted you to confirm
3 that under the recommended method the present calculation
4 is that -- assuming that the Board's adoption of Manitoba
5 Hydro's recommended method that the allocation of net
6 export revenues to the diesel customer class would be
7 2.4047 million, is that correct, Mr. Thomas?

8 MR. CHIC THOMAS: With the caveats you
9 noted, yes.

10 MR. MICHAEL ANDERSON: Thank you.

11

12 (BRIEF PAUSE)

13

14 MR. MICHAEL ANDERSON: And then again I
15 just want to note for the record for the brief pause that
16 Manitoba Hydro is conferring to make sure that the record
17 is complete and Mr. Warden, did you -- I have an
18 additional question on this that may be of some
19 assistance.

20 I wanted to confirm -- would you please
21 confirm that in the event that the Board accepts and
22 presents an order accepting the recommended method that
23 this net export revenue allocation of 2.4047 million
24 would not immediately be applied to the diesel customer
25 class, is that correct?

1 (BRIEF PAUSE)

2

3 MR. VINCE WARDEN: We do have, as you're
4 aware, there are some confidentiality issues here
5 associated with that agreement. So we have to be a
6 little bit careful as to how we respond to that line of
7 questioning.

8 MR. MICHAEL ANDERSON: The context of my
9 question and I don't mean -- I apologize for
10 interrupting, I'm using the Order 159/04 as a frame for
11 my question. So I'm only asking questions that are
12 discussed and outlined by the Board itself and its Order,
13 Mr. Warden.

14 MR. VINCE WARDEN: Mr. Anderson, would
15 you ask your question again then and we'll be as
16 responsive as we can?

17 MR. MICHAEL ANDERSON: Yes. Thank you.

18

19 (BRIEF PAUSE)

20

21 MR. MICHAEL ANDERSON: I'll read a
22 passage directly from the Board's Order and simply ask
23 you to confirm for the record if that's your
24 understanding. That would be helpful. At page 6 of
25 Order 159/04 the Board indicates that:

1 "Terms of the tentative settlement were
2 summarized by Manitoba to be as
3 follows:

4 1. Manitoba Hydro to request Board
5 approval to use net export revenues to
6 amortize the accumulated deficit
7 indicated to be \$16.9 million as of
8 March 31, 2004, over a period of ten
9 (10) years. Following the retirement
10 of the accumulated deficit, a share of
11 net export revenues would accrue to the
12 benefit of customers in the diesel
13 communities."

14 Is that your understanding, Mr. Warden?

15 MR. VINCE WARDEN: Yes.

16 MR. MICHAEL ANDERSON: Thank you. And so
17 anyone looking at the amount of net export revenue that
18 may be credited to the diesel customer class in accord
19 with the recommended method must take this into account,
20 in terms of determining the timing of when those
21 allocations may be initiated, is that correct Mr. Warden?

22 When they may be first applied?

23 MR. VINCE WARDEN: The recommended
24 method, Mr. Anderson, was put forward on the assumption
25 that the agreement would be signed and behind us by now.

1 We're very concerned that hasn't happened and would this
2 still be our recommended method should that agreement not
3 be approved, we would probably have to -- and I think
4 I've probably gone on record earlier saying, we would
5 have re-think that.

6 MR. MICHAEL ANDERSON: I understand, Mr.
7 Warden, the only distinction that I wanted to make
8 similar to my earlier questions regarding the revenue
9 cost coverage, is simply that it is intended and
10 contemplated at present, that the application of net
11 export revenues would be used to amortize an amount as
12 distinct from being -- upon the Board's order --
13 immediately applied to the -- as revenue to the diesel
14 customer class. That's all I wanted to confirm Mr.
15 Warden.

16 MR. VINCE WARDEN: Yes I can confirm that
17 and subject, of course, to this agreement being signed.

18 MR. MICHAEL ANDERSON: And further
19 subject, of course, to the acceptance by the PUB of the
20 recommended method.

21 MR. VINCE WARDEN: Correct, absolutely,
22 yes.

23 MR. MICHAEL ANDERSON: Thank you, Mr.
24 Warden.

25

1 (BRIEF PAUSE)

2

3 MR. MICHAEL ANDERSON: If you could
4 please turn to the extract of the transcript please for
5 the -- for November 24th, pre-hearing conference. This
6 is in the handout that I had just provided.

7 THE CHAIRPERSON: For the sake of
8 simplicity, Mr. Anderson, we will give this a number too,
9 MKO-3?

10 MR. MICHAEL ANDERSON: That would be
11 fine, Mr. Chair. Thank you very much.

12

13 --- EXHIBIT NO. MKO-3: Extract of the transcript for
14 November 24th, pre-hearing conference

15

16 CONTINUED BY MR. MICHAEL ANDERSON:

17 MR. MICHAEL ANDERSON: And if you would
18 please refer to both MKO-3 and have ready at hand MKO-2,
19 Mr. Warden.

20

21 (BRIEF PAUSE)

22

23 MR. MICHAEL ANDERSON: And if also if I
24 might if we could go back to page, I believe, 31 of the
25 prospective cost of service study, Appendix 11.1.

1 The specific discussion there is
2 essentially a history of the various cost of service
3 studies, if I have the information correct. And I don't
4 mean to go in any depth in the history of the cost of
5 service study because that's in evidence before us here.
6 But I just wanted to use it as reference.

7 So let's -- do we have those three (3)
8 documents handy, Mr. Warden?

9 MR. VINCE WARDEN: Yes, we do.

10 MR. MICHAEL ANDERSON: Thank you very
11 much. Now, at lines 12 to 14 of page 20 of the May 5th
12 transcript you were describing that the -- and -- and my
13 next questions I realize that many of these items may
14 have been entered into the record already, it's for the
15 purposes of my final submission that I had wanted to
16 compact this set of passages, Mr. Chair. Thank you.

17 At lines 12 to 14 of page 20, Mr. Warden,
18 you indicate that:

19 "The magnitude of export sales is the
20 major reason that historical approaches
21 to the cost of service are no longer
22 appropriate -- adequate [excuse me]."

23 That was your comment. Looking at the
24 record that I've indicated to you in MKO 2, which the
25 second set of financial and operation statistics at pages

1 3 and 4 of MKO 2 go back to 1992, which matches the time
2 period and at Appendix A-6 of your prospective cost of
3 service study. For a -- just as a -- as a summary in
4 terms of leading us up to your conclusion that historical
5 approaches are no longer adequate, could you describe the
6 changes that have occurred between 1992 and now in
7 respect of your operations that lead us to the basis and
8 foundation for the current application?

9 By assistance and without answering your
10 question I know that Mr. Wiens has already indicated that
11 allocating market-based revenue against historic embedded
12 cost, for example, is no longer appropriate in your view;
13 is that correct, Mr. Wiens?

14 MR. ROBIN WIENS: That's correct.

15 MR. MICHAEL ANDERSON: And so similarly
16 are there other elements like that that are no longer
17 adequate or appropriate given the changes that have
18 occurred since 1992?

19 MR. ROBIN WIENS: Well, really the big
20 change since 1992 having to do with the extra-provincial
21 revenues is that back in the early 1990's we were looking
22 at unit revenues from the sale of -- of energy into the
23 export market being typically below and sometimes quite a
24 bit below embedded cost.

25 Whereas in the -- in the post, say, 1996

1 or 1997 world those unit revenues have -- have gone up
2 very substantially and are in some cases some years
3 nearly double embedded costs associated with generation
4 and transmission.

5 So, you know, we've indicated it on the
6 record as various points that in that type of a situation
7 where you've got an ever rising marginal cost and a
8 fairly stable embedded cost that you begin to get some
9 problems. You begin to get some distortionate results
10 from your cost of service study by bringing back those
11 very high average revenues against -- against the -- the
12 stable, below three (3) cents a kilowatt hour embedded
13 costs.

14 And you've also got an issue with -- with
15 regard to the impact of increases in use because in 1992
16 if a domestic customer took a kilowatt hour that would
17 have otherwise flowed to the export market, Manitoba
18 Hydro's revenue would increase as a result of that and
19 there would be no upward pressure on the rates to all
20 other domestic customers. The reverse is the case since
21 1996.

22 MR. MICHAEL ANDERSON: Thank you, Mr.
23 Wiens. And so just to be clear, since 1996 there was a
24 threshold crossed where the revenue from a kilowatt hour
25 sold on the export market was greater than the revenue

1 from a kilowatt hour sold domestically?

2 MR. ROBIN WIENS: You know, I probably
3 don't have the precise year. But it was in and around
4 1995/6/7, that period of time was when that -- the
5 average revenue from export sales surpassed the embedded
6 cost of generation and transmission.

7 MR. MICHAEL ANDERSON: Thank you, Mr.
8 Wiens.

9

10 (BRIEF PAUSE)

11

12 MR. MICHAEL ANDERSON: Would also a
13 matter that has changed in addition to the value of a
14 unit of electricity you simplified as we've described as
15 a kilowatt hour, the overall magnitude of total net
16 revenues from the sale of electricity has that not also
17 changed since 1992?

18 If I might, I'll just use --

19 MR. ROBIN WIENS: Certainly -- certainly
20 it has. Certainly it has. But in -- in more recent
21 years since the mid-1990's it's been driven much more by
22 price than by -- by volume. In fact, the volumes have
23 probably come off, at least normal year volumes would
24 have come off since the mid-1990's because we've got
25 domestic load growing, whereas the amount of generation

1 was fixed.

2 So assuming that the weighted average of
3 flow conditions, the volumes would be going down. But
4 over that period the actual annual revenues were
5 increasing.

6 MR. MICHAEL ANDERSON: Thank you, Mr.
7 Wiens. Just by way of example, I had wanted to just
8 confirm, for the record, that at page 3 of MKO 2, the
9 extreme right-hand column of the financial statistics
10 indicate that in 1992 the net income of the Corporation
11 was \$18 million; is that correct, Mr. Wiens?

12 MR. ROBIN WIENS: Yes, that's correct.

13 THE CHAIRPERSON: Mr. Anderson, I hate to
14 interrupt but I think we'll take our break right now and
15 we'll be back at 3:00. Thank you.

16 MR. MICHAEL ANDERSON: That would be
17 fine, Mr. Chair. Thank you.

18

19 --- Upon recessing at 2:45 p.m.

20 --- Upon resuming at 3:08 p.m.

21

22 THE CHAIRPERSON: Okay. Welcome back,
23 everyone.

24 Mr. Anderson...?

25 MR. MICHAEL ANDERSON: Thank you, Mr.

1 Chair.

2

3 CONTINUED BY MR. MICHAEL ANDERSON:

4 MR. MICHAEL ANDERSON: I had left off
5 with a simple confirmation that the net revenues of the
6 Corporation were \$18 million in 1992. And if I could ask
7 Mr. Warden to give us the -- you gave this to us on the
8 first day on May 4th, has there been any adjusted number?
9 What's the forecast now for 05/06 net consolidated
10 revenue?

11 MR. VINCE WARDEN: Well, Mr. Anderson I
12 think I indicated earlier that 05/06, the results are
13 still being finalized but it will exceed -- the bottom
14 line number will exceed \$375 million.

15 MR. MICHAEL ANDERSON: Thank you Mr.
16 Warden. So, in terms of changes the Corporation has
17 experienced since 1992, the magnitude of net export
18 revenues is also another one (1) of those changes, net
19 revenues to the Corporation? Is that correct, Mr.
20 Warden?

21 MR. VINCE WARDEN: I'm sorry would you
22 mind repeating that question, please?

23 MR. MICHAEL ANDERSON: I would be
24 absolutely pleased to. So if we began with corporate net
25 revenues in 1992 of approximately -- of \$18 million as

1 stated in the annual report and we now have your
2 information that the current best forecast for the most
3 recent fiscal year is \$375 million net consolidated, is
4 that also a major change that's occurred in the period
5 since 1992?

6 MR. VINCE WARDEN: Well, just to be clear
7 I said exceed -- I didn't say 375 -- I said net income
8 will exceed 375 million. Is that a major change? Well,
9 I think as Mr. Wiens has indicated earlier, the major
10 contributor to that bottom line net income is export --
11 what's happened on the export market and of course this
12 past year was exceptional, in terms of water conditions.

13 So the net income, the bottom line of
14 Manitoba Hydro is very much influenced by water
15 conditions in any given year. The last new major
16 generation that went in was in 1992. So, the bottom line
17 has been driven very much by those two (2) factors, water
18 conditions and prices on the export market.

19 MR. MICHAEL ANDERSON: Thank you Mr.
20 Warden.

21

22 (BRIEF PAUSE)

23

24 MR. MICHAEL ANDERSON: And although we've
25 been discussing it in terms of trends and I thank you for

1 your clarification about the last addition of generation
2 for the system, to the extent that another change has
3 occurred are these changes in export prices, the revenues
4 from export sales, viewed as -- to be as variable as
5 water energy and storage in the reservoirs an exceptional
6 year or do you believe that the change is upward -- the
7 upward trend in export revenues and sale prices is
8 becoming an effective feature of the marketplace?

9 MR. HAROLD SURMINSKI: We had spoken at
10 length earlier in these proceedings that it is a change
11 in the marketplace that is resulting in higher prices.
12 It's not just the -- a natural variability. There are
13 fundamental changes in the marketplace. The
14 restructuring of the market in the US and the capability.

15 We have a competitive market where we are
16 no longer captive to the five (5) original customers we
17 had. So the competitive market ensures or gives us the
18 opportunity to achieve higher prices.

19 MR. MICHAEL ANDERSON: Pardon me, Mr.
20 Wiens seemed to have a bit of assist there. I'd be happy
21 to have that if Mr. Wiens would wish to share it.

22 MR. HAROLD SURMINSKI: In addition, it is
23 the marginal cost of generating in the export market that
24 allows us to -- to achieve the higher costs. So the
25 higher cost of fuel, natural gas, coal transportation and

1 all those factors have increased the cost of generating
2 in the export market.

3 MR. MICHAEL ANDERSON: And in that
4 reference the marginal cost of the purchasing utilities;
5 is that correct?

6 MR. HAROLD SURMINSKI: That's correct.

7 MR. MICHAEL ANDERSON: Thank you.

8

9 (BRIEF PAUSE)

10

11 MR. MICHAEL ANDERSON: And if we could
12 turn please to page 21 of the transcript of May -- sorry,
13 November 24th. It's MKO 3. It's at page -- the third
14 page of MKO 3. And it's Mr. Warden's comments at pages -
15 - lines 12 to 14 of page 21 at page 3 of MKO 3.

16 And Mr. Warden indicates -- could you
17 read, Mr. Warden, just the paragraph -- lines 9 through
18 14 please, beginning "so...?"

19 MS. PATTI RAMAGE: What page were you on,
20 Mr. Anderson?

21 MR. MICHAEL ANDERSON: I'm sorry. I --
22 it's marked and this is page 21 of the transcript of
23 November 24th, lines 9 through 14.

24 MR. VINCE WARDEN: Sure. I'll just read
25 this in.

1 MR. MICHAEL ANDERSON: Thank you.

2 MR. VINCE WARDEN: "So the establish --
3 this new approach has the establishment
4 of an export class in which residual
5 revenues from that class are allocated
6 to all functions, not just generation
7 and transmission."

8 MR. MICHAEL ANDERSON: And then the --

9 MR. VINCE WARDEN: "and we firmly believe
10 that that's the fairest way to
11 distribute export benefits to Manitoba
12 ratepayers."

13 MR. MICHAEL ANDERSON: Thank you, Mr.
14 Warden.

15 And so in the consideration of the
16 application or the review of your cost of service
17 proposals that are currently before the Board, in the
18 recommendation to create an export class to assist in the
19 distribution of revenues, fairness was a consideration as
20 in the preparation of these proposals to the board; is
21 that correct, Mr. Warden?

22 MR. VINCE WARDEN: Yes.

23 MR. MICHAEL ANDERSON: And the creation
24 of an export class they're -- you answered the question
25 that it is, in part, related to your consideration of

1 fair -- fairness?

2 MR. VINCE WARDEN: Yes.

3 MR. MICHAEL ANDERSON: Thank you.

4 Similarly, in your consideration of
5 fairness did Manitoba Hydro consider the creation of an
6 additional customer class of -- for example Hydro
7 affected customers?

8 You might recall from my opening
9 comments, has Manitoba Hydro in it -- in the
10 consideration of the distribution of net revenues
11 considered the creation of a separate customer class to
12 distribute revenues intentionally to those customers who
13 may be most directly affected by the company's
14 operations?

15

16 (BRIEF PAUSE)

17

18 MR. VINCE WARDEN: Perhaps you can just
19 remind me of the context of that question. That is --
20 were you talking something outside of the cost of service
21 study or was that a methodology within the cost of
22 service study that you were referring to?

23 MR. MICHAEL ANDERSON: They are not
24 included in the customer -- cost of service study as
25 filed presently before the Board. I was exploring those

1 items that you may have other -- also considered.

2 In terms of determining the fairest way to
3 distribute export benefits to Manitoba ratepayers, did
4 Manitoba Hydro consider the creation of a special,
5 separate customer class to distribute revenues, net
6 export revenues or export revenues to those customers who
7 are most directly affected by Manitoba Hydro's
8 operations.

9 MR. VINCE WARDEN: No, we did not.

10 MR. MICHAEL ANDERSON: Thank you. In
11 considering means to most fairly distribute export
12 benefits to Manitoba ratepayers, did Manitoba Hydro
13 consider the possibility of, for example, a rate
14 reduction rider, similarly to benefit those customers who
15 are most directly affected by Manitoba Hydro's
16 operations?

17 MR. VINCE WARDEN: No, we did not.

18 MR. MICHAEL ANDERSON: Thank you, Mr.
19 Warden.

20

21 (BRIEF PAUSE)

22

23 MR. MICHAEL ANDERSON: In terms of
24 looking at how the -- I'll ask it as an open question,
25 Mr. Warden. How does the Company approach addressing

1 those customer -- the effects of the Company's operations
2 on those persons most directly affected by them; for
3 example, specifically along the developed waterway?

4 MR. VINCE WARDEN: Well, we do so through
5 our significant mitigation settlements with those people
6 that are affected by our operations.

7 MR. MICHAEL ANDERSON: And the premise
8 for conducting those -- investing -- making those
9 mitigation investments would be? How would you describe
10 the premise for making those mitigation investments?

11 MS. PATTI RAMAGE: I'm having trouble
12 understanding where this ties into cost of service.
13 Perhaps Mr. Anderson could help bring me full circle
14 here, because I'm not seeing the connection.

15 THE CHAIRPERSON: I'm sure Mr. Anderson
16 can help us here. Maybe you could provide the general
17 context. We know that you're preparing yourself for
18 closing statements, Mr. Anderson, but maybe you could
19 help Hydro by just outlining how you tie your line of
20 questioning in with the subject matter before us?

21 MR. MICHAEL ANDERSON: All right. Thank
22 you Mr. Chair. Well, in my earlier questions I had asked
23 about the consideration -- Mr. Warden's comments in the
24 opening with respect to the fairest way to distribute
25 export benefits.

1 And I was exploring other items that the
2 company -- the Corporation may have considered in respect
3 of fairness. I'd already discussed the possibilities of
4 creating various -- a customer class or the application
5 of a rate rider.

6 The customer class would clearly be
7 encompassed within a cost of service process. It would
8 not be something that we would ordinarily pursue during a
9 revenue requirement proceeding.

10 So I was exploring some of the background
11 for our interest in that, Mr. Chair. I have a single
12 question that I could ask Mr. Warden that would
13 encapsulate what I'm thinking if that might be of
14 assistance.

15 THE CHAIRPERSON: Please.

16 MR. MICHAEL ANDERSON: Thank you.

17

18 CONTINUED BY MR. MICHAEL ANDERSON:

19 MR. MICHAEL ANDERSON: Is it a basic
20 principle for Manitoba Hydro in terms of their
21 investments in mitigation that local residents should not
22 be worse off than they would have been had the project
23 not occurred?

24 MS. PATTI RAMAGE: I don't think this is
25 cost of service and I'm concerned that in terms of the

1 commitments or the statements that are being asked to be
2 made that it's fair to be asking Mr. Warden this at this
3 hearing without having the preparation for those kind of
4 -- and background information to answer those type of
5 questions.

6 THE CHAIRPERSON: Well, I'm not sure how
7 long Mr. Anderson is going to pursue this line of
8 questioning. My own take on what he's suggesting is that
9 we're dealing with the cost of service methodology which
10 involves the allocation of revenues and costs.

11 And I think what is at the bottom of this
12 is he's proposing potential different distribution of
13 revenue; that's what it is, isn't it?

14 MR. MICHAEL ANDERSON: It is, Mr. Chair.
15 Thank you. As indicated in my opening comments on
16 November 24th and May 4th.

17

18 CONTINUED BY MR. MICHAEL ANDERSON:

19 MR. MICHAEL ANDERSON: And essentially I
20 was, at this point, exploring the aspect of mitigation
21 investments and this point simply whether it's a
22 corporate principle that the -- the standard that's
23 applied or the approach that's taken is one that an
24 affected party would be no worse off?

25 MR. VINCE WARDEN: Well, Mr. Anderson, we

1 don't use that specific language. We do, through
2 mitigation, compensate communities and individuals
3 affected for adverse impacts.

4 Whether they would be no worse off is
5 somewhat subjective, I would say. But certainly
6 compensation for adverse impacts is a principle we adhere
7 to at Manitoba Hydro.

8 MR. ROBERT MAYER: You are aware, Mr.
9 Anderson, as a result of your comments earlier, we had
10 asked Hydro to file, and they have filed the compensation
11 numbers that were in the form of various circulars that
12 they had put out following a request from Dr. Avery-Kinew
13 at the Clean Environment Commission hearings. Those
14 matters are now -- those compensation numbers are now an
15 exhibit in this cause.

16 MR. MICHAEL ANDERSON: Yes, I am, Mr.
17 Vice Chair, and thank you. And one of the other
18 materials I was going to simply ask leave for later was
19 to be able to refer to those documents that related --
20 associated with them that are posted on Manitoba Hydro's
21 web-site, only briefly in my final submission. Thank
22 you.

23 And I don't intend to pursue those -- that
24 detail right now. Thank you.

25

1 (BRIEF PAUSE)

2

3 CONTINUED BY MR. MICHAEL ANDERSON:

4 MR. MICHAEL ANDERSON: In the efforts to
5 determine the scope of your investments in mitigation and
6 expenditures that the Vice Chair had just referred to,
7 has Manitoba Hydro conducted a study or an assessment to
8 determine what the ongoing costs of its operations are in
9 respect of adverse effects on Hydro affected customers?

10 MR. VINCE WARDEN: Yes.

11 MR. MICHAEL ANDERSON: Is it -- may I
12 request -- and is this a document that could be filed
13 before this Board?

14 MR. VINCE WARDEN: Well, the -- the notes
15 to our financial statements refer to the -- to -- there
16 is a mitigation note to our financial statements that is,
17 if not on this proceeding, it's been filed on previous
18 proceedings.

19 And it does refer to our estimate of the
20 liability for adverse impacts. So we have a note that
21 explains the amount, the quantum of the settlements to
22 date, plus what we expect those future settlements to be.

23 THE CHAIRPERSON: Mr. Peters, you're --
24 you've found a schedule?

25 MR. BOB PETERS: I wondered if it would

1 help Mr. Anderson if he looked at document number 21 in
2 the book of references that I utilized. It did contain a
3 schedule of mitigation payments and I remember asking
4 questions of the witnesses on it, but that and document
5 number 20 may be what Mr. Anderson might need to look at
6 and I'd be prepared to provide him with my copy if he
7 needs one.

8 MR. MICHAEL ANDERSON: I have a copy of
9 your book of Exhibits that I received the first day.
10 Thank you for the reference. It was the process behind
11 the production of those schedules that I was interest in
12 with my questions, Mr. Peters.

13 And Mr. Warden has indicated that such a
14 study has occurred -- thanks, Mr. Williams.

15

16 (BRIEF PAUSE)

17

18 CONTINUED BY MR. MICHAEL ANDERSON:

19 MR. MICHAEL ANDERSON: So re-stating the
20 question, using Tab 21 of Mr. Peters book of documents,
21 and I thank Mr. Williams for that, is there a forecast --
22 I note that these costs are to date -- to March 31, 2005,
23 is that correct Mr. Warden?

24 MR. VINCE WARDEN: Yes, that is correct.

25 MR. MICHAEL ANDERSON: Similar to my

1 question earlier about Manitoba Hydro's study of these
2 costs. Does Manitoba Hydro also produce a forecast of
3 these costs?

4 MR. VINCE WARDEN: Yes, Mr. Anderson. As
5 I referenced in my previous response, we do estimate what
6 our liability is and that is noted in our financial
7 statements on a regular basis every year.

8 MR. MICHAEL ANDERSON: And these are
9 being included in the same annual reports that I made the
10 extract for MKO-2 from, Mr. Warden?

11 MR. VINCE WARDEN: Yes, that's correct.

12 MR. MICHAEL ANDERSON: Thank you. Those
13 are my questions, Mr. Chair.

14 THE CHAIRPERSON: Thank you Mr. Anderson.
15 Mr. Peters, are we adjourning?

16 MR. BOB PETERS: We are until 9:00
17 tomorrow morning.

18 MR. ROBERT MAYER: Before we all run
19 away, are we going to finish in the timelines we set out?
20 And if not, has anybody considered accepting the
21 suggestion of the Board that we would be prepared to sit
22 an evening or two if necessary?

23 I'm getting concerned -- we're now at
24 least one step behind where we're supposed to be.

25 MR. BOB PETERS: Mr. Vice-Chair, I can

1 indicate that I've talked, certainly, with Mr.
2 Feldschmidt and he indicated that he would be concluded
3 by the morning coffee break tomorrow.

4 Following which, we would expect Mr.
5 Williams to produce Mr. Harper as his witness. And
6 depending on how we proceed tomorrow the Board has
7 indicated that it has some availability, although it may
8 be adjourning a little bit earlier tomorrow, it has the
9 ability to be available later tomorrow if that's what
10 you're referencing.

11 And we'll know better tomorrow whether
12 we'll want to take the Board up on that opportunity.
13 Following that, we do see the schedule proceeding and
14 we've allocated one day essentially for each of the
15 Intervenor witnesses and we're confident that that can be
16 met.

17 THE CHAIRPERSON: Very good. Just before
18 we close down, just following up on one of the comments
19 made by Mr. Anderson, just to inform my understanding of
20 it.

21 Mitigation payments like all other
22 mitigations work their way through the COSS, do they not?

23 MR. VINCE WARDEN: Yes, they do.

24 THE CHAIRPERSON: And although no one
25 would ask you to, I don't believe, specify forecasts on

1 that level of detail going into the future, your
2 anticipated payments in any particular category would be
3 reflected in your IFF's going forward too, would they
4 not?

5 MR. VINCE WARDEN: They are.

6 THE CHAIRPERSON: Thank you. Well there
7 being no other Intervenors present to continue at this
8 moment and that's just a timing thing and these things
9 happen, so we'll adjourn for today and we'll see you all
10 tomorrow at 9:00.

11 Thank you.

12

13 --- Upon adjourning at 3:30 P.M.

14

15 Certified Correct

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21 _____
Ryan Pickering

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25