

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25

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 29th, 2006
Volume X
Pages 2113 to 2417

APPEARANCES

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

TABLE OF CONTENTS

1		
2		Page No.
3	List of Exhibits	
4	Opening Comments	
5		
6	Closing Comments by Mr. Bob Peters	2122
7	Closing Comments by Mr. Byron Williams	2142
8	Closing Comments by Ms. Myfanwy Bowman	2202
9	Continued Closing Comments by Mr. Byron Williams	2231
10	Closing Comments by Mr. Jurgen Feldschmid	2256
11	Closing Comments by Mr. Doug Buhr	2273
12	Closing Comments by Ms. Tamara McCaffrey	2280
13	Closing Comments by Dr. Peter Miller	2319
14	Closing Comments by Mr. Michael Anderson	2377
15		
16	Certificate of Transcript	2417
17		
18		
19		
20		
21		
22		
23		
24		
25		

	LIST OF EXHIBITS		
	Number	Description	Page No.
1			
2			
3	MIPUG-9	Response to Undertaking 24.	2120
4			
5			
6			
7			
8			
9			
10			
11			
12			
13			
14			
15			
16			
17			
18			
19			
20			
21			
22			
23			
24			
25			

1 --- Upon commencing at 9:06 a.m.

2

3 THE CHAIRPERSON: Good morning everyone.
4 Before I turn it back to Mr. Peters to give us an outline
5 of today's proceedings, I'll ask Ms. McCaffrey -- she has
6 another exhibit to enter.

7 MS. TAMARA MCCAFFREY: And good morning,
8 everybody. With respect to Undertaking number 24 that
9 was given on Friday to Ms. Ramage, the transcript
10 reference is page 2029, in which we were asked to confirm
11 the current obligation of Quebec Hydro to its intensive
12 load customers, Mr. Bowman was able to obtain some
13 information on that this weekend and he'd like to have an
14 opportunity to respond to that undertaking now.

15 THE CHAIRPERSON: Mr. Bowman...?

16 MR. PATRICK BOWMAN: Thank you. Good
17 morning. The undertaking was with regards to Hydro
18 Quebec's obligation to serve for large industrial
19 customers.

20 Their -- a document was handed out which
21 is the selected page from Hydro Quebec's tariff that is,
22 as far as we are aware, still in place. It's dated April
23 1st, '06, and it's from Hydro Quebec's website yesterday,
24 which sets out that the -- the existing limit on -- on
25 rate schedule -- the industrial rate schedule is 175,000

1 that's released, and recognize it's government policy
2 document so it's not necessarily written in the language
3 of a rate schedule, but that would be 50 megawatts per
4 increment.

5 So any customer seeking to -- new customer
6 or a customer seeking to add more than 50 megawatts in
7 one (1) increment would not necessarily have automatic
8 access to the Rate Schedule L, if I remember correctly,
9 which is the industrial rate schedule.

10 Were a customer seeking -- a new customer
11 above 50 megawatts or an existing customer seeking to add
12 more than 50 megawatts, to want access to that rate
13 schedule, they would need to deal with the -- the
14 Government of Quebec, who would make a determination as
15 to whether they would receive power on the same
16 industrial rate schedule or at less favourable rates, and
17 it would be dependent on the economic benefits they bring
18 to the Province and their employment.

19 And that would be a determination made by
20 the Government as far as we can tell from the -- the
21 policy document that's been released. And I believe the
22 date on that document is May 4th, but it's early May,
23 it's quite recent.

24 THE CHAIRPERSON: Thank you, Mr. Bowman.
25 If Manitoba Hydro has a comment on it, they can do it on

1 Friday. It might be the best way to proceed.

2 Ms. McCaffrey, do you remember the exhibit
3 number it would be?

4 MR. BOB PETERS: MIPUG number 9 would be
5 the exhibit --

6 THE CHAIRPERSON: Thank you, Mr. Peters.

7 MR. BOB PETERS: -- according to my
8 record. Yes.

9 THE CHAIRPERSON: MIPUG number 9.

10 MS. TAMARA MCCAFFREY: Thank you, Mr.
11 Peters.

12

13 --- EXHIBIT NO. MIPUG-9: Response to Undertaking 24.

14

15 THE CHAIRPERSON: Mr. Peters...?

16 MR. BOB PETERS: While we are on matters
17 of housekeeping -- and good morning, Mr. Chairman and
18 Board Members, Ladies and Gentlemen -- there is a matter
19 that arose Friday relative to some documents that Mr.
20 Anderson on behalf of MKO wanted to refer to in his
21 closing submission.

22 And Mr. Anderson made the request and
23 parties spoke to it on the record on Friday and Mr.
24 Anderson was notified that he should attend early this
25 morning so that he could share with the parties his

1 documents and parties could have an idea as to whether or
2 not, they have any concerns or issues.

3 As it appears, Mr. Anderson is not
4 available this morning but, he will be available after
5 the lunch recess. And he did forward by email to the
6 Board office this morning a number of documents that have
7 been photocopies and circulated to -- I believe all
8 parties.

9 At this point in time, Mr. Chairman, I'm
10 suggesting that the documents in question simply be
11 reviewed and taken by the parties who have received them.
12 They can review them between now and after the lunch
13 break. And if they have any questions or comments it may
14 be appropriate to address those once Mr. Anderson is in
15 attendance and then he can respond to any concerns that
16 are raised.

17 So at this point in time, those documents
18 are taken for information and will be reviewed and spoken
19 to when Mr. Anderson arrives after the lunch hour.

20 The last matter that I think is
21 housekeeping in nature is that in terms of undertakings
22 from Manitoba Hydro, I believe those have also been
23 attended last Friday afternoon and have been put on the
24 record so there are no further undertakings to be filed.

25 I'll look to My Friend, Ms. Ramage, just

1 for confirmation.

2 MS. PATTI RAMAGE: That's correct.

3 MR. BOB PETERS: Having said that, Mr.
4 Chairman, I believe we're at the time in the schedule for
5 the closing submissions and I'm prepared to proceed with
6 my brief, closing comments if it suits the Board at this
7 time.

8 THE CHAIRPERSON: It does.

9

10 CLOSING COMMENTS BY MR. BOB PETERS:

11 MR. BOB PETERS: Thank you and good
12 morning again.

13 We have now completed a lengthy public
14 hearing process with respect to Manitoba Hydro's cost of
15 service methodology. The oral evidence portion began on
16 May the 4th, 2006.

17 As Board Counsel, it is not my intention
18 to take any particular position on behalf of the Board
19 with respect to the many matters and issues that have
20 been raised in this application. Rather, I will attempt
21 to summarize for the Board the key issues in this
22 application and to identify certain other matters that I
23 suggest may be referred to by the various Intervenors in
24 their respective closing submissions.

25

1 Mr. Chairman, Members of the Board, you've
2 heard from several of the participants that the purpose
3 of this particular cost of service public hearing process
4 is to examine the cost of service methodology proposed by
5 Manitoba Hydro and to consider possible modifications or
6 alterations to the recommended methodology.

7 I believe that all parties are in
8 agreement that this application is not a General Rate
9 Application and Manitoba Hydro is not requesting any
10 change to current sales rates as a result of this
11 process.

12 At the conclusion of these proceedings,
13 the Board's challenge will be to issue a Board order or
14 orders directing Manitoba Hydro with respect to the cost
15 of service methodology to use in future cost of service
16 studies.

17 We have heard that a cost of service study
18 is but one (1) tool that may be used in designating and
19 designing rates for service of Manitoba Hydro's
20 customers. Therefore, the Board's decisions resulting
21 from this Hearing with respect to cost of service
22 methodology, may or may not, have an impact on future
23 rate applications.

24 Specific rate changes and specific rate
25 impacts on customer classes, if any, resulting from any

1 changes in the cost of service study methodologies
2 approved as a result of this hearing will be considered
3 and dealt with by the Board in future general rate
4 hearings.

5 Even though there are no immediate rate
6 impacts the decisions resulting from this proceeding are
7 nevertheless vitally important for at least two (2)
8 reasons.

9 First, the resulting methodology may be
10 used as a tool in the design of future rates.

11 And secondly, the cost of service
12 methodology approved as a result of this proceeding may
13 be in place for some time since the timing of the next
14 GRA is uncertain and an indepth review of cost of service
15 methodologies such as the process we have just completed
16 does not necessarily occur at every General Rate
17 Application.

18 The evidence filed by Manitoba Hydro in
19 support of this application, as well as the evidence
20 filed by Intervenors suggests that traditionally the
21 purpose of a cost of service study is attempt -- is an
22 attempt to allocate the utilities embedded costs or
23 historic costs to various customer classes based on known
24 customer characteristics, which reflect cost causation,
25 and by so doing to help determine a fair sharing of a

1 Utility's revenue requirement among the customer classes.

2 As previously stated, the results of a
3 cost of service study can be used as one (1) tool in the
4 rate design process and rate changes, if any, are
5 generally considered separate and apart from a cost of
6 service methodology process.

7 Manitoba Hydro's 2006 prospective cost of
8 service study, the subject of this hearing, is an
9 embedded cost of service study where costs to serve
10 customer classes are based on historic accounting costs
11 including forecast net income.

12 The costs allocated in PCOSS '06 are
13 forecasted costs for the fiscal year ending March 31,
14 2006, taken from the integrated financial forecast for
15 the fiscal years 2004/'05 through to 2014/'15. That IFF
16 was prepared in October of 2004 and has been adjusted as
17 required for cost of service purposes.

18 We have heard that the allocation of costs
19 by Manitoba Hydro is approximate and that, although the
20 cost of service study appears to be exact, there is in
21 fact judgment involved. The evidence also indicates that
22 there is no right or wrong way to allocate costs and
23 Manitoba Hydro's fundamental objective is to select cost
24 allocation methods that best reflect cost causation and
25 an equitable sharing of costs among customer classes.

1 One of the key decision that the Board
2 must make, based on the evidence, is whether Manitoba
3 Hydro's recommended cost of service methodology does in
4 fact reflect cost causation and does result in a
5 equitable sharing of costs between all customer classes.

6 The Board has heard that Manitoba Hydro
7 has conducted embedded cost of service studies since the
8 mid 1970's and although there have been changes to
9 allocation methodologies over the years, those changes
10 have been related mostly to availability of more current
11 and better data, such as customer load data, load factor
12 information and the like.

13 We've heard that most of the key features
14 of Manitoba Hydro's cost of service study methodology
15 have remained relatively constant over the years.
16 Manitoba Hydro has testified that the key issue driving
17 the need for change in the current cost of service
18 methodology is the increasing significance of export
19 revenue and the resulting impact of allocating net export
20 revenue to the -- to the domestic customer classes.

21 The Board has heard extensive evidence
22 with respect to how the unit value of export revenue has
23 increased significantly over recent years and evidence
24 around the key issues in this application, which include
25 the creation of an export class of customer, how costs

1 should be directly or indirectly assigned to the export
2 class, and how the resulting net export revenue should be
3 allocated to the domestic customer classes.

4 We have also heard that Manitoba Hydro is
5 unique compared to other Utilities in North America with
6 respect to the magnitude of its net export revenue.
7 Several Intervenors have stated that once the appropriate
8 costs have been allocated to the export class, the
9 appropriate method to allocate the -- the resulting net
10 export revenue to domestic customer classes is getting
11 outside the realm of cost of service and is perhaps more
12 a matter of policy and fairness.

13 Other Intervenor evidence suggests that
14 cost causation principles should be applied within the
15 cost of service study to allocate the net export revenue.

16 Mr. Chairman, Members of the Board, there
17 is considerable detailed information on the record with
18 respect to the background of the Hearing. The summarized
19 version of that information can begin with Board Order 07
20 of 03 which denied Manitoba Hydro's then requested change
21 in the method of allocating net export revenue but
22 directed Manitoba Hydro to carry out a study of
23 generation cost classification techniques.

24 As a result, Manitoba Hydro engaged
25 National Economic Research Association -- Associates, who

1 we've referred to as NERA, to conduct a study which was
2 subsequently submitted to the Board as part of Manitoba
3 Hydro's 2004/'05 General Rate Application.

4 The NERA study recommended a number of
5 significant changes to Manitoba Hydro's cost of service
6 study, most notably that:

7 1. Generation costs be classified and
8 allocated on the basis of time differentiated marginal
9 costs.

10 2. Line-specific classification of
11 transmission costs be used.

12 Thirdly, costs be separated and allocated
13 to an export class.

14 And fourth, net export revenue be credited
15 to domestic customers based on total allocated costs
16 rather than only generation and transmission costs.

17 During the 2004/05 GRA Manitoba Hydro took
18 the position that the NERA report needed more study and
19 did not suggest implementation of the NERA
20 recommendations at that time. Subsequently, Board Orders
21 101/04 and 143/04 resulting from Manitoba Hydro's 2004/05
22 GRA directed Manitoba Hydro to file four (4) different
23 cost of service studies being the current methodology,
24 the NERA methodology, vintaging methodology and Manitoba
25 Hydro's preferred methodology.

1 In response to those directives Manitoba
2 Hydro filed certain summary information but didn't
3 include any detailed supporting information in February
4 of 2005. At that time Manitoba Hydro indicated a
5 preference to the NERA methodology.

6 On -- on November 1st, 2005, in response
7 to directives by the Board in Order 101/04, Manitoba
8 Hydro filed a 2006/'07 and a 2007/'08 General Rate
9 Application that included four (4) versions of the
10 prospective cost of service study '06. Manitoba Hydro
11 advised that the PCOSS '06 includes the revenue impacts
12 of an October 1st, 2005 conditional rate increase which
13 was not sought by the Utility nor granted by the Board.

14 However, Manitoba Hydro has also stated
15 that the inclusion of this additional revenue in the
16 PCOSS '06 does not materially affect the cost of service
17 study results.

18 The NERA recommended methodology
19 incorporated for cost of service study '06 differentiated
20 from the previous NERA methodology that was filed in 2004
21 in two (2) ways.

22 Firstly, net export revenue was applied to
23 fund the uniform rate adjustment as directed by the Board
24 in Order 101/04. This uniform rate adjustment of
25 approximately \$16.8 million is applied similarly in all

1 four (4) scenarios as a first charge against net export
2 revenue.

3 Secondly, the source data used to
4 calculate the marginal cost indicators for generation
5 costs is the inflation adjusted surplus energy program
6 information for the period of January 1st, 1999 to
7 October of 2005. In the PCOSS '04 commercially available
8 Platts data was used.

9 In the 2004 filing Manitoba Hydro adopted
10 the NERA method as their preferred method. In the
11 current filing Manitoba Hydro's recommended method
12 modifies the NERA recommended method in two (2)
13 significant ways.

14 Firstly, two (2) classes of export
15 customers, firm and opportunity, are created rather than
16 the one (1) export class suggested in the NERA report.

17 And, secondly, only variable costs are
18 assigned to the opportunity export class.

19 Subsequent to the November '05 GRA filing
20 the Board determined that the cost of service methodology
21 should be considered separate from the GRA and directed a
22 separate public hearing process from which we are now in
23 the process of completing.

24 As I understand it, the GRA for 2005/'06
25 has been cancelled and the GRA for 2006/'07 has been put

1 on hold by Manitoba Hydro pending resolution of the cost
2 of service matters and may be further deferred pending a
3 decision of Manitoba Hydro's board in the fall of 2006.

4 Mr. Chairman and members of the Panel, as
5 I stated in my opening comments there are a lot of
6 numbers, a lot of allocation methodologies and a lot of
7 detail in the application before you. In addition, the
8 Board has heard a great deal of detailed evidence from
9 Manitoba Hydro and from the interested parties.

10 I suggest that at the end of the day there
11 are key questions that the Board will need to answer and
12 these include, firstly; should there be any export
13 classes; should there be one (1); should there be two
14 (2); or should there be some other number?

15 We have heard evidence that a customer
16 class represents a group of customers who have roughly
17 the same service requirements and therefore the Board
18 will need to consider whether there is enough of a
19 distinction in service requirements between firm and
20 opportunity export customers as it considers Manitoba
21 Hydro's recommendation for two (2) classes of export
22 customers.

23 Number 2. Once the appropriate number of
24 export classes has been determined, if there is to be any
25 export class, what costs should be either directly or

1 indirectly assigned or allocated to each of the export
2 customer classes.

3 We have heard evidence that there are
4 conflicting considerations and determinations for cost
5 causation and that the objective is not to determine the
6 actual costs of export for purposes of setting export
7 prices, but rather to arrive at a fair allocation of
8 costs to domestic customers.

9 We have also heard that even though some
10 costs that are intuitively directly related to export are
11 not directly assigned to export. The Manitoba Hydro
12 recommended method of treating firm exports is in a
13 similar fashion to domestic loads and allocating them a
14 full share of embedded costs, while excluding an
15 allocation of embedded costs to opportunity sales.

16 We have also heard that the usage of
17 certain generation and transmission assets may be
18 different than cost causation.

19 Number 3. Once the appropriate costs if
20 any, to charge either directly or indirectly against any
21 export revenue has been determined, how should the
22 resulting net export revenue benefit be credited or
23 allocated to the domestic customer classes.

24 On this point, I should note that before
25 the allocation of net export revenue, no domestic

1 customer classes appear to pay sufficient rates to cover
2 all of their allocated costs. We have heard evidence
3 that the current method of allocating the credit, based
4 on allocated generation and transmission costs was
5 appropriate and acceptable in prior years when the unit
6 price to export revenue was close to embedded cost.

7 Manitoba Hydro and certain Intervenors
8 have stated that in today's world, when the unit price of
9 export sales exceeds the fixed cost of generation and
10 transmission this method is no longer appropriate.
11 Unfortunately, the Board can draw no guidance from other
12 jurisdictions on this matter since, as we have heard,
13 Manitoba Hydro is unique with respect to the magnitude of
14 its net export profits.

15 Based on the body of evidence it appears
16 that those three (3) issues will have the potential to
17 have the greatest impact and effect on cost of service
18 results.

19 However, there are a number of other
20 issues that have been touched on and examined during the
21 Hearing. Although I don't intend to discuss each in
22 detail, I do wish to identify some of the more
23 significant ones that may be addressed in more detail by
24 Manitoba Hydro and the various Intervenors.

25 Some of these matters in no particular

1 order of importance would include:

2 Number 1, the use of embedded costs versus
3 marginal costs. We have heard the embedded cost of
4 service study are the norm in the North America and
5 although Manitoba Hydro could prepare a marginal cost of
6 service study, it would require at least six (6) to eight
7 (8) months of effort and raises other issues. The Board
8 is interested in each of the parties views with respect
9 to the merits, if any, of a marginal cost of service
10 study as opposed to an embedded approach.

11 Number 2. The relevance if any, of other
12 cost considerations such as replacement costs, inflation
13 adjustment cost, et cetera, for cost allocation purposes.
14 My recollection of the record is that most parties agree
15 that other cost considerations likely have some
16 importance in energy pricing and matters relating to
17 inter-generational equity, but likely have limited if any
18 application in the cost allocation process. Various
19 parties may want to cover this in their closing
20 arguments.

21 Number 3, other requested changes to the
22 functionalization classification and allocation of costs.
23 We have heard that except for the creation of an export
24 customer class and the proposed change in allocation of
25 net export revenue, the balance of the proposed

1 methodology changes have a minimal impact on the cost of
2 service study results.

3 And in some ways approval by the Board is
4 supported for some of all of these by the various
5 parties.

6 The impact of various proposed changes is
7 clearly demonstrated in the material that is included
8 under Tab 11 of the PUB book of documents. And in spite
9 of general acceptance of some of these methods by the
10 Intervenors, I believe there are a few areas of proposed
11 changes that were specifically objected to by the
12 Intervenors, including the treatment of transmission
13 lines and the number of periods used for weighted energy.

14 Manitoba Hydro in their rebuttal evidence
15 has agreed to modify some of these items and Intervenors
16 should be clear in their closing arguments as to their
17 remaining concerns, if any.

18 Number 4, the key difference between the
19 NERA method and the Manitoba Hydro recommended method.
20 And as I understand it, the two (2) differences between
21 the NERA method and the recommended method are firstly,
22 the use of surplus energy program as a proxy for marginal
23 cost pricing, and number 2, the creation of two (2)
24 export classes as previously discussed.

25 Number 5, the merits of -- if any, of the

1 generation vintaging methodology. We have heard from Mr.
2 Lazar who, I think, originally recommended consideration
3 of this method, that his recommendation was more from the
4 prospective of assigning low cost, older generation to
5 provide low cost first rate block power to residential
6 customers.

7 I understood Mr. Lazar to say that he
8 considers this approach to introduce unnecessary
9 complications to the cost of service process with little
10 or no difference in results.

11 Number 6, the use of surplus energy
12 program rates as a proxy for marginal costs. I
13 understand that all parties appear in agreement that the
14 surplus energy program rates are a reasonable proxy and
15 Manitoba Hydro's offer in their rebuttal evidence to
16 extend the number of periods to twelve (12) may deal with
17 the concerns raised by other Intervenors.

18 Number 7, the treatment of deferral --
19 deferred costs such as planning studies in the cost of
20 service study. Although this matter was not specifically
21 contested by any of the Intervenors the question facing
22 the Board is whether these costs, in excess of \$150
23 million, have any future benefit and are appropriate to
24 include in future cost of service studies as these costs
25 are presently amortized over ten (10) or fifteen (15)

1 years.

2 Number 8, the treatment of mitigation
3 costs. This item is similar to the deferred cost issue
4 except that it represents expenditure by Manitoba Hydro
5 in excess of half a billion dollars.

6 Number 9, the impact both now and in the
7 future of Bill 11 and the uniform rate adjustment.
8 Manitoba Hydro has reflected the uniform rate adjustment
9 in all four (4) methodologies filed in accordance with
10 the direction of the Board in Order 101/04.

11 I understand Manitoba Hydro has indicated
12 that the requirements of Bill 11 will be dealt with by
13 Manitoba Hydro once the legislation is passed.

14 Number 10, the water rental calculations.
15 There has been some discussion concerning the water
16 rental calculation and certain adjustments that may be
17 required if other charges to the firm export class are
18 adjusted. Intervenors should be clear in their arguments
19 as to what adjustments they are supporting.

20 Number 11, class consolidation
21 considerations. Manitoba Hydro has suggested that class
22 consolidation might simplify the COSS process by reducing
23 the number of customer classes but has deferred this
24 matter for another day pending more research and study.

25 Number 12, issues related to building for

1 export, both past, present and in the future. This
2 important issue ties directly to the issue of charging
3 all appropriate costs to the export class. Manitoba
4 Hydro has supported the position that, to date, no plant
5 has been built specifically for export although Manitoba
6 Hydro has taken advantage of the export market to advance
7 the in service date or increase the capacity of certain
8 generation.

9 13, adjustment of demand and energy
10 charges. Manitoba Hydro filed a copy of a report in
11 support of this topic but did not address the report as
12 part of the cost of service process. And my
13 understanding that -- that this report will be dealt with
14 as part of the next rate hearing process.

15 Number 14, time of use and inverted rates.
16 Although some references were made during the course of
17 the hearing with respect to inverted and time of use
18 rates those discussions were generally around the ability
19 or otherwise of these types of rates to give more
20 efficient pricing signals.

21 As previously stated, this is not a rate
22 hearing and I believe most parties are prepared to defer
23 the debate on inverted and time of use rates to a future
24 GRA.

25 Number 15, terms and conditions of export

1 and losses. Manitoba Hydro has acknowledged that a
2 significant amount of transmission losses relate to
3 export sales yet the cost of transmission losses are
4 included in generation costs and allocated to both
5 domestic and firm customers.

6

7

(BRIEF PAUSE)

8

9 MR. BOB PETERS: Number 18, and almost
10 the end. The power resource plan was mentioned and
11 examined only in reference to dependable energy resources
12 and allocations of purchase power and fuel costs to the
13 export class.

14 The last item that I have here is the zone
15 of reasonableness. And we have heard that there is a
16 significant amount of judgment required in a cost of
17 service study and because of that significant amount of
18 judgment a zone between decimal ninety-five (.95) and one
19 point zero five (1.05) is considered a zone in which if
20 the rate of the RCC's are achieved is sufficient for
21 rate-setting purposes.

22 The Board may be interested to hear from
23 parties as to the appropriateness of the current zone of
24 reasonableness and whether reducing the range is
25 something that should be considered.

1 Mr. Chairman, subject to my voice holding
2 out because of yelling in an arena all weekend, I'm
3 wondering if you have any further questions of me. And
4 if you don't, I would suggest that you would call on the
5 Intervenors in the order listed in the proceedings,
6 starting with the Consumer's Association of Canada and
7 the Manitoba Society of Seniors and follow for their
8 closing comments.

9 Thank you.

10 THE CHAIRPERSON: Thank you Mr. Peters.

11

12 (BRIEF PAUSE)

13

14 THE CHAIRPERSON: Thank you. We have no
15 further questions for you.

16 Mr. Williams, Consumers Association of
17 Canada Manitoba Society of Seniors...?

18 MR. BYRON WILLIAMS: Good morning, Mr.
19 Chairman and Members of the Board. I fear that I haven't
20 been in a hockey arena all weekend but, I have been
21 working on my closing argument so I do have some fear
22 that my voice will not last the entire morning, as well.

23 I'm going to move directly into the oral
24 argument. We do have a couple of handouts; one (1), Mr.
25 Barron, I don't know if you've handed out already the

1 CAC/MSOS outline. Well perhaps you could hand that out
2 to the Board at this time.

3

4 (BRIEF PAUSE)

5

6 THE CHAIRPERSON: Yes, we'll just take
7 this as a pause for thirty (30) seconds.

8

9 (BRIEF PAUSE)

10

11 THE CHAIRPERSON: Okay, Mr. Williams.

12

13 CLOSING COMMENTS BY MR. BYRON WILLIAMS:

14 MR. BYRON WILLIAMS: Thank you. And
15 before proceeding I do want to thank My Friend Mr.
16 Peters, for the job he's done in this proceeding and
17 herding his group of cats toward hopefully which will be
18 an effective and positive resolution.

19 I concur with his observation that on the
20 record there are lots of numbers and lots of allocation
21 methods and lots of detailed evidence. And I agree that
22 there are lots of questions to be asked, as well. I
23 think he numbered nineteen (19). Massive as my ego is,
24 I'm not sure I'm prepared to go, or capable of going
25 through all nineteen (19) in detail in our closing

1 there been a fundamental change? I think it's noteworthy
2 that in a hearing marked, generally, by sharp
3 disagreements on a variety of issues, there's rare
4 unanimity amongst Mr. Harper, Mr. Weins and Mr. Bowman,
5 that there has been a fundamental change with regard to
6 the relationship between the prices Manitoba Hydro can
7 secure on the export market for both firm and opportunity
8 sales, and the relationship to the prices it can secure
9 on the domestic market.

10 At least at that point, I think there's an
11 agreement.

12 Put simply, during the 1980's, and a good
13 deal of the 1990's, average revenues per kilowatt hour
14 from firm and opportunity sales, tended to be less than
15 average revenue per kilowatt hour for domestic sales.
16 Given the surplus energy and capacity on the system at
17 that time, an increase in domestic consumption was, in
18 the financial sense, a good deal for Manitoba Hydro, in
19 that it directed those diverted kilowatt hours away from
20 the export market, less lucrative export sales, towards
21 more beneficial domestic sales.

22 So at that point in time a diversion, an
23 increase in consumption domestically, worked to the
24 benefit of all ratepayers by improving the financial
25 performance of the Corporation.

1 And a good example of this was made --
2 noted at page 651 of the transcript, in my cross-
3 examination of Mr. Weins, when we talked about how in the
4 1980's the average export revenue was only about one
5 point five (1.5) cents per kilowatt hour, while the
6 average domestic revenue was three point eight (3.8)
7 cents per kilowatt hour. And at that point -- with those
8 kind of numbers you can see why an increase in domestic
9 consumption was a good deal from a financial perspective
10 of Manitoba Hydro consumers.

11 Today, of course, the converse is true.
12 An increase in domestic sales at the expense of the lost
13 opportunity to realize export sales, on average, leaves
14 the Corporation with less revenue.

15 And this, again, was a point well made by
16 Mr. Wiens in my cross-examination of him at page 651 of
17 the transcript. He noted that currently the average
18 price per kilowatt hour for exports sales is in the range
19 of six point one (6.1) cents a kilowatt hour. Whereas,
20 when you look at general service large surrogate
21 transmission, you're talking about only three point one
22 (3.1) cents a kilowatt hour.

23 So in these times of surplus energy and
24 capacity, an increase in consumption by a class such as
25 GSL, greater than 100 KV, for every kilowatt hour of that

1 increase in consumption, it earns the Corporation, on
2 average, about three point one (3.1) cents a kilowatt
3 hour, but results in a lost opportunity to earn revenues
4 in the export market of about six point one (6.1) cents
5 per kilowatt hour.

6 So from the financial perspective, the
7 reality is, today, that an increase in domestic
8 consumption, at the expense of export sales, results in a
9 decrease in overall revenue.

10 This simple fact is not offered as a
11 judgment on whether an increase in domestic consumption
12 is a good thing or a bad thing, but it does mean that we
13 have to recognize for the cost of service methodology,
14 that an increase in domestic consumption effectively
15 reduces the revenue of the system as a whole. And that
16 raises the question of whether the current methodology
17 appropriately deals with that reality.

18 Is this observation of fundamental change
19 controversial? Well, not to Mr. Wiens. In our cross-
20 examination of him, it's page 648 to 653, he made his
21 views on that clear.

22 And it's also concurred with by Mr.
23 Harper, and he made that clear both in his direct
24 evidence and his written evidence. As he puts it, if
25 available generation is diverted from exports through an

1 increase in domestic loads, the net effect would be an
2 increase in costs for all customers.

3 What about Mr. Bowman? To his credit Mr.
4 Bowman implicitly accepted the premise of fundamental
5 change, even in his written evidence, and he explicitly
6 accepted it during his conversation with me on Friday
7 afternoon.

8 His implicit recognition of fundamental
9 change can be found in footnote 25 of his evidence, when
10 he notes that the volume of export sales is not driving
11 the increase in export revenues. In his words:

12 "The major difference in the export
13 revenues is from the increase in
14 price."

15 And he also identified, on that same page,
16 lines -- which is page 12, lines 18 and 19, the fact
17 that:

18 "Opportunity as well as firm export
19 sales have recently secured prices in
20 excess of domestic rates."

21 Now, I want to be careful in how I
22 characterize Mr. Bowman's evidence, because he'll -- I
23 think he's prepared to walk part way down the fundamental
24 charge argument with Mr. Harper and Mr. Wiens, in that he
25 recognized that there's been a fundamental change in the

1 price per unit.

2 I'm not trying to suggest that he would
3 concur with the second part of their conclusions in terms
4 of fundamental change; that an increase in domestic
5 consumption, at the expense of export sales, leads to a
6 net decrease in the financial position of the
7 Corporation.

8 But he clearly accepts the fundamental
9 change in the price per kilowatt hour, and in fact, in my
10 cross-examination of him on Friday, he used those words
11 "fundamental change" in discussing the rise in the price
12 per kilowatt hour of export sales. So while he might not
13 go as far as Mr. Wiens and Mr. Harper, he may go -- he's
14 certainly going part way down their line.

15 Just one (1) other small point. I think
16 Mr. Wiens in that same conversation -- or Mr., excuse me,
17 Bowman in that same conversation, also identified what he
18 considered to be at least one (1) other fundamental
19 change. And I'm certainly not quoting him directly but
20 he was referring to the changes in the MISO market, M-I-
21 S-O, as of 2005, which, in his view, enabled Manitoba
22 Hydro to sharpen its pencils and take advantage of
23 geographic arbitrage opportunities in markets such as
24 Ontario, where in the past it had only been able to take
25 advantage of time of use opportunities.

1 say we need to change the current cost of service
2 methodology, I believe that there is an important and
3 subtle distinction in their reasons for advocating
4 change, that I want to talk about quite briefly.

5 As I understand Mr. Wiens' position, and I
6 believe it's set out well at page 649 of the transcript,
7 his concern is that the current method of exclusively
8 allocating export revenues back to generation and
9 transmission costs -- net export revenues, is
10 inconsistent with cost of services best practices because
11 it is both unfair and inefficient.

12 And again, as noted at page 649, it is
13 unfair to allocate export revenues back to 'G' and 'T'
14 exclusively, because an increase in class consumption
15 increases that class's share of net export revenues,
16 notwithstanding the fact that increased domestic
17 consumption actually reduces systems revenues, if it
18 comes at the expense of export sales.

19 And I hesitate to raise the example of the
20 garage owners, but it is like the example of the garage
21 owners, which Mr. Wiens talked about at page 625 of the
22 transcript, where one (1) partner's increased usage was
23 taking money out of his partner's pockets by depriving
24 them of the opportunity to earn more lucrative income
25 from renting it to others.

1 With Mr. Wiens conclusions in terms of
2 fairness, I believe it's clear that Mr. Harper hardly
3 concurs. And it's important to note that, from his
4 perspective, the primary objective of cost of service
5 methodology should be fairness, as achieved by the
6 acknowledgement of the principles of cost causation.

7 In Harper's views, and he set this out
8 well, both in his direct and written evidence, the
9 current allocation of all net export revenues to 'G' and
10 'T' is unfair. And his concern with the current cost of
11 service methodology is that it disproportionately rewards
12 those who are reducing overall system revenue by
13 increasing consumption.

14 And I think he said it very well in his
15 direct evidence:

16 "Given that customer use can impair the
17 ability to make more lucrative export
18 sales, it is now counter-intuitive to
19 the principle of cost causality to
20 allocate net export revenues on the
21 basis of generation and transmission
22 usage.

23 It isn't the use of the generation and
24 transmission that allows for net export
25 revenues, but rather such use impedes

1 the ability to make exports and leads
2 to increased costs for all domestic
3 consumers. This would suggest that the
4 current allocation is inconsistent with
5 the principle of fairness based on cost
6 causality."

7 In Harper's view, the current method sends
8 the perverse signal that use of 'G' and 'T' assets causes
9 net export revenues to increase, when the opposite is
10 true. And again, I want to emphasize that Mr. Harper is
11 not saying or arguing that we should be restricting or
12 detering domestic consumption.

13 He's just saying that for the purposes of
14 the cost of services methodology, something fundamental
15 has changed, and so the methodology that we use to
16 consider net export revenues, also has to change. From
17 his perspective, from the fairness perspective, the
18 current system is not analytically sustainable.

19 This is where I'm going to move onto Mr.
20 Wiens' comments on efficiency, because here's where the
21 distinction between Harper and Wiens, I believe, is on
22 this issue.

23 Harper's primary focus is on fairness and
24 cost causality. I think in terms of the cost of service
25 methodology, Mr. Wiens goes a bit further and he argues

1 that the current system raises material efficiency
2 concerns.

3 And he points to the example of the GSL
4 large, greater than 100 kV class, where incremental rates
5 run significantly below short run marginal costs. And he
6 makes this point well at page 644 of the transcript.

7 And I believe Mr. Wiens is on the same
8 ground as NERA on this point, and this point is made at
9 page 631 of the transcript, where we summarize NERA's
10 concerns that allocating net export revenues solely
11 across generation and transmission, raises the concerns
12 of energy charges for certain classes being below short
13 run marginal costs.

14 Mr. Wiens goes on to note that these
15 concerns also trickle over into rate design, and he does
16 that at pages 654 to 656 of the transcript. I'm not
17 suggesting that Mr. Harper disagrees with him on these
18 points, but the distinction between the two (2), as I
19 understand it, is that Mr. Wiens says that the current
20 method of allocating costs -- net export revenues across
21 generation transmission is unsustainable, both for
22 fairness reasons and efficiency reasons.

23 Mr. Harper, instead, would argue, that
24 when you're talking cost of service, it is primarily a
25 fairness test. In his words and in his view, the current

1 methodology fails the fairness test. But that's what
2 he's focused on at this part of the test.

3

4 (BRIEF PAUSE)

5

6 MR. BYRON WILLIAMS: So on this point,
7 being point two (2) of our argument, we would urge the
8 Board to find that the current system of allocating net
9 export revenues to generation and transmission, is not
10 sustainable on the grounds of fairness.

11 In other words, it's not fair to allocate
12 all net export revenues to generation and transmission
13 because it sends the wrong message about cost causation,
14 because the reality is, that for every kilowatt hour
15 consumed domestically, there was one (1) less kilowatt
16 hour for export, and from an overall system perspective,
17 less revenues.

18 But what are Mr. Bowman's views, because
19 his views on this matter are important and I do want to
20 address them. He deals with Mr. Wiens efficiency
21 argument by suggesting that that's more a matter for rate
22 design.

23 But his comments on fairness are more
24 subtle and more complex. And our understanding of Mr.
25 Bowman's position on this point is that he would leave

1 open the theoretical possibility that the current method
2 is unfair, in terms of the allocation of net export
3 revenues, but he is not yet persuaded of that fact.

4 And in my view, Mr. Bowman's points on
5 this area were subtly expressed in his response to
6 CAC/MSOS Interrogatory 7, but became more apparent during
7 his direct evidence on Friday, and during his cross-
8 examination both by CAC/MSOS and by Board Counsel.

9 And as I understand Mr. Bowman's argument,
10 he's prepared to accept that the worm has turned on the
11 revenue side, with the price for both firm and
12 opportunity exports now surpassing, on average, the price
13 for domestic rates.

14 But he would also argue that, on average,
15 the cost associated with exports are likely to be higher
16 than the cost associated with domestic sales. To put it
17 succinctly, in Mr. Bowman's views, all the low hanging
18 fruit has been picked, and now the costs associated with
19 energy resources for exports, such as DSM, SSE Wuskwatim,
20 are likely to be higher than average and closer to
21 avoided marginal costs.

22 If I have not said so before I should say
23 that certainly on behalf of CAC/MSOS we consider Mr.
24 Bowman to be a talented and often innovative analyst.
25 But on this particular point we must respectfully point

1 out that his low hanging fruit argument is fundamentally
2 undermined.

3 It's undermined by the evidence before
4 this tribunal and by the findings of the Clean
5 Environment Commission relating to the relative costs of
6 new power options such as DSM and SSE. It's undermined
7 by the evidence within the Power Resource Plan of
8 Manitoba Hydro regarding the large amounts of old surplus
9 dependable energy to support export sales.

10 It's undermined by the evidence of system
11 planners, such as Mr. Surminski, who are intimately
12 familiar with the day-to-day operation of Manitoba Hydro.
13 And in our view his position on this point is undermined
14 by his own evidence that he gave on Friday and I'll go
15 through each of these in detail.

16 Together though this information
17 effectively refutes the suggestion by Mr. Bowman that
18 resource options such as SSE and DSM are being brought
19 into service at costs close to marginal costs as well as
20 his suggestion that there is no low hanging fruit and,
21 above all, they refute his refusal to accept that an
22 increase in domestic consumption leads to a decrease in
23 revenues.

24 The first point I want to talk about on
25 this area in terms of the low hanging fruit argument is

1 Mr. Bowman's suggestion that resource options such as DSM
2 and SSE are not low hanging fruit and in our view that
3 can't survive the white light of regulatory scrutiny.

4 At your leisure, you don't have to turn to
5 it now, but the CAC/MSOS book of references at Tab 8 you
6 can see there, and Mr. Harper talked about this in his
7 direct evidence, you can see the cumulative results of
8 the DSM programming to date based on the broad total
9 revenue cost test.

10 And you can see that the ratio is an
11 extremely positive ratio of two point five to one
12 (2.5:1). And the -- and over the long-term the ratio is
13 expected, and experience is expected to be one point
14 seven (1.7).

15 As Mr. Harper noted these returns and
16 ratios suggest that Manitoba Hydro will be, on average,
17 paying significantly less than avoided costs for DSM
18 benefits. And this point was made in -- at least in my
19 understanding, the decision by the Clean Environment
20 Commission in its decision on Wuskwatim and, again, you
21 don't need to turn there, but if you're looking for
22 reference that's inserted at Tab 16 of the CAC/MSOS book
23 of references.

24 And if you turn to that tab you'll observe
25 that the Clean Environment Commission also spoke directly

1 to the great value of demand side management as a
2 resource option and urged Manitoba Hydro to do more than
3 increase its DSM targets by one (1) -- by one point five
4 to two (1.5:2).

5 It said and expected that Hydro can do
6 better than two (2) times DSM. The implication from that
7 being certainly that there's a lot of ripe fruit to pluck
8 in terms of DSM.

9 When one turns to the issue of SSE, or
10 supply side enhancements, again, the point is that there
11 was much ripe low hanging fruit yet to pluck is -- is
12 made. And if you go to the -- and, again, you don't need
13 to do this now, but in the CAC/MSOS book of references
14 Tab 9, there is an excerpt from the Wuskwatim proceeding
15 which Mr. Harper referred to in his direct evidence.

16 And you'll see there internal rate of
17 returns for future supply side enhancement options
18 ranging from 10 to 30 percent. And the best example of
19 this is the example of Kelsey: Supply side enhancements
20 of 96 million with an in service date of 2011 and with a
21 projected internal rate of return of 20.5 percent. And
22 certainly that would come within even the most rigid
23 definition of low-hanging fruit

24 I do note that this point was also made by
25 -- by the Clean Environment Commission during the -- the

1 Wuskwatim proceeding. And it was almost a given that the
2 ultimate in low-hanging fruit in that proceeding were
3 future supply site enhancements.

4 And again that excerpt from Tab 16 of the
5 -- of the CAC/MSOS book of references from the CE'S --
6 the Clean Environment Commission executive summary, just
7 provides a bit of insight into the Clean Environment
8 Commission's thinking on that point. If you want further
9 evidence you can -- of the Commission's finding you can
10 certainly refer to the full decision.

11 I note that, just briefly on -- on the
12 issue of -- of supply side enhancements, Mr. Bowman
13 seemed to be somewhat disparaging of the -- or -- of the
14 Pointe de Bois proposal and suggesting that there was
15 some pretty significant costs associated with it.

16 And I don't want to belabour this point
17 but if you note at Tab 9 of the CAC/MSOS book of
18 references, there is some reference to Pointe de Bois and
19 there's a note that they haven't actually made a decision
20 on whether to refurbish that plant. So there's -- they
21 haven't made a decision in terms of whether to walk down
22 that path and that there's no internal rate of return
23 projected. So I think it's premature to offer any
24 judgment on Pointe de Bois, especially based on the
25 evidence in this proceeding.

1 A second point that Mr. Bowman seemed to
2 be making in terms of the -- his suggestion that the
3 costs associated with exports were going to be on average
4 higher than the costs associated with domestic sales, was
5 the suggestion, well look -- look at the future,
6 Wuskwatim is coming on line and look at the fact that the
7 costs associated with Wuskwatim are higher than -- than
8 the embedded costs for Manitoba Hydro currently.

9 Now, I guess there is two (2) important
10 points to understand about this. First of all,
11 Wuskwatim, while in its early years will be used
12 primarily to -- to provide additional surplus capacity
13 for export sales. Certainly by 2018 or so there will be
14 a cross-over date when it's needed for domestic purposes.

15 But even -- even leaving aside that point,
16 there's also another critical point, and this was made by
17 Mr. Surminski at page 671 of the transcript. He pointed
18 out that when you're looking at where export costs are
19 coming -- or export revenues are coming from today, he
20 noted that current exports are from excess supply from
21 Hydro's facilities built many years ago. And he also
22 confirmed at page 671 of the transcript that even when
23 Wuskwatim is in service over one half (1/2) of firm
24 exports will still be flowing from these older
25 facilities.

1 And this is a point supported by Mr.
2 Harper, and he noted this in his direct evidence, that
3 Manitoba Hydro's most recent power resource plan which is
4 set out at PUB 1-22, indicates that for the next few
5 years there will be roughly 4,000 gigawatt hours of
6 surplus dependable energy available, much of which will
7 come from older power.

8 I think it's also important to note that
9 Mr. Bowman's suggestion that the costs associated with
10 export sales are likely to be higher than the costs
11 associated with domestic sales has been directly refuted,
12 in my understanding of the evidence, by experienced
13 system planners, such as Mr. Surminski, who have an
14 intimate day-to-day familiarity with the hydro system.

15 And I would ask the Board to recall that
16 when Mr. Harper -- when Bill Harper was expressly asked
17 to offer his opinion on the relative costs associated
18 with certain capital expenditures, he quite rightly
19 pointed out that he had not been qualified in this
20 proceeding as an expert in that area.

21 Given Mr. Bowman's candid admission on
22 Friday of his absence of experience with the day-to-day
23 operations of Manitoba Hydro, in weighing Mr. Bowman's
24 evidence we would recommend that a similar caveat should
25 be observed.

1 Finally, in our view Mr. Bowman's argument
2 that the costs associated with experts (sic) should
3 consid -- should be considered to be higher than embedded
4 costs are also refuted by his own direct evidence in
5 terms of the value of new industrial developments, as
6 well as by his comments to Counsel for CAC/MSOS and Board
7 Counsel on cross-examination.

8 And you'll recall that on Friday, during
9 cross-examination Mr. Bowman spoke of Limestone. And he
10 talked about how today's customers are benefitting from
11 the investments in the past and how future customers can
12 be expected to benefit from the investments of today.

13 And the point that he confirmed in cross-
14 examination with CAC/MSOS was that bringing in service
15 new generation to meet increased loads will in the short
16 term certainly lead to lower financial results, but
17 however he noted that today's customers are the
18 beneficiaries of facilities that were installed in the
19 past and they're now benefitting from the lower cost, as
20 a result of past customers facing poor financial results.

21 And he noted that similarly, tomorrow's
22 customers, while they may experience short term financial
23 pressure from the need to add facilities at that future
24 point in time, at the same time will be benefitting from
25 the facilities that today's customers put into place even

1 while experiencing these shorter term financial -- poorer
2 financial results.

3 Essentially, each generation is
4 benefitting from the investments made in the past and to
5 some extent at least in terms of poor financial results
6 paid for by customers in the past. But then each
7 generation is paying for the -- the institution --
8 installation of new facilities that will benefit future
9 customers.

10 Mr. Bowman noted that this represented a
11 form of inter-generational equity, in that each
12 generation benefits from past investments and initiates
13 new investments that will benefit the next generation of
14 customers. And as I understand his argument, he -- he,
15 in terms of new industrial development, he was making the
16 point that new industrial development should be
17 encouraged to support the development of new generation.

18 And he was arguing that new generation
19 today will be the source basis of -- or basis or lower
20 cost power for future customers. Given Mr. Bowman's
21 position on this, how can he then assert that new
22 resource initiatives allocate -- for export expenditures
23 somehow have a higher cost associated only with exports?
24 It's the same argument both ways.

25 And while there may be poor short term

1 financial results in terms of a decision to initiate new
2 generation there's long term benefits. And to attribute
3 all the cost associated with poorer short-term financial
4 results fails to recognize the future benefit to domestic
5 consumers in the future.

6 And if I'm not being clear, Wuskwatim will
7 initially be used for export but, it will certainly be
8 used for domestic customers post 2020. The fact is
9 already --already been in service for eight (8) to nine
10 (9) years means that the impact on domestic customers
11 will be less in those years, post 2020 than if it had not
12 been advanced for export.

13 Assuming that all costs prior to 2020 are
14 for exports, does not acknowledge the benefit that
15 domestic customers will receive from this advancement.
16 And I think Mr. Bowman made this point quite well. With
17 a natural resource such as oil, eventually low cost oil
18 is replaced by high cost oil. But, low cost
19 hydroelectricity is endless.

20 In sum, while Mr. Bowman remains to be
21 convinced, his argument suggesting that the higher on
22 average revenues garnered by export sales are somehow
23 cancelled out by higher than average costs, are refuted
24 by four (4) points.

25 A) First, the fact that a great deal of

1 future surplus capacity will flow from older facilities.

2 2. The fact that many low cost power
3 resources remain such as SSE and demand side management.

4 3. The evidence of system planners with
5 day-to-day familiarity with the operations of Hydro.

6 And, 4, his own evidence on inter-
7 generational equity and the benefits of new generation.

8 Mr. Chairman, I'm just moving to a new
9 area and I was -- which is -- I'm approximately halfway
10 through so I thought this might be a convenient breaking
11 point.

12 THE CHAIRPERSON: Very good, Mr.
13 Williams, we'll come back at 10:30.

14 MR. BYRON WILLIAMS: Okay.

15
16 --- Upon recessing at 10:15 a.m.

17 --- Upon resuming at 10:31 a.m.

18

19 THE CHAIRPERSON: Any time you're ready,
20 Mr. Williams.

21

22 CONTINUED BY MR. BYRON WILLIAMS:

23 MR. BYRON WILLIAMS: When we left off I
24 was asking the Board to reject the position of Mr. Bowman
25 and find that the fundamental changes requires a change

1 in the current cost of service methodology for allocating
2 net export revenues on the grounds of fairness, which
3 leads us to the third issue outlined in our outline.

4 If a change in the cost of service
5 methodology is required does Hydro's proposal justly and
6 reasonably accomplish this goal or have there been
7 superior options proposed?

8 In terms of what's currently on the table,
9 leaving aside the current method which I believe only Mr.
10 Bowman remains attached to, and pearl vintaging which I'm
11 not sure that even Mr. Lazar is proposing. Although I --
12 I think it was a very interesting idea which -- which
13 might have been interesting to have a bit more discussion
14 about. It appears we have four (4) remaining options on
15 the table in terms of how best to address this
16 fundamental change.

17 There's the Hydro method. And by "the
18 Hydro method" I mean the export class with the two (2)
19 sub-classes and the allocation along generation -- excuse
20 me and the allocation of net export revenues along the
21 generation, transmission and distribution costs.

22 There's the NERA method which is primarily
23 distinguished from the Hydro recommended method by the
24 existence of only one (1) export class.

25 There's the threshold proposal advocated

1 by Mr. Bowman which he describes as a matter most
2 appropriately address -- dealt with at a General Rate
3 Application.

4 And there's something which I would call
5 the pre-export credit approach which was mentioned by Mr.
6 Warden during direct evidence and then discussed at some
7 length during the hearing.

8 At a starting point for this discussion,
9 again at a high level, it appears that the Hydro
10 recommendation is endorsed by Mr. Wiens, Mr. Harper, by
11 Mr. Lazar, although my understanding -- well, from our
12 perspective we might put a little bit less weight on his
13 endorsement because his sole focus is efficiency. And
14 that the cost of service level we think the key criteria
15 should be fairness.

16 And even NERA, and this is noted at page
17 796 of the transcript, seems to endorse the Hydro two (2)
18 subclass approach. And that's from an e-mail to Mr.
19 Wiens of August 2, '05, which indicated an analytical
20 preference for two (2) subclasses rather than one (1)
21 export class. And I -- and I think I'm quoting
22 directly, "it makes a lot more sense."

23 And although he disagreed with me about
24 this on Friday, I think that if one goes back to the
25 evidence provided by Mr. Osler and Mr. Bowman from the

1 2002 status update proceeding, you may come across some
2 analytical support for the idea of an export class in
3 that evidence as well.

4 And I'd urge you -- Mr. Bowman took issue
5 with my suggestion to him on that point, so I would urge
6 you to go back and see whether or not there's analytical
7 support for that idea in his evidence. You can draw his
8 -- own conclusions. And that evidence certainly is on
9 the record in this proceeding.

10 In terms of the key reasons for supporting
11 the concept, the Hydro recommendation, I think Mr. Wiens
12 evidence on this point is fairly well set out at page 659
13 to 659 (sic) of the transcript. And he appears to
14 endorse the proposal on the grounds that it best achieves
15 the objectives of fairness, efficiency and stability. He
16 sees it as a change from the current methodology but not
17 too radical of a change.

18 In his view, it achieves the fairness
19 objective by assigning a reasonable share of joint costs
20 to the export class. Then once exports have paid their
21 dues the cost cause -- and the cost causation link has
22 been broken, one can look to a wider allocation, such as
23 the 'G', 'T' and 'D' allocation proposed by Mr. Weins.

24 Again, Mr. Harper supports this
25 proposition but on a bit more narrow basis because he's

1 focused on the cost of service objective of fairness
2 based upon cost causality. And he sees Manitoba Hydro's
3 proposal as a reasonable attempt to try and balance two
4 (2) key considerations.

5 First, by allocating a share of both
6 variable and fixed cost exports the method provides
7 explicit recognition of the fact that the costs were
8 incurred by Hydro to secure export revenues and seeks to
9 allocate them in a reasonable share of such costs. To
10 that extent, it recognizes directly the principle of cost
11 causation in dealing with exports.

12 The second reason Mr. Harper endorses his
13 proposal is by allocating the -- what he calls excess
14 revenue on a more neutral basis. It attempts to
15 ameliorate the perverse signal sent by the current method
16 that the use of 'G' and 'T' assets causes net export
17 revenues to increase when the reverse is true.

18 So that's why Harper and Wiens say this is
19 a proposal that -- the Hydro recommended approach is a
20 way -- the way to go. Well, what about the other great
21 competitors?

22 Early in this proceeding some currency was
23 attached to the idea of simply moving to an RRC based
24 upon a pre-export credit as a way of avoiding the
25 controversy. But in our respectful view it's -- it's not

1 possible to deduct -- to -- excuse me, it's not possible
2 to duck the issues raised in this proceeding by going to
3 some sort of pre-export credit RCC and it's important to
4 understand why this is the case.

5 Even if you try to go to some sort of pre
6 export RCC as a way to duck the issue, the results for
7 the RCC would depend upon which cost of service
8 methodology you use. Would you use the current method of
9 assigning only variable cost exports? Would you use a
10 recommended method? Or, for that matter, would you use
11 the NERA method?

12 So if you -- if some reason one wanted to
13 go down that path, many of the same questions would still
14 be before you. You'd have to decide whether the cost of
15 service should include an export class and if so, how
16 many.

17 Secondly, the pre-allocation of RCC's is
18 not really avoiding the issue of how best to allocate
19 excess revenues; whether to do it on the basis of
20 generation transmission or on the basis of generation
21 transmission and distribution.

22 Implicit in the indexing to 100 percent is
23 an allocation of the difference between domestic revenues
24 and costs, which is simply the net export revenue. And
25 by using the pre-export allocation RCC, one (1) has

1 effectively made a decision as to how net export revenues
2 will be allocated.

3 The use of a pre-export allocation RCC is
4 effectively the same as allocating net export revenues to
5 customer classes, based upon their relative revenues.
6 And that's not very different from Hydro's recommended
7 method, which does that allocation based upon their
8 allocated cost.

9 So we don't recommend this method for the
10 Board, and we would also point out that it's not a very -
11 - it's a less transparent method than explicitly
12 acknowledging that they're -- and trying to assign the
13 costs associated with exports, at least on some sort of
14 fair basis.

15 What about the other great competitor, the
16 threshold idea? As a starting point, it's interesting
17 that Intergroup, in its written evidence, despite
18 correctly noting that the real fundamental change is a
19 change in export prices, did not employ that price per
20 unit value in attempting to determine an appropriate
21 threshold.

22 If you thought that was a key issue, why
23 wouldn't you use that threshold? Instead, Intergroup
24 used a percentage of bulk power costs covered by net
25 exports. And that's an approach, and I give Mr. Bowman

1 credit on this, in his direct evidence he described it as
2 simplistic and intended for illustrative purposes.

3 And just as candidly, he admitted that the
4 proposed threshold approach, based upon bulk power costs
5 -- the percentage of bulk power cost covered by net
6 exports, in cross-examination by CAC/MSOS, he agreed that
7 it was likely to be a poor measure over time.

8 We concur and would ask the Board to
9 explicitly reject this threshold. Mr. Bowman, in both
10 his direct and cross-examination, seemed to suggest that
11 a more apt threshold might be one (1) based upon the
12 change in the relative price per kilowatt hour. And that
13 would seem to follow logically from his recognition that
14 the fundamental change has been the relative change in
15 the price per kilowatt hour.

16 However, and again to his credit, he was
17 candid in his observations that there were very
18 complicated issues associated with such a threshold, and
19 that the debate was likely to be controversial.

20 We concur with his observation and would
21 also note, that in addition to the complications candidly
22 identified by Mr. Bowman, there are likely to be
23 contentious issues surrounding the question of which
24 prices to be used, because there are a range of domestic
25 prices, both by customer class and by make-up, and a

1 range of export prices. At the end of the day, once
2 we've -- we're essentially left with two (2) options.

3 Some sort of version of the Hydro NERA
4 approach, which was first considered in 2002, which was
5 studied to a certain degree in 2004, and then intensively
6 tested in this proceeding.

7 Or the other option is the threshold
8 approach, which stands outside the cost of service
9 methodology, which Mr. Bowman has indicated is at a
10 tentative illustrative stage, which -- the current
11 version of which is, in his words, is likely -- is
12 admittedly simplistic and likely to be a poor measure
13 over time.

14 And even if we move to other, perhaps more
15 refined measures, it's likely to be just as contentious
16 as the issues currently before the Board in this hearing.

17 Put bluntly, the Board can accept a
18 version of a method that is endorsed by NERA by Mr. Wiens
19 and Mr. Harper, or it can defer its decision for another
20 proceeding at some distance point in the future.

21 We would ask the Board to explicitly adopt
22 the creation of an export class, or classes, as a
23 reasonable and just way to identify and address the
24 fundamental changes identified in this proceeding.

25 A related sub-question, and I have noted

1 it on our outline, and it was also raised by Mr. Peters
2 when he went through his list of nine thousand, five
3 hundred and eighty-three (9,583) questions, is whether
4 there should be one (1) export class or two (2) sub-
5 classes.

6 In favour of the two (2) sub-classes are
7 Manitoba Hydro, Mr. Harper and NERA.

8 Intergroup is opposed.

9 And I would also note that on this subject
10 Board counsel, quite properly, chose to address --
11 aggressively test Hydro's recommendation that there be
12 two (2) sub-classes.

13 I followed the cross-examination, both of
14 Board counsel and MIPUG's counsel on this point, with
15 some interest, although admittedly I had some difficulty
16 following it. But they seemed to be raising concerns
17 about the Hydro proposal to have two (2) sub-classes on
18 two (2) key grounds.

19 First, the suggestion was made, and I
20 think directly by My Friend Mr. Peters, that opportunity
21 sales could be just as firm as export sales.

22 Secondly, and I believe this suggestion
23 was again made by both My Friend Ms. McCaffrey and My
24 Friend Mr. Peters, the suggestion was made that the
25 incremental costs associated with opportunity sales could

1 -- could be the same as or greater than those associated
2 with firm.

3 As a starting point to analytically
4 addressing the issue of whether there should be one (1)
5 class or two (2) sub-classes, it should be noted and
6 acknowledged that domestic firm and opportunity sales all
7 play a role in system planning and design.

8 But I -- I would respectfully suggest that
9 anyone who sat through the many hours of testimony
10 regarding system planning at the Wuskwatim proceeding,
11 would be stunned by the suggestion that somehow domestic,
12 firm and opportunity sales played an equal role in
13 contributing to the costs associated with system planning
14 design and operation.

15 And that's why we presented to Manitoba
16 Hydro, through cross-examination, the excerpt -- and
17 that's at pages 674 to 690 of the transcript, the excerpt
18 from the Power Resource Planning evidence presented in
19 Wuskwatim hearing, and that's at Tab 12 of the CAC/MSOS
20 book of references.

21 And I won't take you there but I'd urge
22 you to carefully review the transcript on this point as
23 well as the excerpt from Wuskwatim that was -- that is
24 presented at Tab 12.

25 We believe that this except is telling for

1 two (2) reasons. First, it provides insight into the
2 central role that providing for the reliability of
3 dependable energy and capacity has in informing Manitoba
4 Hydro's thirty-five (35) year power resource sequence and
5 its long-term capital plan.

6 I think the inference you can draw --
7 well, not the inference, the -- the conclusion you can
8 draw, both from this excerpt and from Mr. Surminski's
9 testimony on this point, is that the key driver of its
10 capital resource plan and of its investment decisions,
11 are decisions relating to -- to the provision of a
12 reliable supply of electrical power for Manitobans, in
13 terms of dependable power.

14 Why I think this excerpt from Wuskwatim is
15 also helpful, because it provides this Board with some
16 assurance that Hydro's position on this point is not
17 something that was created for the purposes of -- of this
18 proceeding; not that the Board would ever take this.

19 But it comes from another proceeding where
20 the issue of whether or not there should be an export
21 class wasn't on the table, and it gives insight into
22 Hydro's position, and it provides insight into the
23 consistency of Hydro's positions over time. So we would
24 urge the Board to review this document very carefully.

25 We'd also ask you to consider the evidence

1 of Mr. Harper on this point and his succinct testimony in
2 direct evidence. He identified two (2) key ways to
3 distinguish between customers, such as between different
4 classes.

5 1, is in terms of how their loads impact
6 on the planning of the Utility and the Utility's
7 willingness to commit funds to support this load.

8 The second, and somewhat related way, is
9 to look at the reliability of service that the Utility is
10 committing to supply.

11 And Harper's -- Mr. Harper's evidence that
12 is, when considering customer classes it is reasonable to
13 group, separately, customers who impose different
14 obligations and therefore costs on a utility from a
15 planning perspective, and are based on the level of
16 reliability they are assured. And that's based upon his
17 twenty-five (25) years of experience with cost of service
18 design.

19 In the case of exports, Mr. Harper makes
20 the observation that there are fundamental differences
21 between firm exports, which he defines as exports with
22 contracts of longer than a year, and opportunity exports,
23 in -- both in terms of resource planning decisions and
24 also in terms of the level of reliability.

25 And he goes back, not explicitly but

1 implicitly, to the power resource plan of Manitoba Hydro
2 filed in this -- at Tab 12 of the CAC/MSOS book of
3 references. And he notes that a number of times during
4 the proceeding we've heard that firm exports are backed
5 by dependable energy resources, generation capacity
6 commitments and available transmission.

7 For planning purposes they are treated
8 exactly the same as domestic load and the -- was prime --
9 and the resources required to serve them are not
10 considered to be available to meet domestic requirements,
11 should circumstances change.

12 In contrast, opportunity sales, even short
13 term, firm commitments, are based on the availability of
14 surplus energy, over and above dependable resources.

15 Moreover, the shorter time frame of less
16 than one (1) year means that such commitments are based
17 on existing capacity and don't impact Hydro's capital
18 planning process to the same extent as domestic or firm
19 sales.

20 And in terms of consistency we would also
21 note that this has been a point made by Mr. Harper in
22 2002, 2004 and 2006. Indeed, one (1) of the reservations
23 he made about the creation -- or he offered about the
24 creation of an export class, way back in 2002, was he was
25 concerned with the -- what seemed to be an assumption

1 that it was reasonable to attribute the same degree of
2 cost causality to a kilowatt hour of export, even firm
3 export, as it was a kilowatt hour of domestic load.

4 So Mr. Harper has been very consistent,
5 like Manitoba Hydro, on this point, from 2002 moving
6 forward, clearly distinguishing between the impact in
7 terms of investment planning decisions of firm sales
8 versus opportunity sales.

9 So certainly, on behalf of my clients,
10 we'll be -- I'll be asking the Board to endorse the two
11 (2) subclasses and -- based upon a finding on their
12 relative impact on system design, and also in terms of
13 the finding in terms of the reliability of the service
14 that the Utility is committed to supply.

15 In making this recommendation my clients
16 certainly recognize that allocating the same amount of
17 costs to firm exports, as to domestic, probably somewhat
18 overstates the amount of costs they should be incurring.
19 At the same time, they recognize that -- that the current
20 -- the recommended method, in terms of the allocation for
21 opportunity sales, probably understates the amount of
22 costs that should be allocated to them.

23 They see this as the best and the most
24 reasonable compromise, over-allocating a bit on -- to the
25 firm side, under-allocating a bit to the opportunity

1 class -- subclass, because they -- they believe that it
2 would be inefficient and extremely time consuming to
3 delve further into a more precise division. And I think
4 Mr. Weins offered evidence to that point as well.

5 The final related sub-question, under our
6 third point, deals with the allocation and the
7 appropriateness of allocating net export revenues,
8 however they are defined, to generation transmission and
9 distribution. And an approach which has been assigned --
10 has been endorsed by NERA and Mr. Wiens on efficiency
11 grounds, and by Mr. Harper on the grounds of fairness.

12 Counterposed against the expert advice of
13 NERA, Mr. Wiens and Mr. Harper are, at least, in our
14 understanding, two (2) competing suggestions.

15 There's been the suggestion made in this
16 proceeding that surplus revenues ought to be somehow
17 refunded to the Province via a dividend.

18 There's also been the suggestion, by Mr.
19 Bowman, that a new cost should be created with an
20 appropriation, or via an appropriation for a drought
21 reserve. And with the shortfall in net income being met
22 by domestic rate increase.

23 It's notable that of these two (2)
24 competing suggestions, first the payment of dividends to
25 the Province is, at least in my respectful submission,

1 simply beyond the jurisdiction of this Board.

2 And while the determination of whether new
3 costs should be created, is, and Mr. Bowman candidly
4 admitted this, outside the scope of this proceeding.

5 What is interesting about both suggestions
6 though, is that they flow from fundamentally different
7 conclusions as to the nature of the net export revenues
8 earned by Manitoba Hydro.

9 TREE, T-R-E-E, perhaps aided by an
10 unfortunate choice of words by Manitoba Hydro, seems to
11 see net export revenues as a windfall, monies which can
12 be happily couriered to the Province, the statutory
13 regime notwithstanding.

14 On the other hand, Intergroup, at least in
15 my understanding, sees these resources as something to
16 which the generation and transmission function can
17 somehow claim ownership.

18 In the respectful view of CAC/MSOS, the
19 argument espoused by TREE is historically inaccurate --
20 accurate and undermined by the fundamental economic
21 realities of Manitoba Hydro.

22 The suggestion that this is somehow a
23 windfall is one (1) that they suggest should not be
24 endorsed by this Board.

25 In explaining the reasoning of my client,

1 why, we have to look at the source of these net export
2 revenues, which is the surplus capacity found in Manitoba
3 Hydro's generating and transmission system.

4 And this point was made better by Mr.
5 Bowman in cross-examination than I could make directly.
6 But it's important to understand that when we look at how
7 these facilities were built in the first place, the risk
8 for their failure, or for their success, was collectively
9 borne by Manitoba ratepayers.

10 They were told they would pay for those
11 projects, whether they turn out to be good projects or
12 bad projects. And we only have to look to the example of
13 Ontario Hydro to see what happens to electricity
14 ratepayers when they turn out to be bad projects instead
15 of good projects.

16 That was in the past, but look at even
17 today. Look at how Wuskwatim was sold to consumers in
18 the Clean Environment Commission proceeding. We were
19 told that the development of Wuskwatim would help to keep
20 rates low. And that's set out in an excerpt from -- that
21 is found in the CAC/MSOS book of references.

22 Wuskwatim wasn't sold to Manitobans on the
23 basis that we would be developing a plan to pay major
24 dividends to the Government. And that stands in sharp
25 contrasts to projects like Churchill Falls, which were

1 explicitly developed to provide dividends to the
2 shareholder.

3 Just examining this idea of a windfall a
4 bit more, I want to go back to a deeper understanding of
5 where the quantum of net export revenues comes from.
6 It's a result of a combination of three (3) factors:

7 First of all, Hydro's investment in
8 facilities that will facilitate or increase the
9 opportunity for exports.

10 Secondly, a surplus of energy and capacity
11 on Manitoba Hydro's system.

12 And third, market conditions elsewhere.

13 But when you look at that second reason,
14 the surplus of energy and capacity on Manitoba Hydro's
15 system, that's a function in part of the investments that
16 Hydro's made, but it's also a reflection of water flows.
17 And those cannot be guaranteed. Indeed, in low flow
18 periods they will drop.

19 And if you look at that third factor,
20 which is market conditions elsewhere, that, too, is a
21 function of external events, such as supply and demand
22 elsewhere, natural gas prices, et cetera.

23 And as a result of these factors,
24 especially factors 2 and 3, export revenues can vary from
25 year to year, and it's absolutely inappropriate to think

1 of one year's good result as a windfall because as system
2 conditions and markets in subsequent years could produce
3 lower revenues.

4 And when Manitoba Hydro invests in
5 facilities to support exports; that's based upon a
6 consideration of the range of water flows and on the fact
7 that on average revenues will exceed costs. And as Hydro
8 acknowledged in this proceeding there was a high cost of
9 meeting exports commitments during the recent drought but
10 that such a possibility was factored into its decision
11 when making the commitment and that the profits in the
12 good year offset the bad year.

13 So in my client's respectful position it
14 would be inappropriate for some third party to lay claim
15 to the profits in the good years unless they were willing
16 to compensate Manitoba Hydro and its ratepayers for the
17 low flow years. Otherwise, such claims would totally
18 change the economic evaluation of export opportunities.

19 And as Mr. Bowman helpfully acknowledged
20 in cross-examination on Friday, and I think we're a -- my
21 clients are on all fours with him on this point, there's
22 a great risk -- or there is some risk associated with
23 investing for exports. And Manitoba Hydro's explicit
24 decision to invest in facilities to support exports
25 recognizes this risk by requiring a higher internal rate

1 of return than for standard investments to meet domestic
2 loads.

3 And that -- this was discussed and
4 confirmed in the Wuskwatim proceeding and also in cross-
5 examination with Mr. Bowman.

6 So when higher returns do emerge they are
7 compensation for that risk. Since Hydro and its
8 customers are bearing the risk it's appropriate that they
9 benefit from returns. So if a third party were to lay
10 claim -- claim to any long-term return considered excess,
11 this would mean there would be no premiums available to
12 Hydro and economic evaluation would not yield as high of
13 an internal rate of return.

14 Alternatively, the third party would have
15 to indemnify Manitoba Hydro and Manitoba ratepayers for
16 any risk.

17 MR. ROBERT MAYER: Mr. -- you talk about
18 a third party; is that third party you're talking about
19 the shareholder?

20

21 CONTINUED BY MR. BYRON WILLIAMS:

22 MR. BYRON WILLIAMS: Yes, Mr. -- I
23 thought I might get a question or two (2) from you on
24 this point.

25 So on this point we're going to ask the

1 Board to reject the dividend concept as beyond the scope
2 of this proceeding and clearly beyond its jurisdiction.

3 And I'll get to this, I guess, just before
4 our recommendations. But the Board, we note in this
5 proceeding, has been presented with a number of arguments
6 which are well beyond its jurisdiction and been asked
7 implicitly to provoke debate by making overture comments
8 far outside its jurisdiction. And, again, I'll refer to
9 this a bit closer to the closing.

10 Well, what about the drought surcharge
11 proposed by MIPUG? In our view it's a wrong forum. The
12 Board has expressly said that this is not a General Rate
13 Application and it's outside the scope of this proceeding
14 to create new costs in a meth -- methodological hearing.

15 We would also argue that given Mr.
16 Bowman's advice to the Board during the last hearing,
17 2004 General Rate Application, his advice in this hearing
18 is somewhat ironic. If you recall from that hearing he
19 recommended that rate increases be below inflation
20 despite a drought and to be recommending rate increases
21 over and above inflation in a record net income year
22 seems -- is somewhat inconsistent.

23 In our view, that's particularly the case
24 when Mr. Bowman quite rightly express mat -- material
25 concerns during the 2004 General Rate Application as well

1 as during cross-examination by CAC/MSOS in this
2 proceeding, with Manitoba Hydro's estimate or guesstimate
3 of the -- the overall costs of a drought. He expressed
4 concerns about the absence of substantive quantification.

5 A third point on this point is that Mr.
6 Bowman has provided to the Board, or in -- in the
7 response through -- to Manitoba Hydro Interrogatory
8 Number 5, excerpts from two (2) tri -- two (2) tribunals
9 which he suggests are analogous to his proposal to create
10 an appropriation for a drought reserve.

11 In terms of those two (2) excerpts, it's
12 important to notice he was candid enough to in -- note in
13 cross-examination that neither of these were pre-funded
14 reserves. There was no surcharge associated with either
15 of them or appropriation to -- to build up costs in
16 advance. Now, in fairness, Mr. Bowman I did believe,
17 noted that the Yukon example may have been -- had some
18 pre-funding.

19 The last point in terms of Mr. Bowman's
20 decision, and I think was better made, again, by Mr.
21 Harper and Mr. Warden then myself, is that the rate
22 decisions made by the Public Utilities Board in relation
23 to Manitoba Hydro's GRA's already involve a careful
24 consideration of Hydro's required net income based on its
25 current financial position, financial risk and targets.

1 And if any such appropriations were to be
2 made in the future, the Board may need to rethink their
3 criteria used in determining Hydro's net income level
4 since the issue of drought risk would be addressed
5 separately. Again, in our view, that's an issue better
6 left for a General Rate Application.

7 A last comment on this point, and I
8 believe the Chairman made a suggestion in terms of
9 allocating some portion of net export revenues towards
10 demand side management, and -- I thought you did anyways.
11 I see a puzzled look on your face. So I'm going to
12 assume that you did. And if you didn't, you'll just
13 totally ignore my comments on this point.

14 But in terms of that point, I think it's
15 important to understand -- and this certainly was, I
16 believe, the finding of the Clean Environment Commission
17 in Wuskwatim -- with -- and, at least, this is how I am
18 interpreting it -- the issue with demand side management
19 from the perspective of -- in the Clean Environment
20 Commission, wasn't with an absence of funds to -- for
21 that -- those opportunities.

22 In fact, the Clean Environment Commission
23 said that there was, you know, there was more and more
24 opportunities for Manitoba Hydro to make economic
25 investments in demand side management that were -- that

1 were -- that it cert -- just wasn't realizing it at that
2 point in time. Hydro had said, Well we'd like to get the
3 one point five (1.5) to two (2) of current DSM and the --
4 the Clean Environment Commission said, You should be
5 going for above two (2). So that's one (1) point.

6 So I think the issue in terms of demand
7 side management which my clients believe very strongly in
8 is -- is not an absence of funds. There's perhaps
9 institutional energy, although we see that Hydro has
10 worked hard on that issue and is moving more aggressively
11 on that area. So I'm not suggesting it as a criticism,
12 I'm just suggesting, as I look to Mr. Warden, but just
13 suggesting I'm not sure that an absence of funds if the
14 issue associate with it.

15 The other just -- comment, Mr. Chairman,
16 on that point is if I would have known that DSM was going
17 to be on the table, I probably would have bought --
18 brought Dr. Higgins (phonetic) with me from Mr. Harper's
19 firm, ESC.

20 And we'd be happy to engage in that
21 discussion at the next General Rate Application if that's
22 something the Board is looking for. I think regulators
23 in Manitoba in the past have found that he's got a lot of
24 insight on those issues. We weren't prepared for that
25 issue in this proceeding, so I don't have a lot of

1 guidance to offer. But if that's something that Board is
2 looking at in future, I think certainly my clients would
3 be happy to engage in that discussion.

4 Just to sum up on this point, we'll be
5 asking the -- the Board to endorse an allocation of net
6 export revenues based upon generation, transmission and
7 distribution costs. It's certainly consistent with the
8 recommended proposals of Mr. Harper, Mr. Wiens and NERA.
9 It's certainly, in our respectful view, better than the
10 alternatives proposed in this proceeding.

11 And it's also, in our view, consistent
12 with the understanding that the risk borne by Manitoba
13 Hydro ratepayers in terms of droughts are borne by all
14 consumers and that when we had to recover from the costs
15 of droughts, that was borne by a rate increase reflecting
16 an increase on generation, transmission and distribution.

17 In terms --

18 MR. ROBERT MAYER: Before you leave that
19 topic, Mr. Williams, I note that Professor Miller isn't
20 here and I think I should give you an opportunity to
21 respond to what I believe was a very unfair
22 representation of Mr. Lazar's position with respect to
23 distribution of excess revenue.

24 You've alleged that it should go -- that
25 he recommended that it go to a third party who we now

1 know is the shareholder or the ratepayer or the taxpayers
2 of Manitoba. But, that wasn't -- that wasn't Mr. Lazar's
3 point.

4 Mr. Lazar's point as I understood it, is
5 it should go just about anywhere but, to the
6 subsidization of rates. And in fact, as I recall his
7 evidence he suggested that the use of it for uniform
8 rates was legitimate; that the use of it to increase
9 Hydro's debt equity ratio was legitimate.

10 And he was the one who said the use of it
11 to deal with DSM programs that were not otherwise --
12 could not otherwise be justified by a business case, was
13 legitimate, and the low income energy assistance programs
14 was legitimate, and finally, the offset of basic
15 distribution infrastructure costs that are hard to
16 allocate.

17 So he was not arguing for what you suggest
18 and it seems to be a very unpopular method of dealing
19 with Hydro revenues and that is the third party taking
20 them, but his argument was basically that we ought not to
21 use this revenue to offset rates and thereby give the
22 wrong signal to consumers.

23

24 CONTINUED BY MR. BYRON WILLIAMS:

25 MR. BYRON WILLIAMS: Mr. Vice Chair, I

1 think in your characterization of my comments you might
2 have been a touch unfair yourself.

3 I think explicitly used the words, TREE,
4 not Mr. Lazar. I -- so just in fairness -- and I've
5 certainly heard TREE speak of dividends to the Province.
6 So in fairness to myself I think that's an inaccurate
7 characterization. I think I even spelled TREE when I did
8 that.

9 So in terms of certainly My Friend, Ms.
10 Bowman will speak more directly to Mr. Lazar, I think Ms.
11 Ramage has had it -- Ms. Ramage had an interesting cross-
12 examination with him and outlined the fact that many of
13 the proposals that he was making -- Manitoba Hydro was
14 actually operating upon.

15 I think if I understand and I want to be
16 responsive to your question, if I understand your
17 concerns that -- that his point was that any -- the money
18 should go anywhere but towards the subsidization of
19 rates, I guess one (1) point is that in the cost of
20 service methodology, your focus is on fairness issues
21 rather than efficiency issues primarily.

22 But, let's look at -- in even the results
23 of the cost of service methodology, and I went through
24 this in my cross-examination of Mr. Wiens on this point,
25 I think that primarily -- and I'm not as familiar with

1 Mr. Lazar's argument, but I do know that the primary
2 efficiency concern outlined, both by Manitoba Hydro and
3 by NERA, in terms of the allocation of revenues are in
4 the cost of service methodology, is a result that leaves
5 the incremental rates below short run marginal costs; not
6 long run marginal costs but, short run marginal costs.

7 And that's explicitly NERA's concern and
8 that's -- as I understand Mr. Wiens' position, Ms. Ramage
9 will slap me around if I've misstated it, that's also Mr.
10 Wiens' concern.

11 If you look at the numbers and that's a
12 very rough -- the numbers on that point, if you look, and
13 a rough reflection of that is found in CAC/MSOS Exhibit
14 book, Tab 3 and -- I went through this in cross-
15 examination with Mr. Wiens, the key observation from that
16 cross-examination was that for customers, such as
17 residential, or that clearly they were paying -- their
18 incremental rates were above short run marginal costs and
19 that the class which -- whose rates, on an incremental
20 basis, were below short run marginal costs, Mr. Wiens
21 provided a more refined example, but the class which was
22 notably below short run marginal costs in terms of the
23 incremental rates was GSL large.

24 So to the extent that Mr. Lazar's concern
25 is appropriate for a cost of service hearing rather than

1 a rate design hearing, I think his concern would be
2 primarily focused on those classes whose short run --
3 whose incremental costs were below short run marginal
4 costs.

5 Now, again, I'm not as familiar with his
6 evidence. So -- and I -- I think Mr. -- Mr. Harper would
7 probably also have a concern in terms of a -- a certain
8 class with incremental rates below short run marginal
9 costs but he would say it's more properly dealt with in a
10 rate design.

11 So -- and if I did do an injustice to Mr.
12 Lazar's comment it was absolutely inadvertent. I thought
13 I was pretty careful to characterize my words referring
14 to TREE and that was how I understood their position. If
15 I mischaracterized it, I certainly apologize to them.

16 MR. ROBERT MAYER: I don't understand how
17 TREE's position would have been made known to this Board
18 in the absence of the evidence of Mr. Lazar who was the
19 only one who gave evidence on behalf of TREE, both
20 written and oral.

21 MR. BYRON WILLIAMS: I sat through the
22 pre-hearing conference and heard Mr. Miller's comments
23 and I sat through their opening statement as well.

24 MR. ROBERT MAYER: Neither of which are
25 evidence.

1 MR. BYRON WILLIAMS: It's a position that
2 I'm anticipating will arise. Does that satisfy your --

3 THE CHAIRPERSON: I think the exchange
4 has clarified the issue a bit.

5

6 (BRIEF PAUSE)

7

8 MR. BYRON WILLIAMS: The -- I thought
9 that might provoke a little bit of discussion on that --
10 that point in any event.

11 THE CHAIRPERSON: Are you saying you
12 planned this, Mr. Williams?

13

14 (BRIEF PAUSE)

15

16 CONTINUED BY MR. BYRON WILLIAMS:

17 MR. BYRON WILLIAMS: I anticipated I
18 might receive a few questions.

19 In terms of the cost of the cost of -- I'm
20 moving to the fourth question and most of the comments on
21 this point will be raised by My Friend, Ms. Bowman. But
22 in terms of the cost of service treatment of GT and
23 DCOSS, and we've asked what definition of costs should be
24 employed. And we've broken this down into a couple of
25 issues.

1 What type of costs are we trying to
2 recover for the purposes of rate recovery? What type of
3 costs would it be most appropriate to recover in the --
4 in the cost methodology -- I see I've made a typo there.
5 And apart from the cost methodology, what role should the
6 concepts of marginal costs and externalities play in the
7 rate setting process?

8 And I'm going to focus primarily on the
9 first question which is: What type of costs are we
10 trying to recover for the purpose of rate setting? And I
11 think the -- the Board's primary guidance for this
12 obviously comes from the three (3) pieces of legislation
13 which affect its jurisdiction; the Crown Corporation and
14 Accountability -- Public Review and Accountability Act,
15 the Public Utilities Board Act and the Hydro Act.

16 And I'm not going to dwell or read through
17 all these clauses. But I think the key provision that
18 you may want to pay attention to is Section 39(1) of the
19 Hydro Act because that provides the Corporation is
20 entitled to recover the full cost to the Corporation of
21 necessary operating expenses as well as of interest and
22 debt service charges along with a sum for reserves. And
23 taken within the context of a just and reasonable rate,
24 we would argue that a just and reasonable rate from the
25 Corporation's perspective is one that allows it to

1 recover these costs.

2 And we think it's significant, if you take
3 a moment at some point in time to review Section 39, that
4 the costs identified there are the costs of the
5 Corporation. The costs -- the statute does not make
6 provision for the collection of costs external to the
7 Corporation in Hydro's rates. And similarly, and I
8 hesitate to walk down this path, but a return on equity
9 for the owner or some other form of dividend is not
10 contemplated for Section 39.

11 MR. ROBERT MAYER: But reserves clearly
12 are?

13 MR. BYRON WILLIAMS: Reserves are.

14 MR. ROBERT MAYER: So, although some of
15 Mr. Lazar's suggestions for use of this money, you are
16 going to argue, and I think I might agree with you, are
17 outside the provisions of the Act, Mr. Bowman's
18 suggestion is clearly within it.

19 MR. BYRON WILLIAMS: It certainly is but
20 not within the scope of this proceeding. And we would be
21 happy to get in that debate. At -- at the same time we'd
22 be jumping at the chance to go after Manitoba Hydro's \$2
23 billion drought reserve target. So that's something that
24 will probably occur at a future date.

25 THE CHAIRPERSON: Your opinion, sir.

1 Your opinions, Mr. Williams. And this is your closing
2 statement.

3

4 CONTINUED BY MR. BYRON WILLIAMS:

5 MR. BYRON WILLIAMS: I'm kind of enjoying
6 the discussion, Mr. Chairman. It's a little more
7 interactive.

8 I'm -- so the -- again, my colleague Ms.
9 Bowman will address the issues in terms of what types of
10 costs would be most appropriate to recover in the cost of
11 service methodology. And, also, what other roles
12 marginal costs and externalities can play in the rate
13 same (phonetic) process.

14 But I did want to be responsive to one (1)
15 of the questions posed initially in interrogatory by the
16 Board and then I think in, again, some questions by the
17 Chairman dealing with replacement costs.

18 And when the question was first posed to
19 Mr. Harper in the interrogatory process, in terms of PUB
20 2 sub C -- and, again, you don't need to refer to it --
21 but the -- he was asked:

22 "Under what circumstances, if any,
23 should the historic costs of plant and
24 other costs be adjusted to reflect
25 replacement costs?"

1 He provided some evidence on this -- this
2 point. And essentially he said that he -- excuse me. I
3 think the thrust of answer was that he was rejecting
4 replacement costs because he considered them to be a poor
5 proxy for marginal costs.

6 And so from an efficiency perspective he
7 was trying to be responsive to what he thought was a
8 concern in terms of whether replacement costs would be a
9 more efficient way of - of setting -- setting rates. And
10 I think Mr. Harper's answer was if you were kind of
11 walking down that path it would be better to, rather than
12 use replacement costs as a proxy, it would be better to
13 do an express marginal costs study, with all the
14 complications that might ensue there.

15 But as I listened to the Chairperson's
16 exchange with Mr. Harper during Mr. Harper's day of
17 testimony, it seemed to -- to me that you were getting at
18 a different consideration and that is whether replacement
19 costs should be used as a means to reflect inter-
20 generational equity. And so I -- I think that was the
21 point that you seemed to be suggesting.

22 THE CHAIRPERSON: I wasn't stating
23 positions, Mr. Williams. I was asking the witness what
24 his thoughts were on some of the topics that have been
25 raised from time to time.

1

2 CONTINUED BY MR. BYRON WILLIAMS:

3 MR. BYRON WILLIAMS: And that's fair
4 enough. And I -- I was not suggesting anything further
5 than that. But I just wanted to address that point. And
6 I have to a certain degree already, both -- Mr. Harper
7 addressed that question and I did so with Mr. Bowman in
8 cross-examination.

9 And I think the thrust of the position of
10 CAC/MSOS is if you're looking at that from a perspective
11 of inter-generational equity, you can't just look at it
12 on a foregoing basis. You have to understand that the
13 low rates of today are a reflection of the wise
14 investment decisions made in the past. And, similarly,
15 consumers in the future will -- will benefit from the
16 wise investments hopefully being made today. So we stand
17 on the shoulders of past ratepayers.

18 So from a perspective in inter-
19 generational equity, we think that the current system
20 appropriately reflects it. It allows today's consumers
21 to benefit from yesterday's decisions and it will allow
22 future consumers to benefit from the decisions made
23 today.

24 And we would have some concern, again,
25 recognizing that this was just a theoretical discussion,

1 with a move to replacement costs because that -- for
2 today's consumers, they would end up paying some of their
3 future, you know, costs associated with future -- with
4 today's developments, plus doubling up in the sense of
5 having to pay for some of the costs associated with past
6 developments. And from that perspective, it would be
7 unfair.

8 I'm going to turn it over to -- to my
9 colleague Ms. Bowman and I'll let her speak. I think Mr.
10 Lazar's evidence, and I certainly wasn't trying to do it
11 an injustice, raised some very valuable ideas, and we'd
12 like to address them more directly and hopefully help to
13 assist the Panel in its consideration of the role of
14 marginal costs and externalities, as well.

15

16 THE CHAIRPERSON: Ms. Bowman...?

17

18 CLOSING COMMENTS BY MS. MYFANWY BOWMAN:

19 MS. MYFANWY BOWMAN: I'm just going to
20 move the microphone a little bit closer since I've had
21 trouble with that in the past.

22 Before I get started I would like to
23 thank, on behalf of my clients, RCM/TREE for their
24 contribution to this Hearing. As Mr. Williams pointed
25 out, they have raised some important issues, they've

1 provoked some thought and some discussion and proposed
2 some quite novel concepts.

3 And certainly CAC/MSOS values that and
4 wants to thank them for initiating that dialogue.
5 However, my clients also have to point out that the Board
6 and the parties must recognize the context of their
7 contribution.

8 And their contribution is exclusively
9 focused on one (1) particular element of the debate, and
10 that element is, of course, efficiency. And I'm not here
11 to suggest to you that efficiency is not important,
12 obviously it is.

13 But, it is one (1) factor, and it must be
14 tempered by consideration of other equally important
15 factors. It must also be tempered by the reality that
16 the Board is seeking practical solutions to real
17 problems.

18 And the Board must take a hard look at the
19 proposals in front of it, to see if they will truly
20 accomplish what it is that they set out to do.

21 Will they solve the problems that the
22 Board is trying to address? Or will they create more
23 problems? The Board needs to know that the solutions it
24 adopts are analytically sound, practical in application
25 and will achieve an appropriate balance of various rate

1 making criteria.

2 Now CAC/MSOS is very interested in issues
3 pertaining to the environment and was very interested in
4 what Mr. Lazar and what RCM/TREE have to say. And we're
5 pleased for the opportunity to participate in that
6 discussion.

7 Unfortunately, for reasons related both to
8 balance of the various factors and to problems with
9 analytical rigour, CAC/MSOS must urge this Board to
10 reject the proposals contained in Mr. Lazar's evidence.

11 Now, Mr. Lazar is not a stranger to this
12 Board, as I understand it he's appeared a couple of times
13 here before. And as I understand it, in the past he was
14 presenting the option of generation vintaging, which I
15 believe caught the Board's imagination.

16 And the Board, on that basis, directed
17 Manitoba Hydro to prepare a study using the vintaging
18 method. Unfortunately, at this Hearing, vintaging seems
19 to have dropped off the screen, and that's too bad.
20 Perhaps it would have been something that could have been
21 useful to talk about.

22 It does appear that the consensus,
23 certainly amongst some of the other witnesses, is that
24 vintaging perhaps is not as valuable as it would
25 hopefully be for the time and energy it takes to

1 accomplish that kind of a study. And it's perhaps not a
2 very practical solution.

3 To some extent, some of the other
4 solutions that are being proposed in Mr. Lazar's evidence
5 might have similar problems of practical application.

6 Before I go into them in some detail, I'd
7 like to just comment in a general sense of some of the
8 analytical difficulties that CAC/MSOS found with Mr.
9 Lazar's evidence.

10 I'm going to suggest to the Board that Mr.
11 Lazar's evidence lacked, not only balance, but analytical
12 rigour. There were a number of problems with -- what I
13 will characterize as lack of care and attention.

14 Mr. Lazar had difficulty with some of the
15 numbers that he was presenting, and in cross-examination
16 I presented the Board with CAC/MSOS Exhibit 6, which
17 tracks the changes to the various tables and calculations
18 that Mr. Lazar presented.

19 Some of those tables had to be corrected
20 more than once and the corrections flowed from table to
21 table.

22 THE CHAIRPERSON: Wasn't the concepts
23 more important than the numbers?

24

25

(BRIEF PAUSE)

1 CONTINUED BY MS. MYFANWY BOWMAN:

2 MS. MYFANWY BOWMAN: Well certainly
3 that's Mr. Lazar's position and in some ways that's true.
4 But, the point that I'm trying to make to the Board is
5 that there was a lack of care and attention.

6 And the reality for the Board is going to
7 be that whatever you choose to do at the end of the day
8 is going to have practical implications. And you need to
9 be very conscious of those practical implications and
10 what those details are going to be.

11 It's not just details. These are going to
12 have real world consequences.

13

14 (BRIEF PAUSE)

15

16 MS. MYFANWY BOWMAN: Mr. Lazar,
17 unfortunately, appeared to overlook the fact that
18 Manitoba Hydro doesn't have the transmission capacity to
19 export the volumes that he was proposing. Again, it's a
20 detail, but it's an important detail.

21 On a couple of occasions Mr. Lazar mis-
22 characterized some facts. I'm not suggesting there was
23 any intention to mislead, I'm sure there wasn't. I'm
24 going to suggest that it was a lack of care. He referred
25 to the BC Hydro rate structure as an example of exposing

1 the load to marginal rates. When that was explored in a
2 bit more detail it turned out that wasn't actually the
3 case.

4 He referred to Denmark as an example of
5 using a CO2 adder in a manner similar to what he
6 proposed. And again, when that was proposed -- pardon
7 me, when that was explored in a little bit more detail,
8 it transpires that actually Denmark taxes CO2 that's
9 actually emitted by their generation.

10 Again, these kinds of problems create
11 difficulties for the Board on a practical level, in
12 trying to implement the things that Mr. Lazar suggests.

13 More fundamentally, when we talk about
14 rate making, and this is one (1) step in the process of
15 rate making, the key is balance and balancing a number of
16 different factors.

17 Mr. Lazar was here to talk about one (1)
18 factor and that was efficiency; that was clear from his
19 report, and I think he was quite direct about that in his
20 evidence as well. And certainly his -- his Interrogatory
21 responses -- his Information Request responses, pardon
22 me, were quite explicit that his focus was efficiency.
23 And there's nothing wrong with that; efficiency is
24 important.

25 But, we're not here just to talk about

1 efficiency. And his evidence, unfortunately, didn't
2 consider the other factors, which creates a problem for
3 the Board in terms of how you use it.

4 I'm going to suggest that in some ways his
5 analysis was overly simplistic, in that the evidence
6 before the Board is quite clear that the environmental
7 implications of hydro generation and electricity
8 generation, in general, are quite complex. Now I don't
9 think there's any question about that.

10 Many of the impacts of electricity
11 generation by Manitoba Hydro are felt here at home. Not
12 all of them, by any stretch of the imagination, but many
13 of them.

14 Mr. Lazar focused on one (1) impact, and
15 his reasoning was that he wanted to keep it simple. It's
16 not simple. There are no easy answers here. And the
17 Board is not going to solve any problems by trying to
18 artificially simplify issues that are not simple.

19 MR. ROBERT MAYER: Ms. Bowman, that's not
20 my understanding of Mr. Lazar's evidence as to why he
21 chose CO2. If I heard him correctly, he said CO2 is
22 measurable and quantifiable, put into monetary terms, in
23 any event; that's why I understood his discussion -- or
24 his suggestion that we fix on CO2 emissions, as opposed
25 to the mercury and the other emissions that might come

1 from coal plants.

2

3 CONTINUED BY MS. MYFANWY BOWMAN:

4 MS. MYFANWY BOWMAN: I think that that is
5 part of what he said and certainly he feels that CO2 is
6 an important issue, and I'm not here to tell you that
7 it's not important.

8 But on a larger level, it's focusing on
9 one (1) impact of one (1) source of generation, as
10 opposed to the myriad of other impacts that are out
11 there, some of which may or may not be quantifiable, if
12 we put our minds to it. But it's one (1) issue amongst
13 many.

14 And I'm going to come back to that in a
15 little bit more detail later on. But -- but the gist of
16 my argument is going to be that if you focus on one (1)
17 thing to the exclusion of others, you're not necessarily
18 either painting an accurate picture or sending the price
19 signal that ultimately you want to send. So I'll come
20 back to that issue a little bit later, but hopefully I've
21 addressed your question.

22 Mr. Lazar has told us that the most
23 important environmental issue for Manitoba Hydro
24 customers is greenhouse gas emissions in the United
25 States, which could be displaced by conservation here.

1 I'm going to suggest that there are many
2 members of the Manitoba community who might feel
3 otherwise. And I suspect that Mr. Anderson's members
4 might have something to say about that particular
5 assertion.

6 And again, I'm not here to tell the Board
7 that greenhouse gasses are not important; of course
8 they're important, and they're going to affect everyone.

9 And I'm not trying to suggest that we
10 shouldn't be encouraging efficiency; of course we should.

11 What I'm suggesting is that we have to
12 look at more than one (1) thing. And I'm also suggesting
13 that Mr. Lazar is not necessarily in a position to tell
14 us what's best for Manitoba and that maybe we have to
15 look closer to home.

16 There was another issue, before I move on,
17 that arose in Mr. Lazar's evidence that concerned my
18 clients very much and I want to just address briefly.

19 CAC/MSOS believes very strongly that the
20 cost of service is about a fair allocation of costs and
21 revenues as between customer classes, and that fairness
22 requires transparency. Customers should be able to
23 understand why they are being allocated particular costs
24 and how those costs are being allocated. They may or may
25 not take the trouble to find out, but that -- they should

1 be able to understand it should they want to put their
2 minds to it.

3 And some of CAC/MSOS's concerns about Mr.
4 Lazar's proposal relate to transparency, and that's
5 particularly in the context of marginal costs, and I'll
6 come back to that a little bit later.

7 THE CHAIRPERSON: Ms. Bowman, if you
8 don't mind, we're just going to take a ten (10) minute
9 break.

10 MS. MYFANWY BOWMAN: Of course.

11 THE CHAIRPERSON: Back at quarter to.

12

13 --- Upon recessing at 11:36 a.m.

14 --- Upon resuming at 11:43 a.m.

15

16 THE CHAIRPERSON: Thank you, Ms. Bowman.

17 MS. MYFANWY BOWMAN: Shall I go ahead or
18 do you want to wait?

19 THE CHAIRPERSON: You can start.

20

21 CONTINUED BY MS. MYFANWY BOWMAN:

22 MS. MYFANWY BOWMAN: Okay. Before we
23 left off -- and thank you for the break, by the way, I
24 appreciated it.

25 Before we left off I was talking about how

1 the Consumers Association and the Society of Seniors
2 believe very much that this process is about transparency
3 and -- and accessibility. And they were concerned by
4 some comments in Mr. Lazar's evidence which seemed to
5 suggest that he didn't give transparency the same
6 priority.

7 He seems to suggest, as I understood his
8 evidence, that he didn't believe that consumers were that
9 interested. And I believe the phrase he used was, As
10 long as their electricity bill was less than the cost of
11 their liquid refreshments, then most consumers wouldn't
12 take a great deal of interest in this issues.

13 Certainly, my clients' view is that that
14 is wrong, that that belief underestimates consumers in
15 Manitoba and Manitoba Hydro customers in general.

16 THE CHAIRPERSON: You may have no fear on
17 this point, Ms. Bowman.

18 MS. MYFANWY BOWMAN: Thank you. Quite
19 frankly, if the customers -- if Manitoba Hydro customers
20 were not interested in these issues, you wouldn't have
21 all these faces lined up in front of you. All of these
22 Intervenors represent people who care about process.

23 And more fundamentally, this Board and
24 this process serves a public purpose. The Board's task,
25 as I understand it, is to make this information, this

1 process as understandable as it's possible to make, given
2 the complexity of the issues.

3 THE CHAIRPERSON: That is one of our
4 goals in all of the hearings: Water and sewers,
5 cemeteries, natural gas brokers, hydro, MPI, the works.

6

7 CONTINUED BY MS. MYFANWY BOWMAN:

8 MS. MYFANWY BOWMAN: Precisely, Mr.
9 Chair. Thank you.

10 This process is about accountability,
11 accessibility and transparency. And the Board looks for
12 solutions that embody those principles.

13 At the end of the day I'm going to suggest
14 to the Board that you can take steps, and Manitoba Hydro
15 can take steps, and the parties before you can take steps
16 to protect the environment without following the
17 recommendations in Mr. Lazar's report.

18 I'm going to suggest that the evidence
19 demonstrated that implementing his recommendations,
20 certainly on the big picture, if you did all of the
21 things he recommended, could potentially have devastating
22 consequences, so complex and so far-reaching that they're
23 almost impossible to predict.

24 And in my clients' view the evidence also
25 showed that it's not clear that his recommendations will

1 be particularly helpful to the environment.

2 If this Board and these parties want to
3 protect the environment, the best tools and the most
4 effective tools at your disposal are going to be DSM and
5 rate -- and rate design.

6 When I talk about the things that Mr.
7 Lazar has proposed, I'm going to speak first about
8 costing on the basis of some things he talked about, CO2
9 marginal costs and so on. I appreciate that that was not
10 the only thing he's proposing, but I'm going to start
11 there and then move to the -- the weighting and so on
12 afterwards -- pardon me, I'll move this a little closer -
13 - so I'll move to weighting and so on afterwards.

14 I think that the analytical issues that I
15 want to bring out in his proposals will be easier to
16 follow if I do it in that order. So that's what I
17 propose to do.

18 One of the things Mr. Williams asked me to
19 speak about was: What cost do we want to recover in
20 these proceedings? And one (1) of the costs proposed by
21 Mr. Lazar is CO2.

22 And Mr. Lazar attempted to calculate CO2
23 emissions that could be avoided by decreased domestic
24 consumption and increased exports. And one (1) of many
25 things he proposes is that those costs could be imposed

1 on Manitoba Hydro ratepayers.

2 In my client's view, that is absolutely
3 not appropriate. First of all -- I've got five (5) good
4 reasons why that's not appropriate:

5 First of all, that's not a cost, an out of
6 pocket expense that's incurred by Manitoba Hydro.

7 Second of all, Manitoba Hydro, under the
8 statute, is entitled to recover the actual costs that it
9 incurs.

10 Mr. Williams referred to section 39(1) of
11 the Manitoba Hydro Act which indicates that:

12 "The prices payable for power supplied
13 by the Corporation should be such as to
14 return to it, in full, the cost to the
15 Corporation of supplying the power,
16 including..."

17 And it gives a number, it lists three (3)
18 possibilities:

19 "...necessary operating expenses,
20 interest in debt services and
21 reserves."

22 The question asked by the Statute is:
23 What did the Corporation spend?

24 Third, and more fundamentally, why would
25 the Board ask Manitoba Hydro consumers to pay for CO2

1 that they are not emitting? The people in the United
2 States who are generating that CO2 are not, at this
3 point, being asked to pay for it.

4 Manitoba Hydro customers have invested
5 heavily in hydro, a non-emitting resource. They have
6 paid for those developments, they've taken on the risk of
7 those developments, and to a significant extent, Manitoba
8 customers are living with the environmental impacts of
9 those developments.

10 Now, obviously, that's more true for some
11 customers than for others, and I don't want to step on
12 the toes of Mr. Anderson's members, but they are
13 certainly living with the impacts of those developments.

14 Why should Manitoba Hydro customers pay
15 for CO2 that they're not emitting? They shouldn't.

16 Number four (4), and this comes back to an
17 issue that we were discussing earlier, this proposal does
18 not actually send an effective price signal. And that's
19 for two (2) reasons.

20 First of all, we have not captured, and we
21 are not likely to capture all of the costs and benefits
22 of all of the possible sources of generation, and all of
23 the externalities associated with electricity supply.
24 How do we send a clear and appropriate price signal based
25 on a very small part of the information?

1 And my second point is very similar to
2 that. If we price to incorporate CO2, and the other
3 alternatives available to consumers do not, we're skewing
4 the playing field and potentially encouraging inefficient
5 or undesirable choices.

6 And I'll take the example just of heating.
7 Mr. Lazar talked about electric heat versus natural gas
8 heat and the idea being that he wanted to encourage
9 natural gas heat, which is emitting here, as compared to
10 electric heat which is not emitting here.

11 His reasoning might or might not be
12 correct, but let's take it -- let's accept it for the
13 purposes of argument. If we increase electric rates by
14 adding a CO2 cost artificially, what do we then do with
15 the other options?

16 Do we increase natural gas rates as well
17 to reflect CO2? It does emit. Presumably we should.
18 But then are we sending the price signal that we're
19 trying to send, which is to encourage natural gas heat.

20 What about propane? It's regulated, so
21 there may well be a way to find an answer. I don't know
22 what that answer is. But it's a complicated problem.

23 But what about the unregulated options?
24 There's wood, oil, et cetera.

25 The Vice-Chair pointed out during Mr.

1 Lazar's evidence there are, I believe, two (2) houses in
2 Thompson that are heated by oil. I'm going to suggest
3 that's probably because oil is not economic right now.

4 But if we increase electricity prices,
5 other options, including oil and wood, may become
6 economic. And if that's not necessarily the price signal
7 that we're trying to send, it comes back to how do you
8 send a clear signal with partial information?

9 Pricing electricity to include CO2 is not
10 necessarily going to send the signal that this Board
11 wants to send. And it's a lot more complicated than
12 perhaps was suggested in the evidence.

13 Reason number five (5), is that the
14 calculations provided in Mr. Lazar's report will not
15 necessarily be an accurate representation over time. He
16 provided several pages of calculations and each one --
17 each page depended entirely on the accuracy of the
18 calculations coming before it.

19 I talked about the - the mathematical food
20 chain, if you will, and changes early in the food chain
21 are going to affect numbers later in the food chain.

22 The numbers on each page were variable
23 depending on a number of different factors including
24 changes in consumption choices, changes in technology,
25 pricing of technology, DSM programming, industrial and

1 other user profiles, changes in where Manitoba Hydro
2 exports to, fuel prices in export markets, environmental
3 initiatives here and elsewhere, new generation plants
4 that are available here and elsewhere.

5 And that's just in trying to quantify how
6 much CO2 is actually being emitted in the export markets,
7 much less trying to calculate what that's worth. It's
8 not possible for this Board to be confident that it is
9 making anything approaching a precise estimate.

10 Moreover, there's no CO2 tax currently in
11 place and there is no clear indication when or if that's
12 going to happen. We have no idea how much that tax will
13 be, when and if it does occur.

14 And Mr. Lazar's calculations are a guess,
15 at best, at what these values might be. I'm going to
16 suggest that overall this analysis lacks rigour and it
17 lacks practicality, and those are very important factors
18 for the Board.

19 Turning to the idea of pricing at marginal
20 cost. There are a number of compelling reasons why
21 embedded costs are more appropriate and more practical
22 for the cost of service than marginal costs. And I've
23 referred the Board already to Section 39(1) of the Act.

24 The question asked by the statute is:
25 What did the Corporation spend? The statute speaks to

1 embedded costs not marginal costs. Aside from the
2 statutory framework, the use of marginal costs in the
3 cost of service study presented several practical
4 problems.

5 Do we use short run or do we use long run?
6 Well, short run sends the best price signal but it's
7 unstable. Instability in prices is going to be
8 impractical for the Board and for consumers and very
9 disruptive. It's also, frankly, going to be a lot of
10 aggravation for the Board because you can imagine how
11 often you're going to see our faces.

12 Long run costs are much more stable but
13 they send a much less accurate price signal. How do you
14 choose between those two (2), neither of which is very
15 satisfactory? How do you determine what marginal costs
16 actually are? There are a number of options and
17 economists can disagree as to which is the most
18 appropriate. How does the Board choose?

19 Again, we're entering into areas where the
20 Board is doing to spend a lot of time having to hear
21 argument and evidence and debate choices that aren't
22 necessarily going to result in a benefit that's
23 commensurate with the effort involved.

24 Manitoba Hydro has also indicated that it
25 has marginal generation costs of approximately five point

1 three, five (5.35) cents per kilowatt hour; that's based
2 on export price forecasts which Manitoba Hydro says are
3 commercially sensitive; that creates a serious problem
4 for the Board in terms of accountability and
5 transparency. How do customers become satisfied that
6 they're being asked to pay their fair share if they can't
7 be told how that value is determined?

8 Another practical problem is that although
9 currently marginal costs are higher than embedded costs,
10 that has not always been the case, and it may not always
11 be the case; that leads, again, to potential problems
12 with instability. What happens when marginal costs are
13 less than embedded costs? Does the Government pay the
14 difference?

15 Another practical problem is that we don't
16 currently have full marginal cost information available
17 at this time. Hydro would have to do another cost of
18 service study.

19 The reality is that virtually all
20 regulated utilities use embedded costs, and they use them
21 for good reason; they're clearer, they're more certain.
22 And those are important benefits in the context of a
23 regulated utility. How much time, money and energy
24 should be spent wrangling about this issue?

25 The key objective of the cost of service

1 study is a fair apportionment of costs amongst the
2 customer classes. The appropriate costs to allocate are
3 those that make up the revenue requirement; and those are
4 embedded costs.

5 If using marginal -- if the Board chooses
6 to use marginal costs in the cost of service study, but
7 recover only embedded costs, which is another
8 possibility, then Hydro, or the Board, or both, have to
9 find a way to reconcile the cost of service study with
10 the revenue requirement, which creates a whole other
11 issue to fight about.

12 I -- the final point is that as things
13 stand now the export situation is win/win. Exports fill
14 a demand in the US and displays emissions there. They
15 make a profit that help keeps -- that helps to keep
16 domestic rates low. And domestic ratepayers have an
17 incentive to pay -- to build or to advance a new plant in
18 order to maximize those opportunities. Everybody's
19 happy.

20 If we set domestic rates at or above the
21 export price, and if we follow all of Mr. Lazar's
22 recommendations on the long-term, that would mean that
23 domestic customers do pay more than -- than export
24 customers, then exports provide much less economic
25 benefit to ratepayers and they become a lot less

1 important to Manitoba Hydro's financial circumstances.

2 If exports don't provide much of a benefit
3 to ratepayers, there's less of a reason to build or
4 advance generation for those purposes. Why would
5 domestic customers want to take on the risks inherent and
6 the costs inherent in building or advancing generation
7 for export, if the payoff is low. If we decrease the
8 incentive to take advantage of export opportunities,
9 Manitoba ratepayers lose and so do export customers.

10 Several witnesses before this Board have
11 suggested there may be good reasons to -- to price
12 incremental use at or close to marginal costs. That may
13 be the case. We haven't explored that issue fully yet,
14 so it's hard for my clients to offer a position on that.

15 I suspect that that issue is going to
16 arise at the next GRA and the issue can be explored
17 there. But there's a significant difference between
18 pricing incremental use at or close marginal -- to
19 marginal costs, and pricing all use at marginal costs.

20 Mr. Williams has already talked about why
21 export revenues are properly allocated to domestic
22 customers on the basis of generation transmission and
23 distribution, so I'm not going to repeat his comments.
24 I'm simply going to say that choosing not to -- to do
25 that, to take them out of the -- off the table, as it

1 were, doesn't consider the statutory framework or the
2 Board's jurisdiction, and doesn't address the many
3 compelling reasons to allocate to domestic customers.

4 The implications of these long-term
5 recommendations are well beyond the scope of this hearing
6 and well beyond the jurisdiction of this Board, in many
7 cases. In fairness, Mr. Lazar himself does suggest that
8 we implement 127 percent rate increase immediately, but
9 he wants the Board to move in that direction. And if we
10 go down that path, that's where, presumably, we're
11 headed.

12 Even if that were done gradually, it would
13 have significant implications. If you do that over a
14 period of ten (10) years, you're still talking about more
15 than 10 percent per year. It's hard to imagine the
16 impact of that kind of rate increase. I believe the term
17 that Mr. Warden used was, Unfathomable.

18 Balance that against the fact that the
19 consumption changes predicted in their report are crude
20 estimates, at best. The estimates depended on a -- a
21 wide variety of factors that -- that we talked about
22 already. They're based on elasticity estimates which are
23 not likely applicable to price changes of that magnitude.
24 The only thing that we can say for sure is that we cannot
25 accurately predict the consequences of such a change,

1 only that they would be immense.

2 I'm going to suggest that implementing
3 those long-term suggestions would be rolling the dice,
4 creating tremendous risk for domestic ratepayers, without
5 a clear environment benefit.

6 Perhaps on a more pragmatic level, Mr.
7 Lazar's recommendations relate more to weighting. He
8 wasn't suggesting doing these other things immediately,
9 he was suggesting doing them over a long term and, to
10 some extent, that they would require, in any event,
11 statutory amendments.

12 So what about using these factors for
13 weighting? In some ways it's hard for my clients to
14 criticize that proposal because, to a significant extent,
15 it benefits residential. If you look at the RRC's,
16 residential do well on that basis. However,
17 analytically, that analysis is still unsound.

18 If -- if you look at the idea of the CO2
19 adder, as an example, there's no logic to that. And I'm
20 not going to repeat the list of reasons that I gave you,
21 but those reasons apply just as much to weighting as they
22 do to pricing.

23 If we talk about marginal costs and
24 weighting for marginal costs of generation, or marginal
25 costs of all functions, again, all the problems we've

1 talked about before in terms of why marginal costs are
2 not practical, they apply just as much.

3 Customers are legitimately entitled to ask
4 why they should be paying for elaborate calculations and
5 reconciliations in order to incorporate marginal costs
6 which are not actually part of the revenue requirement.
7 And at the end of the day, how much benefit does such a
8 complicated system add to this process for the time and
9 expense that are involved in implementing it?

10 Given the analytical problems and the
11 analytical weaknesses, is it worth it? I'm going to
12 suggest that the answer is no. I'm going to suggest that
13 there are better ways to use marginal costs to advance
14 the various rate criteria.

15 An example of that with Manitoba Hydro's
16 proposal around allocating generation costs using
17 marginal cost weighted energy used by time period.
18 That's one (1) example and there may well be more that
19 are going to come to us down the road.

20 If our goal is to send efficient price
21 signals the tool is rate design. If our goal is protect
22 the environment by encouraging efficiency in
23 conservation, and those -- that goal is near and dear to
24 the hearts of CAC/MSOS, then by far the most effective
25 tool to do that is DSM.

1 I'm going to suggest that the
2 recommendations around weighting RCC's to contemplate CO2
3 costs and marginal costs add a significant degree of
4 complication to the process, for little benefit and
5 without any sound analytical basis.

6 Another option presented by Mr. Lazar was
7 to use his analysis and evaluating DSM program --
8 programming. It's beyond the scope of this Hearing but
9 I'll provide a couple of comments.

10 First of all, the same analytical problems
11 apply that I talked about before and I won't bore you by
12 repeating them. But, analytically it doesn't make sense.
13 I had provided to my various friends and I believe a left
14 copy for Mr. Forrest, a copy of a decision from the Regie
15 de l'energie du Quebec.

16 It is unfortunately in French, but the
17 decision was left -- is available for everyone's review.
18 They have considered an issue such as -- this issue
19 including the cost of environmental externalities in the
20 calculation of what it costs for DSM programming.

21 And this is a decision from 2004. It is
22 in French and I don't have an official translation but, I
23 can tell you what my understanding of the decision says
24 on this issue.

25 Several Intervenors argued in favour of

1 including externality costs. And Hydro Quebec
2 distribution argued that there was no basis upon which to
3 conclude that other costs including externalities should
4 be taken into account in the calculation of avoided
5 costs.

6 According to Hydro Quebec distribution
7 avoided costs should reflect actual costs and an over
8 estimation of those costs could lead to unjustified over
9 spending on DSM programming which would have an
10 unreasonable impact on rates.

11 In the end the Regie concluded that
12 avoided costs must adequately reflect both the cost
13 structure and the upcoming level of costs to Hydro Quebec
14 distribution. Over estimated avoided costs could lead to
15 DSM expenditures for some programs that exceeded actual
16 efficiency gains, derived from them.

17 In those cases -- program -- those
18 programs would have an unwarranted rate impact.
19 Conversely, avoided costs that were too low could lead to
20 rate increases if the required energy efficiency gains
21 were not obtained.

22 The Regie stated that although it was
23 aware that energy efficiency is an important means to
24 curtail GHG emissions and other pollutants, it found that
25 it was not timely to evaluate the monetary value of the

1 greenhouse gasses with any precision and it therefore
2 rejected the proposed monet -- monetization which was I
3 believe about a third of a cent.

4 The Regie found that the monetization of
5 externalities should not be considered until clear
6 parameters regarding the monetary value of greenhouse
7 gasses were established. And it expressed concerns that
8 the modalities for tradable emissions permits had not yet
9 been determined.

10 I'm going to suggest that the Regie
11 analysis is applicable here. There is insufficient
12 precision and accuracy to import these costs into avoided
13 costs for DSM programming.

14 And if we do not accurately assess the
15 implications to DSM programming then our spending on
16 those programs is not going to be appropriate. And we
17 will then place the gains available from DSM at risk,
18 while evaluating them incorrectly.

19 If I can just have a minute please?

20

21 (BRIEF PAUSE)

22

23 MS. MYFANWY BOWMAN: In conclusion, my
24 clients would like to recognize the contribution by
25 RCM/TREE to this Hearing by raising important issues.

1 It's with regret that my clients urge the
2 Board to reject Mr. Lazar's recommendations. In their
3 view the analysis presented lacks rigour and balance and
4 it's unlikely to have the desired effects. Moreover it's
5 almost certain to have undesirable effects.

6 Efficiency is an important objective but
7 it is one (1) objective which must be balanced by other
8 considerations and this advice doesn't balance those
9 considerations.

10 Mr. Lazar was unable to identify any
11 jurisdiction that considered a required environmental
12 cost be incorporated into the cost of service. He was
13 unable to identify any jurisdiction that employed an
14 approach similar to the one he proposed. The simple
15 reason for that is that his proposals, although well-
16 intentioned, are complicated and don't add sufficient
17 value to the process.

18 If the concern is efficiency it's best to
19 address through rate design and if the goal is to
20 encourage conservation and maximize exports, by far the
21 best alternative is DSM programming. It's the most
22 effective way to influence domestic consumption and it
23 doesn't have the extreme far-reaching negative impacts
24 that we're looking at through some of these other
25 alternatives.

1 Subject to questions, those are my
2 comments.

3 THE CHAIRPERSON: Thank you, Ms. Bowman.

4 MR. BYRON WILLIAMS: Mr. Chairman, I'm
5 going to take you home.

6 THE CHAIRPERSON: Mr. Williams...?

7

8 CONTINUED CLOSING COMMENTS BY MR. BYRON WILLIAMS:

9 MR. BYRON WILLIAMS: Thank you. Mr.
10 Barron, perhaps our list of recommendations. On our
11 agenda there's three (3) items remaining but they're
12 quite short ones.

13 1, I've stated, is leaving aside -- or
14 should the costs seek to reflect cost causation under a
15 range of water flow conditions? And, very briefly, Mr.
16 Harper addressed this in his direct evidence and he was
17 struggling with what he considered to be an inconsistent
18 treatment of costs such as purchase power or thermo-
19 generation associated with Brandon and/or Selkirk.

20 And the thrust of his comments was that if
21 you're trying to take a principled approach to these
22 issues one should be looking not just at median water
23 flows, you should be also looking at water flows on a
24 range of conditions and that was -- that was the point
25 that I'll elaborate upon in our recommendations.

1 Under the heading of "humble thoughts",
2 it's just something that I want to raise for the Board
3 and also we would appreciate their guidance in their --
4 in their closing argument. In the -- I've mentioned
5 before, or perhaps I haven't, but this is -- has been
6 from our perspective a very interesting, creative
7 proceeding. One of the things that's made it very
8 interesting and creative is the fact that there's a lot
9 of ideas that we would argue are out of the scope of this
10 proceeding or perhaps beyond the Board's jurisdiction.

11 And something that we struggle with as
12 Intervenors, and so I'm asking for the Board's guidance
13 on this, is how do we respond to -- to matters which we
14 consider may be outside the scope or outside the
15 jurisdiction of the Board? Do we ignore them and run the
16 risk that they're reflected in the Board's judgment? Or
17 do we intensively engage in these debates and run the
18 risk of being seen as operating outside the scope?

19 And so from an Intervenor perspective
20 there's very much cost implications in terms of how we --
21 we do this. So we're hoping for guidance from the
22 Board's decision in terms of what matters it considered
23 to be out of scope or out of jurisdiction because that
24 will assist us in future proceeding in -- in the
25 difficult judgment calls we have to make in terms of

1 basis for the cost of service methodology it should be
2 focused on allocating the Utility's revenue requirement.
3 And in cases such as Hydro where the revenue requirement
4 is based on embedded, i.e., accounting, costs, the PUB
5 should confirm that the costs to be allocated in the cost
6 of service are embedded costs.

7 We also think, and this goes back to my
8 discussion regarding purchased power and thermal
9 generation, that the prospective cost of service study
10 performed for Manitoba Hydro General Rate Applications
11 should seek to reflect cost causation under a range of
12 water flow conditions as opposed to just medium water
13 flow conditions.

14 Ms. Bowman has spoken to the proper role
15 of marginal costs and to summarize, certainly they can
16 play a role in assisting the classification and
17 allocation of embedded costs, and play an even more
18 critical role perhaps in -- in rate design. And we're
19 looking forward to exploring their role when Manitoba
20 Hydro's rate proposals are considered by the Board.

21 In terms of externalities, we would
22 respectfully submit that they should be out of the cost
23 of service methodology because that is focused on
24 fairness of rates, but it should be considered when the -
25 - the Board is considering Manitoba Hydro's rate designs.

1 In terms of the zone of reasonableness,
2 we've indicated our position on that.

3 In terms of the number of export classes,
4 for the reasons indicated before we're advocating the
5 adoption of two (2) exports classes. And I won't go
6 through the details because this is enough to make me
7 shudder but in the -- in terms of the initial assignment
8 of costs to exports, we've set that out in -- in detail
9 there. And I fear to walk any further down that path.
10 We've all --

11 THE CHAIRPERSON: We'll include this set
12 of papers --

13 MR. BYRON WILLIAMS: As an exhibit, yes.

14 THE CHAIRPERSON: -- within the written
15 record of the Hearing.

16

17 CONTINUED BY MR. BYRON WILLIAMS:

18 MR. BYRON WILLIAMS: I would appreciate
19 that, Mr. Chairman.

20 And, likewise, I'm going to skip over
21 directly assigning opportunity exports, the assignment of
22 firm exports and the treatment of firm exports.

23 We think that there's future work that
24 needs to be done. Manitoba Hydro's proposed treatment of
25 trading related costs and MAPP/MISO fees, we suggested

1 are reasonable as an interim solution but on a going-
2 forward basis that that should be considered.

3 The -- the determination of net export
4 revenue we believe should be determined as the difference
5 between total export revenue and the costs directly
6 assigned and allocated to the two (2) export classes, we
7 would ask the Board to adopt Hydro's proposals for
8 assigning a portion of net exports revenues to fund
9 uniform rates.

10 And then a critical element of our
11 proposal is the balance of the net export revenues should
12 be allocated to all domestic customer class based on the
13 total costs allocated to each cost -- to each class, per
14 Hydro's recommended method. We also speak to 100 percent
15 energy classification and the use of stepped rates as a
16 proxy for marginal costs.

17 The final non-Harper recommendation we're
18 hoping speaks to some of the concerns identified by
19 MIPUG, but that the PUB should direct Hydro to provide by
20 December 31st, 2006 its preferred approach with respect
21 to the future rate design for each domestic customer
22 class including an implementation strategy. And we would
23 suggest that this could either be done as part of the
24 '07/'08 GRA or -- or separately if a General Rate
25 Application is filed with -- is not filed with the PUB by

1 Note: First three are Bonbright's primary criteria,
2 while the fourth builds on a number of Bonbright's other
3 criteria.

4

5 Purpose of COSS

- 6 - The MPUB should confirm that the purpose of the
7 COSS is to provide guidance with respect to the
8 "fairness" objective.
- 9 - Fairness in rate setting means equal treatment of
10 equals based on the principle of cost causality.

11

12 Cost Basis for COSS

- 13 - A COSS should allocate the utility's revenue
14 requirement. In cases such as MH, where the
15 revenue requirement is based on embedded (i.e.,
16 accounting costs), the MPUB should confirm that
17 the costs to be allocated in the COSS are the
18 embedded costs making up the revenue requirement
19 for the year in question (e.g. forward test year
20 or actual historic year).
- 21 - The prospective COSS study performed for Hydro's
22 General Rate Applications should seek to reflect
23 cost causation under a range of water flow
24 conditions (as opposed to just median water flow
25 conditions)

1 Role of Marginal Costs

- 2 - Marginal costs can play a role in assisting in
3 the classification and allocation of the embedded
4 cost based revenue requirement.
- 5 - COSS based on marginal costs can play a role in
6 rate design. This role should be explored when
7 MH's rate design proposals are considered by the
8 MPUB.

9 Role of Externalities

- 10 - Externality costs should not be included in COSS
11 used to assess the "fairness" of rates.
- 12 - The role of externalities in rate design should
13 be considered when MH's rate design proposals are
14 considered by the MPUB.

15 Zone of Reasonableness

- 16 - The MPUB should reconfirm its acceptance of 95
17 percent/105 percent as the "Zone of
18 Reasonableness" for COSS results by Domestic
19 Customer Class.

20 EXPORT TREATMENT

21 Export Classes

22 Number of Export Classes

- 23 - Adopt the two export classes (Opportunity and
24 Firm) proposed by MH.

25 Initial Assignment of Costs to the Exports

- 1 - Initially assign to Exports
- 2 - 50 percent of Purchased Power Costs excluding
- 3 wind purchases (and other future purchase
- 4 commitments from sources inside Manitoba)
- 5 - 50 percent of Brandon fuel and related costs.
- 6 - 100 percent of Transmission Service Costs
- 7 (i.e., purchased transmission services)
- 8 - 100 percent of MISO and MAPP fees and related
- 9 legal costs.
- 10 - Water Rentals assuming Export sales not
- 11 sourced from 50 percent of Brandon's
- 12 production and 50 percent of Purchases
- 13 (excluding wind purchases) are from hydro-
- 14 generation.

15 Directly Assign to Opportunity Exports

- 16 - A share of each of the costs elements initially
- 17 assigned to Exports based on ratio of Opportunity
- 18 Exports to total Export Sales projected over next
- 19 five years (currently 45.23 percent)

20 Direct Assignment of Firm Exports

- 21 - Directly assign to Firm Exports the remaining
- 22 Transmission Service Costs.

23 Treatment of Firm Exports

- 24 - Allocate Total Transmission costs (including
- 25 Ancillary Service Costs) to Firm Exports and the

1 Domestic Customer Classes based on 2CP (i.e., the
2 currently approved Method for allocating
3 transmission costs).

- 4 - Allocate the remaining Generation Costs (i.e.,
5 all Generation costs except those directly
6 assigned to either Opportunity or Firm Exports)
7 to Firm Exports and the Domestic Customer Classes
8 based the Generation.

9 Future Work

- 10 - MH's proposed treatment of trading related costs
11 (i.e., no direct assignment to exports) and
12 MAPP/MISO fees (all initially assigned to
13 exports) are reasonable as an interim solution,
14 the COSS treatment of both should be reviewed
15 going forward.

16 Treatment of Net Export Revenue

17 Determination of Net Export Revenue

- 18 - Determine Net Export Revenue as the difference
19 between:
20 a) Total export Revenue
21 b) The costs directly assigned and allocated to
22 the two Export Classes.

23 Treatment of Export Revenue - Uniform Rates

- 24 - The MPUB should adopt MH's proposals for
25 assigning a portion of net export revenues to

1 fund uniform rates.

2 - The balance of the net export revenues should be
3 allocated to all Domestic Customer classes based
4 on the total costs allocated (i.e., excluding
5 directly assigned costs) to each class, per MH's
6 Recommended Method.

7 Classification and Allocation of Generation Costs

8 100 percent Energy Classification

9 - The MPUB should accept MH's proposal to use SEP
10 rates averaged over a number of years and
11 adjusted for inflation as a proxy for marginal
12 cost (of both capacity and energy).

13 Rate Design

14 - The MPUB should direct MH to provide by December
15 31, 2006 its preferred approach with respect to
16 the future rate design for each Domestic customer
17 class, including an implementation strategy.
18 This can be done either as part of its 2007/08
19 GRA or separately if not General Rate Application
20 is filed with the PUB by December 31, 2006.

21

22 (WRITTEN SUBMISSION CONCLUDED)

23

24 QUESTIONS BY BOARD:

25 THE CHAIRPERSON: Thank you, Mr.

1 Williams, Ms. Bowman. I've got a few follow-up questions
2 to the comments that were made. And we acknowledge the
3 difficulties of the interrelated issues and the efforts
4 to separate COSS off from rate setting, setting of
5 revenue requirements.

6 I think that probably all here would
7 acknowledge the difficulties of carrying on this
8 particular Hearing in the context of a General Rate
9 Application. And that was the idea of separating off the
10 COSS, but there are a lot of related issues.

11 You suggested that each generation
12 benefits from the investment of the past and that there's
13 long-term benefits. So for all investments; for example,
14 the Selkirk and Brandon gas turbines?

15 MR. BYRON WILLIAMS: The -- I think that
16 was a general statement. I wish you would have asked
17 that question to Mr. Harper instead of -- instead of
18 myself.

19 THE CHAIRPERSON: It's fine. The
20 qualifications --

21 MR. BYRON WILLIAMS: The -- certainly, by
22 and large, I -- I think if you look in the past there
23 were probably decisions that were imprudent but many
24 decisions that were very prudent and we're benefitting
25 from those today. And I think, likewise, the wise

1 investments in DSM and SSE and Wuskwatim, hopefully, will
2 also benefit consumers in the future.

3 I think in terms of the merits of Selkirk
4 and Brandon, in terms of the prudence of their
5 investment, I think that would be -- we'd -- and that's
6 certainly, in terms of Brandon, we're going to ask that
7 question at the General Rate Application.

8 And I'm not sure that we've canvassed that
9 properly here. I think the general point I was making is
10 that overall we've benefitted from the investments in the
11 past and we expect to in the future.

12 I wasn't suggesting that we can
13 conclusively say that Brandon and Selkirk are prudent and
14 reasonable investments.

15 THE CHAIRPERSON: Yes. And don't read
16 that into my comment either. And often times prudence or
17 imprudence is judged in the rear view mirror, is it not?

18 MR. BYRON WILLIAMS: It looks a lot
19 different.

20 THE CHAIRPERSON: Circumstances change.
21 You have suggested, as well, that exports are served in
22 part from older plants, and of course, when you look at
23 electrons, naturally it's the case.

24 But if all generation over time is built
25 primarily for domestic use, is there not some support for

1 the low hanging -- the loss of low hanging fruit argument
2 of Mr. Bowman's?

3 MR. BYRON WILLIAMS: If you're --

4 THE CHAIRPERSON: In other words, in
5 time, plants serve domestic use. So therefore, one could
6 -- Mr. Bowman's argument that export is served by newer
7 generation and higher levels of cost.

8

9 (BRIEF PAUSE)

10

11 MR. BYRON WILLIAMS: The -- if -- just so
12 I'm clear, in terms of the existence of low hanging
13 fruit, just so I'm clear, we were speaking to the
14 totality of all energy resource options, including DSM
15 and SSE and also the conclusions of the Clean Environment
16 Commission, which suggested that there was plenty of low
17 hanging fruit still going forward.

18 If the question that you're asking is, and
19 maybe I misunderstand the question, is a future
20 generation going to more expensive than old generation,
21 then that's certainly the case. I'm not sure I've quite
22 got the question though.

23 THE CHAIRPERSON: That's close enough.

24

25 (BRIEF PAUSE)

1 THE CHAIRPERSON: Well, the suggestion
2 was to explain it further. When you start talking in the
3 context of low hanging fruit, if you assume that
4 generation is constructed primarily in the long haul for
5 domestic use, okay, and then in the absence of any
6 further generation, eventually all generation would be
7 for domestic use.

8 Could one not argue then that last in
9 first out, type of basis? In other words the last
10 generation built is the one that's costed against export?

11 MR. BYRON WILLIAMS: Well, first of all,
12 I think that's a bit of a overly simplistic, with
13 respect, suggestion of my understanding of Hydro's
14 planning and resource planning.

15 First of all, that it's focused on
16 dependable energy which flows both -- which sources both
17 domestic and firm hydroelectricity. So I think that's
18 one (1) part of it.

19 In terms of last -- you know, the --
20 probably this is a question that Mr. Harper would be able
21 to answer better than me. Beyond that I'm not sure I can
22 offer much, Mr. Chairman.

23 THE CHAIRPERSON: Thanks, Mr. Williams.
24 Mr. Williams, you also suggest that higher domestic use
25 reduces aggregate net export revenue and aggregate

1 revenue. Conceptually does that -- does not DSM provide
2 then more opportunities for export revenue?

3

4

(BRIEF PAUSE)

5

6 MR. BYRON WILLIAMS: Yes. And I think
7 we're -- my clients are probably open to that --
8 discussing that concept further when we're apprized of
9 that -- when we can bring in someone like Dr. Higgins to
10 give more thought to that concept.

11 THE CHAIRPERSON: Thanks, Mr. Williams.

12

13

(BRIEF PAUSE)

14

15 MR. LEN EVANS: Excuse me, maybe I'm a
16 little slower than usual this morning, but I'm a little
17 confused about reference to MC. Ms. Bowman was saying
18 that -- was making a case against using MC, or rather,
19 making a case for embedded costs, and yet there's
20 material here, where you're making a case for using MC.

21 So it seems to me that there's a bit of a
22 conflict. But maybe I'm misunderstanding you.

23 MR. BYRON WILLIAMS: I think what we're -
24 - we're suggesting in terms of using marginal costs, just
25 to back up, if you're looking at the overall revenue

1 requirement, that should be based upon embedded costs.
2 And the starting point for the cost of service analysis
3 should be the recovery of embedded costs.

4 What I believe Manitoba Hydro has proposed
5 is to use some marginal cost values to weigh how embedded
6 costs are allocated, and that's certainly something that
7 we're supportive of. They're still using the basic
8 embedded costs and that's their focus in their cost of
9 service methodology.

10 But how they weigh them, the idea that not
11 all kilowatt hours are created equal, is based upon the
12 marginal costs weighting.

13 MR. LEN EVANS: All right. Thank you. I
14 just have another question. It's more of a general
15 question about the advantage, or lack of advantage to
16 Manitobans, in reducing greenhouse gas emissions south of
17 the border, in reference to CO2 and, you know, why should
18 we be concerned about this.

19 And I always thought we'd been told, for
20 some couple of years now, about the Kyoto goals. And
21 we're living in one (1) world, and the whole matter of
22 Kyoto credits, that we can do certain things in Canada
23 for which we can get credit, and this is to our long-term
24 advantage.

25 So it seems to me there's some argument to

1 be made to help reduce greenhouse gas emissions in the
2 United States; would you agree with me?

3 THE CHAIRPERSON: In other words, is it a
4 straight economic argument, which, get nothing for it, do
5 nothing about it?

6 MS. MYFANWY BOWMAN: I wouldn't make that
7 argument and I don't think that my clients would want me
8 to make that argument. I don't know a lot about Kyoto
9 and credits. My impression is that that's not fully
10 implemented, so I don't know that Manitoba Hydro is
11 necessarily getting credits for the majority of its
12 exports. I think that that's something they're working
13 towards, if I'm not mistaken. But I don't know that they
14 necessarily do.

15 In a more general sense, I don't think my
16 clients are trying to suggest that greenhouse gas
17 emissions are a good thing, or that we shouldn't be
18 trying to do something about them, or that exporting
19 hydro power to the US is a bad idea. Quite the contrary,
20 it's a good idea both for the environment and, frankly,
21 economically it makes sense for Manitoba Hydro.

22 But, of course, we should try and do what
23 we can to contribute to greenhouse emissions in the
24 United States. I think that my clients might take --
25 might be a little bit more cautious about agreeing that

1 Manitoba is responsible for providing the United States
2 with clean power. But, as good neighbours, why would we
3 not do it if we have it -- if we have it to give, why
4 wouldn't we give it to them.

5 My client's concerns relate more to doing
6 it in the fashion that is being proposed here. The
7 proposals, I'm going to suggest, are not going to
8 probably be as effective as we would like them to be, but
9 they will potentially have devastating consequences for
10 domestic customers.

11 Much better, in my client's view, to focus
12 on things like DSM to encourage conservation and
13 therefore increase the amount of power that can be
14 exported; that's not only going to be more effective, but
15 it's not going to be devastating to domestic customers.

16 MR. LEN EVANS: Again, from my bit of
17 reading in the public press, most environmentalists would
18 argue that the price mechanism is one of the most
19 efficient ways to bring about conservation and the
20 protection of the environment.

21 There's all kinds of literature and many
22 statements made along those lines. So I gather your
23 association doesn't believe that pricing has much of an
24 impact, or should have much of an impact in terms of
25 reducing the consumption of electricity, in this case?

1 MS. MYFANWY BOWMAN: I think that what my
2 clients would probably say is that there are limits to
3 the elasticity of certain kinds of use, and particularly
4 for residential customers there are limited substitutes
5 for a number of functions that electricity serves.

6 And that we are probably not going about
7 this in the most appropriate and effective way, if we are
8 imposing punishing rates on customers who need the power.
9 My clients I think would say, instead, that price can
10 play a role, but not necessarily -- it shouldn't be used
11 in the way that's being proposed.

12 And that, for example, goes to the
13 difference between exposing incremental use to marginal
14 cost, or close to marginal cost pricing, as opposed to
15 exposing all use to marginal cost pricing, if -- if you
16 take my meaning.

17 MR. LEN EVANS: Thank you. Just one (1)
18 more question, more or less along these lines. Have you
19 heard of the organization, I think it's called the
20 Frontier Institute for Public Policy?

21 MR. BYRON WILLIAMS: That -- that would
22 be Mr. Holle's organization, H-0-L-L-E.

23 MR. LEN EVANS: Yes. And are you aware
24 of their position on the matter of energy pricing --
25 generally, energy pricing, in terms of effectiveness in

1 reducing excessive consumption and also to provide a net
2 benefit to the Province of Manitoba, the taxpayers of
3 Manitoba, by bringing in more revenue into this province
4 via -- in this case, via Hydro?

5 MR. BYRON WILLIAMS: I think some of our
6 comments -- at a very high level, I think we're aware of
7 it. I think some of our comments would -- with regard to
8 Mr. Lazar's submissions, we would also address to Mr.
9 Holle's, H-O-L-L-E, submissions.

10 I think it's also interesting, those of
11 you who are familiar in Wuskwatim, I want to come back to
12 this issue because our clients push, very forcefully, in
13 Wuskwatim, for a greater emphasis on demand side
14 management.

15 And it's interesting, if you read
16 carefully the words of the expert brought in by TREE/RCM
17 in that proceeding, Mr. Ralph Torre, he makes a very
18 powerful argument, that if your real objective is to
19 achieve efficiency -- I mean, excuse me, is to reduce
20 consumption, that demand side management is a much more
21 effective tool. And -- but -- so I think that the debate
22 -- I think that's something that Torre was very powerful
23 on.

24 The last point I just want to make is that
25 our clients haven't taken a position, as yet, on inverted

1 rates; they're struggling with the block -- the block
2 heater issue. But they're certainly, you know, as part
3 of their recommendations here, they're saying, Let's --
4 Let's push Hydro to bring in, you know, some rate design
5 proposals. And they're certainly open to the -- the
6 thrust of your concern, which is -- or at least as I
7 interpret it, which is consumption at the margins, and
8 they're open to that debate.

9 So I -- I think it's too early to tell
10 exactly where they're going to come down on that
11 position.

12 Mr. Chairman, I have one (1) -- I didn't
13 very adequately answer your last kilowatt hour in -- or
14 last kilowatt hour outgoes to exports. I do want to --
15 to be very clear, let's use Wuskwatim as an example. And
16 we -- we went through this with my cross-examination of
17 Mr. Warden.

18 With Wuskwatim -- Wuskwatim, a business
19 case was made for advancing it, based upon a favourable
20 internal review, based upon the advantage of export
21 sales. So domestic ratepayers in 2020 are going to be
22 benefitting from lower costs associated with Wuskwatim
23 because it was put in service at an earlier -- earlier
24 date.

25 And -- and I guess our point is that it's

1 -- would be unfair to assign all the costs of new
2 generation to -- to the exports when it's recognized, A)
3 that domestic customers in the future will benefit from
4 those rates or lower costs associated with plant. And
5 secondly, as soon as Wuskwatim comes on line, domestic
6 customers will also benefit from additional reliability
7 benefits from the very day it comes on.

8 And that's why we -- we think that your
9 analysis perhaps is a bit overstated. Just a suggestion.

10 THE CHAIRPERSON: Thank you, Mr.
11 Williams. Returning to the question that Mr. Evans asked
12 Ms. Bowman, correct me if I'm wrong.

13 My assumption is, is that from your
14 earlier comments, we know what Mr. Holle's suggestions
15 were in his documents, without going into them, my
16 reading of you and your clients is you're opposed to
17 anything other than historically cost-based rates, you're
18 not interested in the rate regime that's proposed by the
19 Frontier Centre that would yield hundreds of millions of
20 dollars of additional revenue, more along the lines of
21 Mr. Lazar.

22 MR. BYRON WILLIAMS: We're certainly not
23 interested in -- I don't think my clients would be
24 interested in Mr. Holle's regime. I do want to make the
25 clients have indicated some willingness to look at the

1 idea of -- of rates designed for efficiency for
2 incremental use. And that's something that they're
3 inviting a discussion on.

4 THE CHAIRPERSON: Thank you. One (1)
5 last question. Given that any application of Manitoba
6 Hydro's recommended COSS would be based on real events
7 and circumstances in any given year, and just for
8 clarification, do you feel that supply should be
9 restrained for new energy intensive industry, such as
10 apparently is the use in Quebec?

11

12 (BRIEF PAUSE)

13

14 MR. BYRON WILLIAMS: I'm not really sure
15 that's for -- I don't have any instructions from CAC/MSOS
16 on that point. If at some point in time, for example,
17 there's some proposal by Hydro in terms of other rates
18 for high intensity industries, I think the clients would
19 approach that with an open mind.

20 I've never canvassed that with them. And
21 if you give me one (1) second I'll just confer with Ms.
22 Bowman whether she has.

23

24 (BRIEF PAUSE)

25

1 MR. BYRON WILLIAMS: I can't give you any
2 insight.

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

5 Okay. Thank you everyone, we'll come back
6 at, if we don't mind, 1:30.

7 And the order at that time will be CCEP,
8 I'm just looking around to see the parties that are here,
9 then the City of Winnipeg, then MIPUG and then finally
10 RCM/TREE and then we would close with MKO.

11 So that would be the order and we would
12 hope to finish off the Intervenors closing statement
13 today, followed on Friday with Ms. Ramage and Manitoba
14 Hydro.

15 Thank you, 1:30.

16
17 --- Upon recessing at 12:34 P.M.

18 --- Upon resuming at 1:30 p.m.

19

20 THE CHAIRPERSON: Okay. Welcome back,
21 everyone.

22 Mr. Peters, I believe CCEP and Mr.
23 Feldschmid's up next; is that correct?

24 MR. BOB PETERS: It is.

25 THE CHAIRPERSON: Mr. Feldschmid, you may

1 begin at any time.

2

3 CLOSING COMMENTS BY JURGEN FELDSCHMID:

4 MR. JURGEN FELDSCHMID: Thank you very
5 much, Mr. Chair, members of the Board panel, and to the
6 Utility representatives and other Intervenors.

7 As all the participants in this room are
8 aware, Canadian Centre for Energy Policy Inc., or CCEP,
9 represents small commercial and non-residential
10 ratepayers, primarily in the two (2) general service
11 small classes.

12 Before I move on to a brief number of
13 comments that are limited to their interests alone, let
14 me make one (1) observation that may be of assistance, or
15 at least I would submit is something that should be kept
16 in mind to the extent that it isn't already kept in mind,
17 and that is, there are issues that have been before this
18 Board which are, I would submit, not only beyond the
19 scope of the hearing as it is indicated to be by the
20 Board in its -- in its procedural order.

21 But also there are issues that have been
22 brought forth and given some consideration that may have
23 -- be outside scope, as it were, in terms of prevailing
24 legislation. And I'm thinking particularly in terms of
25 some of the ideas brought forward by TREE, and their

1 expert Mr. Lazar, while in terms of the grand scheme of
2 things, general philosophy, are -- are -- are meritorious
3 ideas.

4 They would require some substantial and
5 some -- some fundamental rethinking of the legislative
6 provisions that come into play for Manitoba Hydro and
7 this Board in its proceedings.

8 And I'm -- and I'm thinking in
9 particularly of Sections 39 and 40 of the Manitoba Hydro
10 Act, where it's quite clear that these sorts of broader
11 notions of externalities, as understood in the branch of
12 economics, are really not -- they were not mind -- they
13 were not in the mind of the legislators that passed those
14 provisions of the act.

15 And so, therefore, I would suggest that a
16 lot of the time that has been spent considering those
17 ideas, while it may be useful to have this Board comment
18 upon it and perhaps the legislature, at some point, may
19 take up some of those comments and -- and even the
20 executive branch may look at those comments and give some
21 consideration to what, if any, changes should be made
22 legislatively.

23 But I think it's very important for us, in
24 the context of this proceeding, before this body, that
25 many of those suggestions are simply not within the legal

1 framework that's set out for us.

2 Moving on to things more focussed on the
3 ratepaying groups that we represent, let me say that this
4 Board has established a measurement and a benchmark to
5 see if rates are fair in terms of revenue taken by a
6 class of ratepayers through the rates that they pay
7 versus the costs of serving them.

8 The measurement I am speaking of, of
9 course, is the revenue to cost ratio, otherwise known as
10 RCC.

11 The benchmark is the zone of
12 reasonableness, often referred to as Z-O-R or ZOR. The
13 ZOR for some time now has been established by this board
14 to be between 95 percent and 105 percent. That is to say
15 no class should contribute less revenue through the rates
16 that they pay, the 95 percent of the value of the costs
17 of serving that class, and no class should contribute
18 more revenue, through the rates that they pay, than 105
19 percent of the value costs serving that class.

20 General service small, non-demand and
21 demand, are above the upper limit of the zone of
22 reasonableness of 105 percent. And that means that, as
23 best we can tell, with the methodology that is currently
24 being considered by this Board, and I -- and I would put
25 within the realm of setting aside some of the ideas

1 perhaps of TREE and -- and similar types of ideas, we're
2 really looking at about two (2), at most four (4)
3 scenarios that have been put forward by the Utility.

4 And they are set out -- or the results of
5 them, in terms of RCC results, are set out, for instance,
6 at page 6, I believe, at Tab 11 of the -- of the
7 application by the Utility.

8 And if you look at those results, in my
9 submission, general service small, both demand and non-
10 demand, are at or above the zone of reasonableness,
11 essentially whichever way you go, in whichever
12 methodology you use.

13 This situation has existed historically.
14 For instance, at Tab 11, Appendix 11.1, page 34, there is
15 a table there that sets out historical RCC results. And
16 one can see the consistent results, certainly above the
17 zone of reasonableness as it is defined now.

18 Of course, the zone of reasonableness was
19 somewhat broader in -- in years past, including some of
20 the years that are dealt with in that table. But
21 certainly in terms of the standard that the Board has --
22 has set in the last few years and is applicable to this
23 proceeding, general service small has been over-
24 contributing, if I can put it that way.

25 Equally, it does not seem to matter what

1 method is employed. If you look again at page 6 of the
2 application, looking across the various proposed methods,
3 the ones that are most likely to be entertained by the
4 Board based on the evidence before it, I would submit,
5 again we see general service small being above the zone
6 of reasonableness and often the highest contributor of
7 revenue in relation to -- in relation to its costs.

8 And even looking at certain quick back-of-
9 the-envelope checks, if I may refer to them in that way,
10 such as looking at revenue cost ratios prior to the
11 allocation of net export revenue, the same disparities
12 are shown.

13 And I would submit even the results show
14 an even greater disparity between general service small
15 classes and other classes in that -- the analysis
16 provided by Manitoba Hydro, that is now Exhibit Manitoba
17 Hydro 25, shows a narrowing of the ratio difference after
18 the allocation of net exports, suggesting that the
19 analysis at the end of the day, post addition of net
20 export revenue, tends to mute somewhat the divergence
21 against the interest of general service small, in
22 relation to other rate classes.

23 Now in setting out the terms of this
24 hearing and its Order number 160/05, at page 10, this
25 Board indicated, and I quote:

1 "Issues related to revenue requirement
2 and specific rate design are outside
3 the scope of this process. However,
4 the Board anticipates the review of the
5 costs may extend to consideration as to
6 the uses or the use to be made of the
7 costs in rate setting."

8 And so therefore, Mr. Chairman, I am here
9 to ask, or suggest to the Board, to consider a particular
10 use of the cost of service study in rate setting. And in
11 particular, the use that I would suggest to the Board is
12 that it be used to find that general service small is, in
13 fact, over-contributing in terms of revenue versus costs
14 of serving it and, in fact, to consider ordering a
15 reduction, even in this hearing.

16 The -- I would suggest to the Board that
17 there is precedent for this. I -- I think back to the
18 status update on rates in the year 2002, there was no
19 rate increase or changes to rates sought by Manitoba
20 Hydro at that time, it was just simply a rate review.

21 The rate review resulted in order of this
22 Board 7/03. And a number of conclusions which I think
23 are interesting to the circumstances we find ourselves in
24 in this hearing, I would like to bring to the attention
25 of the Board.

1 Firstly, in Order 7/03 at page 8, there is
2 a finding with respect to the overall financial condition
3 of Manitoba Hydro at that time, in relation to its net
4 income. It's net income for 2001 was 267 million. And
5 in the IFF being considered for the 2002 Hearing, it was
6 projected to be 220 million for the period ending in
7 2002.

8 The RCC's in 2002, for general service
9 small as a group, were 107.1 percent on the revised
10 methodology, which was presented by Hydro at that time,
11 not all of which was accepted by the Public Utility Board
12 in its subsequent Order to which I referred.

13 But even under the previously methodology,
14 the RCC's for general service small as a total class were
15 105.8. The position of Manitoba Hydro then, as now, was
16 that the rates, as I've said, should not be lower, they
17 should not be changed in any way.

18 And again they said, well we can -- we
19 realize that there's a disparity but we can always
20 address it at the next rate increase. Notwithstanding
21 that, this Board, as a result of that Hearing in 2002 and
22 it's Order 7/03, ordered, and I'm quoting from page 103
23 of the reasons for that Order:

24 "Certain customer classes and sub-
25 classes have consistently remained

1 outside the zone of reasonableness for
2 long periods of time, in some cases
3 more than ten (10) years. Therefore,
4 the Board is convinced that directional
5 rate adjustments are appropriate now to
6 address these inequities. Accordingly,
7 the Board will order a 1 percent
8 decrease in rates for GSS customers.
9 The Board will direct Hydro to file new
10 rate schedules for Board approval,
11 reflecting these rate adjustments."

12 So that decrease was ordered and was made.
13 Unfortunately, did not appear to resolve the problem.
14 Even in the immediately succeeding cost of service
15 studies.

16 MR. ROBERT MAYER: Mr. Feldschmid...?

17 MR. JURGEN FELDSCHMID: Yes?

18 MR. ROBERT MAYER: This is not a rate
19 Hearing. I don't think I have any doubt in telling you
20 that there's been no evidence presented to this Hearing -
21 - you presented no evidence, presented to this Hearing,
22 with respect to rates.

23 This is a COSS hearing. You could
24 probably save your breath if you are asking us to, at
25 this Hearing, reduce rates, because that's not going to

1 happen.

2

3 CONTINUED BY MR. JURGEN FELDSCHMID:

4 MR. JURGEN FELDSCHMID: Well that's fine.
5 I appreciate your candour, Mr. Mayer.

6 But my concern, of course, is that when is
7 that going to happen, sir? When is that going to happen?
8 We didn't -- there was an Order made at the end of 2003 -
9 - or the beginning of 2003, as a result of the 2002
10 Hearing process, as I'm sure you recall, because you
11 remember that Panel.

12 And the Board, at that time, did make the
13 reduction -- the 1 percent decrease that I just referred
14 to. I was about to go on to suggest that the evidence
15 that's before the Board in this Hearing, shows that,
16 notwithstanding the Board's efforts at that time, in the
17 immediately succeeding cost of service study, the actual
18 results for 2003 which are available at Tab 11 --
19 Appendix 11.1, page 34, continue to show GS -- GSS demand
20 and non-demand above ZOR.

21 The same was the result for 2004 in the
22 perspective cost of service study for -- going into that
23 rate process, that we had a rate making process that we
24 had in 2004. But here's my concern, on behalf of CCEP
25 and the ratepayers that they represent.

1 We hear time and again this is cost, this
2 is not a rate making exercise, fair enough. But when
3 will the adjustment occur? The last time we adjusted
4 rates, we were so, I would submit, concerned about the
5 fiscal position of the Utility, that the whole idea of
6 adjusting rates and who's paying a little too much and
7 who's paying not enough, was just completely set by the
8 boards. And that's not been addressed since that time.

9 And I also, from my understanding and
10 review of the transcript, and I've also spoken to some of
11 my colleagues, I -- I -- my understanding is that the
12 Utility is not at this time indicating what the timeframe
13 is that they will seek to adjust rates, whether up, down
14 or sideways.

15 At which time they say, Well we'll get rid
16 of all of these inequities that have existed for such a
17 long period of time, next time we bring a full blown GRA.
18 I might be a little bit more comfortable on behalf of my
19 -- my client, and the ratepayers it represents, if Hydro
20 were saying, We want to -- we were going to bring a GRA
21 and it's going to happen within six (6) months or nine
22 (9) months or twelve (12) months even. But we don't know
23 that.

24 What they're saying is, right now we've
25 got a lot of revenue from exports, we don't really need

1 any more revenue from domestic ratepayers. Well that's -
2 - that's terrific and we're all happy about that.

3 But at the same time there is inequities
4 within whatever revenue is being drawn out of the rate --
5 domestic ratepayers right now, and it's not being
6 addressed. And so my concern is: When will it be
7 addressed?

8 And I think the Board has the ability and
9 the power, certainly there's no question that
10 legislatively this Board could, notwithstanding
11 everything that has transpired during this -- this --
12 this hearing in terms of saying, well, it's just a cost
13 hearing. It's just a cost hearing.

14 Okay, it's just a cost hearing. But I
15 think the -- the Board has the ability to say, yes, it's
16 just a cost hearing. But there are some -- one (1) or
17 two (2) exceptions of -- of ratepayers who have
18 historically been beyond ZOR, they continue to be beyond
19 ZOR, and we're going to ask, particularly at a time when
20 there is somewhat an embarrassment of riches, and I'm -
21 and I'm -- I'm aware of what Mr. Warden says about, well,
22 one (1) good year does not a healthy utility make. I
23 understand that.

24 But if you look -- another point that I
25 was going to make before the Vice Chair was assisting me,

1 was that -- that when -- when this Board made its rate
2 reduction of 1 percent for GS small, back in 2002, one of
3 the main financial indicators, the debt equity ratio, was
4 very close to where it is right now. At that time it was
5 about twenty eighty (20:80).

6 Now, it's nineteen eighty-one (19:81).
7 Not the year, the ratio. So I guess what I'm saying, Mr.
8 Mayer, and to the Board, is that if -- if that adjustment
9 could have been made back then, it seems to me that
10 adjustment could be made right now.

11 And I -- and I asked Mr. Warden, you know,
12 I don't know and I may be anticipating what -- what Mr.
13 Mayer may or not -- may or not be wanting to say next,
14 but I did put the question to Mr. Warden: Is Hydro in a
15 position, from a technical standpoint, of making, say, a
16 1 percent or whatever percent decrease to rates?

17 And I'm not sure I got really a straight
18 answer. But I certainly didn't get an answer from Mr.
19 Warden saying, well, we haven't done this or we haven't
20 done that in terms of analysis, so that even if the Board
21 were to order us to make a reduction, that we're not
22 really technically, or in terms of information or data,
23 in a position to do that.

24 So -- so those are -- those are my
25 concerns.

1 MR. ROBERT MAYER: Mr. Feldschmid, you've
2 got to understand the difference between what is
3 happening now and what happened in what Hydro chose to
4 call a status update hearing.

5 But I believe you were at the pre-hearing
6 conference where we, in fact, converted it into a full
7 GRA and permitted all -- everything to be brought
8 forward; that was a substantially different process than
9 we're doing today.

10

11 CONTINUED BY MR. JURGEN FELDSCHMID:

12 MR. JURGEN FELDSCHMID: When you say
13 that, the pre-hearing conference, you're talking about
14 the pre-hearing conference for the 2002 process? Thank
15 you, Mr. Chair. Yes, I was there for that.

16 And as I said, I mean, I think I've
17 already come to the point where I've made the majority of
18 my points, although slightly in a different order. It is
19 up to counsel to make submissions. It is up to the
20 Tribunal to accept or reject those submissions.

21 I think, without saying a whole lot more,
22 that the -- the Board understands where I'm coming from
23 and it has my point and the Board will either act on it
24 or not. I mean, perhaps one (1) alternative is to
25 indicate to Hydro that they need to come in and make a

1 GRA within a certain specified period of time, rather
2 than just going on and on saying, well, everything's
3 fine, we're making lots of money outside the jurisdiction
4 so we don't have to come back and have rates.

5 Well, that's overall a good thing but --
6 but, as I've -- as I've indicated and I think as we all
7 recognize, within whatever amount is being drawn out of
8 the ratepayers as a whole, there are inequities among the
9 various classes.

10 THE CHAIRPERSON: We hear you though, Mr.
11 Feldschmid.

12 MR. JURGEN FELDSCHMID: Yes.

13 THE CHAIRPERSON: What you're
14 recommending for your clients is that enough is enough,
15 so to speak.

16 MR. JURGEN FELDSCHMID: Enough is enough.
17 Enough is enough, particularly when the last time the
18 Board did order a reduction, net income was somewhere in
19 the low \$200 million range, now it's three seventy-five
20 (375). I've made my comments with respect to comparison
21 of the debt equity ratio, then versus now, and so forth.

22 And I think, again, I mean, certainly my
23 clients will be happy to take half a loaf or even 10
24 percent of a loaf. It doesn't have to -- the Board
25 doesn't have to push things back to unity but, you know,

1 bringing it somewhere within ZOR would also be very, very
2 nice.

3 And I think those are my comments, subject
4 to any questions. Thank you very much.

5

6 QUESTIONS BY BOARD:

7 THE CHAIRPERSON: Thank you, Mr.

8 Feldschmid. I have one (1) question.

9 You speak of limited jurisdiction and
10 scope, and you reference particular sections of Manitoba
11 Hydro Acts, I think it was specifically 39 and 40.

12 Do you interpret those sections and Act
13 and any other legislation as preventing a COSS that would
14 incorporate externalities or marginal cost concepts, COSS
15 per se, not being direct rate setting?

16 MR. JURGEN FELDSCHMID: I think, in terms
17 of marginal cost, I -- I don't see marginal cost as being
18 precluded. Even -- even pure marginal cost as opposed to
19 marginal cost factorisation on -- on embedded costs.

20 However, externalities, I mean if you look
21 at the categories in -- in 39(1), for instance, necessary
22 operating expenses, all interest and debt service
23 charges, the sum necessary to maintain reserves or a
24 fund, I means, those -- those are all -- those seem to me
25 -- any reasonable interpretation of those types of

1 words --

2 THE CHAIRPERSON: You're seeing it as
3 applied --

4 MR. JURGEN FELDSCHMID: -- excludes
5 externalities.

6 THE CHAIRPERSON: You're seeing it as
7 being applied to a COSS? You're linking the COSS and
8 rate setting pretty directly then?

9 MR. JURGEN FELDSCHMID: Yes, I would.

10 THE CHAIRPERSON: Thank you, Mr.
11 Feldschmid.

12 MR. JURGEN FELDSCHMID: Thank you.

13 THE CHAIRPERSON: Do you have anything
14 else?

15 MR. JURGEN FELDSCHMID: That's all.
16 Thank you, Mr. Chair.

17 THE CHAIRPERSON: Thank you very much.
18 We'll now move on to the City of Winnipeg.

19 Mr. Buhr, do you wish to sit there or do
20 you wish to come up to the front?

21 MR. DOUG BUHR: If it's acceptable to the
22 Panel, I'll stay where I am.

23 THE CHAIRPERSON: Wherever you're
24 comfortable.

25

1 CLOSING COMMENTS BY MR. DOUG BUHR:

2 MR. DOUG BUHR: Thank you, Mr. Chair.

3 Mr. Chair, Members of the Panel, I'm
4 convinced that the Board has understood the position of
5 the City in regard to street lighting. You will
6 therefore be relieved to note that I will meet the
7 unspoken collective hope and be brief.

8 In my introduction I said that ratepayers
9 had been paying far too much for street lighting for the
10 last thirty (30) years. The evidence for that is City
11 Exhibit 3, that's the chart, and also what the PUB has
12 said in several of its orders.

13 In its 1989 Order, it said:

14 "The Board appreciates the concerns
15 expressed by the City of Winnipeg with
16 regards to the unusually high RCC for
17 street lighting and the delays by Hydro
18 in moving to correct the imbalance.
19 The Board concurs with the City that a
20 RCC range of one twenty (120) to one
21 thirty-three (133) is unreasonably
22 higher. Further, the bottom of the
23 range is unlikely to fall within a zone
24 of reasonableness, whatever such a zone
25 might be. Therefore, the Board reduced

1 the proposed increase for street
2 lighting to zero, in an effort to speed
3 up the reduction of the high revenue to
4 cost ratio."

5 In its 1994 order, the Board said:

6 "The Board finds unacceptable the fact
7 that area and roadway lighting RCC
8 ratio would still be outside the zone
9 of reasonableness. The Board will
10 therefore approve rates which will
11 reduce this prospective RCC ratio of
12 this class, after allocation of DSM
13 costs, to approximately one ten (110)
14 in 1994/'95, and approximately one-o-
15 nine (109) in 1995/'96."

16 In '96, and in spite of what I just read
17 from the Board's order, the RCC had gone up, not down.
18 The Board ordered a 5 percent reduction.

19 Today, by Hydro's own numbers, the
20 projected RCC is 107, the source of that is the PUB book
21 of documents, 9. That 107 is two (2) points above even
22 the top of the zone of reasonableness, and seven (7)
23 above unity.

24 Put another way, in the ten (10) years
25 since its 1994 Order, since the 1994 reference to an RCC

1 for '95/'96 of 109, we've gone down two (2) points,
2 maybe. And I say, Maybe, because that number is
3 conservative.

4 Every actual study Manitoba Hydro has
5 done, has shown the RCC for street lighting to be higher
6 than what any perspective study of theirs has predicted.
7 In 2003 the actual was 110.

8 Now, it was said by Manitoba Hydro that
9 nobody is paying too much when the RCC is over 100. Mr.
10 Chair, we've been doing that for approximately thirty
11 (30) years. I think we'd like a change, but given the
12 past history you'll understand why I have some
13 hesitation.

14 At least part of Manitoba Hydro's response
15 to their own numbers is that we should be looking at the
16 RCC pre-export allocation. I suggest, with respect, that
17 this is disingenuous. Manitoba Hydro has proposed what
18 it deems to be fair and equitable, and that proposal is
19 post-export.

20 We've paid for our share of both
21 historically and to date, and we reject any suggestion
22 that Manitoba Hydro is giving us anything by allocating
23 us export revenue.

24 That brings me to what I think has been
25 mine and maybe one (1) of Mr. Mayer's favourite topics,

1 namely the number of customers for street lighting.

2 Our proposal is very simple: Use the
3 actual number of customers and show the actual changes
4 that result.

5 Manitoba Hydro has the right numbers
6 readily available. Use them, and end this artificial ten
7 (10) lights or six (6) lights or eight (8) lights equals
8 one (1) customer scenario.

9 We are one (1) customer, send one (1) bill
10 for a service that uses the same amount of electricity in
11 all of its locations. The Domo Gas analogy that was
12 suggested simply does not apply.

13 Now, Manitoba Hydro says that their cost
14 of service methodology is accurate and that the resulting
15 RCC is something that can only be looked at in the next
16 rate application, whenever that will be.

17 Mr. Chairman, Members of the Panel, the
18 City and its taxpayers are left saying, Please fix it.
19 This has continued on far too long. It's not equitable
20 or fair, by anyone's definition, and it shows no sign of
21 ending anytime soon, absent this Board issuing some
22 direction otherwise.

23 Thank you.

24

25 QUESTIONS BY BOARD:

1 THE CHAIRPERSON: Mr. Buhr, the one (1)
2 item that you cite with respect to the specific ways that
3 allocate costs, is the number of customers. Is there
4 anything else that you wish to comment on?

5 MR. DOUGLAS BUHR: No, Mr. Chairman, I've
6 restricted my comments deliberately just to street
7 lighting.

8 THE CHAIRPERSON: Now, when you get down
9 to the number of customers, this is not something that
10 we've received a great deal on, but we can all understand
11 that you're one (1) customer and one (1) bill.

12 Is there anything else that you're aware
13 of that would account for the allocation that's being
14 made?

15 MR. DOUGLAS BUHR: In our submission, no,
16 Mr. Chairman. It's an artificial scenario. They have
17 the numbers, use the right numbers. Use the actual
18 number of customers. Use the actual RCC's. Don't tell
19 me it will go up or down slightly or by some minor
20 percentage if you use the actual number. Use the actual
21 number.

22 THE CHAIRPERSON: Have you had -- has the
23 City had discussions directly with Manitoba Hydro on this
24 point of number of customers or number of streetlights
25 equals one (1) customer?

1 MR. DOUGLAS BUHR: In terms of
2 discussion, no, Mr. Chairman. We're certainly aware that
3 they have been doing it. We have raised the issue,
4 albeit in a minor context, I think previously.

5 It simply -- bluntly, it's an irritant
6 that's unnecessary. There's no sound reason for it.
7 It's simply -- it's simply doesn't cut it.

8 THE CHAIRPERSON: Mr. Mayer, you have
9 something you wanted to add?

10 MR. ROBERT MAYER: I do. I've been
11 through all four (4) methods that are before this -- four
12 (4) -- the four (4) different methods of assigning costs
13 that have been set out. Street lighting comes in above
14 the zone of reasonableness under every single
15 calculation.

16 I happen to believe that cost of service
17 methodology includes how those costs are assigned and,
18 therefore, customer counts probably fall within the scope
19 of a cost of service methodology, in my opinion.

20 If the Board were to accept your
21 recommendation have you -- do you have any idea what
22 difference in numbers it would make if you are one (1)
23 customer as opposed to being seven hundred (700) or
24 whatever the real -- whatever the number is?

25 MR. DOUG BUHR: The short answer, Mr.

1 Vice Chair, is, no, we aren't because we've never had
2 them. I accept what Manitoba Hydro says that the changes
3 are minor. But I don't know what they are and some of
4 them are up and some of them are down.

5 So where we -- where we end up in that, I
6 don't know.

7 THE CHAIRPERSON: Mr. Buhr, similar to
8 Mr. Feldschmid, you see a pretty tight link then between
9 the COSS and rate-making?

10 MR. DOUG BUHR: Yes, Mr. Chair.

11 THE CHAIRPERSON: Thank you, sir. Do you
12 have anything else?

13 MR. DOUG BUHR: No, Mr. Chair.

14 THE CHAIRPERSON: Mr. Evans...?

15 MR. LEN EVANS: I wonder if Mr. Buhr
16 could tell us if he has other information on other cities
17 and other utilities, how those utilities treat the
18 customer count in those particular cities?

19 MR. DOUG BUHR: No, I don't have that
20 evidence, Mr. Chair.

21 THE CHAIRPERSON: Thank you, Mr. Buhr.
22 Thank you for participating in this Hearing.

23 Now, we move on to Ms. McCaffrey and
24 MIPUG.

25

1 (BRIEF PAUSE)

2

3 MS. TAMARA MCCAFFREY: Good afternoon,
4 everybody.

5 THE CHAIRPERSON: Good afternoon.

6 MS. TAMARA MCCAFFREY: We're currently
7 distributing around the room, and I believe the Board
8 already has been given, a copy of, essentially supporting
9 documents; a book of supporting documents with respect
10 to MIPUG's final argument. Okay, here it comes.

11 THE CHAIRPERSON: It's about to be
12 delivered.

13 (BRIEF PAUSE)

14

15 THE CHAIRPERSON: We all have it.

16

17 CLOSING COMMENTS BY MS. TAMARA MCCAFFREY:

18 MS. TAMARA MCCAFFREY: Don't panic. I'm
19 not going to be going through all those documents. Those
20 documents are actually there as references of evidence
21 with respect to the particular issues that are before the
22 Board in Board counsel, Mr. Peters', list.

23 You'll notice on the green sheet, that's a
24 summary of MIPUG recommendations regarding Manitoba's
25 cost of service methodology proceeding. You'll notice in

1 bold, in the middle column, is the cost of service
2 issues. Those that belong in -- properly in the cost of
3 service that this board has all the evidence and
4 information and debate that they need to make final
5 decisions on cost of service for Manitoba Hydro today.

6 You will also notice on either side there
7 are other columns in terms of revenue requirement and
8 rate design. These are matters that have also been
9 discussed in the context of this hearing, though they are
10 not cost of service matters.

11 These are matters that are important
12 ongoing. And, in fact, if you turn the green sheet over
13 you'll see on the back the related outstanding Public
14 Utility Board directives to Manitoba Hydro with respect
15 to those areas; revenue requirement and rate design.

16 These things will have to be dealt with at
17 the next GRA and I will be dealing -- touching on those
18 issues as well. So we've laid it out this way in terms
19 of what's cost of service and what isn't and what can the
20 Board deal with -- sorry.

21

22 (BRIEF PAUSE)

23

24 THE CHAIRPERSON: Are you going to read
25 the green sheets right into the record or can we just

1 accept them as being read?

2 MS. TAMARA MCCAFFREY: I won't read
3 everything into the record. They're there for your
4 reference. I will read some of the recommendations into
5 the -- the record.

6 THE CHAIRPERSON: For the sake of those
7 who follow these proceedings through the transcripts, I
8 think we'll just put it straight in. Thank you.

9 MS. TAMARA MCCAFFREY: It -- accepting it
10 as it being read as part of the --

11 THE CHAIRPERSON: Is this being read as
12 part of your closing statement?

13 MS. TAMARA MCCAFFREY: Yeah. That's
14 fine.

15 THE CHAIRPERSON: And you can just refer
16 to it as you wish.

17 MS. TAMARA MCCAFFREY: Thank you. Just
18 to sum up what you have before you in the book of
19 references, you'll have a tab that relates to each of the
20 issues that Mr. Peters kindly laid out for us. And
21 you'll have comments and MIPUG's position on each of
22 them.

23 There are a few issues in which there's
24 not sufficient evidence or debate that MIPUG has not
25 taken a position on. But essentially you'll find that

1 there is a position, we hope is helpful, to the Board
2 with accompanying evidence references for the Board to
3 look at in term of preparing.

4 And my thank to the consultants at
5 InterGroup who've assisted me, without whose
6 participation I -- my representation of MIPUG would not
7 be nearly as effective as -- as I hope it has been.

8 It's been an interesting Hearing, I think
9 certainly unique in Manitoba. And the Board now is at
10 the end of it and is faced with two (2) paths.

11 The first path would have this Board
12 restrict their consideration to the cost of service box
13 and yield on first principles of cost, function,
14 causation, linkage in the cost of service and ultimately
15 adopt proposals puting forward by Hydro and endorsed by
16 My Friend Mr. Williams on behalf of CAC/MSOS, that are
17 ultimately divisive and pits customer class against
18 another.

19 More importantly however though they don't
20 -- they don't deal with the alleged problem that Hydro
21 has come to you with. Hydro says that they have two (2)
22 problems and one (1) of them is they have too much export
23 revenues.

24 MIPUG isn't accepting that that's a
25 problem. But should this Board be satisfied at some

1 future date, in the context of a revenue requirement
2 review at a GRA that there is a problem, then let Hydro
3 intelligently study the problem, identify where that
4 problem arises, and let's look at a solution in the realm
5 where the problem resides.

6 The proposal --

7 MR. ROBERT MAYER: Ms. McCaffrey, I don't
8 recall every hearing anybody say, We have too much export
9 revenue. I recognize in certain a context there's been
10 discussion, but I haven't heard anybody say they want to
11 get less.

12 MS. TAMARA MCCAFFREY: I'm hearing
13 Manitoba Hydro say that there's a problem because they
14 have so much export revenues that there's -- I've heard
15 the term 'distortion' being kicked around, a gap. Too,
16 it's -- it's kind of a funny -- funny way to frame it, to
17 hear a Crown Utility saying they have too much money.
18 But in the --

19 THE CHAIRPERSON: I think it's the effect
20 of it, not the existence of it.

21

22 CONTINUED BY MS. TAMARA MCCAFFREY:

23 MS. TAMARA MCCAFFREY: My Friend Mr.
24 Williams characterized Manitoba Hydro's approach versus
25 the MIPUG approach in an interesting way. And what

1 struck me was that he characterised the MIPUG approach as
2 -- as being this one that looks at the threshold.

3 Members of the Board, the threshold exists
4 and sweeping it under the rug isn't going to make it go
5 away. If Manitoba Hydro truly says they have a problem,
6 where does that problem arise? You -- how do you
7 identify that?

8 The threshold is simply just giving a word
9 to what everybody's dancing around in this room in any
10 event. It's not Mr. Bowman's idea. It's Hydro that's
11 coming forward saying they have a problem. MIPUG isn't -
12 - doesn't see the export revenues' success as being a
13 problem. But Hydro is telling you that there's a
14 problem.

15 If they -- again, if they say there's a
16 problem, let them deal with it and let's have an
17 intelligent debate about how to solve it, not sweeping it
18 under the rug.

19 MIPUG has discussed possible uses of
20 export revenues, that should the Board conclude in the
21 context of revenue requirement, because that's where you
22 have to have that debate, that in fact there is a level
23 of export revenues at which point it's not appropriate to
24 continue to credit within the cost of service study.
25 Then we'll have an opportunity to look at that in the

1 context of Hydro's revenue requirement and debate
2 possible solutions, should this Board be satisfied that
3 there is in fact, a problem.

4 At that time, there's an opportunity to
5 take into account prior issues that this Board has raised
6 with Manitoba Hydro at the same time. And again that's
7 the back side of the green sheet in terms of outstanding
8 revenue requirement directive that deal with concerns
9 with respect to risk.

10 Quantification not qualitative risk
11 analysis, quantification of risks. A determination of
12 what reserves ones going to rely on to manage the risks.
13 Consideration to restriction of equity for the purpose of
14 rate stabilization. These are the issues that require
15 debate and they need to be debated in the context of the
16 big picture including the export revenue picture.

17 We look forward to participating in that
18 debate.

19 There's going to be no delay with respect
20 to dealing with cost of service issues in this Hearing.
21 As I've indicated at the outset all the information in
22 evidence has been before you, there's been a great deal
23 of debate and consideration with respect to appropriate
24 cost of service methodology, and this Board is now in the
25 position to make those decisions.

1 Again, as part of the next decision on
2 rates that this Board is asked to make the Board will --
3 would want I would think, to direct Manitoba Hydro now in
4 a way that ensure that Manitoba Hydro will provide all
5 the information that the Board will require to make those
6 decisions on the level of Manitoba Hydro's revenue
7 requirement.

8 That's why we've gone through and
9 summarized -- there's no less than five (5) here
10 outstanding Public Utility Board directives under the
11 issue of revenue requirement from the Public Utility
12 Board.

13 And we urge the Board to take that into
14 account when writing their Order and looking forward in
15 terms of what we need to do tomorrow.

16 MS. PATTI RAMAGE: Excuse me, Mr. Chair,
17 just at this point it might be of some assistance and I
18 don't think -- perhaps My Learned Friend isn't aware --
19 each of these items listed one (1) through five (5), have
20 in fact been filed with the Board. And if it would be of
21 any assistance we could provide a list of filing dates or
22 something to that effect, I don't know if that would
23 help.

24 THE CHAIRPERSON: I think that probably
25 would be helpful. In fact, it would be helpful because

1 they've listed it here as being outstanding.

2 MS. TAMARA MCCAFFREY: I take My Learned
3 Friend's comments and I appreciate them. These -- all
4 these items then, if the information's before the Board,
5 then the Board can certainly take that into account.
6 But, they should all form part of the debate, in terms of
7 Manitoba Hydro revenue requirement at the next General
8 Rate Application.

9

10 (BRIEF PAUSE)

11

12 CONTINUED BY MS. TAMARA MCCAFFREY:

13 MS. TAMARA MCCAFFREY: You'll note there
14 that the first bullet under the revenue requirement
15 section is:

16 "That Hydro be directed to develop a
17 means for determining if export
18 revenues have grown beyond the point
19 where they can reasonably be credited
20 back to ratepayers in the year that
21 they arise."

22 And secondly:

23 "Hydro be directed to bring forward
24 proposals on how to determine on an
25 ongoing basis the level of such a

1 threshold for review within a revenue
2 requirement context. Such calculation
3 of the threshold level must be durable
4 such that it can evolve over time with
5 changes to Hydro's system and changes
6 to the level of export revenues."

7 And, thirdly:

8 "Hydro be directed to bring forward
9 proposals as to how to account for any
10 such excess export revenues should the
11 Board be satisfied that they do, in
12 fact -- that they are, in fact, excess
13 to the long-term benefit of ratepayers.
14 We would recommend focussed principally
15 on rate stability through managing
16 risks of drought and reducing the level
17 of Hydro's debt."

18 When I hear My Friend, Ms. Ramage, says
19 that a great deal of information has been filed in the
20 form of responses to these five (5) directives, we'll
21 look forward, again, to reviewing that and participating
22 in the debate at that time.

23 At which point the Board can truly have
24 the type of information it needs to determine (a) is
25 there a surplus and, (b) what's the best use of that

1 surplus taking into account all the important principles
2 of regulation of this Utility and the long-term benefit
3 of ratepayers.

4

5

(BRIEF PAUSE)

6

7 MS. TAMARA MCCAFFREY: I'm going to now
8 go to Mr. Peters' four (4) main issues. But the main and
9 most important point that I want this Board to take away
10 here is that these are important matters but they're not
11 cost of service matters and this is not the place to make
12 that decision. Cost of service is the wrong tool, to use
13 Mr. Bowman's language, for dealing with the issue of
14 whether there are, in fact, too much export revenues and
15 what to do with them.

16

Dealing now with issue number 1, whether
17 there should be one (1) or two (2) export classes. This
18 would be Item 7 on page -- of the first page of the green
19 sheet in the cost of service heading.

20

MIPUG's recommendation is that Hydro's
21 proposal in respect of developing two (2) export classes
22 be rejected. At the outset on the issue of whether there
23 needs to be an export class at all, Mr. Bowman was asked
24 that question.

25

And MIPUG's position is essentially

1 indifferent to the notion of whether one really needs an
2 export class in the cost of service study; taking into
3 account the purposes for which a cost of service tool is
4 developed which is setting rates; not something that
5 we're doing in the case of exports anyway.

6 But dealing with respect to Manitoba Hydro
7 in respect of developing two (2) export classes, we would
8 recommend that that be rejected. Either the current
9 method for addressing exports be retained or,
10 alternatively, the NERA method for developing an export
11 class be adopted.

12 To the extent an export class is adopted
13 the costs determined for the export class should not form
14 the basis of any analytical assessment of the situations
15 in which hydro should build new plant for export nor
16 which plants should be built; (b) the situations in which
17 Hydro should undertake to make an export sale, the prices
18 for such a sale or the form of the sale; and (c) the
19 determination of a threshold, again, as noted in the
20 revenue requirement recommendation. It's not to be
21 determined in the cost of service context.

22

23

(BRIEF PAUSE)

24

25

MS. TAMARA MCCAFFREY: Appropriate

1 transcript references with certain evidentiary support
2 for these propositions are provided for you and you may
3 review them at your leisure with respect to that -- this
4 item.

5 Going to the second topic, what costs
6 should be directly or indirectly assigned or allocated to
7 export classes. MIPUG's position is that in the event
8 that an export class is adopted similar to the NERA
9 study, we would support the assignment of a share of
10 embedded costs to opportunity exports, consistent with
11 the fact that Manitoba Hydro considers opportunity
12 exports in its decisions to acquire or advance new
13 generation resources.

14 In terms of the evidence there, I remind
15 you -- and it's provided in our supporting documents to
16 the discussion we had around Conawapa with Mr. Cormie;
17 some \$500 million in additional capital expense which
18 would enhance opportunity sales over and above what's
19 required for dependable energy.

20 In addition, the system supply enhancement
21 such as Kelsey and -- and the discussion I had with Mr.
22 Surminski on that top, with respect to the \$96 million
23 expenditure. Again, that being considered in terms of
24 opportunity -- providing opportunity power.

25 Mr. Surminski confirmed, they look at the

1 bottom line, they don't break it down in terms of whether
2 they're going to have firm contracts and -- or
3 opportunity. They don't -- they don't partition it. I
4 specifically asked him that question, and it's important.
5 And he did indicate they look at the bottom line; they
6 take into account all the exports. And to us that's why
7 it just makes sense to have one (1) export class, as
8 proposed by NERA originally, should the Board be
9 satisfied that in fact an export class is preferred.

10 With respect to the third topic laid out
11 by Mr. Peters --

12 MR. ROBERT MAYER: Please, before you go
13 there.

14 MS. TAMARA MCCAFFREY: Yeah.

15 MR. ROBERT MAYER: Firstly, I'm really
16 appreciating this document you gave us. But could you
17 just -- or could you or Mr. Bowman answer me this
18 question.

19 Mr. Bowman in his evidence spent time
20 saying one of the problems with the export classes is
21 that we tend to under-assign, and I think you just made
22 that argument, under-assign costs to that export class.

23 The existing method virtually assigns none
24 of the embedded costs to that export class. And yet on
25 one hand you say we aren't properly assigning them to the

1 export class if we have an export class, and that's a
2 concern. But if we don't assign them anything other than
3 the water rentals and the power purchases, I don't quite
4 understand. They seem to be diametrically opposed in
5 principle.

6 MS. TAMARA MCCAFFREY: I understand your
7 question and I think the best person to answer it most
8 distinctly would be Mr. Bowman.

9

10 (BRIEF PAUSE)

11

12 MR. PATRICK BOWMAN: Vice Chairman Mayer,
13 the simple point would be the export class as a class in
14 the cost of service study is being proposed in order to
15 measure something about the cost to serve exports. Under
16 the existing method the directly variable costs are
17 assigned against export, are not purported or held out as
18 trying to measure all of the cost of serving export;
19 they're very specifically not even trying to attract
20 capital.

21 What -- what one would want to get careful
22 about is -- is, such as under the Manitoba Hydro
23 proposal, purporting that somehow we're measuring the
24 costs to serve exports but then ignoring a substantial
25 section of costs, which are the capital costs incurred to

1 serve opportunity.

2 MS. TAMARA MCCAFFREY: Moving on now to
3 the powderkeg issue number 3, how should the net -- net
4 export revenues -- and I'm using that term because that's
5 the language that was used by Counsel for the Board --
6 how should the net export revenues be credited back to
7 customers?

8 Well, no surprise to anybody that MIPUG
9 takes the position that when we're looking at a cost of
10 service tool and we take into account what a cost of
11 service instrument does, which is track cost and
12 assigning the cost to the functions that give rise to
13 that cost, our position continues to be that export
14 revenues continue to be assigned to the generation and
15 transmission functions of the system because, and there's
16 no debate about this at all, these are the components
17 that continue to give rise to the export.

18 Again, to the extent that this Board one
19 day in the future in the context of reviewing the
20 Utility's revenue requirement, is satisfied that domestic
21 costs are sufficiently offset within the cost of service,
22 the question in our view is: At what point can export
23 revenues no longer be reasonably credited back to the
24 cost of service?

25 But, again, in the context of revenue

1 requirement, this is not a surplus in the context of the
2 overall system. Okay. We've heard talk about windfall
3 and surplus. You have to look at the big picture here.

4 You don't have to be confined in this cost
5 of service box and it would be a mistake, I think, to
6 feel so constrained. You are not.

7 There's a notion here that general service
8 large, greater than a 100 kilovolt -- well it would be
9 easier just to say the industrial class, has been somehow
10 unjustly enriched as a result of the increase in
11 revenues. Why?

12 Because they use the greatest proportion
13 of those bulk components of the system that give rise to
14 the export revenues under the cost of function based cost
15 of service method. This ignores the reality, of course,
16 that this class, who uses the greatest share of those
17 components, also pays the greatest share of their costs,
18 and has done so long before there were any significant
19 export returns. And no one had a problem with it at that
20 time.

21 I remind the Board of the evidence in our
22 cross-examination of Manitoba Hydro's Panel, where MIPUG
23 Exhibit 6, that's the three (3) page table, 1(a), (b) and
24 (c), was reviewed. And what -- the point that comes out
25 of that portion of the evidence, and that table, is that

1 the general service large industrial class actually
2 receives the smallest credit on a kilowatt hour basis,
3 even under the existing, supposedly unfair, cost of
4 service system.

5 Now, the difference is, I could use the
6 word disparity, but the differences between classes
7 become even more pronounced when one looks at the
8 Manitoba Hydro proposal. And that was at table 1(c) of
9 MIPUG 6.

10 When we think about risks, the major risks
11 the Corporation faces are to the general and transmission
12 components of the system. Again, no debate about that.

13 The industrial class also bears the
14 greatest share of these risks, due to their greater
15 proportion of usage of those components. These risks,
16 we've heard, have increased, to some extent, as a result
17 of the growing export market.

18 And in terms of that, it's important to
19 keep these points in mind when one is asked to accept the
20 notion that there's been some sort of unjust enrichment
21 here at the expense of other ratepayers. It's just not
22 borne out by the evidence.

23 I have a little more to say on that
24 shortly, at the end of my submission, in the context of
25 economic benefits that MIPUG members provide to

1 communities.

2 But, to sum up, on this third issue, we
3 believe the allocation of exports, within the cost of
4 service study context, should continue to generation,
5 transmission, maintaining the functional link, the
6 integrity -- functional integrity of the cost of service.

7 Manitoba Hydro's concern that exports are
8 going so high, again goes to the issue of Manitoba Hydro
9 is saying they have a problem. And if they do have a
10 problem, let them define it properly and deal with in
11 terms of the revenue requirement where it belongs.

12 I know I'm sounding a little bit like a
13 broken record here, but it's such a critical point.

14 THE CHAIRPERSON: Your background paper,
15 major topic one (1) says:

16 "MIPUG is relatively indifferent to the
17 inclusion of an export class."

18 But if you followed that through, what
19 you're also saying is, even if it wasn't in the cost of
20 service study, you'd still be left with the problem of
21 what to do with it.

22 And then you're back into your threshold
23 discussion, are you not?

24

25 (BRIEF PAUSE)

1 THE CHAIRPERSON: I'm just trying to
2 understand.

3 MS. TAMARA MCCAFFREY: I appreciate your
4 question, as always, Mr. Chairperson, the issues are
5 separate though. They're separate issues. There's a
6 cost of service issue. And then there's a revenue
7 requirement issue.

8 And to the extent that the export
9 revenues, if this Board is satisfied one (1) day that the
10 export revenues are beyond that which should reasonably
11 be credited back to ratepayers in the cost of service in
12 a particular year, then we should debate what's the best
13 use to do with that.

14 And that is a revenue requirement
15 question.

16 THE CHAIRPERSON: Agreed.

17 MS. TAMARA MCCAFFREY: And they're
18 separate issues.

19 THE CHAIRPERSON: Yes, I was just reading
20 off your topic 1, that's all.

21 MS. TAMARA MCCAFFREY: Thank you for
22 that.

23

24 (BRIEF PAUSE)

25

1 CONTINUED BY MS. TAMARA MCCAFFREY:

2 MS. TAMARA MCCAFFREY: Manitoba Hydro is
3 telling you they have a problem but they haven't directed
4 their minds to how to define it or where it arises. They
5 certainly haven't put forward a solution to that problem
6 or even a part solution to that problem.

7 Again, dumping export revenues to the
8 distribution system within the cost of service isn't a
9 solution and it undermines the functional integrity of
10 the cost of service with no offsetting benefits. There's
11 ways to deal with that problem, if this Board's satisfied
12 that's the case, but not within the cost of service tool.

13 With respect to the fourth major issue
14 raised by Mr. Peters, the degree that cost of service
15 studies drive further rate decision.

16 Again, in the context of our strongest
17 possible recommendation that this Board approve the cost
18 of service methodology that maintains a functional link
19 in the cost of service context, and recognizing the
20 importance of the achievement of fairness, with the
21 primary objective of being -- of fairness, and the
22 primary objective of rate setting is that each customer
23 class rates reflect the costs that they impose on the
24 system, the Board will review the cost of service of the
25 Utility every time they sit to review Manitoba Hydro's

1 rates.

2 And again, it's so critically important
3 that that tool maintain the cost of service principles
4 which give rise to it, and gives rise to an objective
5 definition of fairness in terms of an allocation of costs
6 to the appropriate customer classes.

7 MR. ROBERT MAYER: Ms. McCaffrey, on your
8 -- again on the book you provided us with major topic
9 number four, second line, second paragraph, that
10 'firmness' is supposed to be 'fairness,' right?

11 MS. TAMARA MCCAFFREY: Sorry, Mr. Mayer,
12 where are you?

13 MR. ROBERT MAYER: I'm on your -- Tab,
14 it's the red tab -- oh, different colours there. Okay.
15 My red tab. Major topic four.

16 MS. TAMARA MCCAFFREY: I have it.

17 MR. ROBERT MAYER: Second paragraph,
18 second line. "Determinate of..." that should be
19 'fairness?'

20 MS. TAMARA MCCAFFREY: Oh, it almost
21 looks like 'firmness' doesn't it. "Fairness".

22

23 (BRIEF PAUSE)

24

25 CONTINUED BY MS. TAMARA MCCAFFREY:

1 MS. TAMARA MCCAFFREY: I keep turning the
2 mic on at the wrong point and turning it off when I'm
3 about to speak. Some in the room might be grateful for
4 that, and probably not my client.

5 To sum up, with respect to Mr. Peters'
6 laundry list, I don't propose to go through all eighteen
7 (18) issues at this point. But I would like to sum up in
8 terms of the cost of service recommendations that are
9 before you.

10 These seven (7) points are the matters of
11 which are properly within the cost of service box. And
12 these are things that, in our view, there is sufficient
13 evidence and debate to make final and long-term -- final
14 decisions that will have long-term impacts in terms of
15 how the utility does it's cost of service.

16 Again, we're recommending that Hydro
17 continue to calculate its single cost of service study on
18 the basis of embedded accounting costs. And in preparing
19 the cost of service study, Hydro should maintain a
20 primary focus on the core first principles for cost of
21 service practice, including maintaining the functional
22 integrity of the study and maintaining internal
23 consistency in the cost of service study.

24 All export revenues, point 3, should be
25 credited via the cost of service study and ultimately

1 allocated to firm domestic ratepayers via the functions
2 that give rise to the revenues, again, generation and
3 transmission.

4 Hydro's proposals in respect of
5 classifying generation 100 percent to energy, be
6 rejected.

7 And the current method of classifying
8 generation to demand and energy based on the system load
9 factor, be retained, to recognize the key role of
10 coincident peak loads in driving system investment class.

11 With respect to the fifth bullet, Hydro's
12 proposals in respect of allocating generation energy on
13 the basis of marginal costs weighted energy, we recommend
14 be accepted, subject to the number of time periods for
15 the assessment being at least twelve (12).

16 Bullet six (6), transmission lines remain
17 functionalized as a group and not sub-functionalized into
18 export versus domestic related groupings.

19 And I've dealt with, again, bullet seven
20 (7).

21

22 (BRIEF PAUSE)

23

24 MS. TAMARA MCCAFFREY: Those are the
25 issues that can be decided today and those are the issues

1 that are properly cost of service matters.

2 I would like to -- MIPUG's position with
3 respect to all of the laundry list issues, if I can put
4 it that way, and I don't mean that in any way in a
5 diminishing sense, are set out in their supporting
6 documents, they have MIPUG's position with the supporting
7 evidence behind it.

8 And I don't think I need to go through all
9 of them. I've gone through many of them already.

10 So I want to conclude with -- given that
11 I'm the advocate here, I want to say that MIPUG members
12 are quite concerned with some of the things that we've
13 been hearing in this Hearing.

14 This notion, again, that industrials,
15 because of their increasing domestic load, are somehow
16 picking the pockets of Manitoba ratepayers. If anybody
17 wants to have a debate about the economic value of MIPUG
18 industries in Manitoba, we say, Bring it on. And we
19 would welcome an opportunity to participate in that.

20 But no one is actually debating that; just
21 sort of tiptoeing around the suggestion. And if we want
22 to look at the economic value of MIPUG industry versus
23 the economic value of Manitoba Hydro's exports, one (1)
24 can start by reviewing the economic impact assessment
25 that Mr. Turner brought to your attention in his

1 presentation.

2 And I know the Board has been given a copy
3 and certainly Hydro has had a copy and has had an
4 opportunity to review that.

5 It's not -- it wasn't put forward in terms
6 of the witnesses that we had testify. And -- but I don't
7 think anyone would debate the suggestion that industry
8 has a very significant contribution to Manitoba that
9 eclipses -- I mean we're talking about a contribution to
10 the gross domestic product here that's five (5) times
11 that of Manitoba exports.

12 And given that this Board has a very broad
13 purview in terms of the matters they can take into
14 account and public policy issues, when they consider the
15 Hydro utilities rates, it's important to keep that
16 perspective in mind.

17 It's just not borne out. It's a very
18 small narrow way of looking at things.

19 MR. ROBERT MAYER: Ms. McCaffrey, again,
20 I hesitate to interrupt argument, and I know I have most
21 of it here, but I haven't had a chance to read it yet.

22 Do you have any comment on Mr. Lazar's
23 method of assessing the value of industry by basing -- at
24 least making the comparison of kilowatt hours per job?
25 Where he talks about, We don't want to see -- We don't

1 want to see the -- We like the kind of industry that
2 actually provides something back, and he wants to make
3 that assessment by basing his assessment on kilowatt
4 hours per job.

5 Do you have any comment on that? I
6 realize you're not going to be wildly excited about
7 biggest piggy, most slop method. But, the other piece I
8 thought might have some merit.

9

10 CONTINUED BY MS. TAMARA MCCAFFREY:

11 MS. TAMARA MCCAFFREY: I don't have
12 specific instructions on that issue.

13 If I were to consult with Mr. Bowman here
14 on my right, I might think about the question of the
15 parameters of this Board's jurisdiction to take those
16 things into account, versus the Government directing
17 policy in terms of those matters.

18 I also -- it does raise, however, the
19 interesting discriminatory rates issue. And I can tell
20 you, I am not a consultant, I'm the advocate here, in the
21 strongest possible terms MIPUG will fight any type of
22 rate that is discriminatory in terms of a particular
23 industry in this province, treating some industries in a
24 different way than others.

25 If Manitoba Hydro is suggesting that they

1 might like some industry, maybe it provides more jobs,
2 and don't like other industry, then have them put it on
3 the table so that we can deal with it fair and square in
4 -- in the proper forum, to have a public debate about
5 that.

6 But that's not -- that's the type of
7 thing, when I hear Ms. Ramage's cross-examination on the
8 issue of sodium chloride plants, and Hydro Quebec's
9 government policy change, again, a gov -- not a
10 regulatory -- that wasn't a regulatory decision here,
11 this was coming from government, and presumably after, I
12 think, a very lengthy public debate.

13 When I hear questions along those lines,
14 though, it causes very serious concerns for MIPUG's
15 members in terms of any -- any such potential for
16 discriminatory rates.

17 It was -- it sort of struck us, in the
18 first place, why Manitoba Hydro would ask questions with
19 respect to the growing industrial load of a particular
20 industry. It's an unusual situation when a Crown utility
21 might be seen to be complaining about growing domestic
22 load.

23 But, again, I leave that for your
24 consideration. It's not strictly germane to the types of
25 considerations you have make here but, as an advocate, I

1 can tell you that MIPUG has some very significant
2 concerns about that.

3 And again, in the context of the letters
4 that have been filed, all those things, a debate should
5 be had if Hydro, indeed, wants to have that debate. We
6 would -- we would like to see it brought out of the
7 closet if they have the concern, if they -- if they'd
8 like to start doing something different with rates,
9 charging certain industry perhaps a discriminatory rate
10 over others because they prefer some industries, then let
11 Hydro bring it out so that we can deal with it in terms
12 of which industries they like, which they don't want to
13 see growing, and why. And then we can tackle that
14 problem head on, instead of dancing around the suggestion
15 here.

16 Sometimes it's fun to be the advocate and
17 not the consultant. But, in any event, in terms of the
18 economic contribution, I don't want to go too far into
19 that. I don't think there is really any real dispute
20 about that, in any event. But I just, for the sake of
21 the Board, if you haven't had an opportunity to review
22 the economic impact statement, there is some useful
23 information there, and I've already mentioned in terms of
24 the contribution to Manitoba's gross domestic product.
25 But there's also information about each of the MIPUG

1 member companies, and in particular, INCO.

2 INCO paid for the infrastructure of
3 Thompson. I didn't know that until I -- until I review
4 that. It's -- it's part and parcel of the history of
5 development of that city, which is now diversified
6 somewhat. But INCO remains an important corporate
7 presence there.

8 Flin Flon, some might say, would you have
9 Flin Flon if it wasn't for Hudbay, which -- formerly
10 Hudson's Bay Mining and Smelting, it's essential to that
11 community.

12 In terms of forestry, Tolko and Tembec --

13 MS. PATTI RAMAGE: Excuse me --

14 MS. TAMARA MCCAFFREY: -- maintaining
15 forestry industries in -- in a very difficult market.

16 THE CHAIRPERSON: Yes. Ms. McCaffrey, I
17 think we have that briefing and I think there was a note,
18 I believe, that the Pine Falls operation, Tembec, wasn't
19 included in the economic study.

20 Is that correct?

21 MS. TAMARA MCCAFFREY: You know, there
22 was -- I'd have to check it, there was some information
23 that wasn't available, I know, from some of the member
24 companies, and that may have been one of them.

25 THE CHAIRPERSON: I believe that's what

1 it is, but we have it filed.

2 MS. TAMARA MCCAFFREY: Yeah.

3 THE CHAIRPERSON: We understand.

4 MS. TAMARA MCCAFFREY: Thank you. And --
5 and I think everyone will be happy to hear that -- that
6 that really summarizes our argument with respect to the
7 issues.

8 If there's any questions from the Board
9 with respect to any of the more ancillary issues that I
10 haven't specifically averted to, certainly we would
11 welcome them at this time.

12

13 (WRITTEN SUBMISSIONS BY MIPUG)

14

15 Summary of MIPUG Recommendations regarding Manitoba
16 Hydro's Cost of Service Methodology Proceeding.

17

18 Revenue Requirement

19 In preparation for its next General Rate
20 Application:

21 1) Hydro be directed to develop a means
22 for determining export revenues have grown beyond the
23 point where they can be reasonably credited back to
24 ratepayers in the year they arise.

25 2) Hydro be directed to bring forward

1 proposals on how to determine on an ongoing basis the
2 level of such a threshold for review within a revenue
3 requirement context. Such calculation of the threshold
4 level must be durable such that it can evolve over time
5 with changes to Hydro's system and changes to the level
6 of export revenues.

7 3) Hydro be directed to bring forward
8 proposals as to how to account for any such excess export
9 revenues to the long-term benefit of ratepayers, focused
10 principally on rate stability through managing risks of
11 drought, and reducing the level of Hydro's debt.

12

13 Cost of Service

14 1) Hydro continue to calculate its single
15 cost-of-service study ("COSS") on the basis of "embedded"
16 of accounting costs.

17 2) In preparing the COSS, Hydro should
18 maintain a primary focus on core first principles for COS
19 practice, including:

20 a) Maintaining the functional integrity
21 of the study.

22 b) Maintaining internal consistency in
23 the cost-of-service study.

24 3) All export revenues credited via the
25 cost-of-service study ultimately be allocated to firm

1 domestic ratepayers via the functions that give rise to
2 the revenues - the generation and transmission systems.

3 4) Hydro's proposals in respect of
4 classifying generation 100 percent to energy be rejected,
5 and the current method of classifying generation to
6 demand and energy based on the system load factor be
7 retained to recognize the key rate of coincident peak
8 loads in driving system investment and costs.

9 5) Hydro's proposal in respect of
10 allocating generation energy on the basis of marginal
11 costs weighted energy be accepted, subject to the number
12 of time periods for the assessment being no less than 12.

13 6) Transmission lines remain
14 functionalized as a group, and not subfunctionalized into
15 export versus domestic-related groupings.

16 7) Hydro's proposals in respect of
17 developing two export classes be rejected. Either the
18 current method for addressing exports be retained, or
19 alternatively the NERA method for developing an export
20 class be adopted. To the extent an export class is
21 adopted, the costs determined for the export class should
22 not form the basis of any analytical assessment of:

23 a) The situations in which Hydro
24 should build new plant for export, nor
25 which plant should be built;

- 1 b) The situations in which Hydro
2 should undertake to make an export
3 sale, the prices for such sale, or the
4 form of the sale; and,
5 c) The determination of a "threshold"
6 as noted in the Revenue Requirement
7 recommendations.

8

9 Rate Design

10 In preparation for its next General Rate Application:

11 1) Hydro be directed to investigate
12 options to improve the efficiency signals in respect of
13 its rates via measures such as Stepped Rates.

14 2) In reviewing options for industrial
15 rates, Hydro be directed to undertake detailed and
16 meaningful conversation with customers prior to bringing
17 forward rate design proposals in the GRA.

18 3) Hydro be directed to apply to the
19 Board for any changes it seeks with respect to higher
20 rates in the form of ongoing or one-time charges for new
21 industrial customers, regardless of the form or structure
22 of such charges.

23

24 Relevant Outstanding PUB Directives (not yet filed or not
25 yet specifically addressed by the PUB)

1 Revenue Requirement

2 1) Reserve Provision- Order 7/03: a
3 study to quantify specific reserve provisions required to
4 cover the major risks and contingencies faced MH.

5 2) Revised Risk Management - Order
6 143/04: MH's revised risk management strategy that
7 reflects the quantification of risks both separate and in
8 combination.

9 3) Restricted Retained Earnings - Order
10 143/04: a study on the implications of internally
11 restricting retained earnings as a form of self-insurance
12 reserve and rate stabilization fund, to restrict and
13 future dividend payments until the 75:25 debt to equity
14 ratio has been achieved and/or exceeded.

15 4) Financial Targets - Order 143/04: A
16 report on the implications of returning the interest
17 coverage financial indicator to a target of 1.2.

18 5) Drought Implications - Order 143/04: A
19 study of MH's response to the 2002-2004 drought, with
20 recommendations by an outside and independent expert.

21

22 Cost of Service

23 None following this proceeding.

24

25 Rate Design

1 1) Zone of Reasonableness - Order 143/04:
2 A proposal to utilize the Zone of Reasonableness concept,
3 based on an amended COSS, moving all customer classes to
4 "unity" (allocated revenue requirement equals allocated
5 expenses) within five to seven years.

6 2) Inverted Rate Structure - Order 7/03:
7 a study on the merits of implementing an inverted rate
8 structure for all customer classes.

9

10 (WRITTEN SUBMISSIONS CONCLUDED)

11

12 QUESTIONS BY BOARD:

13 THE CHAIRPERSON: Ms. Ramage, did you
14 have --

15 MS. PATTI RAMAGE: I was simply concerned
16 with the degree of reference to some materials that were
17 filed by -- in the form of presenters' materials which
18 are not properly evidenced in this proceeding and haven't
19 been subjected to the same degree of scrutiny as --

20 THE CHAIRPERSON: We understand, Ms.
21 Ramage.

22 MS. PATTI RAMAGE: -- for example, Mr.
23 Bowman's evidence.

24 THE CHAIRPERSON: Yes. I think Ms.
25 McCaffrey was relatively brief when she got into that

1 because she knew what the status of that material was.

2 Ms. McCaffrey, when you're talking about
3 the background material, if you like, Mr. Peters'
4 eighteen (18) points, just to highlight one (1) of them
5 on a quick read, your position with respect to Mr.
6 Lazar's points on externality is that they don't have any
7 role to play in a COS study; is that correct?

8 MS. TAMARA MCCAFFREY: That's correct.

9 THE CHAIRPERSON: Thank you. Thank you
10 very much, Ms --

11 MS. TAMARA MCCAFFREY: Okay -- I'm sorry.
12 Mr. Bowman has quite rightly pointed out, and it was in
13 his evidence as well, I believe he was asked this
14 question, but to the extent that the costs have actually
15 been something that have been paid out by Manitoba Hydro
16 they are quite properly reflected in the cost of service.

17 THE CHAIRPERSON: I was talking about the
18 CO2 emissions element.

19 MS. TAMARA MCCAFFREY: -- you are correct
20 in our -- in our position.

21 THE CHAIRPERSON: Thank you. Okay, I
22 think what we'll do is we'll have a break now until 3:00
23 and when we come back, based on the understanding of this
24 morning, Professor Miller would be up and then we would
25 close with Mr. Anderson. Thank you.

1 --- Upon recessing at 2:47 p.m.

2 --- Upon resuming at 3:06 P.M.

3

4 THE CHAIRPERSON: Okay, welcome back
5 everyone.

6 MS. TAMARA MCCAFFREY: Mr. Chairperson,
7 with respect to one (1) undertaking I'm advised by Mr.
8 Bowman that we can provide a response to the Board if
9 this is an appropriate time?

10 THE CHAIRPERSON: Yes it is.

11 MS. TAMARA MCCAFFREY: The transcript
12 reference is page 2028, Undertaking 23, MIPUG was asked
13 to confirm the percentage increase in the load of energy
14 intensive industry in Manitoba in the last five (5)
15 years.

16 Okay. And I'm going to turn it over to
17 Mr. Bowman now to provide a response to that Undertaking.
18 Go ahead Mr. Bowman.

19 MR. PATRICK BOWMAN: Thank you. Manitoba
20 Hydro had provided a number in respect of this
21 Undertaking already which was 170 percent load growth.
22 We don't have exactly the same figures but, on an energy
23 basis we would come up with 160. So it's in the same
24 range.

25 I would note that that was during a period

1 that we went from one (1) to two (2) facilities who would
2 fall into that category. So there was an addition of a
3 new facility. And the original facility went through its
4 own expansion.

5 So one was an addition of about a 30
6 megawatt facility and the other was an expansion by about
7 45 megawatts of the original energy intensive industry
8 that was there at the start of that period.

9 THE CHAIRPERSON: Thank you Mr. Bowman.
10 Okay, Professor Miller --

11 DR. PETER MILLER: Thank you very much--

12 THE CHAIRPERSON: -- for TREE/RCM?

13 DR. PETER MILLER: -- Mr. Chair and
14 Panel and all the assembled folks. I guess I should start
15 off by -- I hope you all have a written copy of my brief
16 and an extract from the Centra Hearing of last year.

17 Does everyone have that? And --

18 THE CHAIRPERSON: Professor Miller, just
19 give us a second --

20 DR. PETER MILLER: Yes.

21 THE CHAIRPERSON: -- we're missing one
22 (1).

23 DR. PETER MILLER: Sure.

24

25 (BRIEF PAUSE)

1 THE CHAIRPERSON: Okay. We're fine
2 again.

3

4 CLOSING COMMENTS BY DR. PETER MILLER:

5 DR. PETER MILLER: I guess procedurally,
6 I should ask leave to include the one (1) point I wanted
7 to extract from last years Board Order in the Centra
8 hearing. Most of this is for context. The one (1) point
9 that I wanted to refer to was number five (5) on page 24
10 which is three (3) sheets in.

11 Basically, it's one (1) of a number of
12 suggestions that our consultant had for administering DSM
13 programs. Now, various parties will say, well that's way
14 out of scope. But, the Chair invited a contextual
15 treatment of costs and I'll get to that.

16 But, I guess the question is, can I refer
17 to the concept of self-directing a portion of DSM in this
18 proceeding? If I can't refer to it here, I'll make it
19 up.

20 THE CHAIRPERSON: It's your closing
21 statement, Professor Miller.

22 DR. PETER MILLER: Thank you. And I
23 guess the second question is, can I highlight with the
24 assumption that this written document will be read or --

25 THE CHAIRPERSON: We'll put your

1 presentation into the record so that you can just
2 highlight it, yes.

3 DR. PETER MILLER: Okay. Thanks. I'm
4 aware that the day is moving on.

5 MR. ROBERT MAYER: You have my
6 undertaking to read it.

7

8 CONTINUED MY DR. PETER MILLER:

9 DR. PETER MILLER: Thanks. I -- there's
10 some introduction material on the front page. Just to
11 kind of set the tone though, I talk about the concept of
12 eco efficiency which is the ratio of social benefits to
13 environmental cost or resource depletion.

14 And eco efficiency can be improved if you
15 can increase the benefits or if you can reduce the
16 environmental harms. And a proposal that will do both at
17 once is particularly to be recommended. If you can
18 increase social benefits and reduce environmental harms
19 both together, that's what I -- in the context of Hydro
20 want to call the power-smartest goal as opposed to the
21 current lowest-rate goal. So that's the only point
22 there.

23 What I've done is to summarize up front a
24 series of recommendations and then I'll have some
25 discussion to follow. So the -- the recommendations fall

1 under a number of categories.

2 How should we look at this material? The
3 -- the Chair asked for criteria for making decisions;
4 that maybe a way of looking at it. And our -- our
5 position of course, as we've reiterated in a number of
6 these hearings, is that the -- the various legalities and
7 precedents and all the rest should be evaluated in the
8 light of a more fundamental social principles of justice
9 and sustainability.

10 And another point would be that when
11 you're looking at direction to the Corporation, you could
12 look at the Manitoba Hydro Act but you should stop there.
13 You should beyond it, to the Sustainable Development Act
14 as a supplement.

15 Then we support the creation of an export
16 class or two (2). We don't take a position between those
17 two (2). And it recommends -- it is a fair assignment of
18 costs.

19 Vintage pricing. We accept Manitoba
20 Hydro's arguments for the Winnipeg River based vintage
21 pricing; it's more trouble than it's worth. But there
22 may be some basis, as was done in BC, when you're looking
23 at new load and from this point forward the notion of
24 vintage pricing may have a role.

25 Under full cost accounting, we believe

1 that for each General Rate Application Manitoba Hydro
2 should produce a full cost accounting cost, and that
3 should be refined and updated over time. We would expect
4 the first one that Manitoba Hydro submits to be an
5 improvement upon Lazar's initial attempt at that.

6 And it should capture, initially or
7 minimally, the marginal cost of electricity supply and
8 consumption and the opportunity costs for mitigating
9 global damage from climate change caused by greenhouse
10 gases. That's just the starting point.

11 Furthermore, this would not be just an
12 idle exercise but it's something to be taken into account
13 in decisions regarding the determination of Manitoba
14 Hydro's revenue requirement, the allocation of costs
15 between classes, rate design, resource planning, the
16 evaluation of potential DSM investments, and the
17 allocation of net export revenues. In other words, it
18 should have a function in the deliberations.

19 The cost can serve as a measure of
20 economic efficiency and environmental impacts of Hydro's
21 rate policies and proposals and provide one (1) kind of
22 definition of rate subsidy; how much is Manitoba -- are
23 Manitoba ratepayers being subsidised. The cost could be
24 standalone. In other words, it's conceivable that this
25 would be the only cost that you'd need.

1 Or, another alternative, conjectured by
2 the Board, put to Manitoba Hydro, I don't know that I've
3 heard their response yet, what about two (2) costs and
4 averaging the result somehow. I think of, you know,
5 either of those is worthy of consideration but we would
6 want to investigate the output of either the resulting
7 synthesis, as Mr. Lazar proposes, or how the two (2) were
8 used in combination.

9 We do not think that the full cost
10 accounting cost necessarily is full cost pricing, to use
11 Manitoba Hydro's distinction. And if the revenue
12 requirement is determined to be less than that, as almost
13 certainly it would be, then you need a method to
14 reconcile that and several jurisdictions where that is
15 done are cited, California and New Mexico and Illinois
16 and they use the equal proportion of marginal cost.

17 So presumably you do your full cost
18 accounting and then take, I don't know, 30 percent of
19 that or whatever as the amount that you're asking
20 ratepayers to pay.

21 Other recommendations are that Hydro
22 should consider adopting a power at cost revenue target
23 for domestic customers equal to 100 percent of the costs
24 allocated to the domestic classes and gradually increase
25 domestic rates from the current 78.2 percent to -- to

1 that figure to eliminate the export subsidy to rates and
2 increase the potential for efficient rate design.

3 We find somewhat anomalous the fact that
4 Hydro has targets for lots of things, like debt equity
5 and so on, but it doesn't have any real constraints on
6 how far the -- the revenue can deviate from either the
7 embedded costs or the marginal costs.

8 It can go all over the place and we had
9 some examples of how, I think Mr. Peters raised the
10 question, mathematically isn't it the case that, you
11 know, if we really luck out in the export market and
12 domestic load doesn't grow at all that we end up giving
13 people money in terms of how much power they consume.

14 You know, if it -- if it all is refunded
15 to the functions or whatever and we obviously recognize
16 that there are certain absurd limits to this but the
17 question is, does the distortion enter before we reach
18 those absurd limits.

19 And I think it's worthy of -- to have some
20 kind of target or zone. I mean, you might take the
21 present one, 78 percent of -- of embedded costs is the
22 average. Well, okay, it shouldn't go any lower than
23 that. It might be, you know, a status quo target. But
24 whatever, it should be -- there should be a target and
25 we're suggesting it should be 100 percent of embedded

1 costs.

2 Mr. Lazar made some recommendations
3 regarding those net export revenues which he and we think
4 it's a mistake to subsidize the actual consumption.
5 Offsetting uniform rates legislation is appropriate.
6 Increasing the reserves; almost everyone seems to agree
7 on that as an important objective.

8 Funding DSM programs further; we realize
9 that Hydro has stepped up its level of investment in DSM
10 but you can take it a step further. You look at current
11 rates as being, say, a 30 percent subsidy in the old
12 method or a 20 percent subsidy in the revised recommended
13 method.

14 Well, what about a comparable level of
15 subsidy of DSM. By subsidy I mean going beyond that cost
16 effective threshold. I mean, that's something to
17 consider.

18 Fourth, funding low income energy
19 assistance programs to provide basic essentials of modern
20 life to individuals who are destitute will have a minimal
21 effect on total consumption and will provide a modicum of
22 21st Century lifestyle to those who cannot now afford it.

23 And I think I heard some discussion from
24 Mr. Warden that -- or Mr. Wiens, one or the other, that
25 one (1) of the funding options that they're contemplating

1 would be that this would come out of export revenue as
2 opposed to being assigned to the residential class.

3 And then whatever it was that Mr. Lazar
4 and Mr. Wiens had a conversation over about unallocable
5 parts of the distribution plant we'll accept somewhat
6 blindly Mr. Lazar's recommendation that that's a suitable
7 place to invest the export earnings. I can't say that I
8 fully understand it.

9 And the point is that what these do is
10 still money going back to people of Manitoba, but it's
11 not going back into the form of subsidies to consumption.

12 It's going back in ways that will benefit
13 Manitobans. They'll have more efficient residences and
14 businesses. Their bills may be no higher even if their
15 rates are somewhat higher absent the subsidy because they
16 are operating more efficiently.

17 And the question is, how can we make
18 basically the Manitoba economy a more efficient operation
19 than it is?

20 We agree that Manitoba needs an
21 industrial strategy. I've had extensive involvement with
22 Tembec through the model forest and I sit on an advisory
23 committee that they have.

24 And I know how they're looking at costs
25 and looking at mills closing in Kenora and so on. And

1 you know, there's -- we're not asking for any throats to
2 be slit here. But, at the same time there have got to be
3 better ways than just subsidizing low rates.

4 And so here are just some suggestions that
5 Mr. Lazar tossed out. First, the power smartest goal as
6 opposed to the lowest rate strategy. Mr. Lazar outlined
7 some of the threats from a lowest rate strategy that it
8 may not be to the economic benefits of Manitobans in the
9 end.

10 Of course, that requires its own
11 discussion as Ms. McCaffrey brought out. But, it's a
12 consideration I think, should it operate here?

13 A modest rate increase to cover more of
14 the embedded costs in order -- and here's the -- if you
15 will the discrimination, discourage new large electro-
16 process loads that can force a much higher increase on
17 all customers.

18 Inverted rates. Vintage rates going
19 forward from this point, rather than you know, trying to
20 go back to the Winnipeg River. Long term energy supply
21 contracts with customers having long term resource
22 supplies within Manitoba and long term labour contracts.

23 Or linking rates to commodity prices, that
24 has been done in some jurisdictions. So that when the
25 commodity is high in the markets -- well you collect a

1 reasonable revenue for the hydro sales, when it drops you
2 reduce the rates.

3 Currently, Inco's business is booming from
4 high metal prices, so you expect them to pay the full
5 shot. But, Tembec and Tolco, more appropriately Tolco,
6 are really struggling and so you would adjust them
7 downwards.

8 And then here's where my little reference
9 to last year's GRA. If we're going to subsidize
10 industry, why not create a DSM investment fund? And make
11 that available at times that the plant is undergoing
12 reconstruction or whatever.

13 It could be something that could be banked
14 over time and contribute to making the plant more
15 efficient. That would improve its survivability.

16 Besides an industrial strategy we need a
17 low income strategy. And a lot has been said about that,
18 not so much in this Hearing but, in other ones. But, we
19 have to address and indeed the Board is aware of this and
20 Hydro's aware of it and Hydro has hired, I guess, someone
21 to work in this area, look at the folks who might be
22 hardest hit.

23 And now not every low income person is
24 going to be hard hit. If they live in an apartment, they
25 would benefit from inverted rates because the first block

1 DR. PETER MILLER: Yes.

2 MR. ROBERT MAYER: -- I'm having some
3 problem with this. You say, Go to 100 percent of costs,
4 bill that across the board and then target.

5 Well, I see some really practical
6 problems. That was identified very well when it came to
7 gas. Well, let's identify it when it comes to
8 electricity because where I live electricity is gas, I
9 mean, we've got to heat.

10 DR. PETER MILLER: Hmm hmm.

11 MR. ROBERT MAYER: And are you going to
12 target the particular apartment buildings where you have
13 some people barely making subsistence living,
14 understanding that landlords are entitled to pass through
15 their actual cost increases.

16 When you say "target," do you want to
17 target each individual building or do you want to go down
18 to targeting suites because that's what you're going to
19 have to do if you're going to do a means test in
20 distributing this money. It sounds to me that that's
21 what you're asking for, and I don't see how that's
22 feasible.

23 DR. PETER MILLER: I don't know the
24 details of it but it's standard practice in most US
25 jurisdictions, particularly in the West Coast to have a

1 series of things including emergency assistance,
2 including targeted DSM. I don't know what they do about
3 apartment buildings.

4 But there's a lot of experience that I
5 don't have in this, it's been done in part because there
6 have been federal programs that encouraged it with
7 matching funds from public benefit charges on -- on the
8 utilities.

9 Everyone pays an extra 2 percent or
10 something like that, to create a fund to match the
11 federal funds, that then usually is not administered by
12 the utility but by various social agencies who are aware
13 of these problems and -- and know -- I don't know how
14 they create their list of eligible parties but, you know,
15 who's -- who's eligible for a GST rebate?

16 I don't know how you determine that but
17 there -- there are way within the broader political
18 system and social agencies that this is done.

19 And to say that there are problems with
20 it, well, I wouldn't deny that. I mean, I can imagine
21 problems too. But shouldn't we look at the practices in
22 other jurisdictions where they've overcome those problems
23 because they had to with spiralling rates, several times
24 the rates that we pay.

25 MR. ROBERT MAYER: Professor Miller,

1 firstly, I do understand how they determine who get a GST
2 rebate, and that's not a complicated program, and it's
3 done by the Government of Canada. We are not the
4 Government of Canada. Hydro is not the Government of
5 Canada. Hydro is not the Government of Manitoba.

6 What you are asking for here is something
7 so specific that I suspect that all your cost savings
8 would be evaporated in the amount of infrastructure you
9 would need to make sure people don't damn well starve or
10 freeze to death in some building in Thompson, Manitoba,
11 or Cross Lake that's had its heat cut off.

12 And there has -- time and time again the
13 argument has been made over means testing or universal
14 programs. And the argument for universal programs, as I
15 understand it, is you can save as much in the cost of the
16 infrastructure as you would by trying to target people
17 specifically.

18 And when it comes to providing hydro power
19 it strikes me that that is a much better argument than
20 going down determining each and every individual home in
21 Cross Lake and who gets subsidized and who doesn't.

22 DR. PETER MILLER: Part of the -- one (1)
23 -- one (1) aspect of the proposal is inverted rates and
24 perhaps with a larger first block for people who are
25 electrically heated without a gas alternative and that's

1 a universal program.

2 So everyone gets a benefit provided they
3 can keep their heating down to a -- a reasonable level.
4 If they start adding on gadgets and TV's and Jacuzzi's
5 and -- and so on, well, it might get -- it might get
6 higher. Or if they have a very large house it might get
7 higher.

8 So, I mean, there are more universal
9 programs in terms of rate structure.

10 MR. ROBERT MAYER: But, Professor Miller,
11 inverted rates don't bring things down if you're going to
12 100 percent. Inverted rates at the present time would
13 bring your first block down.

14 You go to 100 percent, I suggest to you,
15 that your -- your first block rate will not be lower. In
16 fact, it will be higher than what it is now,
17 significantly. The inverted rate, and the Board has
18 already indicated on a number of occasions, its belief in
19 inverted rates, or at least some feeling there.

20 But that is not going to solve the problem
21 when it comes -- when you -- once you go to 100 percent
22 of costs. And I'm wondering how you answer that problem?
23 I mean, not everybody lives in River Heights and not
24 everybody has a Jacuzzi and some people have to have
25 power or they will not survive.

1 DR. PETER MILLER: Well, I grant that.

2 THE CHAIRPERSON: With due respect to the
3 whole discussion, I suggest we're not going to solve all
4 the low income strategy here today. Perhaps you can move
5 on with the rest of the presentation.

6

7 CONTINUED BY DR. PETER MILLER:

8 DR. PETER MILLER: Sure. Now, those were
9 the specific recommendations and at this point I'm moving
10 to commentary to elaborate a few of those points. The
11 applicable principles, we've heard about Bonbright.
12 We've heard about the Regulatory Utility Commissioners
13 Manual which says:

14 "Other revenues that can be generated
15 by utility assets are typically
16 credited against the utility assets
17 that give rise to those revenues."

18 And that's a quote from the transcript.
19 Fine. But this is where the recommendation that you have
20 to interpret these -- these principles in terms of -- of
21 justice and sustainability. Those are the -- the -- the
22 tests that sustainability, justice is, I submit, a social
23 value that is extensive.

24 But sustainability is legislated and so
25 those are the -- what you do with those precedents and

1 principles from the manuals has to be sifted through the
2 values that Manitobans hold and, in particular, the
3 legislated ones in the Sustainable Development Act.

4 Justice includes the cost responsibility
5 of assessment but also would include, I submit, since
6 this is a Crown Corporation an equitable and optimal
7 distribution of the benefits that our common asset
8 generates. Why should they go to customers in proportion
9 to the levels of consumption?

10 Inter-generational equity. I raised some
11 questions along the way about that. Are we fairly
12 balancing what we're demanding of the present generation
13 and what will be available to future generations.

14 The social justice principle of addressing
15 basic energy needs, the point that Mr. Mayer was talking
16 about. If my proposals don't meet that, they're
17 unacceptable. And the question is, what's the best way
18 to meet them?

19 And then, finally, compliance with the
20 just laws of the land and the two (2) cited are the Hydro
21 Act and the Sustainable Development Act.

22 Talked about possible bias of -- of
23 experts or Intervenor and ours is towards generations to
24 come. But, we think our proposals are for the welfare of
25 the current generation especially a few years down the

1 road.

2 Specifically, I want to make an
3 application here referring to a point that Mr. Warden
4 said in reply to Byron William's cross-examination and
5 I'm quoting here:

6 "Furthering the well being of the
7 Province is of course, not part of the
8 Manitoba Hydro Act and although we may
9 have -- all have personal views on that
10 matter, it's probably not appropriate
11 to express those views."

12 And this is -- the point is don't just
13 stick with the Hydro Act, look at the Sustainable
14 Development Act and it applies and it provides solid
15 ground for affirming that long run social well being
16 provincially and globally as defined by those principles,
17 is indeed a legitimate, in fact, mandated objective for
18 the utility.

19 There is no justification for narrowly
20 following procedures or precedents harmful to Manitoba
21 and beyond. And that is not a private opinion.

22 I list some of the relevant values from
23 the Schedules A and B at the end which you can read and
24 of course you've heard a number of times about the
25 efficient use of resources and the full cost accounting.

1 And these principles are also reflected in
2 a -- Hydro has adopted some sustainable development
3 principles which in our evidence is found at the end of
4 the voluntary challenge and registry program, which is
5 the updated, the 2003 update, which is Appendix 11.6 of
6 the Round 2 responses.

7 We've already agreed that we're not
8 proposing full cost pricing and accept the distinction
9 between full cost pricing and full cost accounting. But,
10 where we would disagree is the idea that full cost
11 accounting has no specific place in the deliberations of
12 this body or in the rate setting activities of Manitoba
13 Hydro.

14 And furthermore that that place is not
15 just because the DSM department or the resource
16 acquisition department considers these principles and
17 makes decisions and incurs costs which then get over
18 here. Which seems to be the pattern that Hydro has
19 followed.

20 We maintain that the Sustainable
21 Development Act has a place in these deliberations not in
22 the resource acquisition -- not just in the resource
23 acquisition deliberations or the power smart
24 deliberations. It has a place here.

25 Decisions and actions are taken here. And

1 with respect to early questionings from Mr. Peters to --
2 suggesting that Hydro could be indifferent to what kind
3 of a cost is developed here because it just refers to,
4 you know, who is going to pay the bill, and it may be of
5 interest to Intervenors but Hydro will get its money in
6 the end, they rejected that.

7 Because decisions that are made here have
8 an affect on the -- what happens to the system, even the
9 physical plant that might be built and the timing of the
10 building of plant and so on, if it effects consumption
11 levels of various parties, or available export income.

12 And so very significant decisions are made
13 here for the utility as a whole and I would simply add to
14 that and globally. And that's the point of bringing the
15 full cost accounting into these deliberations as
16 recommended by the Guideline 1 of the Sustainable
17 Development Act.

18

19 (BRIEF PAUSE)

20

21 DR. PETER MILLER: Now, the PUB's powers
22 and responsibilities. I'm basically presenting material
23 that was presented to the CENTRA hearing and -- but only
24 the Chair I think was part of that, so.

25 The point is that the PUB can require the

1 owner of a public utility to comply with the laws of the
2 Province and the Sustainable Development Act is the law
3 of the Province binding on Manitoba Hydro.

4 And the Crown Corporations Public Review
5 and Accountability Act gives a heck of a lot of
6 discretion to the Board, which they've reiterated from
7 time to time, and I think right at the opening of these
8 proceedings that you may have a cost but we don't
9 necessarily have to follow that cost.

10 And so our point is that the Sustainable
11 Development Act and these principles in particular are --
12 do form a legal and a policy basis for consideration in
13 the determination of -- of rates and the steps that go
14 into that.

15 The Hydro Act, as we've learned, talks
16 about the continuance of supply of power adequate for the
17 needs of the Province, to engage in and promote economy
18 and efficiency in the development generation transmission
19 distribution supply and use of power.

20 We believe that the terms 'economy and
21 efficiency' need to be interpreted in the light of the
22 Sustainable Development Act.

23 And, furthermore, the Act defines a
24 customer as any user or purchaser of power or any
25 potential user of purchaser of power, which is broad

1 subsidy to Manitoba ratepayers is on the order of \$1.3
2 billion a year relative to that full cost accounting
3 value. And he thinks that represents the full social
4 value of the power that we consume.

5 We're familiar, because we've gone over it
6 once or twice, with the \$388 million figure that comes
7 out of increased export revenues if domestic prices were
8 raised to a point where consumption shrank by 32 percent.
9 And whatever extra was taken from customers beyond, say,
10 the embedded costs, if it were returned to them but in
11 ways that didn't subsidise their rates, on average
12 Manitobans would come out even. You'd take more in rates
13 and give it back in other ways.

14 But Manitoba as a whole would be \$388
15 million richer; that's the hypothetical analysis that he
16 provides. Now I stress the word 'hypothetical' because
17 neither Mr. Lazar nor ourselves, RCM/TREE, are
18 recommending setting rates at that level.

19 But it is a framework that you should
20 consider. What is the efficiency result? What is the
21 level of subsidy? And is -- is there any way that we can
22 affect that result.

23 So I give a quote there in which the
24 various other considerations are there including the
25 perceptions of equity and fairness, impacts on the

1 regional economy and impacts on disadvantaged citizens
2 and at this point he says, I don't make a recommendation
3 on how these non-cost considerations should be applied.

4 Although in his oral testimony he did
5 offer more advice on what to do with export revenue if
6 you didn't just put it to rate subsidy.

7 There has been a discussion of embedded
8 versus marginal costs and most jurisdictions used
9 embedded costs but in -- in one (1) of the responses
10 Manitoba Hydro points out that California and New Mexico
11 and Illinois have adopted marginal cost analysis.

12 Besides the relative ease, I guess, of
13 looking at the books and coming up with the -- the value
14 of embedded costs there is the view abroad that, and I
15 think Consumers Association was particularly trying to
16 press that view, that embedded costs -- allocations based
17 on embedded costs are somehow fairer or more equitable.

18 Well, that view has been challenged. It
19 was challenged, I think, in the rebuttal evidence and in
20 oral testimony by -- by Mr. Wiens who was citing
21 Bonbright and talking about getting the correct marginal
22 cost analysis as -- as fundamental to fairness.

23 So, at least there's a -- a case to be
24 made that allocating strictly on the basis of embedded
25 costs ain't fair because it doesn't capture some of the

1 cost drivers in the system, basically from load growth.

2 And finally the NERA report on inverted
3 rates said, if you're going to go this route you really
4 ought to have a marginal cost based cost of service study
5 and for these reasons I suggest we opt for a marginal
6 cost based cost of service study.

7 Whether in addition an embedded cost of
8 service study is created and that somehow the two (2) are
9 averaged or some other procedure I'll -- I'll leave for
10 people who know more about these things to deliberate on.
11 But at a minimum we want that full cost of service and
12 that has to reflect the marginal costs.

13 So, I think I've said enough about the --
14 the other points so I'll -- I'll leave my comments there
15 and see if the Board has any questions.

16

17 (WRITTEN SUBMISSIONS BY TREE/RCM)

18

19 Final Argument for the Manitoba Hydro COSS hearing

20 May 29, 2006

21

22 Submitted by Peter Miller on behalf of
23 Resource Conservation Manitoba (RCM) and
24 Time to Respect Earth's Ecosystems (TREE)

25

1 Introduction

2

3 Time to Respect Earth's Ecosystems (TREE) and Resource
4 Conservation Manitoba (RCM) are non-government
5 organizations committed to the advancement of a more
6 sustainable society in which our planet's natural
7 endowments of living and non-living systems and resources
8 are valued, respected and conserved. Recognizing that
9 this natural legacy is finite and subject to degradation
10 and depletion, we promote eco-efficiency - improving the
11 ratio of social benefits to environmental harms and
12 resource depletion - as an essential pillar of a
13 sustainable society. Taken by itself, eco-efficiency can
14 be enhanced either by improving the social benefits or
15 reducing the resultant harms from the use of resources. A
16 policy that can do both at once is particularly to be
17 recommended. For Manitoba Hydro, we can call that the
18 power smartest goal, recommended to replace the current
19 lowest rate goal.

20

21 TREE and RCM welcome the opportunity provided by this
22 hearing to review Manitoba Hydro's COSS methodology.

23 - We note that, since 2002, Manitoba Hydro
24 has been without a COSS methodology that MH, CAC/MSOS,
25 and TREE/RCM could support, and, since 2004, without one

1 that the PUB could support.

2 - We note further that in this review, for
3 the first time, export customers are treated as a
4 separate customer class (or two), in accordance with a
5 long-standing request of the Board.

6 - Finally, we note that the Board has wisely
7 decided that the issues in designing a COSS methodology
8 are sufficiently complex, fundamental and contentious to
9 be deserving of separate review prior to the more
10 detailed application and audit of a COSS in a
11 rate-setting exercise. We believe that this decision has
12 borne fruit in a creative exchange of views that have
13 plumbed basic principles of cost determination and
14 rate-making.

15

16

17 Summary of recommendations

18

19 Let me first summarize our recommendations and then
20 provide some additional commentary.

21

22 Principles of interpretation

23

24 Principles, methods, and precedents from the regulatory
25 literature and past proceedings and the evidence and

1 argument in this proceeding ought to be evaluated in the
2 light of the more fundamental social principles of
3 justice and sustainability.

4

5 The Manitoba Hydro Act ought to be interpreted in light
6 of The Sustainable Development Act.

7

8 Creation of an export class (or two)

9

10 Future COSS's should include the creation of an export
11 class (or two) with the direct assignment or allocation
12 of a fair share of the total costs of the utility to the
13 export class(es). RCM and TREE take no position with
14 respect to whether the NERA or the Recommended method
15 represents a fairer assignment of costs to the export
16 class. And, while vintage pricing may have a role in
17 addressing the treatment of new large customer loads from
18 this point forward, we accept the analysis of MH that it
19 may be more trouble than it is worth to vintage price the
20 historic Winnipeg River resources.

21

22 Full Cost Accounting

23

24 Manitoba Hydro should be ordered to produce for each
25 General Rate Application, and continue to update and

1 refine over time, a COSS that incorporates a full cost
2 accounting (FCA) analysis of the production and
3 consumption of electricity in Manitoba that captures,
4 initially, (a) the marginal costs of electricity supply
5 and consumption and (b) the opportunity costs for
6 mitigating global damage from climate change caused by
7 greenhouse gases.

8
9 Manitoba Hydro and the PUB should take into account the
10 FCA COSS in decisions regarding the determination of MH's
11 revenue requirement, the allocation of costs between
12 classes, rate design, resource planning, the evaluation
13 of potential DSM investments, and the allocation of net
14 export revenues.

15 - The FCA COSS can serve as a measure of the
16 economic efficiency and environmental impacts of MH's
17 financial management and rate policies and provide one
18 definition of the level of rate subsidies.

19 - The FCA COSS could stand alone or be used
20 in conjunction with an embedded cost COSS, as conjectured
21 by the PUB (1018:12-18). Mr. Lazar recommends a single
22 COSS that incorporates the desired principles (RCM and
23 TREE would wish to review any resulting synthesis or
24 joint use of two COSS's.

25 - In the absence of full-value pricing of

1 electricity to cover all societal costs identified in the
2 FCA COSS, methods to reconcile marginal values with
3 revenue requirement will be required, as discussed in
4 PUB/MH II-1 (a) and (b). The response reports that
5 California, New Mexico, and Illinois all employ the Equal
6 Proportion of Marginal Cost method.

7

8 Other recommendations

9

10 Revenue target

11 For the medium term, Manitoba Hydro should consider
12 adopting a "power at cost" revenue target for domestic
13 customers equal to 100 percent of the costs allocated to
14 the domestic classes and gradually increase domestic
15 rates from the current 78.2 percent average (under the
16 Recommended method - RCM/TREE/MH II-42(b)) to eliminate
17 the export subsidy to rates and increase the potential
18 for efficient rate design. Currently Manitoba Hydro has
19 no targets for the domestic revenue requirement in
20 relation to either embedded or marginal costs
21 (RCM/TREE/MH II-42(e)).

22

23 Net export revenues

24 As recommended by Mr. Lazar in his oral testimony,
25 instead of subsidizing domestic consumption of

1 electricity, export revenue should be applied in ways
2 that do not increase electricity consumption in Manitoba,
3 such as the following.

4

5 - First, the current use to offset the
6 uniform rates legislation is appropriate. Neither
7 industrial customers in the North nor residential
8 customers in Winnipeg should subsidize these rural costs.
9 The export dividend is an appropriate way to fund it.

10

11 - Second, I think it's important to get the
12 Manitoba Hydro finances up to the point where they can
13 handle a serious drought without having to resort to
14 drastic rate increases. Whether this is done by raising
15 the equity ratio to 25 percent or 35 percent (utilities
16 in the US seek to have 40-50 percent equity), or by
17 building up a segregated "drought reserve fund" is not
18 really important. But, a significant part of the export
19 dividend should go to building financial reserves.

20

21 - Third, funding DSM programs is a natural
22 application of this fund, since doing so not only reduces
23 electric bills in Manitoba, and creates jobs for
24 conservation installation companies in Manitoba, it also
25 increases the revenue from export sales, which to some

1 extent is self-financing if the fund is invested in DSM.

2

3 - Fourth, funding low-income energy
4 assistance programs to provide basic essentials of modern
5 life to individuals who are destitute will have a minimal
6 impact on total consumption, and will provide a modicum
7 of a 21st Century lifestyle to those who cannot now
8 afford it.

9

10 - Fifth, Mr. Lazar recommends following the
11 example of the Oregon PUC by removing some "unallocable"
12 inelastic infrastructure costs from the COSS altogether
13 and paying for them from export earnings. He had in mind
14 elements of the distribution and customer system.

15

16 Mr. Lazar points out that these expenditures would absorb
17 substantially all of the current export dividend. All
18 classes would then pay rates based on their allocated
19 share of the embedded cost of the service they receive,
20 except for those portions specifically subsidized.
21 Basically, at that point, rates would equal embedded
22 cost, which is still a lot lower than marginal cost for a
23 utility like MH.

24

25 Most important, the tremendous benefit to the MH economy

1 of the current level of export earnings would be retained
2 for the benefit of the population of Manitoba.

3

4 The alternative, flowing it back to customers based on
5 usage, would likely attract a large electroprocess
6 industry making aluminum for export, resulting in very
7 few jobs, as has happened elsewhere in the world.

8

9 Industrial strategy

10 Manitoba needs a power smartest industrial strategy to
11 replace its current lowest rate strategy, which, as Mr.
12 Lazar has pointed out and MH has experienced, may attract
13 uneconomic load. A variety of strategies are available,
14 including the following.

15 - A modest rate increase to cover (more of)
16 embedded costs, in order to discourage new large
17 electro-process loads that could force a much larger
18 increase on all customers.

19 - Inverted rates

20 - Preserving vintage rates for existing
21 energy-intensive customers who demonstrate they are
22 employing all available cost-effective efficiency options
23 and new customers demonstrating a minimum
24 employment/energy ratio to get an initial lower-cost
25 block.

1 - Long-term energy supply contracts with
2 customers having long-term resource supplies within
3 Manitoba and long-term labour contracts.

4 - Linking rates to commodity prices of
5 Manitoba resources, to provide a cushion of reduced costs
6 at the bottom of the commodity cycle but collect full
7 value for electricity when commodity prices are high.
8 (E.g., currently Inco's business is booming from high
9 metal prices, but the forest companies are suffering from
10 the low prices of their products.)

11

12 And, from Centra's GRA hearing last year:

13 - Permitting industrial and commercial
14 customers to "self-direct" a portion of DSM funds to
15 invest in approved efficiency improvements in their
16 process (PUB Order 103/05, page 24, point 5).

17

18 Low-income strategy

19 Finally, there is a need to mitigate the energy burden of
20 the poor with special DSM programs, emergency bill
21 assistance, and possibly special rates.

22

23 The point is to address the special cases in the
24 industrial sector and low-income residential sector -
25 those who might be hardest hit by rate increases - with

1 tailored measures rather than unsustainable low-cost
2 power across the board.

3

4 Commentary

5

6 In the remainder of this brief, I wish to elaborate on a
7 number of these points.

8

9 Applicable principles

10

11 A number of participants in this hearing have confessed
12 that their favorite bedtime reading is Bonbright's text
13 on rate-making, which identifies rate-making principles
14 of fairness, efficiency, stability, and so on. Patrick
15 Bowman prefers the National Association of Regulatory
16 Utility Commissioners' cost allocation manual as having
17 more to say about the "science" of cost allocation
18 (1840:2-13). He also thinks that looking to regulatory
19 precedent in this and other jurisdictions is important,
20 so as not to discard the wisdom of past deliberations
21 (1841). From these he singles out, specifically, the
22 principle that "other revenues that can be generated by
23 utility assets are typically credited against the utility
24 assets that give rise to those revenues" (1847:13-16).

25

1 RCM and TREE contend, however, that the above principles
2 and precedents ought to be evaluated and interpreted in
3 the light of the more fundamental social principles of
4 justice and sustainability.

5

6 The concept of justice has a number of different elements
7 relevant to these proceedings, including:

- 8 - an equitable assessment of revenues
9 between customer classes in proportion to
10 cost-responsibility (which raises the issue of defining
11 the relevant costs); but also
12 - equitable and optimal distribution of
13 benefits of Manitoba Hydro as an asset that is publicly
14 owned by Manitobans through their government (which poses
15 the question: why should net earnings of our collective
16 asset go to customers in proportion to their levels of
17 consumption?);
18 - intergenerational equity (which asks, are
19 we imposing unfair levels of debt, environmental damage,
20 or consignment of more costly resources on future
21 generations in meeting our needs today?);
22 - social justice (i.e. addressing the basic
23 energy needs of all citizens and in particular the poor,
24 and assigning the costs to do so), and finally
25 - compliance with just laws of the land

1 (e.g., what must we do to be faithful to the Manitoba
2 Hydro Act and Sustainable Development Act?).

3

4 The Board and its counsel have asked the experts retained
5 by intervenors to comment on possible bias towards one
6 class or another in their recommendations. Without
7 speaking for Mr. Lazar, the bias of this intervention
8 might be construed as towards generations to come, but
9 our intent is to propose policies favorable to the
10 economic, social and environmental well-being of the
11 current generation as well, particularly a few years down
12 the road. We agree with Mr. Bowman and Mr. McLaren that
13 the principles and guidelines of sustainable development
14 need to be looked at together (RCM/TREE/MIPUG IR #2) and,
15 we would add, in combination with the above elements of
16 justice.

17

18 The concept of sustainability has legal force in Manitoba
19 through the Sustainable Development Act, which includes a
20 number of principles, guidelines, and definitions. The
21 Act provides a framework to promote sustainable
22 development in Manitoba and applies specifically to
23 public sector organizations such as Manitoba Hydro and
24 the PUB. Presumably the applicability of the Act is not
25 in contention in this hearing, as it was in last year's

1 Centra Gas hearing, although interpretations of the
2 implications of the Act might differ.

3

4 We note in passing that at transcript page 600, lines
5 17-21, Mr. Warden replies to Mr. Williams that
6 "furthering the well-being of the Province is of course
7 not part of the Manitoba Hydro Act, and although we may
8 all have personal ideas on that matter, it's probably not
9 appropriate to express those views." However, if we
10 extend our gaze beyond the Manitoba Hydro Act to the
11 Sustainable Development Act, to which MH is subject, we
12 have solid ground for affirming that long-run social
13 well-being provincially and globally, as defined by the
14 principles of the SDA, is indeed a legitimate, in fact
15 mandated, objective for the utility. There is no
16 justification for narrowly following procedures or
17 precedents harmful to Manitoba and beyond, and that is
18 not a private opinion.

19

20 Schedules A and B of the Sustainable Development Act
21 contain 13 principles and guidelines. In reviewing
22 candidates for a COSS methodology, several of the
23 principles the Board should keep in mind are:

24

25 Principle 1, Integration of Environmental and Economic

1 Decisions

2

3 Principle 2, Stewardship, which speaks of
4 intergenerational equity;

5

6 Principle 5, Conservation and Enhancement, which says,
7 among other things, that "Manitobans should (a) maintain
8 the ecological processes, biological diversity and
9 life-support systems of the environment;" and "(c) make
10 wise and efficient use of renewable and non-renewable
11 resources;"

12

13 Principle 7, Global Responsibility, which says,
14 "Manitobans should think globally when acting locally,
15 recognizing that there is economic, ecological and social
16 interdependence among provinces and nations, and working
17 cooperatively, within Canada and internationally, to
18 integrate economic, environmental, human health and
19 social factors in decision-making while developing
20 comprehensive and equitable solutions to problems;" and

21

22 Guideline 1, Efficient Use of Resources, which means

23

24 (a) encouraging and facilitating development and
25 application of systems for proper resource pricing,

1 demand management and resource allocation together with
2 incentives to encourage efficient use of resources; and
3

4 (b) employing full-cost accounting to provide better
5 information for decision makers.

6
7 Note: "full-cost accounting" means accounting for the
8 economic, environmental, land use, human health, social
9 and heritage costs and benefits of a particular decision
10 or action to ensure no costs associated with the decision
11 or action, including externalized costs, are left
12 unaccounted for (SDA section 1).

13
14 Note too that the substance of these principles from the
15 SD Act also appears in Principles 1, 3, 5, 7, and 10 of
16 Manitoba Hydro's 1993 SD Principles found on pages 67-68
17 of their Voluntary Challenge and Registry Program 2003
18 Update (Appendix 11.6 of Round II IR responses in Volume
19 5).

20
21 Regarding the concept of full-cost accounting, note that
22 MH, in its Rebuttal on p. 24, distinguishes full-cost
23 accounting from full-cost pricing and argues that the SDA
24 supports the former but not the latter. We agree, as our
25 recommendations indicate.

1 But at the same place, MH also appears to argue that the
2 FCA concept applies only to other activities of the
3 utility than rate-making, such as DSM and resource
4 planning. They emphasise that it is to decisions or
5 actions in these areas that FCA applies, but they appear
6 to think that the decisions and actions involved in
7 rate-making after these other decisions have been taken
8 merely deal with the accounting fall-out of the other
9 decisions and need not apply FCA anew, as this exchange
10 with Mr. Warden indicates.

11

12 24 DR. PETER MILLER: Great. Thanks. Let
13 25 me try a characterization of what you do and you tell
14 me

15 Page 966

16 1 if it's an appropriate one (1)?

17 2 Other departments than the rates

18 3 department do full cost accounting in evaluating
19 various

20 4 resource possibilities and whittling them down and then

21 5 ultimately making a decision when you need to acquire

22 6 them. And then -- and then your legal department or

23 7 whoever negotiates compensation agreements if that's

24 part

25 8 of the mitigation, and your engineering and the clean

1 9 environment commission will indicate what physical
2 10 alternations are need to mitigate the impacts further.
3 11 And then basically accounting and rates
4 12 deal with the fallout of the decisions and actions
5 that
6 13 occur elsewhere in the Corporation; is that a fair
7 14 characterization?

8 15 MR. VINCE WARDEN: Yes, I agree with
9 16 that.

10

11 We argue, on the contrary, FCA applies to rate-making
12 decisions as well. In an early exchange Mr. Warden
13 rejected Mr. Peters' suggestion that the corporation
14 would be indifferent to cost allocation decisions, in
15 part because those decisions could have significant
16 consequences for the evolution of the financial
17 condition, rates, and physical plant of the system. To
18 that, we would add that these decisions also affect
19 Manitoba's contributions to the mitigation of climate
20 change damage as well.

21

22 We submit that the SDA applies to decision-making with
23 respect to rate-making and that a FCA COSS is an
24 important instrument in that process, as indicated in
25 Guideline 1.

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25

The PUB's powers and responsibilities

We remind the Board of its powers and responsibilities with respect to the SDA and other relevant legislation.

Section 78(1) (a) of The Public Utilities Board Act states:

78(1) The board may, by order in writing and notice to, and hearing of, the parties interested, require every owner of a public utility

(a) to comply with the laws of the province and any municipal by-law affecting the public utility or its owner, and to conform to the duties imposed thereby, or by the provisions of its own charter, or by any agreement with any municipality or other owner.

The Sustainable Development Act is a law of the province binding on Manitoba Hydro.

In addition, The Crown Corporations Public Review and Accountability Act gives the Public Utility Board broad discretion to consider a wide range of factors when

1 reviewing Crown corporations' charges. Section 26(4) of
2 the Act states:

3

4 Factors to be considered, hearings

5 26(4) In reaching a decision pursuant to this

6 Part [Public Utilities Board Review of Rates], The Public

7 Utilities Board may

8

9 (a) take into consideration . . .

10

11 (viii) any compelling policy considerations that the

12 board considers relevant to the matter, [and]

13

14 (ix) any other factors that the board considers relevant

15 to the matter.

16

17 RCM and TREE submit that the principles and guidelines of

18 sustainable development found in Schedules A and B at the

19 end of the SDA, the province's commitment and national

20 political leadership to promote a Kyoto regime and exceed

21 Kyoto targets, and provision for the basic energy needs

22 (including conservation) of Manitoba citizens as a matter

23 of social justice are compelling policy considerations

24 that should guide the Board in determining for Manitoba

25 Hydro "just and reasonable... rates, ...charges, ...standards,

1 classifications, regulations, practices, measurements, or
2 service to be furnished..." under 77 (a) and (b) of the
3 Public Utilities Board Act. Indeed the discretionary
4 powers of the Manitoba PUB may well exceed those of
5 Quebec's Regie de l'energie (discussed in RCM/TREE/MIPUG
6 IR No. 1). In any case, the SDA provides legislated
7 guidance to both the PUB and Manitoba Hydro.

8

9 I have paid less attention to the Manitoba Hydro Act,
10 except to note that:

11

12 The purposes and objects of this Act are to provide for
13 the continuance of a supply of power adequate for the
14 needs of the province, and to engage in and to promote
15 economy and efficiency in the development, generation,
16 transmission, distribution, supply and end-use of power
17 (section 2);

18

19 "Economy and efficiency," we believe, ought to be
20 interpreted in the light of the SDA. Note also that the
21 promotion of economy and efficiency in the end-use of
22 power is within the scope of the utility's mandate.

23

24 The act also provides for the marketing of services and
25 the extra-provincial marketing of power, but is silent on

1 the handling of proceeds from these sales.

2

3 Finally, the act defines "customer" in section 1 as:

4

5 "customer" includes any user or purchaser of power or any
6 potential user or purchaser of power;

7

8 This definition is broad enough to contemplate non-users
9 or conservers of power. It is also broad enough to
10 encompass the "future generations" referred to in the
11 definition of "sustainable development" in section 2 of
12 The Sustainable Development Act.

13

14 In summary, the principles and precedents from the
15 regulatory literature and processes and The Manitoba
16 Hydro Act ought to be interpreted in light of The
17 Sustainable Development Act. We ask the PUB to adopt this
18 perspective in weighing the evidence and alternatives put
19 before it.

20

21 Recommendation - Creation of an export class (or 2)

22

23 This (along with our FCA proposal) may be the most
24 significant innovation in COSS methodology that is before
25 the PUB. It takes us beyond the NARUC principle of

1 crediting ancillary revenues back to the infrastructure
2 that made them possible to a reallocation of costs.
3 Export customers are no longer like cable-vision using
4 Hydro's poles. The whole conversation has changed to
5 recognize a limit or threshold to the NARUC kind of
6 revenue crediting. We now have a revenue excess or
7 surplus from exports once their legitimate share of the
8 costs is covered off. Export revenues can no longer be
9 treated in a blind mechanical fashion but are a subject
10 of policy decisions.

11

12 Future COSS's should include the creation of an export
13 class (or two) with the direct assignment or allocation
14 of a fair share of the total costs of the utility to the
15 export class(es). RCM and TREE take no position with
16 respect to whether the NERA or the Recommended method
17 represents a fairer assignment of costs to the export
18 class. And, while vintage pricing may have a role in
19 addressing the treatment of new large customer loads from
20 this point forward, we accept the analysis of MH that it
21 may be more trouble than it is worth to vintage price the
22 historic Winnipeg River resources.

23

24 Recommendation - Full Cost Accounting

25

1 In this COSS proceeding, our central recommendation is
2 that Manitoba Hydro produce for each rate hearing, and
3 continue to update and refine over time, a full cost
4 accounting (FCA) analysis of the production and
5 consumption of electricity in Manitoba that captures,
6 initially, (a) the marginal costs and (b) the opportunity
7 costs for mitigating global damage from climate change
8 caused by greenhouse gases.

9
10 This will make the environmental and full market values,
11 levels of subsidy, and foregone environmental and
12 economic benefits a visible part of every rate review.
13 Even if the PUB or MH (or RCM/TREE) have their reasons
14 for not going to full-value pricing, rate decisions will
15 become matters of informed choice, as is the stated
16 intention of SDA Guideline 1, rather than simply
17 number-crunching.

18
19 Mr. Lazar has constructed an example of such an analysis
20 by substituting marginal generation costs (based on
21 market values for electricity) for embedded generation
22 costs in Manitoba Hydro's Recommended COSS and adding a
23 value for potential CO2 displacement in export markets.
24 The outcome of this analysis is displayed in Exhibit JL-5
25 of his March 15th evidence, which shows that domestic

1 customers are paying, on average, only 44 percent of the
2 full value of electricity, which is equivalent to a
3 subsidy of \$1.3 billion dollars a year. Mr. Lazar has the
4 following to say about this scenario.

5

6 Q. In your opinion, which of the analyses you have
7 provided best reflects the total societal costs of
8 providing service to MH customers?

9

10 A. I believe that the last of these is the most
11 accurate. First, it includes CO2 costs at \$20 (Canadian)
12 per metric tonne, a value that I believe is reasonable.
13 Second, it includes marginal energy costs, which are the
14 real opportunity costs caused by consumption of power in
15 Manitoba. It includes the allocation of the costs of
16 providing export service to the export class, consistent
17 with the MH Recommended Method. Finally, it excludes the
18 net revenue from export, which is a benefit that Manitoba
19 can enjoy, but it is not necessarily appropriate to
20 distribute that benefit on the basis of utility power
21 consumption (the previous method) or total utility costs
22 (the proposed new method) (page 15, lines 19-29).

23

24 It is also instructive to estimate the theoretical
25 economic returns if electricity were priced at full value

1 for domestic customers. The last column of Exhibit JL-6
2 (corrected), page 1 (filed as Exhibit RCM/TREE-6 and
3 explained by Robin Wiens on pages 977-980 of the
4 transcript) shows the projected impacts of full-priced
5 electricity. Domestic rates would increase by 127
6 percent, i.e., more than double, causing consumption to
7 shrink by 32 percent (assuming -0.25 elasticity). If that
8 saved electricity was sold into the export market at
9 average market value, it could bring an additional \$388
10 million a year into Manitoba. The extra money collected
11 from Manitoba customers through full price rates could be
12 returned to them in some fashion unrelated to their
13 levels of electricity consumption, still leaving the gain
14 from the additional export income as an indication of the
15 extent of new wealth possible for Manitoba from efficient
16 pricing.

17

18 Note that the analysis in the preceding paragraph is
19 HYPOTHETICAL to illustrate possible efficiency gains, not
20 a rate recommendation from Mr. Lazar or from RCM/TREE. As
21 pointed out earlier, and as Mr. Lazar points out in the
22 following passage from his written testimony, many
23 considerations are relevant to rate-making:

24

25 Q. Should the MPUB use these marginal costs and

1 environmental costs for setting rates for MH customers at
2 this time?

3

4 A. No. If cost were the only consideration in
5 ratemaking, and CO2 costs were included in the COSS, but
6 MH was limited to recovering its embedded revenue
7 requirement, this would result in slightly lower rates
8 for residential customers, and slightly higher rates for
9 large-use general service customers. However, in my
10 opinion, cost should be only one element of the MPUB
11 decisions on cost allocation. Other factors, including
12 perceptions of equity and fairness, impacts on the
13 regional economy, and impacts on disadvantaged citizens
14 are also legitimate regulatory considerations, and I do
15 not make a recommendation on how these non-cost
16 considerations should be applied (page 12, lines 19-29).

17

18 In his oral testimony, however, Mr. Lazar did in fact
19 offer further advice regarding the application of export
20 revenues, to which we shall return shortly.

21

22 Embedded vs. marginal costs

23

24 Most jurisdictions use embedded costs, but California,
25 New Mexico, and Illinois have adopted marginal cost COSSs

1 (PUB/MH II-1 (b)).

2

3 The conventional view, expressed by Mr. Harper at
4 1502-1505 is that a COSS based on embedded costs best
5 represents a fair allocation of costs, whereas one based
6 on marginal costs is focused more on efficiency
7 considerations. However Mr. Wiens challenges the accuracy
8 of that view, citing Bonbright's focus on a fair
9 distribution of marginal costs as a central consideration
10 for fairness (608:13-609:25). We suggest that in
11 Manitoba's system, with a growing subsidized domestic
12 load and a lucrative export market, a marginal cost COSS
13 provides the more accurate picture for the fair
14 allocation of costs.

15

16 Furthermore, marginal costs are more likely to reflect
17 the costs of plant replacement or extension than
18 historic, depreciated embedded costs. Thus
19 intergenerational fairness or equity would appear to
20 favor the adoption of a marginal cost basis for the COSS.

21

22 Finally, NERA in its report on inverted rates also
23 recommends completing the task of creating a marginal
24 cost COSS as a basis for such rates.

25

1 In our interventions to date RCM and TREE have adopted
2 principles of social justice along with sustainability
3 and previous discussions have confirmed general agreement
4 on these principles. In particular, social justice means
5 the recognition that a limited amount of energy is a
6 basic need of Manitobans that the energy system should
7 make available at affordable prices. Somehow we have to
8 separate that from the idea of making unlimited amounts
9 of energy available at subsidized prices, as the
10 residential and industrial consumer groups appear to
11 advocate, which is unsustainable. This distinction can be
12 implemented through a combination of strategies.

13 a. Through inverted rates, with a lower first
14 block to meet basic needs and higher subsequent blocks
15 that better reflect in their rates the full social,
16 environmental and marginal value of electricity.

17 b. Through aggressive DSM programs open to
18 all that help those willing to act to reduce consumption
19 to something closer to the basic initial block. Those who
20 don't respond will be paying the full environmental and
21 social costs of their excess usage.

22 c. Through targeted programs for the poor
23 that include even more intensive DSM efforts and possibly
24 special reduced rates and bill assistance. Upgrading of
25 housing stock and training and jobs creation in

1 renovations may be economic spinoffs of these special
2 efforts.
3 Although specific programming and rate design might be
4 considered beyond the scope of the current hearing, a
5 general discussion of these ideas sets a context for our
6 recommendations.

7

8 (WRITTEN SUBMISSIONS CONCLUDED)

9

10 QUESTIONS BY BOARD:

11 THE CHAIRPERSON: Thank you, Professor
12 Miller. I have one (1) question and I'm sorry I have to
13 make it so direct but I think it's significant. You
14 weren't here this morning were you, no?

15 DR. PETER MILLER: No, I wasn't.

16 THE CHAIRPERSON: And I don't believe any
17 transcript's out and if I'm incorrect it's just what I
18 heard.

19 This morning I heard CAC/MSOS in their
20 closing comments suggested that the Board should
21 disregard Mr. Lazar's recommendations, which largely are
22 encapsulated by yourself, for a variety of reasons.

23 And I believe I have the four (4) key ones
24 in my head.

25 1, was a lack of rigour as to the support

1 for his FCA/COSS table.

2 2, was the omission of consideration of
3 other emissions and like environmental factors; in other
4 words, the focus on CO2.

5 Third reason was portrayed as a
6 demonstrated lack of care in his preparation of his
7 expert advice and that was based on large part, I believe
8 on errors that were later corrected in the tables.

9 And finally, I believe a suggestion was,
10 was that there was no jurisdiction that employed marginal
11 cost in a COSS.

12 So, in your views are these criticisms
13 valid?

14 DR. PETER MILLER: Well, the last one
15 (1) is clearly false because Manitoba Hydro presented
16 contrary evidence.

17 It perhaps may -- I don't know if they
18 could have said no CO2 because I think Mr. Lazar agreed
19 with that, CO2 costs are used in other ways, say DSM and
20 resource planning.

21 THE CHAIRPERSON: I think the comment was
22 just on the focus on -- and that as being the sole
23 emission that was damaging to the environment was the
24 flaw in the --

25 DR. PETER MILLER: Yeah, well that's --

1 well I mean obviously -- obviously this is a conceptual
2 piece. It is meant to take a few values to illustrate a
3 point. And the -- he gave his reasons for picking the
4 CO2, that some of the others are already internalized to
5 some extent or he expects they will be shortly or they're
6 harder to quantify.

7 But, there has been a lot of discussion of
8 the CO2 and there are public policy considerations in
9 Manitoba that it has been an issue. So he picked that
10 one (1) to illustrate the point.

11 I would certainly agree that this is not a
12 finished cost of service study that he has presented.
13 The point -- this is a methodological discussion. We're
14 not dealing with the details. We're dealing with the
15 concepts of how you go about it and whether you use
16 marginal costs, or not. And whether you use
17 environmental externalities or not.

18 Those are the conceptual issues that he
19 was presenting. So I would agree that it would be wrong
20 to take his results and then go immediately into a rate
21 hearing and I don't think he would intend that to be the
22 case.

23 THE CHAIRPERSON: Thank you, Professor
24 Miller.

25

1 (BRIEF PAUSE)

2

3 THE CHAIRPERSON: Mr. Anderson, I wonder
4 if you could give us some idea of the length of your
5 closing statement?

6 MR. MICHAEL ANDERSON: Mr. Chair,
7 probably not more than an hour --

8 THE CHAIRPERSON: Okay. We'll take a --

9 MR. MICHAEL ANDERSON: -- with any luck.
10 Less -- I prepared it to time out at less than an hour,
11 Mr. Vice Chair, thank you.

12 THE CHAIRPERSON: Okay. So we'll go on
13 the basis then if we have a break come back at 5 after
14 4:00, we can be done by 5:00, let us hope then.

15 MR. MICHAEL ANDERSON: I would think --

16 THE CHAIRPERSON: Does that sound fair?

17 MR. MICHAEL ANDERSON: Yes, Mr. Chair.

18 Thank you.

19 THE CHAIRPERSON: Okay. We'll have a
20 break now, thanks again Professor Miller.

21

22 --- Upon recessing at 3:54 P.M.

23 --- Upon resuming at 4:05 P.M.

24

25 THE CHAIRPERSON: Okay. Welcome again,

1 Mr. Anderson. Anytime you wish to begin.

2 MR. MICHAEL ANDERSON: Thank you, Mr.
3 Chair. I did have one (1) matter that I had raised this
4 morning, well Friday and again this morning I had
5 requested certain materials just for making contextual
6 references. I don't consider them to be evidence at this
7 stage.

8 THE CHAIRPERSON: Mr. Peters do you have
9 any further guidance on that?

10 MR. MICHAEL ANDERSON: I just wanted to
11 make some brief --

12 MR. BOB PETERS: They've been circulated
13 and I'm not aware of anybody having concerns, although I
14 haven't spoken to My Friend, Ms. Ramage. I have spoken
15 to Ms. McCaffrey and she raises no objections. She does
16 say that if anything arises as a result of what is in Mr.
17 Anderson's submissions, that her clients feel needs to be
18 addressed, she would address it in writing prior to
19 Friday but doesn't anticipate having to do so.

20 So, at this point, I would suggest just
21 turning to Mr. Williams and Ms. Ramage and seeing if
22 there are any concerns raised with respect to the
23 materials.

24 THE CHAIRPERSON: Mr. Williams...?

25 MR. BYRON WILLIAMS: We're not raising

1 any objections on behalf of our clients.

2 THE CHAIRPERSON: Thank you, sir.

3 Ms. Ramage...?

4 MS. PATTI RAMAGE: We're not raising any
5 objections at this time. Similar to Ms. McCaffrey, if we
6 hear something along the -- the way, because it's not
7 clear to me at this point how these will be used, I would
8 either interject or deal with it in our submission
9 Friday.

10 THE CHAIRPERSON: Yes. He's going to
11 reference it but it's not evidence.

12 Okay, Mr. Anderson?

13

14 CLOSING COMMENTS BY MR. MICHAEL ANDERSON:

15 MR. MICHAEL ANDERSON: Thank you, Mr.
16 Chair. Just as a matter of reference -- the Board's
17 rules of course -- had the record been open and had I
18 been available under Rule 17, I could have requested --
19 my intention was to request leeway with respect to the
20 regulatory materials that are included.

21 But being that here we are on Monday and
22 the record is closed, and I'm happy for my colleagues'
23 concurrence in at least allowing them to be referenced as
24 I proceed with my final summation. Thank you, Mr. Chair.

25

(BRIEF PAUSE)

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25

MR. MICHAEL ANDERSON: Of course, as was mentioned in our opening statement on November 24th and again at the onset of the proceedings on May 4th, the thirty (30) First Nations and fifty-three thousand (53,000) treaty First Nation citizens of the Manitoba Keewatinook Ininew Okimovin have an extremely close relationship with Manitoba Hydro and a keen interest in these proceedings in particular in respect of the -- the allocation of the net export revenues of the Corporation, which, for the most part, essentially is the heart of much of the discussion here.

While there's been considerable discussion through the application of various differences in allocators, concepts of efficiencies, it remains that Mr. Harper and Mr. Lazar and Mr. -- and Manitoba Hydro's witnesses each recommend, although with some variances, that the Public Utilities Board adopt the recommended method as being the fairest and perhaps most improved means of including all costs and allocating that export revenues amongst Manitoba Hydro customers.

I would say at the outset that MKO concurs with all of our colleagues that have so recommended. And we note that although we had set it out as a transcript

1 reference, MKO-3, the comments that Mr. Warden made in
2 his opening statements of November 24th, of course they
3 are restated almost entirely at PUB/MH-124.

4 In essence, the key word that we look to,
5 and that as indicated during our brief cross-examination
6 of Hydro's witnesses, was the concept of fairness and
7 really to -- to highlight that this proposal that
8 Manitoba Hydro has made in respect to the recommended
9 methods is its view of the fairest way to allocate.

10 And from our analysis of the materials
11 filed, we agree. MKO concurs, with some adjustments that
12 I will discuss as I proceed.

13 The final submission that I'd like to
14 share at this time really is broken into four (4)
15 different areas.

16 The first is the treatment of the diesel
17 class. Of course, you would expect that we would have
18 some comments on the cost of service methodology that's
19 proposed for the diesel class under the recommended
20 method.

21 Treatment of grid customers. As I had
22 mentioned on May 4th, MKO has -- represents and has an
23 interest in residential rates and the cost of service, as
24 well as mainly general service small, for the stores,
25 businesses and other activities that take place within

1 our community. So in that way we have an interest that
2 is perhaps unique to the other parties that are
3 participating in the proceedings.

4 We share, however, the interest in
5 affordable electricity and certainly the manner in which
6 the allocation of net export revenues assists in
7 achieving that. The customers thinking of the discussion
8 that the Vice Chair had had with Doctor Miller with
9 respect to the application of incremental and marginal
10 cost pricing for rates, our customers are extremely price
11 sensitive.

12 The Vice Chair made reference to the costs
13 of individuals occupying suites. We have a very great
14 concern about the ability to afford electrical bills.
15 The importance of electricity in providing for services
16 within our members' homes, communities and businesses.

17 And so while in terms of some of the
18 economic principles that have been presented, our
19 interest in affordable electricity may not appear on the
20 surface to be the most efficient approach it nonetheless
21 remains that the demographics of our citizens require
22 that we receive electrical supplies at rates that we can
23 afford.

24 And so with that comes our interest in
25 demand side management and conservation which is a matter

1 we would take up during a different proceeding. But we
2 see that as the balance. To be efficient in our use of
3 energy, consistent with the customary principles of our
4 citizens and to ensure that energy is affordable.

5 To some extent MKO's recommendations in
6 the early 1990's to create an export customer class were
7 to assist in identifying both costs and benefits to
8 ensure that there would be an equitable distribution of
9 the net benefits and the net revenues of these
10 developments to those First Nations that are most
11 directly affected by Manitoba Hydro's operations.

12 When Mr. Williams and Ms. McCaffrey were
13 discussing, of course, the ratemaking principles that
14 we've discussed at length in this and earlier
15 proceedings, the one (1) of these principles that we key
16 on in this proceeding is equity.

17 And this has been turned into the language
18 in this proceeding by many parties, including Manitoba
19 Hydro, as the phrase 'fair and equitable'. But in
20 addition to the basic rate making principles of ensuring
21 rates are just and reasonable and in the case of cost of
22 service that there is an equitable distribution in costs
23 to the various customer classes.

24 As I had mentioned it's significant to
25 MKO that there is an equitable distribution that takes

1 into account what we view as the commitment and
2 contribution of MKO First Nations in respect of the
3 development of the Manitoba Hydro system that is also
4 equitable and acknowledges that contribution on an
5 ongoing basis.

6 That is when I speak of this is the very
7 close relationship between many of our communities and
8 the Corporation's in terms of being affected daily by the
9 ongoing operations of the company.

10 The rate making principles, purely and
11 simply, typically don't take the types of treaty based
12 and social values of concern to MKO into account, but in
13 Manitoba they necessarily remain and this relationship is
14 certainly and firmly established.

15 One (1) of the matters that's been
16 discussed by parties, however, is that Manitoba Hydro
17 moves toward recognizing the full marginal value, as I
18 put it, of electrical sales in the marketplace, full
19 consideration of marginal costs including these social
20 and incremental environmental values will inevitably and
21 necessarily come squarely before us as we proceed to
22 develop cost of service and evolve toward a better
23 understanding.

24 Of course, Mr. Wiens and others have
25 discussed that that is a change in our understanding,

1 that there is an issue that by pricing our power at an
2 embedded cost -- on an embedded cost basis while it meets
3 the process that we have followed, well, since we've
4 adopted cost of service in rate making, it doesn't really
5 match the manner in which the energy is being valued in
6 the marketplace.

7 And with the shift toward selling more
8 than half of our physical output on the export
9 marketplace where the value of energy per kilowatt hour
10 is greater than the value of a kilowatt hour sold
11 domestically, this type of consideration becomes eve more
12 important.

13 In respect of the treatment of the diesel
14 class, during the diesel application you'll recall in my
15 final summation I -- I spoke of the three (3) wolverines
16 that were keeping us distracted from being able to
17 concentrate on providing service to the communities, at
18 least from MKO's perspective.

19 The little wolverine, as I described it,
20 was the unpaid surcharge which at that time was \$3.2
21 million which is not a little -- a small sum of monies
22 but compared to the larger of the two (2), the other two
23 (2) large wolverines it was.

24 Of course, we had the amount of the
25 accumulated deficit that was nearly \$20 million and the

1 undepreciated capital notes; those being the two (2)
2 large wolverines.

3 I'm pleased to say that the final approval
4 and ratification of the tentative settlement amongst the
5 parties; that is Manitoba Hydro and Indian and Northern
6 Affairs Canada, the four (4) diesel communities and MKO
7 would have the result of sending these three (3)
8 wolverines into the bush which is what our hope was in
9 our final submission.

10 So that then we can concentrate on the
11 provision of -- of affordable and efficient energy
12 supplies to these four (4) communities. In the prior
13 PCOSS and under the current method in the 2005/'06 PCOSS
14 that's NH-1 in the allocation program at pages 79 to 150.

15
16 Diesel costs were, and are not included,
17 as Manitoba Hydro was of the view that only customers
18 connected to the grid contributed to grid related costs
19 and should be entitled to an allocation of net export
20 revenues.

21 You'll recall that our submission in the
22 diesel proceeding was for the Board to direct that Hydro
23 make an allocation of net export revenues to the diesel
24 customers. We are very pleased that Manitoba Hydro has
25 recognized that diesel customers are Manitoba Hydro

1 customers, and in this -- for the purposes of allocation
2 and export revenues, and that they should be allocated a
3 share of net export revenues.

4 Board Order 159/04 notes the fundamental
5 negotiated -- the fundamental premise of the tentative
6 settlement is that an allocation of net export revenues
7 to the diesel class will be used to pay down, at first,
8 the diesel zone accumulated deficit over time.

9 And Mr. Warden and I discussed this during
10 my cross-examination. And it's also referred to in
11 Volume I in the executive summary at page II. This is
12 Manitoba Hydro's first opportunity to seek PUB approval
13 for an allocation of the export revenues to the diesel
14 class, which would allow the diesel zone accumulated
15 deficit to be retired over time in accord with the terms
16 of the tentative settlement.

17 Without an allocation of a net export
18 revenues to the diesel class, the diesel rates would need
19 to be much higher, and we believe unacceptably higher, in
20 order to pay down the diesel zone accumulated deficit
21 should Manitoba Hydro seek to try to recover the
22 accumulated deficit on tariff.

23 And you will recall from the previous
24 proceedings that there was a suggestion that that may
25 occur.

1 The allocation of the export revenues to
2 the diesel class is, in our view, fundamental to the
3 successful implementation of the tentative settlement and
4 the Board Order 159/04.

5 While the -- what appear to be delays in
6 final Federal Government authorization to execute the
7 negotiated settlement, due to the timing of recent
8 elections and so forth, MKO is firmly of the view that
9 the tentative settlement will be ratified in due course,
10 and in a timely due course. And continues to believe
11 that the tentative settlement is a win/win/win for
12 Manitoba Hydro, Indian and Northern Affairs Canada, the
13 four (4) diesel communities and, of course, for MKO.

14 We believe that Manitoba Hydro has
15 appropriately included diesel costs in the PCOSS, through
16 the direct assignment of diesel costs related to
17 generation distribution costs in the PCOSS under the
18 recommended method.

19 And that would be at MH-1, Tab 11.1,
20 allocation program, at pages 5 through 78.

21 So in other words, we believe that the
22 basic core principle of a direct allocation of diesel
23 cost is the appropriate way to proceed. That's
24 consistent with the terms of the tentative settlement and
25 ensures that a sufficient sum is allocated.

1 MKO is of the view that allocating diesel
2 costs in a manner other than a direct consignment would
3 be problematic, due to the lack of allocation parameters
4 for diesel zones in terms of what we understand to be the
5 level of information on peak demand allocators that
6 really don't exist for diesel, and so forth.

7 It's important that the diesel costs
8 reflect the pre-settlement costs for the allocation of
9 net export revenue. Manitoba Hydro's confirmed that the
10 10.84 million in annual revenue requirement for the
11 diesel class are pre-settlement amounts. Of course
12 that's at transcript 1278, lines 17 to 21.

13 It is appropriate to use pre-settled
14 amounts for the PCOSS 06 and for future prospective cost
15 of service studies.

16 Under the negotiated -- under the
17 tentative settlement, Federal and Provincial Government
18 agencies and Manitoba Hydro are doing this on behalf of
19 the provincial agencies, will prepay specific and certain
20 capital amounts instead of paying the annual revenue
21 requirements on the capital amounts each year. This
22 function was, in essence, summarized in Order 159/04.

23 The prepayment of capital amounts allows
24 for the diesel rates to be set at a level that is
25 tolerable for the customers in the diesel communities,

1 although the rates for larger diesel class customers are
2 still at a very high level compared to other Manitoba
3 Hydro customers, these being the First Nation education
4 account customers and the other government-class
5 accounts.

6 So even though the capital is prepaid, the
7 assets still exist and Manitoba Hydro still owns the
8 assets. The value of the assets is not diminished by the
9 fact that the Federal Government has elected to prepay.

10 Therefore, Manitoba Hydro needs to
11 continue to track diesel costs as they have in the past,
12 and include the revenue requirement for diesel in future
13 PCOSS for the allocation of export revenues. That is,
14 when allocating net export revenues to include the full
15 cost of diesel, as presented in the schedules.

16 What -- what we are suggesting is that
17 once the -- the tentative settlement is ratified and
18 capital payments are made, that the capital payments
19 should not reduce the capital rate base of the diesel
20 class capital assets for the purpose of allocating net
21 export revenues.

22 Again, a fundamental premise of the -- of
23 the tentative settlement is the ongoing allocation of net
24 export revenues to the diesel class to reduce diesel's
25 own accumulated deficit. It follows that if the annual

1 diesel class revenue requirement was reduced to only
2 reflecting operating costs, which is, of course the
3 objective in terms of setting rates, the quantitative net
4 export revenues allocated to the diesel class would not -
5 - would be sufficient -- would be sufficiently diminished
6 and the diesel's own accumulated deficit would not be
7 retired as contemplated in the tentative settlement.

8 So, in essence, we would use the pre-
9 settlement capital base for the purposes of -- of
10 allocating net export revenues, and then the post-
11 settlement cost base, mainly variable costs, for the
12 purpose of setting rates.

13 If we look at a summary of the PCOSS
14 allocation method that is in the application, the --
15 under the current method, of course, there are zero
16 dollars allocated of net export revenue. Under the NERA
17 method there is \$1.848 million allocated annually. Under
18 the generation vintaging model there is 1.749 million
19 allocated. And under the recommended method there is
20 \$2.405 million allocated annually.

21 If diesel costs were included as a direct
22 assigned cost under the current method, an allocation of
23 net export revenues could still occur.

24 So therefore, if the PUB approves the
25 current method, if in its consideration of various models

1 it chooses to continue the current method, with some
2 variations for other grid customers, MKO submits that
3 diesel costs of 10.8 million -- again as indicated in MH-
4 1, the allocation program at page 80 under the directs,
5 line 2, and at page 82 under line CO-1 -- should be
6 included as a direct assignment of cost in PCOSS, even
7 under the current method.

8 So that's essentially what we had
9 recommended in our final summation on the diesel
10 proceedings. So that either way this advancement would
11 proceed. And under any option that the Board may choose
12 to implement with respect to the four (4).

13 In terms of the treatment of grid
14 customers, we note that the two (2) major changes in
15 PCOSS-06, as proposed by Manitoba Hydro, are, of course,
16 the creation of an export customer class, and then the
17 recommended method for allocating net export revenues for
18 export customer class to all the Manitoba Hydro
19 customers, reflecting the full costs of providing
20 service, notably, and most importantly, including
21 distribution costs. This is really the most significant
22 change in that aspect of the proposal.

23 And as I had indicated earlier, the
24 recommended method is the method preferred by MKO and is
25 recommended to this Board for adoption and approval, and

1 direction to be applied to the application of cost of
2 service for the purposes of establishing rates in future
3 proceedings.

4 MKO believes that Manitoba Hydro's
5 recommended method -- at Manitoba Hydro 1 -- Exhibit 1,
6 Appendix 11.1, Section A-3, page 17, should be approved
7 in this proceeding. The recommended method is supported
8 by Mr. Harper, who states the recommended method is an
9 improvement over the current method and we see that in
10 CAC/MSOS-1, page 21.

11 And MKO has no objections to Mr. Harper's
12 proposal to increase the number of time periods used in
13 the allocation of generation costs, in terms of that as a
14 refinement.

15 The recommended method addresses a number
16 of deficiencies that the PUB has identified in the prior
17 PCOSS, including the prior exclusion of distribution
18 costs and the use of time -- of use billing determinants
19 for the allocation of power supply costs.

20 The high level of support from the
21 applicant and several Intervenors, MKO recommends that
22 the recommended method be approved as filed with
23 direction for further enhancements in future proceedings.

24 Notwithstanding, of course the comments of
25 my colleague CAC/MSOS this morning, Mr. Lazar also

1 supported the recommended method and states at page 2 of
2 his pre-filed evidence that:

3 "I find the recommended method of
4 computing cost of service as advocated
5 by Manitoba Hydro as a progressive
6 step forward and improves the accuracy
7 of cost determination and allocation in
8 Manitoba."

9 Now, in respect of some of the discussion
10 that I had with Mr. Warden briefly during cross-
11 examination we are interested in the treatment of what we
12 had described then in the cross-examination as hydro
13 affected customers.

14 And our interest in hydro affected
15 customers really fall into two (2) broad areas. One (1)
16 is the treatment and mitigation costs and the Vice Chair
17 had asked me a question regarding our disposition about
18 that and I'd like to touch on that for a moment.

19 And then a second broad area, treatment of
20 incremental and environmental costs. It's an interesting
21 phenomenon that we've noticed that the payment of
22 mitigation costs through hydro tariffs occur by those
23 customers who are directly affected by Manitoba Hydro's
24 operations.

25 It's noted in the materials that the

1 mitigation costs are classified to generation and then
2 applied to be paid by all customers. But that includes
3 those for whom the mitigation is intended to be -- for
4 those that are intended to be beneficiaries in the
5 mitigation investments.

6 It appears to MKO that currently those
7 Hydro customers who are recipients in that beneficiary as
8 a mitigation expenditures are also paying for a portion
9 of the same mitigation expenses through their hydro
10 tariffs.

11 This seems counter intuitive for Hydro to
12 make a payment to offset the damages or adverse affects
13 caused by their operations and then collect a portion of
14 these same mitigation costs from the impacted parties
15 through their Hydro power bills.

16 One (1) very complex way to resolve this,
17 of course, would be to do some direct assignment of
18 costs, mitigation costs to a customer class or sub-class
19 created for this purpose that would exactly match the
20 mitigation costs they were otherwise being requested to
21 pay so that it creates an offset.

22 But, we believe that a simpler way of
23 doing it would be to suggest that Manitoba Hydro affected
24 customers should be exempt from paying for mitigation
25 costs through their Hydro bills and then a simple on

1 tariff -- rebate rider of about probably 4 percent we
2 calculate would be appropriate to exclude hydro affected
3 customers for paying for mitigation costs through a hydro
4 tariff.

5 Now, I recognize that when we start
6 talking about refund riders we're off into rate design
7 proceedings and have moved away from cost of service.
8 But, I wanted just to point it out that there would be a
9 mechanism in creating a class and allocating sufficient
10 costs to do a net out or an offset.

11 But, really when you work it down to
12 effectiveness and administrative efficiency it works out
13 it would be probably a refund rider.

14 While the mechanism to exclude hydro
15 effected customers from paying mitigation costs is more
16 appropriately for a topic of the tariff proceeding, we
17 thought it was important to raise it as a concern here
18 because we think it's important to resolve this apparent
19 conundrum. The beneficiaries of mitigation are paying --
20 helping to assist all other customers in paying for it in
21 their rates.

22 Leading to the treatment of incremental
23 environmental costs and to MKO's interest in the growing
24 concerns and distinction is being made between an
25 embedded cost based cost of service approach and of

1 course, the marginal values and costs in the export
2 marketplace, as well as those values and costs that have
3 been raised by other witnesses.

4 When Manitoba Hydro's projects were built,
5 the government and Manitoba Hydro justified the adverse
6 environmental affects, the ongoing environmental affects
7 and changes to the lives of First Nations people on the
8 basis the electricity was required to provide for the
9 needs of the province for industry, schools, homes and
10 hospitals.

11 Now one of the simplest references that I
12 could refer to, in a document that I don't believe would
13 be controversial in any way, of course, is the Northern
14 Flood Agreement.

15 Article 18, article 18.2 sets it out very
16 clearly.

17 "Canada and Manitoba recognize that the
18 project is intended to benefit all
19 citizens of Canada, and most
20 particularly of Manitoba, on the one
21 hand. And that the resource users have
22 been and may continue to be adversely
23 effected, on the other hand. And that
24 it is in the public interest to ensure
25 that any damage to the interests,

1 opportunities, lifestyles and assets of
2 those adversely effected, be
3 compensated appropriately and justly."

4 So in essence, when we're considering some
5 of the changes that have taken place, it's -- MKO
6 measures it against this beginning point, in terms of the
7 justification and rationale for the initial construction
8 of the system and the theory of compensation as it was
9 explained, at least in the Northern Flood Agreement.

10 And of course, I discussed this with Mr.
11 Warden, in terms of my phrase, No worse off, as a
12 determinative standard which Mr. Warden had indicated
13 wasn't necessarily applied by the Corporation, but the
14 principles of compensation were certainly applied. And
15 here's an example of that.

16 In Exhibit MKO-2, which of course is the
17 summary of the annual reports and the financial and
18 operations performance, in Manitoba Hydro 10, which I
19 understand was requested to be filed by Dr. Avery-Kinew,
20 as materials that had appeared before Mr. Mayer and Dr.
21 Kinew -- Avery-Kinew at the CC Hearings.

22 And then I point to pages 13 and 14 of the
23 document that I've provided, which was CAC Exhibit MHNCN-
24 1032, and mainly just to the listing and the dates of
25 those settlements.

1 It indicates when the first to the post
2 NFA settlement agreements, that were paying lump sums as
3 compensation, were entered into between Manitoba Hydro
4 and First Nations in 1990/'91, those would be the Forbet
5 agreement specifically, Manitoba Hydro made a
6 comparatively modest 18 million in net income, while in
7 export revenues of \$97 million, while exporting about 31
8 percent of total electricity production.

9 At transcript 1285 to 1286, Mr. Wiens
10 discussed that since at least 1996 the average value of a
11 kilowatt hour sold on the export market has exceeded the
12 average value of a kilowatt hour sold to customers in
13 Manitoba.

14 And as market deregulation in the United
15 States has moved forward, the pricing of exports from
16 incremental cost to full costs, the value of exports has
17 increased significantly.

18 At transcript 1290, I was talking with Mr.
19 Warden about the most recent forecast and it's clear that
20 by the late spring of 2006, electricity exports will
21 balloon Manitoba Hydro's net income almost twenty-one
22 (21) times, as compared to that in 1991, to a corporate
23 record of, and Mr. Warden corrected me on this, in excess
24 of \$375 million for more than one-half of total
25 production being sold as exports.

1 And for the first time in Manitoba Hydro's
2 history, more revenues were being made from exports than
3 from sales of electricity within the Province.

4 The significant changes in the export
5 market, and particularly the export price, we believe,
6 would be expected to result in changes in the operation
7 of Manitoba Hydro's system in order to achieve maximum
8 export sales.

9 Although there isn't a considerable amount
10 of discussion on this, and we can certainly advise the
11 Board we intend to pursue this more -- in revenue
12 requirement proceedings as we continue on, there was a
13 reference to it in a discussion with Mr. Lazar at
14 transcript 1607, in the transcript of May 25th.

15 And in this case he's talking about a
16 carbon tax, but he makes a reference. He says:

17 "Depends on where and it depends on
18 what hours. The hours at which they
19 can get the highest prices are
20 typically the hours when gas generation
21 is operating and they seek to manage
22 their system to take advantage of that
23 market opportunity. If there was a
24 carbon tax imposed, the cost structure
25 would change, the dispatch order would

1 change, and the operation of the
2 Manitoba Hydro system would probably
3 change in response to a changing market
4 dynamic."

5 While MKO is keenly interested in those
6 drivers that would cause the Corporation to modify its
7 system operation in order to maximize export revenues, as
8 would clearly be presented to the Corporation, it is
9 interesting that MIPUG had referred to effects directly
10 on their consumption for the purposes of releasing energy
11 for export and so forth, but it's clear that the
12 operation of the systems shifts to maximize profits in
13 multiple ways.

14 As set out in transcript 1126 to 1128 of
15 the 2004 General Rate Application -- this is another one
16 of the documents that I had circulated. And you'll
17 recall this is my discussion with Mr. Cormie regarding
18 the water levels on Cedar Lake, Manitoba Hydro can shape
19 its -- can shape its reservoirs to higher than long-term
20 average water levels, even under low flow conditions, by
21 -- and plan its system operations by taking into
22 consideration that there are eighteen (18) reservoirs in
23 the water shed. Manitoba Hydro has a considerable degree
24 of control over its system as a result of this.

25 There is also a discussion in respect of

1 predetermined compensation in these proceedings. The
2 Public Utilities Board asked questions about that. It --
3 the indication was that any environmental effects that do
4 occur are actually tied to Manitoba Hydro's ability to
5 determine absolute water levels resulting from its
6 operations. And this is confirmed at PUB/MH-2-7(B) in
7 the second part of the response, where Manitoba Hydro
8 says:

9 "Mitigation payments due to extreme
10 high or low water levels are directly
11 related to reservoir operations under
12 the control of Manitoba Hydro."

13 So the evidence would be, is if there are
14 any payments for predetermined compensation, and there
15 was of course a schedule filed, they are directly as a
16 result of a conscious set of system operating decisions
17 that were made by the Corporation.

18 So in these expected changes to optimize
19 export revenues, there would also be expected environment
20 and other effects, some of which are provided for in
21 compensation in -- in provisions of the existing
22 settlement agreements. Not all may be.

23 There must be a full cost accounting of
24 the costs arising from the ongoing incremental adverse
25 environmental effects directly associated with the

1 changes and the operation of the developed waterway,
2 reservoirs and generating facilities, arising from this
3 change in focus -- or and increased focus to produce
4 hydroelectricity for the purpose of maximizing export
5 revenues.

6 In Exhibit MH/NCN-1032, which was actually
7 Undertaking 55 from the CAC proceedings, and to some
8 extent expands on Exhibit MH-10 in this proceeding, it's
9 my understanding from reading the request during -- in
10 the transcript, that the same pamphlets that are part of
11 MH-10 are actually embodied in this same exhibit, and --
12 but there is a bit more detail in MH/NCN-1032.

13 This document, and it is particularly the
14 speaking notes that are attached at the end and which
15 were read when this undertaking was brought to the
16 record, confirmed Manitoba Hydro's real -- Manitoba
17 Hydro's realization that quantification responsibilities
18 regarding adverse environmental effects have evolved
19 considerably over the last three (3) decades.

20 And just using a couple of the passages at
21 page 15 of MH/NCN-1032:

22 "The early activities of the
23 Corporation occurred in an era when
24 there was very little understanding or
25 appreciation for the effects of

1 development either on people or on the
2 environment, and when there was a
3 marked absence of any form of
4 environmental regulation or
5 legislation.
6 Developments along the Winnipeg River
7 and at the Grand Rapids, Kelsey and
8 Kettle sites, were subject to little
9 societal interest despite the
10 significant amount of flooding
11 associated with these projects.
12 Manitoba Hydro and the Manitoba
13 Government engaged aboriginal
14 communities in discussions regarding
15 mitigation, compensation and
16 relocation, but there was no general
17 recognition of a need for continuing
18 relationships with aboriginal
19 communities."

20 Now it's the last phrase about the need
21 for continuing relationships with aboriginal communities
22 that we're interested in in this context because MKO
23 believes that the process of full cost accounting is a
24 portion -- a part of this relationship and that it
25 continues to evolve.

1 And perhaps the Sustainable Development
2 Act, as was discussed by RCM/TREE and their witness, Mr.
3 Lazar, can provide the foundation for the full cost
4 accounting of the incremental costs associated with the
5 modified operation of the Hydro system to maximize export
6 revenues.

7 Now, I talked with Mr. Warden, of course,
8 a bit about the quantification and identification of
9 these incremental costs and was pointed to, of course, a
10 note in the financial statements regarding future
11 liability.

12 The distinction that we make between these
13 two (2) amounts, however, is that the settlement
14 agreements described in MH/NCN-1032 and elsewhere in this
15 proceeding as well as the note to the financial statement
16 refer to settlement of claims related to Hydro
17 development, in essence, full and final settlement of
18 claims as many of these documents are worded. The
19 Northern Flood Agreement is an exception to its language.

20 But what we're talking about are these
21 continuing and evolved relationships with aboriginal
22 communities, some of which are described in ongoing
23 programs that are in Exhibit MH/NCN-1032 which are not
24 necessarily fully captured within the scope of the
25 settlement agreements but are part of the Corporation's

1 commitment to its relationships between itself and its
2 customers, particularly the aboriginal customers, First
3 Nation customers affected by its operations.

4 So there are mitigation expenditures that
5 fall into categories in respect of settlement and those
6 that are ongoing and we're keenly interested in
7 determining, at some time, the distinction between these.

8 These incremental costs associated with
9 the change in operations must be identified, quantified
10 and, we believe, reflected in the costs. As noted by Mr.
11 Lazar, there are experts who can quantify these costs and
12 that was noted at transcript 1649 line 20, and at 1650 at
13 line 12.

14 A Hydro affected customer class or sub-
15 class of those residential and general service customers
16 who are most directly affected by -- by Manitoba Hydro's
17 modified operations should be created in the cost of
18 service study when it's possible to quantify and identify
19 these costs.

20 When the cost of service study is applied
21 for the purpose of designing rates the Hydro affected
22 customer class or sub-class should be excluded from any
23 allocation of these incremental environmental costs real
24 or notional with these costs being shared by an allocated
25 to all other customer classes.

1 When the cost is applied for allocating
2 net export revenue however, a direct allocation of the
3 incremental environmental costs, real or notional, should
4 be made to the Hydro affected customers for the purpose
5 of attracting net export revenue.

6 Now, we don't have a mechanism nor do we
7 have evidence before you on this matter. But it's a
8 matter to proceed with and to develop information and
9 evidence on. Mr. Lazar states at page 2 of his evidence
10 that:

11 "I present alternatives built upon this
12 recommended method that incorporate
13 marginal environmental costs associated
14 with energy consumption during the
15 various rate periods used in the
16 recommended method."

17 Well, as CAC/MSOS pointed out earlier,
18 while Mr. Lazar had limited his recommendations of
19 marginal environmental costs associated with "energy
20 consumption" in quotes, to notional costs associated only
21 with carbon dioxide in this proceeding, and that's at
22 transcript 1641, line 25 and, of course, again at 1642 at
23 line 2.

24 He also stated that other notional
25 environmental costs in my discussion with him, as well as

1 others, at transcript 1645 and line 22 and 1646, line 3,
2 can be quantified and it would be appropriate to include
3 them in the PCOSS, at transcript 1650, line 16.

4 So in essence, while we don't have it
5 completely before us here, we believe that this is the
6 leading edge of investigation as the Corporation
7 continues to evolve with a sharpened focus on maximizing
8 its export revenues and something to pursue at we proceed
9 in further proceedings.

10 The last area that I had that I wanted to
11 discuss was the system development and distribution
12 costs; that is the use of distribution costs within the
13 recommended method as a -- as a means of allocating net
14 export revenues.

15 We note that the evidence prepared by
16 MIPUG raises concerns with the inclusion of distribution
17 assets in PCOSS on the basis that they have no cost base
18 linkage to returns for export sales, and that's at MIPUG-
19 1, page 2, line 5. The MIPUG witnesses also suggest that
20 excess export revenues be applied in a manner to keep
21 existing rates stable.

22 One (1) of the things that we believe is
23 important in running through this analysis, of course, is
24 that the Limestone generating station, as it was
25 discussed in this proceeding, was the last plant added to

1 the Manitoba Hydro system.

2 I've provided for -- just information an
3 extract from the National Energy Board's decision in EH
4 6/84, February 1985, which was with respect to a licence
5 to export the advanced energy from the Limestone sale.

6 You'll recall that Mr. Peters and Mr.
7 Warden discussed the advancement of Limestone as being
8 one (1) year in advance of its requirements domestically.
9 And that's at transcript 222 and 223, where Mr. Warden
10 confirmed that Limestone is required for domestic
11 purposes and advanced one (1) year to produce an export
12 sale.

13 The point of this only at page 9 of the
14 NEB extract, is that when Manitoba Hydro submitted its
15 application to the National Energy Board it described the
16 load increase that was necessary to be met with the
17 Limestone project as applying to load across the system,
18 to residential, general service, agricultural and
19 industrial loads.

20 So the Limestone project was intended by
21 Manitoba Hydro to serve all of the loads of the province,
22 all customers classes in the PCOSS. The information in
23 the Footnote number 2 and the paragraph description under
24 Item 5.2 Load Forecast clearly discuss it.

25 So the -- the rationale for Limestone

1 wasn't to meet a particular industrial load or an
2 expansion that was not going to materialize, it was for
3 all of the needs of the Province.

4 And of course this is noted by Manitoba
5 Hydro itself in PUB/MH1-17, the information response,
6 Item B, and the answer is:

7 "Their rationale, as outlined in PCOSS-
8 06, is that Manitoba Hydro's system was
9 not built with the explicit purpose of
10 serving extra-provincial customers and
11 is built first and foremost to provide
12 reliable power to domestic customers
13 with any excess available to serve
14 export markets."

15 And I only briefly touch on the
16 interesting historical piece from the IEEE Canadian
17 Review for last winter, from former Chairman of Manitoba
18 Hydro, Mr. Leonard Bateman, in which he comments that the
19 development of the system, both for Grand Rapids and the
20 early Nelson River plants were also to meet provincial
21 loads.

22 In fact, it's interesting that he notes
23 that the first tie line was built to the United States,
24 not to make an export sale but to make an energy purchase
25 because of the burgeoning load in Manitoba as the Kettle

1 River plants were under construction.

2 So I only leave this as a piece of
3 information that, again, a former Chair who is in the
4 Chair during a time of great expansion said that the
5 plants were being constructed for domestic need and for
6 domestic purposes. And I invite you to read it at your
7 leisure, it's an interesting historical document.

8 Clearly, the system is built to serve all
9 customers and hence it follows that all customers and all
10 costs should be included in the determination of the
11 allocation of net export revenues. Lazar refers to this
12 at transcript 1659, lines 4 to 7, and of course again in
13 his pre-filed testimony, at page 5, lines 34 to 37.

14 In an exchange with Mr. Williams, MIPUG
15 suggested distribution costs should be excluded, and this
16 is at transcript 1965 on May 26th. Mr. Williams:

17 "As I understand your evidence, and
18 just to summarize that point, you're
19 suggesting that all export revenues in
20 the cost of service study should be
21 allocated back to generation and
22 transmission; correct?"

23 And Mr. Bowman replied:

24 "Ultimately, either via an export class
25 or via credit of the form done in the

1 current method, yes, that's correct."

2 What these witnesses are suggesting is
3 that the favourable treatment that has been enjoyed
4 should be continued to help keep industrial customer
5 rates at a level, because clearly one of the things that
6 affects the current allocation of costs, and potentially
7 the rates for industrial class, is the addition of the
8 distribution costs as an allocator for net export revenue
9 purposes.

10 The witnesses state that, of course, the
11 Hydro's proposed PCOSS would not allow for the
12 development of suitable modern rate designs, and that was
13 at MIPUG-1 page 2, lines 14 to 18. But as Mr. -- as the
14 Vice Chair and others have pointed out, that's for a rate
15 design hearing to pursue.

16 We believe that the rates that would
17 emerge from the recommended method would, in fact, be
18 reasonab -- just and reasonable, fair and stable. And
19 for this regard for -- in terms of the historical basis
20 on which capacity has been added to the Manitoba Hydro
21 system, based on Manitoba Hydro's own comments,
22 primarily, of course, on the record in PUB/MH1-17, and
23 the historical record, which is evident, that the notion
24 of rejecting distribution costs as a means of allocating
25 net export revenue, we believe, should be rejected by the

1 Board and that the recommended method should be adopted.

2 So in summary, MKO recommends that diesel
3 class annual revenue requirements should be included as a
4 direct assigned cost in the PCOSS under any of the four
5 (4) methods. So we realize that technically that would
6 no longer be, strictly speaking, the current method if
7 that was done.

8 But, in essence, if the Board chose to
9 continue the current method, it would be with this
10 variation in respect of diesel costs, because it's
11 essential that that -- that be adopted and approved by
12 the Board in order to provide for the tentative
13 settlement.

14 We also recommend that the diesel cost
15 annual revenue requirement, for the purpose of setting
16 rates, be based on post-settlement costs; that is, with
17 the capital costs effected by the pre-payment of those
18 costs, but for the purposes of allocating net export
19 revenue, that the full cost remain.

20 It's simply an option as part of the
21 tentative settlement to pay them in advance, so the
22 customer should still continue to receive the credit for
23 those amounts in terms of net export revenue allocation.

24 That the Public Utilities Board should
25 approve the recommended method as proposed by Manitoba

1 Hydro for PCOSS-06 for the treatment of grid customers.
2 In so doing, the PUB will approve the allocation of net
3 export revenues to the diesel class as contemplated in
4 Order 159/04. So by adopting the recommended method we
5 still get back to where we need to be in terms of diesel
6 customers in the tentative settlement.

7 The PUB should direct Manitoba Hydro to
8 identify and quantify incremental costs associated with
9 the changes in operation to maximize export revenues.
10 Based on the principle that I had mentioned briefly, or
11 quoted from Article 18.2, the original Northern Flood
12 Agreement, and certainly the principles adopted and
13 espoused by the company, these changes should be tracked
14 and studied, and, if necessary, incorporated into the
15 cost of service study once they're identified. But we
16 need to know what they are first before we can determine
17 what to do with them.

18 The Public Utilities Board should direct
19 Manitoba Hydro to review and report on the concept of
20 creating a hydro effected customer class or sub-class, to
21 which customer class or sub-class, a direct allocation
22 would be made of the incremental environmental costs,
23 real or notional, in order to attract an allocation of
24 net export revenues to provide additional recognition for
25 the incremental costs and compensation for them.

1 In essence, going back to Manitoba Hydro's
2 comments on the original rationale for the system and,
3 again, back to Article 18-2 of the Northern Flood
4 Agreement, the original basis for the development of the
5 system has fundamentally changed from providing for the
6 needs of the province, purely. Mr. Warden, of course, in
7 his discussion with Mr. Peters, had indicated that
8 Section 2 of the Hydro Act had been modified to more
9 clearly provide Manitoba Hydro with the direct authority
10 to bill for export.

11 This was clearly not the case at the time
12 the projects, that we're now enjoying, the export and
13 generation of, were built.

14 And finally, the Public Utilities Board
15 should direct Hydro to exclude Hydro effected customers
16 from paying for mitigation costs through their own bills,
17 through Hydro's tariff, potentially through a mechanism,
18 the most simply, as we'd indicated, which would be a
19 refund rider which we calculated approximately 4 percent.

20 We don't have -- we would have tried to
21 take a more deliberate calculation of what we thought
22 that would do in rate impacts, but we don't have the
23 billing determinants, number of customers and sort of
24 things we would need to do that. That's for a rate
25 design hearing.

1 I had a final matter, if I might have an
2 additional minute? All right. You said five (5) minutes
3 to 5:00 and I'm just about --

4 THE CHAIRPERSON: You're doing very well,
5 Mr. Anderson.

6 MR. MICHAEL ANDERSON: Thank you very
7 much, Mr. Chair. I had timed it out and tried to give my
8 estimate to Mr. Peters accurately.

9 I wanted to, as I said in my opening
10 comments, to thank all of the parties, the Board and
11 Manitoba Hydro for engaging in electronic filing. As you
12 can see, I'm travelling somewhat lighter. It also
13 permits us to be, you know, searching the records and
14 frankly saves us the time from creating PDF files out of
15 large volumes in binders, although they do come in handy
16 at times.

17 But I want to acknowledge the effort
18 that's gone into it and the exploration of doing
19 something different. And just to say, for one (1)
20 participant in the proceedings, I appreciate it very
21 much.

22 With that -- in that sort of vein, though,
23 I wanted to comment on the reply to MKO/MH2-4, in which
24 we had requested spreadsheets for many of the tables that
25 appear in the proceeding, particularly the cost of

1 service studies, crucial tables like B-4 and others.

2 In declining to respond to our request to
3 provide an active Excel or other spreadsheet, Manitoba
4 Hydro claimed it would be time consuming, proprietary,
5 and that commercial value may effected.

6 Well, we would say, firstly, time
7 consuming for whom? It's our understanding that the
8 Corporation prepares these spreadsheets -- these exhibits
9 based on their own use of spreadsheets internally.

10 And so then the time consuming aspect of
11 it is imposed on the participants to basically
12 deconstruct and regenerate tables by analysing them. And
13 we may not entirely get it correctly, although the
14 numbers are self-evident in terms of the calculation in
15 most cases.

16 The comment that the Manitoba Hydro models
17 are proprietary, is a matter of interest. And I realize
18 that perhaps these should have been matters for cross-
19 examination, and I did, in fact, have them to go, but I
20 wanted to raise it as an issue to ask the Board its
21 interest in its order as to what would be so unique about
22 these models that other utilities aren't using them. So
23 we're interested in what that would be.

24 And in terms of the commercial value that
25 these spreadsheets may have, value to whom? Are they

1 being, for example, sold to others and so forth.

2 So as we progress to electronic filing,
3 MKO recommends that that include the tools that we need
4 for running simulations, sensitivity analyses and so
5 forth, by having the principal schedules and so forth
6 that are in the filings provided to the applicants in
7 electronic format, so that when there's a question
8 raised, or a query that may be raised either by the
9 participants, by the Board or by the Intervenors, we can
10 run the math and be fairly accurate.

11 And then by building a database through
12 successive proceedings, we all become better informed
13 about the operations, and certainly become more intimate
14 in terms of the specific considerations that Manitoba
15 Hydro's witnesses take such great care to explain to us
16 so that we get everything right.

17 And with that I would also like to thank
18 the Board, Board Counsel, Manitoba Hydro and all
19 participants for their engagement in this very important
20 and interesting proceeding, for the level of detail and
21 thoughtfulness that they've all shared in this, and of
22 course, not least and last, for the patience of all in
23 accommodating the participation of the Manitoba
24 Keewatinook Ininev Okimovin in this proceeding.

25 And with that, Agu Sonni (phonetic).

1 Thank you very much.

2 THE CHAIRPERSON: Thank you, Mr.
3 Anderson, for an interesting closing statement.

4

5 (BRIEF PAUSE)

6

7 THE CHAIRPERSON: Well, that concludes
8 the Intervenors' closing statements and we'll look
9 forward to Ms. Ramage and Manitoba Hydro on Friday
10 morning at nine o'clock. Thank you everyone.

11

12 --- Upon adjourning at 5:02 p.m.

13

14

15 Certified Correct,

16

17

18

19

20 _____
Ryan Pickering

21

22

23

24

25