



“When You Talk - We Listen!”



MANITOBA PUBLIC UTILITIES BOARD

Re: MANITOBA HYDRO
GENERAL RATE APPLICATION
2015/16 AND 2016/17

Before Board Panel:

- Regis Gosselin - Board Chairperson
- Marilyn Kapitany - Board Member
- Richard Bel - Board Member
- Hugh Grant - Board Member

HELD AT:

Public Utilities Board
400, 330 Portage Avenue
Winnipeg, Manitoba

May 25, 2015

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1 Now, that concludes my comments, so, Mr.
2 Chair, with your permission, I would now like to have
3 Mr. Rainkie sworn.

4

5 MANITOBA HYDRO PANEL 1:

6 DARREN RAINKIE, Sworn

7

8 EXAMINATION-IN-CHIEF BY MS. ODETTE FERNANDES:

9 MS. ODETTE FERNANDES: Now, before Mr.
10 Rainkie goes through his direct presentation, I do have
11 a few questions for him.

12 Mr. Rainkie, are you familiar with the
13 application, the responses to Information Requests, and
14 the evidence filed on behalf of Manitoba Hydro in this
15 proceeding?

16 MR. DARREN RAINKIE: Good morning, Mr.
17 Chairman, members of the Board, ladies and gentlemen.
18 And a special welcome to Mr. Christle and the MMF on
19 their first time in a Manitoba Hydro rate application.

20 My name is Darren Rainkie, and I'm the
21 vice president of finance and regulatory at Manitoba
22 Hydro. Yes, I can confirm that I am familiar with
23 Manitoba Hydro's rate application, responses to Informa
24 -- Information Requests, and evidence filed in the
25 proceeding.

1 MS. ODETTE FERNANDES: And, Mr.
2 Rainkie, was that evidence prepared under your
3 direction and control?

4 MR. DARREN RAINKIE: Yes, it was.

5 MS. ODETTE FERNANDES: Can you confirm
6 that on behalf of the Corporation, you adopt the
7 evidence that has been filed by Manitoba Hydro during
8 the course of this process, and the evidence that will
9 be provided by the panel members throughout this
10 hearing?

11 MR. DARREN RAINKIE: Yes, I can.

12 MS. ODETTE FERNANDES: And finally
13 would you please outline your experience and
14 qualifications for the Board?

15 MR. DARREN RAINKIE: I am a chartered
16 accountant, chartered business evaluator, and also have
17 a bachelor of commerce honours degree from the
18 University of Manitoba. I've been with Manitoba Hydro
19 and Centra Gas for over twenty (20) years. In fact,
20 I'm coming up on my 21st anniversary on June 4th, I
21 think it is, if I remember correctly.

22 Prior to my current position, I held
23 various management and financial positions, including
24 manager of regulatory services, corporate treasurer,
25 and corporate controller. I was appointed to vice

1 president of finance and regulatory in January of 2013.
2 I suppose it was during -- at the very tail end of our
3 last general rate application, Mr. Chairman, and have
4 overall responsibility for the corporate controller
5 group, treasury, rates and regulatory affairs,
6 financial planning, corporate risk management, and
7 subsidiary functions at Manitoba Hydro.

8 In my testimony, I will provide evidence
9 on policy matters as they relate to Manitoba Hydro's
10 2015 general rate application.

11 MS. ODETTE FERNANDES: Thank you, Mr.
12 Rainkie. Mr. Chairman, with your permission, Mr.
13 Rainkie is now prepared to go through his direct
14 presentation.

15 THE CHAIRPERSON: Thank you, Ms.
16 Fernandes. I think you have the record for the
17 thickest set of slides so far. So I won't get in the
18 way with you -- between you and the presentation, so,
19 please.

20 MR. DARREN RAINKIE: It looks like the
21 tech - - technology is working, Mr. Chairman. I pushed
22 the magic button and it came up, so. Yeah, sorry for
23 the length of the slides, but this is an important re-
24 application for us, and hopefully it's worth the
25 weight.



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1 busv preparing gas rate applications at that point, but
2 that's my understanding, sir.

3 MR. BOB PETERS: And then to '04/'05,
4 Manitoba Hvdro applied for a three (3) year rate
5 application and -- I'm sorry, they applied for 3
6 percent for two (2) consecutive years.

7 Have I got that correct, Ms. Carriere?

8 MS. LIZ CARRIERE: Yes.

9 MR. BOB PETERS: And as a result, the
10 Public Utilities Board ended up ordering a 5 percent
11 rate increase as well as two (2) conditional rate
12 increases of 2.25 percent, correct?

13

14 (BRIEF PAUSE)

15

16 MS. LIZ CARRIERE: Correct.

17 MR. BOB PETERS: And the 2004/'05 rate
18 application by Manitoba Hvdro was brought on as a
19 result of Manitoba Hvdro having poor water flows and
20 suffering a net loss of about \$426 million?

21 MS. LIZ CARRIERE: That's correct.

22 MR. BOB PETERS: And so in the IFF14
23 and the materials you've presented to the panel up to
24 now, if another drought occurs, is Manitoba Hvdro
25 indicating it will not need to come to the Public

1 Utilities Board for any rate increases above two (2)
2 point -- above 3.95 percent?

3 MS. LIZ CARRIERE: No, I think our --
4 our sensitivity analysis shows that the rate increase
5 could be as much as 2.2 percent higher than the 3.95,
6 but it will depend on the circumstances of the day.

7 MR. BOB PETERS: What would the
8 circumstances of the day include, just for the Board's
9 understanding?

10 MS. LIZ CARRIERE: Well, it would
11 depend on the severity of the drought, the magnitude --
12 or the duration of the drought, what happens in the --
13 in the years following. As we saw on '03/'04, we had
14 very favourable water flows after that period and it --
15 it wasn't necessary to come back for additional rate
16 increases. Had that drought extended for more than two
17 (2) years, it would have been very likely that we would
18 have had to ask for higher rate increases at that point
19 in time, so it really depends on the water flow
20 conditions.

21 MR. BOB PETERS: And I take from your
22 answer then that there's no promises being made by
23 Manitoba Hydro that 3.95 is going to be the maximum
24 rate increase sought going forward?

25 MS. LIZ CARRIERE: No, I think we've

1 said it's the minimum.

2 MR. BOB PETERS: And when you say it's
3 the minimum, it's the minimum that Manitoba Hydro feels
4 it can -- it can work with in terms of keeping its
5 financial targets in relative check?

6 MS. LIZ CARRIERE: It's the minimum
7 we're -- we're willing to accept and -- and the -- the
8 most risk that we're willing to put customers at in
9 terms of, you know, future rate increases.

10 MR. BOB PETERS: Would it be -- it's
11 not meant to be trite, but Manitoba Hydro would not
12 have surveyed any of its customers -- any of its five
13 thousand (5,000) -- I'm sorry, any of its five hundred
14 and fifty-six thousand (556,000) customers to find out
15 what rate increase tolerance they would have, did they?

16 MS. LIZ CARRIERE: No, I don't believe
17 we have.

18 MR. BOB PETERS: And it would -- does
19 it go without saying, Ms. Carriere, that Manitoba
20 Hydro's expectation is that every one of your customers
21 would probably prefer there not to be a rate increase?

22 MS. LIZ CARRIERE: That's probably a
23 fair statement, yes.

24 MR. BOB PETERS: And when you say that
25 Manitoba Hydro is seeking three-point-nine-five (3.95)

1 based on Manitoba Hvdro's risk appetite of what it's
2 prepared to accept, Manitoba Hvdro doesn't have any
3 data on what its customers' risk appetite is?

4 MR. DARREN RAINKIE: Mr. Peters, we
5 don't have a survey of six hundred thousand (600,000)
6 customers, but I think we over the years have seen the
7 reaction to the actual requested rate increases that
8 you see here in the representatives of various
9 Intervenor groups. So I wouldn't say we had no
10 information, but -- and we have as we look back on this
11 sched -- very schedule we have been able to contain
12 rate increases within the rate of inflation overall.
13 And in fact some years before this chart we actually
14 had some more zeroes.

15 So I think we actually have -- we -- we
16 understand the history of where we've been. We get
17 feedback every day from our customers in terms of our
18 call centre, et cetera. But not a -- obviously not a -
19 - a survey of six hundred thousand (600,000) customers,
20 but we have our own business sense informed as it is by
21 the factors that I just -- I just mentioned.

22 MR. BOB PETERS: Mr. Rainkie, would --
23 would a large portion of your customer base want the
24 lowest rate increase possible today and then if there's
25 a need for a large rate increase in the future that

1 they'll pay it at that point in time?

2 MR. DARREN RAINKIE: I'm not sure, Mr.
3 Peters. What I do know is that the price of power in
4 the Manitoba Hydro Act is designed that the Board
5 regulates the price of power as de -- designed by
6 legislation in Manitoba as I understand it. I'm not a
7 lawyer, but I can read. To include, you know, our --
8 our operating costs, our financing costs, plus reserves
9 for the purposes of rate stability.

10 Rate stability and predictability is a
11 common theme that runs amongst most regulatory
12 proceedings I think in North America, if not the world.
13 So while we don't have, you know, a voting -- voting
14 button for six hundred thousand (600,000) customers
15 individually I think we have some regulatory principles
16 and some established legislation of the fine Province
17 of Manitoba that provides us guidance on these matters.

18 MR. BOB PETERS: I may not word this
19 eloquently, Mr. Rainkie, but please try to understand
20 my question that in this rate application would you
21 agree that -- that this rate application is a -- is
22 somewhat landmark in the sense that Manitoba Hydro's
23 focus isn't so much now on the test years and in
24 developing a revenue requirement for the test years,
25 although you've done that, but more you're alerting to

1 the Board that down the road there are some in-service
2 costs coming that can't be avoided. And that's the
3 primary focus of your rate application.

4 MR. DARREN RAINKIE: Well, certainly
5 while that's the focus of our rate application and we -
6 - but -- in today's circumstances I think Manitoba
7 Hydro has always had a view of gradualism in terms of
8 rate changes. You would -- you know, you would not
9 have seen a company probably as we go over the requests
10 of the past ask for these types of rate increases.
11 They probably would have -- another company might have
12 asked for higher rate increases immediately after the
13 drought, et cetera, which we asked for 3 percent. It
14 wasn't a 10 percent rate increase.

15 So I -- I -- while perhaps the magnitude
16 of -- of the investments that we have on a go-forward
17 basis is -- is significant I think Manitoba Hydro has
18 always in the modern era anyway, since the Public
19 Utilities Board has regulated Manitoba Hydro's rates,
20 had as one (1) of its core principles rate stability
21 and gradualism in its rates.

22 So I -- I wouldn't say this was
23 something new and Manitoba Hydro's been only focussed
24 on the test years. In fact for as long as I can
25 remember and as long as I've been part of the Company

1 we have provided ten (10) year financial forecasts to
2 sav, Okay, let's look at the rate increases that are in
3 front of us in the next couple of years in the context
4 of, you know, the next five (5) or ten (10) years. I
5 think it's a -- it's an intelligent way of going -- and
6 a responsible way of going through.

7 And I think the -- as I read the Public
8 Utilities Board orders over the -- over the years I
9 think the -- the Board has been with us as well. So I
10 -- I wouldn't say this was a new phenomena. Hopefully
11 -- that's something of a rambling response, Mr. Peters,
12 but...

13 MR. BOB PETERS: No, I appreciate the
14 answer, Mr. Rainkie. But the gradualism you refer to
15 is the gradualism to get you to a point that Bipole III
16 and Keevask will be in service. That's the gradualism
17 that you're -- you're now targeting.

18 MR. DARREN RAINKIE: Well, that and --
19 and the need to refurbish our system and make
20 investments on DSM, sir. I can't forget those -- those
21 parts of the equation either. But -- but, yes. I
22 mean, we -- we are looking forward in the next ten (10)
23 years. I don't think there's any secret in the
24 application. I think it was quite -- we've been quite
25 open with our customers and the Public Utilities Board

1 on what our views are.

2 We're not constraining ourselves to a
3 one (1) or two (2) year view of it and then five (5)
4 years from now saying, Well, geeesh, why didn't we act
5 sooner? That -- that's not what we're -- other parties
6 may have that position and that's fine. That's why we
7 have these types of hearings, but I think it's very
8 clear Manitoba Hydro is looking forward and we have a
9 position of what we feel the -- the best balancing of
10 the factors are. And other parties are entitled to
11 their position as well.

12 MR. BOB PETERS: Well, Mr. Rainkie, if
13 your president had walked into your office and said,
14 file a general rate application where there's either no
15 rate increase, or it's 2 percent or less, you and your
16 team would have combed through the materials and you
17 could have maybe looked at just the test years to -- to
18 try to do that, but then you'd be doing a disservice,
19 you've told the Board, down the road to when the --
20 when the capital costs are going to come in service?

21 MR. DARREN RAINKIE: Well, we'd be
22 doing a disservice to that. We'd be doing a
23 disservice, as I said, to the very statute that creates
24 us in terms of looking at rate stability. I think we'd
25 be doing a disservice to the precedent in this

1 jurisdiction and so, Mr. Peters, yeah, it's -- it's --
2 I don't think this is something new. I think this is
3 the way we've always -- always looked at things.

4 MR. BOB PETERS: On page 12, Ms.
5 Carriere, Mr. Rainkie had mentioned rates of inflation
6 and increases relative to inflation. And the Board
7 will see -- and it'll depend on where -- where one
8 picks up the -- the calculation. This is shown back
9 from the turn of the century here, but if one starts
10 and goes back a decade, the rate increases have been
11 larger than the Manitoba rate of inflation. That's
12 just a mathematical correct statement, is it?

13 MS. LIZ CARRIERE: That's correct in
14 that ten (10) year period, but as Mr. Rainkie said, the
15 immed -- the period immediately before that were a
16 series of zeros, more than shown just here.

17 MR. BOB PETERS: And the Board
18 understands that, and that was made for reasons
19 determined before Manitoba Hydro embarked on a capital
20 construction program as ambitious as it now has?

21 MS. LIZ CARRIERE: That's correct,
22 yeah.

23 MR. BOB PETERS: And on page 15 of the
24 materials, when the Board looks at what has -- what the
25 rates have been that have been awarded by the Board,

1 the Board can see that -- if we...

2

3 (BRIEF PAUSE)

4

5 MR. BOB PETERS: If we go down to the
6 2014 approved rate increases and follow them across the
7 page, we can see that cumulatively out to 2014/'15, the
8 rate increases in past have come up to about \$395
9 million.

10 Are you with me on that, Ms. Carriere?

11 MS. LIZ CARRIERE: Three-hundred and
12 fifteen-thousand (315,000)?

13 MR. BOB PETERS: Sorry, I -- I mean
14 three ninety-five (395). I'm looking at the screen and
15 if you can look one (1) column over to the '15/'16
16 forecast, column --

17 MS. LIZ CARRIERE: Yeah.

18 MR. BOB PETERS: -- it'll be
19 cumulatively to over \$400 million?

20 MS. LIZ CARRIERE: Okay. Yeah.

21 MR. BOB PETERS: And that \$402 million
22 includes the 2.75 percent interim rate award of this
23 Board, correct?

24 MS. LIZ CARRIERE: Correct.

25 MR. BOB PETERS: And just below that

1 the \$57.3 million represents the rate increase for
2 April 1 of 2015 that the Company applied for and that's
3 the annualized additional revenues?

4 MS. LIZ CARRIERE: Yes.

5 MR. BOB PETERS: While we're looking at
6 page 15, at the bottom, the Board will note -- and
7 maybe we'll have to, heaven forbid, shrink the scale,
8 or maybe move over to the left margin. We can see that
9 -- that the extraprovincial revenues, and there's a --
10 a net extraprovincial number and -- and -- well, thank
11 you.

12 Just while we're on that, we often talk
13 extraprovincial revenues and then we say net
14 extraprovincial revenues. And I think you had a
15 different word for it in one (1) of your slides today,
16 but when you get your extraprovincial revenues that's a
17 gross number. And then Manitoba Hydro subtracts the
18 water rentals as well as the fuel and power purchases
19 to get to a net extraprovincial revenue number?

20 MS. LIZ CARRIERE: Yes. That's the net
21 extraprovincial number that the accountants use.

22 MR. BOB PETERS: And that's just
23 generally to reflect that, when one exports, there's a
24 water rental charge or assessment against that -- the
25 water that was used to generate, and that the fuel and



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1 years, sir. That was a ten (10) calculation. We
2 haven't ran this calculation out twenty (20) years, so
3 I'd have to -- to think whether we can simply double it
4 or not.

5 MR. IAN PAGE: Mr. Hacault, the -- the
6 numbers on the screen are -- are quite different than
7 100 million a year. They're -- you know, I would -- I
8 would interpret that as 40 million a year for ten (10)
9 years, and then 160 million a year after that, and
10 that's going to give you quite a different effect.
11 That 40 million a year would be similar to what's his
12 number that -- that Ms. Carriere had given you.

13 And -- and like, to -- I think just
14 about everything I've said -- I've said in this -- in
15 this hearing, is that you have to look at both sides of
16 this. Again, if -- if you defer capital expenditures,
17 what's the implication for that? And so that all --
18 has to also be recognized. So we -- we -- again, like
19 just about everything on -- in our application, you
20 can't look at it in isolation. You have to look at
21 what -- what the implications are of every decision
22 that we make, and that's one (1) of the -- the
23 challenges of managing -- managing a utility is always
24 having to look at -- at all of the implications and
25 looking at both sides.

1 MR. ANTOINE HACAULT: Thank you, and I
2 think the Corporation has said that they're going to do
3 more analysis and try to better understand that, and
4 try to better understand how they can prioritize and
5 pace.

6 Isn't that correct?

7 MR. IAN PAGE: I -- I wasn't here at
8 the time a statement was that -- like that was made. I
9 wasn't here.

10 MR. ANTOINE HACAULT: But isn't that
11 correct, Mr. Rainkie or Ms. Bauerlein?

12 MR. DARREN RAINKIE: Well, one (1) of
13 our key principles in Manitoba Hydro is continuous
14 improvements, so, yes, we will -- will -- we always
15 strive -- every person on every one of our panels will
16 strive to do a better job with the information that we
17 have.

18 I might also add, sir, that -- in terms
19 of providing the fuller perspective, there is quite a
20 deterioration in net income between the IFF14 and IFF13
21 forecast, and Manitoba Hydro is going to do its best to
22 maintain the 3.95 percent.

23 So you can always do one-off
24 calculations, and -- on any particular sensitivity, but
25 once again, if -- if -- the notion as well, you could

1 have lower rate increases if you just take one (1)
2 variable and calculate it, that's looking at things in
3 isolation of the -- all the moving parts, as Mr. Page
4 just indicated.

5 MR. ANTOINE HACAULT: And, sir, that's
6 exactly the point. When you heard the member Canexus
7 presenting, he said he wouldn't have the discretion of
8 passing it on to his customers, and getting approved
9 increases of 3.95 percent. He would have to cut costs,
10 and have to defer spending.

11 Has Hydro, and I've asked you this in
12 the opening statement and you weren't sure, actually
13 run a model, say, for example, at 3 percent as to what
14 it would have to cut -- cut -- how it would have to
15 pace and prioritize to do that so that customers don't
16 get hit with 4 percent, and then have to make decisions
17 as to whether or not it's going to be a plant in
18 another country that's going to be doing chlorates?

19

20 (BRIEF PAUSE)

21

22 MR. DARREN RAINKIE: Sir, we have -- we
23 have an undertaking to provide that, and it's going to
24 be quite sensitive. The level of capital is going to
25 be quite sensitive, but no disrespect to your clients,