



“When You Talk - We Listen!”



MANITOBA PUBLIC UTILITIES BOARD

Re: MANITOBA HYDRO
2017/18 and 2018/19
GENERAL RATE APPLICATION
PUBLIC HEARING

Before Board Panel:

Robert Gabor	- Board Chairperson
Marilyn Kapitany	- Vice-Chairperson
Larry Ring, QC	- Board Member
Shawn McCutcheon	- Board Member
Sharon McKay	- Board Member
Hugh Grant	- Board Member

HELD AT:

Public Utilities Board
400, 330 Portage Avenue
Winnipeg, Manitoba
December 5, 2017
Pages 310 to 618

APPEARANCES

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6 Odette Fernandes (np))
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8 Byron Williams) Consumers Coalition
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19 Corey Shefman) Manitoba Chiefs
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21 Kevin Williams) Business Council
22 Douglas Finkbeiner) of Manitoba
23
24 Daryl Ferguson) City of Winnipeg
25

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1 --- Upon commencing at 9:03 a.m.

2

3 THE CHAIRPERSON: Good morning,
4 everyone. We will start with -- Ms. Steinfeld, if
5 you want to take us through what today is going to
6 look like.

7 MS. DAYNA STEINFELD: Thank you, Mr.
8 Chair. Just briefly on the line of procedures which
9 again has been distributed electronically, and there
10 are hard copies in the room, we will be continuing
11 today with cross-examination of the Manitoba Hydro
12 executive overview witness panel, commencing with
13 Board counsel and then followed by the Intervenors.

14 The times allotted on the outline of
15 procedures are in accordance with requests from
16 counsel and so, please, take a look at that schedule
17 and -- and note the time allotted to you. I expect
18 that some of your time will also be used by the Board
19 who will have questions of their own.

20 And at the end of the day, if required,
21 Manitoba Hydro can request the opportunity for re-
22 examination. So the day will carry through until
23 5:30, as scheduled. Thank you, Mr. Chair.

24 THE CHAIRPERSON: Thank you. Mr.
25 Peters...?

1 CONTINUED MANITOBA HYDRO PANEL 1 re Executive Overview

2 KELVIN ANGUS SHEPHERD, Resumed

3 JAMES ANDREW MCCALLUM, Resumed

4

5 CONTINUED CROSS-EXAMINATION BY MR. BOB PETERS:

6 MR. BOB PETERS: Thank you. Good
7 morning. Good morning, ladies and gentlemen.

8 Mr. Shepherd, we'll try to speak more
9 loudly. In addition to the cost pressures that we
10 discussed yesterday from the additional in-service
11 costs related to Keeyask and Bipole III, there's been
12 a change in Manitoba Hydro's corporate view on the
13 pace that Manitoba Hydro should get to a certain
14 equity target; is that correct?

15 MR. KELVIN SHEPHERD: That's correct.

16 MR. BOB PETERS: And, Mr. Shepherd,
17 you told us yesterday that we're closing in on your
18 second anniversary as CEO because you joined in
19 approximately December of 2015 with Manitoba Hydro?

20 MR. KELVIN SHEPHERD: Yes.

21 MR. BOB PETERS: And you were aware of
22 the financial circumstances of the Utility in 2015 or
23 did you walk in and have to educate yourself once you
24 got to your desk?

25 MR. KELVIN SHEPHERD: Certainly I was

1 aware of the public details of it, but I guess with
2 any -- I think with anybody joining a new corporation,
3 a new situation, I spent some considerable time after
4 joining Manitoba Hydro getting briefed and learning
5 more about the details, yes.

6 MR. BOB PETERS: You were aware that
7 the Corporation had gone through a needs-for-and-
8 alternatives-to review on some of their major capital
9 plans?

10 MR. KELVIN SHEPHERD: Yes.

11 MR. BOB PETERS: Did you have an
12 opportunity to read the Public Utilities Board report?

13 MR. KELVIN SHEPHERD: I read the
14 report. I believe the -- not all the material for
15 certain but, certainly, the -- the final report.

16 MR. BOB PETERS: Did anything jump out
17 in there as being wrong based on your understanding of
18 the Corporation at the time?

19 MR. KELVIN SHEPHERD: Perhaps I'd ask
20 you to clarify what you might mean by "wrong."

21 MR. BOB PETERS: Were there any -- was
22 there any information contained in the Board's report
23 that you felt was incorrect?

24 MR. KELVIN SHEPHERD: No. In reading
25 the report I think there was a, you know, very full

1 process with a significant amount of information put
2 on the record. I believe it was a complex decision
3 and the -- the Board report -- the Board's final
4 report and recommendations were understandable, and I
5 think outlined their rationale and -- as to the
6 recommendations.

7 MR. BOB PETERS: Were you aware of the
8 position and evidence of Manitoba Hydro going into
9 that review?

10 MR. KELVIN SHEPHERD: Yes, I -- I read
11 that in the -- in the report.

12 MR. BOB PETERS: You wouldn't have
13 been aware of it in advance, though?

14 MR. KELVIN SHEPHERD: No.

15 MR. BOB PETERS: And on page 205 of
16 Board counsel's book of documents. And, Mr. Chair,
17 again, PUB Exhibit 42-1 and I think a little bit in
18 42-2 will be the focus today. So for those who are
19 following, that exhibit is available on the Board's
20 website.

21 The slide that's put up came from
22 Manitoba Hydro and it wasn't an NFAT slide, Mr.
23 Shepherd, it was from the GRA following the NFAT. And
24 the Corporation was talking about balancing the need
25 for investment with stable and predictable rates.

1 You see that?

2 MR. KELVIN SHEPHERD: Yes, I do.

3 MR. BOB PETERS: And the stable and
4 predictable rates on the right-hand side, you're aware
5 that that was a 3.95 percent rate trajectory?

6 MR. KELVIN SHEPHERD: Yes, that was
7 the view at the time.

8 MR. BOB PETERS: And the view at the
9 time, at the NFAT, was also 3.95 percent, correct?

10 MR. KELVIN SHEPHERD: Yes.

11 MR. BOB PETERS: And at the NFAT one
12 of the differences was that Manitoba Hydro's preferred
13 development plan included a Conawapa generating
14 station to be constructed; correct?

15 MR. KELVIN SHEPHERD: Again, I'd want
16 to have to check the details on here, but I am aware
17 that going into the NFAT process Conawapa was part of
18 the preferred development plan.

19 I could stand to be corrected on this,
20 but I think as the process preceded the Corporation
21 altered its plan and decided not to proceed with
22 Conawapa. There were specific recommendations I know
23 coming out of the NFAT with respect to Conawapa but I
24 believe the Corporation may have also altered its view
25 during that hearing process.

1 MR. BOB PETERS: All right. Well, we
2 won't dwell on that in terms of this proceeding, but
3 in the book of documents on page 12, back at tab 2 of
4 Exhibit PUB-42-1, there's some excerpts from the
5 report that you had the opportunity to read.

6 And drawing your attention to the
7 bottom of page 12, it's common ground that the
8 timeframe for the Corporation to return to a debt
9 equity ratio that it was striving for was a twenty
10 (20) year time target; correct?

11 MR. KELVIN SHEPHERD: Yes, that was
12 the plan at the time.

13 MR. BOB PETERS: And again, it was in
14 -- the indicative rate increases were the 3.95?

15 MR. KELVIN SHEPHERD: Yes.

16 MR. BOB PETERS: Are you aware of
17 whether the Corporation's 3.95 percent indicative rate
18 increases included the Corporation's plan to construct
19 Conawapa or are you not aware of whether it included
20 Conawapa?

21 MR. KELVIN SHEPHERD: No, I couldn't
22 say for certain. I know that the 3.95 increase was
23 part of the plan. It was part of the twenty (20) year
24 time period.

25 I stand to be corrected but I don't

1 believe it included the Conawapa development.

2 MR. BOB PETERS: I won't go further
3 with you on that. I'm not saying I agree that you're
4 correct on that but, in any event, for this proceeding
5 you're telling us the history included the 3.95
6 percent trajectory from the NFAT, as well as the first
7 GRA following the NFAT?

8 MR. KELVIN SHEPHERD: Yeah, I think
9 it's a matter record.

10 MR. BOB PETERS: And in the Board's
11 report that is on the bottom of page 12. And then we
12 can scroll over to the top of page 13, the Board
13 supported a relaxation of the 75/25 debt-to-equity
14 target to smooth out the rate increases to consumers;
15 correct?

16 MR. KELVIN SHEPHERD: Just a
17 clarification, by "Board" here you're talking about
18 the Public Utilities Board?

19 MR. BOB PETERS: All right, yes sir.
20 This is their report. And I was referring to this
21 Public Utilities Board report.

22 MR. KELVIN SHEPHERD: Yes, I -- I
23 believe they did.

24 MR. BOB PETERS: And relaxing the
25 target, did -- do you understand that to mean to take

1 longer than necessarily twenty (20) years or eighteen
2 (18) years to get to the target? The Corporation
3 could take longer to get there because that would
4 require lower rate increases?

5 MR. KELVIN SHEPHERD: No, that's not
6 my interpretation of relaxing. I think my
7 understanding of the term "relax" included the -- is
8 really based upon the concept that the equity level
9 could fall to a lower level, could be reduced below
10 the target level of 25 percent to a lower level during
11 the time period.

12 But I believe there was still an
13 objective to return to the 25 percent over a defined
14 period of time.

15 MR. BOB PETERS: Over a longer period
16 of time than that proposed by Manitoba Hydro?

17 MR. KELVIN SHEPHERD: You know, I -- I
18 have to do admit, I don't know what the -- what the
19 Public Utilities Board, you know, the details behind
20 that. I know I would've interpreted "relax" as
21 allowing the equity level to fall for a period of time
22 over the twenty (20) years, but to return to the 25
23 percent target.

24 I know there was discussion about the
25 timeframe and I won't -- I don't remember the details

1 of the actual NFAT report; whether the Utilities Board
2 considered relaxing not just the equity level but the
3 timeframe.

4 But certainly my recollection there was
5 definitely an agreement that the equity level would
6 fall below the 25 percent and -- and could fall to --
7 to a significantly lower level during the twenty (20)
8 year timeframe.

9 MR. BOB PETERS: On page 181 of the
10 Board counsel book of documents, Mr. Shepherd, we see
11 an extract from the balance sheet. And I'm looking
12 down in the bottom right-hand side -- the last column
13 2027. We see in 2027 the projected equity -- sorry,
14 the protected -- the projected retained earnings of
15 the Corporation is approximately \$6.5 billion?

16 MR. KELVIN SHEPHERD: Just looking at
17 -- okay, retained earnings, yes, I see it on the
18 chart.

19 MR. BOB PETERS: All right and if we
20 followed that same role, but go back towards 2017
21 Manitoba Hydro's current actual retained earnings are
22 shown at \$2.7 billion?

23 MR. KELVIN SHEPHERD: Yes.

24 MR. BOB PETERS: Is it correct that
25 Manitoba Hydro's retained earnings have never been

1 higher in Manitoba Hydro's sixty-seven (67) years of
2 existence?

3 MR. KELVIN SHEPHERD: Jamie, do you
4 want to comment? I haven't been here for sixty-seven
5 (67) years, but I believe the 2.7 is probably one (1)
6 of the higher numbers which would make sense given the
7 size of the asset base and other changes that have
8 happened over that time frame.

9 MR. JAMES MCCALLUM: Yes, sub --
10 subject to check, just to make sure there wasn't -- I
11 don't know how it couldn't be given that there has
12 been at least modest net income for the last several
13 years.

14 MR. BOB PETERS: And does that indic -
15 - those answers indicate that those retained earnings
16 have accumulated from the ratepayers revenues over the
17 years?

18 MR. KELVIN SHEPHERD: That's my
19 understanding. I mean, retained earnings for Manitoba
20 Hydro basically come from retained earnings and
21 would've been --

22 MR. BOB PETERS: From net income.

23 MR. KELVIN SHEPHERD: Yeah, it's from
24 net income over many years.

25 MR. BOB PETERS: And would it be

1 correct that those retained earnings are how Manitoba
2 Hydro primarily measures its equity?

3 MR. KELVIN SHEPHERD: Yeah, that's --
4 I guess the main contributor to equity.

5 MR. JAMES MCCALLUM: It's -- it's --
6 it's the bulk of how we calculate equity. You'll see
7 down at the very bottom of the same page in front of
8 us here, page 181, that our total equity taking 2017
9 of \$2856 -- \$2.856 billion is roughly the same as
10 retained earnings, and that, you know, can of carries
11 through across the -- the forecast period.

12 There are a couple of other elements
13 such as the Bipole III reserve account and accumulated
14 in other comprehensive income that go into the equity
15 calculation for our purposes.

16 MR. BOB PETERS: All right, a point
17 that I think was made yesterday, but the Corporation
18 says that this -- these retained earnings aren't
19 sitting in a bank account, but they been reinvested
20 back into the assets of the Utility; correct?

21 MR. JAMES MCCALLUM: The first part of
22 the statement is what we said yesterday; that the
23 retained earnings do not sit in a bank account.

24 MR. BOB PETERS: Okay. What do you do
25 with them?

1 MR. JAMES MCCALLUM: The retained
2 earnings, the net income, insofar as it translates to
3 cash flow which, as we've talked about, is not
4 necessarily in a given year a dollar-for-dollar
5 translation.

6 But the retained earnings -- or sorry,
7 pardon me, the net income and cash flow go to either
8 reduce debt or, in our case when we're in the midst of
9 a significant capital program, they go to reduce the
10 amount of new debt that we -- we -- we borrow.

11 MR. BOB PETERS: Would you consider
12 that putting the money back or reinvesting it back
13 into the Utility?

14 MR. JAMES MCCALLUM: Yes, I would.
15 Although I would add that we've done very little of
16 that over the last several years, owing to the fact of
17 having really quite small levels of net income
18 relative to our investment needs.

19 MR. BOB PETERS: Unless you want me to
20 pull up a slide, I'm not going to, but yesterday we
21 talked about Manitoba Hydro's revised plan. And maybe
22 we should go to page 162. If we could go back to
23 Board counsel book of documents Exhibit 42-1, page
24 162. Thank you.

25 We look at the projected balance sheet

1 and if we go over to the 20/36 column, we -- we see a
2 number here of retained earnings that are five (5)
3 times what they're currently are. It's closer to \$15
4 billion; correct?

5 MR. JAMES MCCALLUM: Yes, that's what
6 this financial forecast shows.

7 MR. BOB PETERS: And should the Board
8 understand from the evidence yesterday, Mr. Shepherd,
9 that the Corporation's plans don't include actually
10 getting to that level?

11 MR. KELVIN SHEPHERD: Yes, I -- as I
12 explained, you know, we've been focused on a ten (10)
13 year plan. For the purposes of these forecasts we're
14 required to provide a twenty (20) year forecast, but
15 it would not be our intention to achieve an equity
16 level of that size over twenty (20) years. We've been
17 focused on the 25 percent equity at roughly the ten
18 (10) year timeframe.

19 MR. BOB PETERS: So -- so what happens
20 in year 11?

21 MR. KELVIN SHEPHERD: In year 11,
22 assuming that you're -- you know, things of unfolded
23 per the forecast, then you have some decisions to make
24 about -- about what you want to do. You -- you know,
25 ten (10) years from now, 2027, I anticipate we would

1 be re-looking at our development plan. We talked
2 yesterday about -- not -- the current forecasts not
3 really requiring power from Keeyask for domestic
4 purposes until the 2033 timeframe. So, you'd be five
5 (5) years from that date.

6 I think there'd be a number of factors
7 you would have to look at. You would have to look at
8 your development plan, and whether you were
9 anticipating at that stage having to invest in
10 additional resources. And you would have to look at
11 all the -- all the factors of -- of your plan at that
12 stage, but one (1) of the options, and I think that's
13 the important point I was trying to make, is that you
14 would have options so, potentially, one (1) option
15 might be to reduce rates, given that you've achieved a
16 certain level of -- of strength on your balance sheet.
17 And if you weren't looking at major investments in the
18 near term, potentially, you could reduce rates.

19 You might determine that a future
20 investment was on the horizon that you wanted to
21 further strengthen the balance sheet in order to
22 prepare for those investments. But those are
23 decisions that would have to be made ten (10) years
24 from now. I don't think they can really be made at --
25 at this point in time.

1 MR. BOB PETERS: Is one (1) of those
2 options to pay a dividend to the province of Manitoba?

3 MR. KELVIN SHEPHERD: You know, the
4 dividend policy is a policy that would be I think
5 determined between government and -- and laid out in -
6 - in government policy.

7 At this point, there is no dividend
8 policy.

9 MR. BOB PETERS: So it's not Manitoba
10 Hydro's intention to create retained earnings that
11 would allow a dividend to be paid to the province of
12 Manitoba?

13 MR. KELVIN SHEPHERD: That's not the
14 plan at this point in time, and it's not been the
15 discussion of -- of, you know, a policy change to my
16 knowledge to do so.

17 MR. BOB PETERS: If we look at -- to
18 Board counsel book of documents tab 2, page 18 of
19 Exhibit 42-1, we see at the bottom of the page -- and
20 I've drawn your attention, Mr. Shepherd, to a letter
21 from provincial government minister and it's addressed
22 to the Manitoba Hydro, not only the Board but also to
23 their former president.

24 Are you familiar with that?

25 MR. KELVIN SHEPHERD: I see the

1 letter, yes.

2 MR. BOB PETERS: And would you agree
3 that in the letter from the Minister, Manitoba Hydro
4 was requested to review its debt/equity ratio with the
5 aim of moderating rates for consumers while still
6 ensuring the fiscal health of the Corporation?

7 MR. KELVIN SHEPHERD: I see the letter
8 from the Minister. I understand the previous
9 government was interested in maintaining rate set as
10 low a level as possible.

11 MR. BOB PETERS: And the level you
12 indicated to the Chair yesterday was to stay below the
13 4 percent increase?

14 MR. KELVIN SHEPHERD: Well, certainly
15 my discussion and the short time I was there with the
16 previous board, my understanding was 3.95 percent was
17 a cap. And there was a very strong focus on -- on
18 that as a limiting factor.

19 There was also -- and I -- I don't know
20 to the extent because I haven't seen the calculations
21 but I think, as you know, there is also legislation on
22 the books that required Manitoba to have the lowest
23 basket of utility costs, and I'm sure that perhaps was
24 another limiting factor in the discussions.

25 MR. BOB PETERS: That legislation that

1 you refer to is still in existence today?

2 MR. KELVIN SHEPHERD: No, I believe it
3 was -- has been repealed.

4 MR. BOB PETERS: In the book of
5 documents at page 47, just below the chart, Manitoba
6 Hydro indicates that it acknowledges the past
7 applications and testimony that talked about a
8 willingness to relax the equity during the current
9 phase of the debt funded capital investments; correct?

10 MR. KELVIN SHEPHERD: Yes.

11 MR. BOB PETERS: And you spoke about
12 that yesterday and when we talk about the past
13 applications and past testimony you also, I think,
14 indicated to the Chair that your glasses now are 20/20
15 hindsight.

16 Is the -- is the Company now saying
17 that what was said in the past and what was applied
18 for in the past was wrong?

19 MR. KELVIN SHEPHERD: "Wrong" is a
20 harsh word, but I would say with the benefit of
21 hindsight, today we would say those applications were
22 inadequate and yes.

23 So if you want to -- if you want to use
24 the word "wrong," I don't believe at the time that
25 previous management believed it was wrong. I believe

1 they were exercising diligence and trying to make the
2 correct decisions at the time.

3 But, I think in light of today's
4 situation, you can look backwards and say, the plan,
5 as was presented, has not turned out the way that they
6 had anticipated. So I'm not, you know, going to cast
7 blame or aspersions. I would simply say that where we
8 are today, the facts we have in front of us today,
9 I'd say previous applications were wrong.

10 MR. BOB PETERS: You also -- Manitoba
11 Hydro says in this extract that's on the screen in the
12 bottom of page 47 and into page 48. Manitoba Hydro
13 provides five (5) reasons why the view has changed
14 significantly. And just to list the five (5) and I'll
15 -- I won't spend time on them, but one (1) of them was
16 the new Manitoba Hydro Electric Board and we had some
17 discussion of that yesterday, Mr. Shepherd?

18 MR. KELVIN SHEPHERD: Yes.

19 MR. BOB PETERS: And then there is
20 increased capital costs for some of your major
21 projects is listed as a second reason?

22 MR. KELVIN SHEPHERD: Yes.

23 MR. BOB PETERS: And then the third
24 and fourth reason deal with the load forecast and the
25 export price forecast being not as robust as

1 previously forecast?

2 MR. KELVIN SHEPHERD: Yes.

3 MR. BOB PETERS: And then the fifth
4 one was that Manitoba Hydro's debt is going to be a
5 large portion of the provincial debt and that's also
6 raised a concern for the Corporation?

7 MR. KELVIN SHEPHERD: Yes.

8 MR. BOB PETERS: Would it be correct
9 that of those five (5) reasons cited perhaps four (4)
10 of them could be managed with the past rate
11 trajectory.

12 And what I'm suggesting is that the one
13 (1) reason that results in this GRA being outside the
14 past rate trajectory would be the tolerance that
15 Manitoba Hydro's board has shown for the risks that
16 has -- that are before the Corporation?

17 MR. KELVIN SHEPHERD: No, I don't
18 think I would agree with that characterization.

19 MR. BOB PETERS: All right, let's --
20 what I'm looking at on page 47 was that the Manitoba
21 Hydro Board's tolerance for risk has changed
22 considerably and the path back to 25 percent equity of
23 no longer than ten (10) years is in the view of Hydro
24 too risky.

25 We discussed yesterday, Mr. Shepherd,

1 that that -- that's the view of the Manitoba Hydro
2 Electric Board of Directors?

3 MR. KELVIN SHEPHERD: Yes.

4 MR. BOB PETERS: And it's as a result
5 of that view that the rate increases have doubled from
6 the 3.95 to the 7.90?

7 MR. KELVIN SHEPHERD: Not solely. I
8 believe that the other factors here are important
9 factors and they would require an adjustment of -- of
10 rate trajectory regardless of the first factor.

11 I do agree the -- the current board's
12 view and evaluation of risk is different and that is a
13 significant factor, but it's not the only factor.

14 MR. BOB PETERS: Is it the largest of
15 the five (5) factors? Are you able to go that far
16 with me?

17 MR. KELVIN SHEPHERD: I would say it's
18 a very significant factor because as you would
19 understand time frame is -- is pretty -- a pretty
20 significant determination when you look at a rate
21 trajectory.

22 In other words, when you're looking at
23 a debt of \$25 billion, and the -- and the types of
24 other factors at play, the amount of time you take to
25 achieve a goal is a significant factor in the rate

1 trajectory.

2 MR. JAMES MCCALLUM: If -- if I may
3 just add. We -- we can't lose sight of a considerable
4 difference in the financial projections, regardless of
5 the -- you know, the -- the chosen horizon here.

6 At the end of the day we're looking at
7 a financial projection that includes now \$3 billion
8 less revenue over the ten (10) year period and we're
9 looking at a -- a financial projection with \$2.6
10 billion more of debt funded capital costs to complete
11 the two (2) major projects.

12 So, these are big differences and the
13 consequence of all of that is we now have a balance
14 sheet headed towards \$25 billion of debt under the
15 3.95 path instead of, you know, I believe just under
16 22 billion. That's \$3 billion.

17 MR. BOB PETERS: Mr. Shepherd, maybe
18 we can turn to page 44-9 of the first volume of the
19 book of documents, and I wasn't sure I would discuss
20 this with you, sir.

21 But, when we -- this is an integrated
22 financial forecast run that the Coalition had asked of
23 Manitoba Hydro. And my understanding of this run and,
24 Mr. McCallum, you may have had your fingerprints on
25 this more, but this run demonstrates that taking into

1 account Manitoba Hydro's reduced load forecast and
2 reduced export price forecast, if the target remained
3 out to -- out twenty (20) years, the equal annual rate
4 increases to achieve the new financial forecast
5 numbers would result in equal annual rate increases of
6 4.14 percent.

7 Is that your understanding, sir?

8 MR. JAMES MCCALLUM: No, in fact, this
9 scenario, just to be clear, reflects a return to 25
10 percent equity by 2034. So, a few years less than the
11 twenty (20) years, you referenced. It was sort of
12 consistent with at least how we took the, you know, a
13 scenario from the last go-around. It targeted that
14 20-34 date, the same date that a scenario with 3.36
15 percent target.

16 MR. BOB PETERS: That's -- that's
17 fair. So if we go to the next page, if we could, what
18 -- what you're showing the Board is that the 25
19 percent equity number comes in in fewer years than
20 twenty (20), but more than the ten (10) years that the
21 Corporation is now proposing?

22 MR. JAMES MCCALLUM: The seventeen
23 (17) years, yes. I would just -- I would add, though,
24 and I think this is important, this scenario we talked
25 about it yesterday - I have no doubt we'll talk about

1 it a lot going forward - includes an assumption of a -
2 - of a debt management strategy, shortening our term
3 to maturity to twelve (12) years from -- from the
4 historical or traditional at least since we started
5 the major capital programs of twenty (20) years
6 offering a savings or incremental net income in the
7 order of \$500 million over the first ten (10) years of
8 the forecast.

9 I would say that you're -- you're
10 really comparing an apple to an orange. That isn't a
11 debt management strategy we would advocate. And so
12 when you adjust for that, it's -- it's going to take
13 you with 4.14 percent rate increase -- we haven't run
14 the scenario but it would -- it would take you another
15 year or two (2) would be my guess.

16 MR. BOB PETERS: Can I summarize that
17 last response, Mr. McCallum, by -- by saying, built
18 into the integrated financial forecast that's on the
19 screen that has equal annual rates of 4.14 out to
20 2034, that assumes a debt management strategy that may
21 not be continued by the Corporation if it doesn't
22 achieve 7.90?

23 MR. JAMES MCCALLUM: I would gen --
24 that's mostly correct. I would generalize it a little
25 bit differently, Mr. Peters, to say that we will

1 follow a debt management strategy that makes sense for
2 our forecasts for the business and -- and if those
3 forecasts for whatever reason, which could include -
4 and let's hope - sharply appreciating export prices,
5 you know, or other sort of good news that we -- we --
6 we don't see today, then we would factor that into our
7 -- our debt management strategy.

8 At the end of the day it's -- it's a
9 question of what is our forecast net income and
10 forecast cash flow. As we see it today, the only
11 opportunity to -- to boost those is through a
12 different pattern of rate increases.

13 MR. BOB PETERS: Thank you, sir. And
14 -- and just to refresh the Board from your slide
15 presentations of yesterday, Manitoba Hydro has reduced
16 the average term to maturity on its debt down from
17 about twenty (20) years down to twelve (12) years, and
18 as a consequence of that, Manitoba Hydro expects to
19 have some larger net income to help pay off the debt
20 sooner.

21 And that was one (1) of the motivating
22 factors for that debt management strategy?

23 MR. JAMES MCCALLUM: That -- that's
24 correct. I mean, it's part -- a debt management
25 strategy is -- is, in ways, synonymous with how you

1 manage your balance sheet risk, but we saw an
2 opportunity on a careful balancing of risks to -- to
3 find a way to -- to save interest costs.

4 MR. BOB PETERS: And you're telling
5 the Board it -- with respect to the integrated
6 financial forecast in front of him, that if this was
7 more the future of Manitoba Hydro, you -- Manitoba
8 Hydro would not expect to get that 25 percent equity
9 in 2034?

10 It would be more likely 2036, as I
11 understood from your third last answer, because you
12 would be having to change some of your debt
13 management?

14 MR. JAMES MCCALLUM: Yeah. That's --
15 that's correct. We -- I -- I can tell you that the
16 3.95 percent scenario using the twenty (20) year debt
17 management strategy results in attaining equity ratio
18 of 25 percent in 2036. So where it would fall using
19 4.14 instead of 3.95, somewhere in-between 2035, early
20 2036. We'd have to -- we'd have to run the scenario.

21 MR. BOB PETERS: Mr. Shepherd, before
22 that discussion with Mr. McCallum, we had looked at
23 some previous scenarios, and we had -- we had talked a
24 -- a fair bit about the 3.95, correct?

25 MR. KELVIN SHEPHERD: Yes.

1 MR. BOB PETERS: Does Manitoba Hydro
2 consider that it has a moral or an ethical obligation
3 to its ratepayers to try and deliver rate increases
4 that are consistent with what was approved in Manitoba
5 Hydro's Needs for and Alternative to Plan, and those
6 were annual rate increases of 3.95 for twenty (20)
7 years, if not eased?

8 MR. KELVIN SHEPHERD: I would respond
9 somewhat differently. I think we have a moral and
10 ethical obligation to make decisions that are in the
11 best interests of both the company and ratepayers. I
12 don't necessarily think that means staying committed
13 to a previous plan when conditions have changed, or
14 risks have changed, but I do believe we have a
15 obligation to try to take the interests of our
16 customers, the Corporation's -- to fill our duty to
17 make sure the Corporation is run efficiently and is
18 financially healthy. And then, of course, there's a
19 broader set of stakeholders that we also have
20 obligations to.

21 MR. BOB PETERS: Maybe the words
22 "moral and ethical" were too strong in that question,
23 Mr. Shepherd, but you've been able to sense from the
24 comments that have been provided to you that Manitoba
25 Hydro's plan has -- has bothered and has -- is causing

1 problems for a number of your customers?

2 MR. KELVIN SHEPHERD: I believe that
3 I've met with a number of customers. Many -- I've
4 certainly met with a significant number of larger
5 customers, as well as the general public. And I
6 believe many of them have concerns with rate
7 increases, although I would tell you many of them
8 express concerns with the previous 3.95 percent rate
9 increases. I don't think those concerns are
10 necessarily new.

11 MR. BOB PETERS: So, Mr. Shepherd --

12 THE VICE-CHAIRPERSON: Mr. Peters, can
13 I just ask one (1) question?

14 MR. BOB PETERS: Yes.

15 THE VICE-CHAIRPERSON: Mr. Shepherd,
16 could you clarify what you meant when you said that
17 you had a broader set of stakeholders beyond the
18 ratepayers to whom you need to respond?

19 MR. KELVIN SHEPHERD: Sure.
20 Certainly, you know, our customers are -- are
21 important, and we clearly need to balance the impact
22 of what we do as a company on customers, but we do
23 have a broader set of stakeholders. So, for example,
24 our indigenous communities represent stakeholders
25 there. And that's a different relationship than

1 customers, and we have set obligations to them. The
2 Province is not -- is it -- is both a customer in some
3 respects, but is a -- a different type of stakeholder.
4 We have other regulatory authorities, which I view as
5 stakeholders because they certainly have an interest
6 in how we operate and -- and what we deliver.

7 So while I understand there's clearly a
8 focus in rate setting on customers and balancing
9 customers' interests with -- with those of the
10 Corporation, we do have also this broader set of
11 stakeholders that we continually have to -- to think
12 about and work with in order to successfully deliver
13 on our mission.

14

15 CONTINUED BY MR. BOB PETERS:

16 MR. BOB PETERS: Mr. Shepherd, can you
17 tell this Board what the consumer is getting from 7.95
18 percent rate increases compared to what they would get
19 if those rate increases were 3.95?

20 MR. KELVIN SHEPHERD: Certainly.
21 First, they're getting over, I think, a longer period
22 of time, but still not an extended period of time,
23 more certainty that rates will not escalate further,
24 and that's because by strengthening the Company's
25 financial health, you're eliminating or reducing -- I

1 shouldn't say you -- well, you are reducing some risk
2 in that lower debt certainly is reducing some of the
3 interest cost risk, but you're putting yourself in a
4 position to mitigate business risk in the form of
5 drought, or in the form of -- of, you know, lower
6 export prices, or loss of export opportunity.

7 So you're certainly reducing, in the
8 longer term, the risk of -- of higher unplanned rate
9 increases. I think the other thing that consumers are
10 getting is over a longer term, you know, the
11 opportunity for the Corporation, together with its
12 regulator, determine a long term rate profile that may
13 actually be more favourable than one that simply has
14 annual increases that continue to escalate over a very
15 long period of time. So I think, by -- by the 7.9
16 percent, you're increasing the -- the ability to have
17 a surety about long-term rates.

18 I think the other thing that's implicit
19 in the plan -- I don't think it's direc -- directly
20 related to the 7.9, but it's clearly part of the plan
21 is we're committed to maintaining safe and reliable
22 service, and so that requires some continued
23 investment in sustainment and maintenance activities.
24 And over the longer term, you're getting -- you will
25 get the benefits of these major projects, which will

1 be delivered under the plan.

2 MR. BOB PETERS: Mr. Shepherd, if --
3 if I could ask Ms. Shubert, Ms. Villages to put up
4 Manitoba Hydro Exhibit 64, which was your slide
5 presentation of yesterday, and I have it at page 29.

6 When this slide came up yesterday, I
7 looked at it and I wondered what -- what can be
8 assured. Now, in your last answer to me, are you
9 telling this Board that the Board can be assured that
10 the rate increases beyond the 7.95 and the 4.54 will
11 be below the rate of inflation?

12 MR. KELVIN SHEPHERD: Mr. Peters, I --
13 I would put it this way. That is our -- our plan.
14 It's a -- a forecast. Ultimately, rates are -- are
15 recommended or -- or brought forward to this Board for
16 approval.

17 So first of all, I -- I can't assure
18 what the rates would be, because I may or may not be
19 here to -- to present them, but I think what I can
20 tell you is that I think today's management Board is
21 committed to doing the right thing over the longer
22 term for Manitobans, and certainly, that would include
23 asking for rates that are appropriate, are fair and
24 reasonable. And so if rates at or below inflation are
25 fair and reasonable, or no -- and are appropriate, I'm

1 sure that's what would be considered at the time, but
2 I can't speculate on what might happen ten (10) years
3 from now.

4 MR. BOB PETERS: And you've indicated
5 you're not sure what will happen in ten (10) years in
6 terms of the equity that Corporation would seek, or
7 what they would do with -- with any additional
8 retained earnings or net income, but can you -- can
9 you indicate what rate increases are being avoided
10 tomorrow or -- tomorrow being seven (7) years from
11 now, by going to 7.90 today?

12 MR. KELVIN SHEPHERD: I think it's --
13 I think we've tried to show this yesterday with our
14 presentation, but just as a -- kind of a point in
15 time, you would see that after ten (10) years with the
16 plan we presented, rates cumulatively would have
17 increased approximately 77 percent.

18 And if you assume that after that point
19 in time, rate increases could be moderated or perhaps
20 reduced, that is a lower level than the trajectory of
21 a, say, a 3.95 percent plan that over time, results in
22 rates going up more than a hundred percent.

23 MR. BOB PETERS: So on a cumulative
24 basis, you're saying that the shorter plan that's
25 before this Board has lower cumulative rate increases

1 than if you dragged it out further?

2 MR. KELVIN SHEPHERD: Yes.

3 MR. BOB PETERS: The stairs are
4 higher, but there's fewer stairs?

5 MR. KELVIN SHEPHERD: The stairs are
6 higher, but if you take action sooner and -- and do
7 what's required to lessen the debt load and to address
8 some of these issues, two (2) things happened. First,
9 all things being equal, so all the factors, all of
10 your abilities, if they're all equal, you will put
11 yourself in a position over ten (10) years where you
12 have the flexibility and the option to have rates be
13 lower.

14 Furthermore, I think if you actually
15 look at what happens if you see a major risk occur,
16 you're in a much better position than you would be if
17 you had a much longer ramp with lower annual
18 increment. So I think you have to look at it not only
19 under the situation where the -- the forecast goes to
20 plan, so to speak, but you have to look at in a
21 situation where risks occur.

22 And I can simply tell you that it's
23 much easier to forecast and manage risks over a
24 shorter period of time than a longer period of time,
25 and so when you take twenty (20) years, fifteen (15)

1 or twenty (20) years to reach a goal, the risk that
2 you may never reach that goal is significantly higher
3 than if you shoot for a ten (10) year goal.

4 MR. JAMES MCCALLUM: Yeah. And just
5 to pick up on your analogy, Mr. Peters, that what --
6 what I think Mr. Shepherd is saying is that the stairs
7 are -- are higher, but they're also wider. The other
8 plan has stairs that would take longer and are much
9 narrower. You're walking on a tightrope for a very,
10 very long period of time.

11 MR. BOB PETERS: Would it be correct,
12 Mr. Shepherd, that Manitoba Hydro hasn't conducted an
13 analysis of the rate impacts on the various customer
14 classes in terms of what their economic impact would
15 be?

16 MR. KELVIN SHEPHERD: I think it would
17 be fair to say that I haven't seen an analytical
18 impact study. We've certainly considered
19 qualitatively, and discuss the risk, but I would tell
20 you, personally, I have not seen any kind of
21 quantitative analysis or attempt to quantitatively
22 identify those impacts beyond, I would say, certainly
23 some views on understanding what the, you know,
24 impacts might be in terms of, you know, low income
25 customers and bill affordability, and those types of

1 analysis, which I -- I would say we have seen.

2 MR. BOB PETERS: Yeah. And -- and I
3 wasn't suggesting that you don't run bill impact
4 schedules and -- and the like. Your -- your materials
5 have those. But I was thinking more as to whether
6 Manitoba Hydro prepared an economic impact study on
7 Manitoba -- or the Province of Manitoba, or on
8 Manitobans for the proposed rate increases in Manitoba
9 Hydro's new ten (10) year plan, and I'm hearing that
10 that hasn't expressly been done.

11 MR. KELVIN SHEPHERD: No. I could ask
12 Jamie to confirm this, since he's more familiar with
13 all the details that went into the application, but to
14 my understanding, we didn't complete an overall
15 attempt to quantify the economic impact on Manitoba.

16 MR. JAMES MCCALLUM: I -- yeah. No, I
17 don't -- I don't have anything to add, that there was
18 an overt study. There was obviously extensive
19 discussion inclusive of with our Board of Directors
20 around different rate strategies in different time
21 frames by which to address our issues and the economic
22 impacts thereof.

23 MR. BOB PETERS: I wanted to turn
24 back, Mr. Chair, panel members, just to continue on
25 with the -- the equity trajectory and the rate

1 trajectory issues.

2 We see that KPMG provided a report to
3 Manitoba Hydro on page 21 of Board counsel's book of
4 documents, Exhibit 42-1. You're familiar with that,
5 Mr. Shepherd, Mr. McCallum?

6 MR. JAMES MCCALLUM: Yes, I am.

7 MR. BOB PETERS: And if I look to the
8 bottom of page 21, there are some recommendations that
9 are -- that are listed. The recommendation number 1
10 was, in essence, I'm reading this to say that KPMG is
11 saying the seventy-five twenty-five (7,525) is a --
12 it's a proper long-term target. Seventy thirty
13 (7,030) would be better.

14 Is that how you interpreted them?

15 MR. JAMES MCCALLUM: Yes.

16 MR. BOB PETERS: And when we say "long
17 term" on this recommendation, that was in the context
18 of the -- the twenty (20) year long term, as opposed
19 to the ten (10) year long term?

20 MR. JAMES MCCALLUM: I didn't read the
21 report to make that conclusion, no.

22 MR. BOB PETERS: You think that KPMG
23 was talking ten (10) years?

24 MR. JAMES MCCALLUM: I don't believe
25 they specified.

1 MR. BOB PETERS: Right. What -- what
2 do you understand the long term to be to KPMG in this
3 report?

4 MR. JAMES MCCALLUM: Well, the report
5 was prepared in 2015. I -- I don't know.

6 MR. BOB PETERS: And the update report
7 didn't provide any further clarity to you?

8 MR. JAMES MCCALLUM: Subject to check,
9 no.

10 MR. BOB PETERS: They also say in the
11 second squared bullet that Hydro would need to depart
12 from its equity target during major build programs.
13 Isn't that simply a function of the math, Mr.
14 McCallum, that if your equity is at a \$3 billion
15 number, and your debt is -- if that's 25 percent, and
16 your debt was 75 percent, as your debt increases, the
17 percentage of your equity mathematically reduces?

18 MR. JAMES MCCALLUM: Provided that as
19 you move through that period, if you have no or
20 insufficient net income to keep the equity ratio
21 moving alongside the increment in your debt, then
22 that's correct.

23 MR. BOB PETERS: But Manitoba Hydro's
24 -- can't get an equity level that will walk in
25 lockstep with its debt because the desk -- debt is so

1 massive in its build. Isn't that correct?

2 MR. JAMES MCCALLUM: Well, it's
3 correct that if you go back to 2010 or 2011, really
4 before the, you know, the -- the build program, you
5 know, if you looked ahead to -- to, you know, for each
6 billion dollars of -- of investment, you would need
7 \$250 million of net income in order to kinda keep your
8 75/25 ratio.

9 MR. BOB PETERS: What you're saying is
10 -- and -- and -- and this isn't meant pejoratively,
11 but with the benefit of the -- the rearview mirror,
12 Manitoba Hydro could have been seeking rate increases
13 back before 2010 that would've put it in a better
14 position today?

15 MR. JAMES MCCALLUM: With the benefit
16 of the rearview mirror, yes, I'd agree with that.

17 MR. BOB PETERS: Maybe we should look
18 in the rearview mirror together with the Board and go
19 to page 81 of Board counsel's book of documents.

20

21 (BRIEF PAUSE)

22

23 MR. BOB PETERS: This chart -- let --
24 let -- I was going to look at this with you later, Mr.
25 McCallum, but let's have a quick peek now. This chart

1 by year sets out the rate increases requested by
2 Manitoba Hydro, and in the third column, the percent
3 approved by the Public Utilities Board. Is that your
4 understanding?

5 MR. JAMES MCCALLUM: That's my
6 understanding of this table, yes.

7 MR. BOB PETERS: And if we look in
8 that second column in terms of rate increases
9 requested in '99, in 2000, 2001, 2002, 2003, Manitoba
10 Hydro requested no rate increases from this Board. Is
11 that your understanding?

12 MR. JAMES MCCALLUM: Yes, it is.

13 MR. BOB PETERS: And you're saying
14 now, with that rearview mirror, It sure would be nice
15 if at least the rate of inflation or something else
16 was included in Manitoba Hydro's then rate plan?

17 MR. JAMES MCCALLUM: Well, that's
18 going back a long ways, obviously, but it -- it --

19 MR. BOB PETERS: It's a good rearview
20 mirror.

21 MR. JAMES MCCALLUM: It's a good
22 rearview mirror. It has excellent focus. Again, with
23 the benefit of hindsight -- and I can't speak to what
24 was known in 1999 about our long-term development
25 plans, but mathematically, if we had had inflationary

1 rate increases back then, today's rates and -- and the
2 overall rate base would be higher, and our -- our
3 financial predicament would not be the same, and the
4 necessary rate increases to climb out of it would thus
5 be lower.

6 MR. BOB PETERS: And that's simply
7 mathematics, then, isn't it, Mr. McCallum?

8 MR. JAMES MCCALLUM: It's purely
9 mathematics.

10 MR. BOB PETERS: All right. Mr.
11 McCallum, in that same column, maybe -- maybe you
12 don't have the same glasses that Mr. Shepherd has in
13 terms of how far back you can see, but you were
14 talking about 2010, 2011. The Company applied for
15 rate increases in 2011 of 2.9 percent.

16 Are these the ones that you're --
17 you're saying you're being more critical about in
18 terms of those should have been higher?

19 MR. JAMES MCCALLUM: Again, with the
20 benefit of hindsight, it would be very helpful today
21 for those to have been higher.

22 MR. BOB PETERS: All right. And
23 before we leave this table, maybe -- yesterday, Mr.
24 Shepherd, you made a comment that when Manitoba Hydro
25 experienced its drought in 2004/'05, it came to the

1 Public Utilities Board seeking a 3 percent rate
2 increase, correct?

3 MR. KELVIN SHEPHERD: Yes.

4 MR. BOB PETERS: And after that PUB
5 hearing, Manitoba Hydro received an order that awarded
6 them a 5 percent rate increase, and a conditional rate
7 increase of 2.25 percent, and a further conditional
8 rate increase of another 2.25 percent. Is that your
9 understanding?

10 MR. KELVIN SHEPHERD: I believe that
11 was the case, yes.

12 MR. BOB PETERS: And in those
13 instances, is it your understanding that Manitoba
14 Hydro came to this Board because of the drought?

15

16 (BRIEF PAUSE)

17

18 MR. KELVIN SHEPHERD: You know, while
19 I don't -- I haven't reviewed the -- the information
20 that was filed at the time, but certainly, my
21 understanding would've been that there was a very
22 significant loss, net income loss as a result of the -
23 - the drought, and so I believe that is what motivated
24 the Corporation to come forward.

25 MR. BOB PETERS: And Mr. McCallum will

1 find that it was over \$400 million of a net income
2 loss that year?

3 MR. KELVIN SHEPHERD: Yes. It was
4 very significant.

5 MR. BOB PETERS: And it -- probably
6 the largest loss in the corporate history?

7 MR. KELVIN SHEPHERD: Yeah, again,
8 with my limited history, but it -- I -- I believe it
9 was very large.

10 MR. BOB PETERS: So let's -- against
11 that milieu, if we have another drought, and we're
12 sitting now on \$3 billion of equity, is Manitoba Hydro
13 going to come back to this Board for a rate increase
14 if there's a -- if there is one (1) of those droughts?

15 MR. KELVIN SHEPHERD: So let me try to
16 unpack that question a bit, because I think it's a
17 pretty loaded question.

18 MR. BOB PETERS: Sorry if it was. I
19 didn't intend it that way, but let me -- let me unpack
20 it.

21 MR. KELVIN SHEPHERD: No, I think it
22 is. You -- you are asking me to speculate on a number
23 of things, but -- so first, it depends on, you know,
24 the financial situation the Corporation is in, and it
25 depends when it happens.

1 If -- I think as we indicated
2 yesterday, the plan we put forward with the 7.9
3 percent increases in the ten (10) year timeframe puts
4 us in a position to create more net income and more
5 cash flow, and that's what's really required to handle
6 a financial risk like a drought.

7 Equity does not really help you manage
8 that, not without -- if you -- if you have that loss,
9 you either need -- and you need to -- the cash to run
10 the business, you either have to go to ratepayers to
11 get the cash or you have to borrow. It's not like
12 equity is sitting there in a -- as a piggy bank to
13 help fund that.

14 So what a -- a more prudent financial
15 plan, a plan like we've put forward does, it puts the
16 Corporation in a stronger position to weather those
17 types of events. But it does depend entirely on where
18 you're at, what your condition is, and -- and what the
19 timing and -- and degree of the drought is.

20 So again, I know you're -- you would
21 like me to make a promise. You would like me to make
22 a com -- you know, a -- a commitment to what might
23 happen over the next ten (10), fifteen (15), or twenty
24 (20) years, but I don't think any responsible leader
25 in an organization is going to make a commitment about

1 what might be required to deal with situations ten
2 (10), or fifteen (15), or twenty (20) years from now.

3 And if a drought occurred, I think if
4 the company was in a stronger financial position, we
5 may not have to seek a -- a significant rate increase,
6 but it depends entirely on the timing and
7 circumstances.

8 MR. BOB PETERS: All right. And just
9 to be clear, I only want you to give the best evidence
10 to this Board, not what you think I want you to say,
11 so please don't take it -- take it that way.

12 MR. KELVIN SHEPHERD: Well, I'm trying
13 to explain the best way I can --

14 MR. BOB PETERS: And -- and I think
15 you did.

16 MR. KELVIN SHEPHERD: Yeah.

17 MR. BOB PETERS: But what I can take
18 from your answer, then, is that even if we follow the
19 Manitoba Hydro ten (10) year plan, and there is
20 another drought, that following the Manitoba Hydro's
21 plan in and of itself does not assure consumers that
22 Manitoba Hydro won't come back to this Board to seek a
23 rate increase because of the drought?

24 MR. KELVIN SHEPHERD: No. I can't do
25 that, because I don't know the situation at the time.

1 I would tell you that the plan, I think, does a much
2 better job of positioning us to mitigate the impacts
3 of a drought without seeking additional rate
4 increases, but it will depend on the circumstances at
5 the time.

6 MR. JAMES MCCALLUM: And this is
7 entirely a discussion really about probability, and
8 likelihood, and -- and not in any mathematical way,
9 because you can't do that. The future -- a lot of
10 these things are really not susceptible to
11 probability, although the drought, you know, I guess
12 if we look at history, you -- you can, to some extent,
13 what -- what there is a -- it's a relative question.

14 If -- we are -- are generating income,
15 and cash flow, and in a healthier position, we have a
16 much lower probability of needing to seek emergency
17 rate relief for drought or -- or anything else.
18 That's really the fundamental piece of our -- our
19 financial plan.

20 MR. BOB PETERS: I'd like to change
21 the topics, if I could, gentlemen. On page 26 of
22 Board counsel's book of documents is an extract from
23 one (1) of Manitoba Hydro's responses to a Public
24 Utilities Board minimum filing requirement.

25 And it introduces that the Boston

1 Consulting Group was retained, and I take it, Mr.
2 Shepherd, it was retained by the Manitoba Hydro Board
3 of Directors?

4 MR. KELVIN SHEPHERD: Yes, it was a
5 decision made by the Board.

6 MR. BOB PETERS: And by -- if we need
7 it, on page 28, there is a letter of June 2nd. So it
8 looks like it -- they were retained on or about June
9 the 2nd of 2016?

10 MR. KELVIN SHEPHERD: Yes.

11 MR. BOB PETERS: If we go back to page
12 26, and -- and the retention of the Boston Consulting
13 Group in or about June of 2016, Mr. Shepherd, that was
14 within a couple of months -- maybe two (2) months of
15 the new Manitoba Hydro Board of Directors being
16 installed?

17 MR. KELVIN SHEPHERD: I'm trying to
18 just recall the timing here of when the -- the Board
19 was first appointed and when they first met, but it
20 may have been even a shorter time frame. It may have
21 been within five (5) or six (6) weeks.

22 MR. BOB PETERS: All right, we'll go
23 with --

24 MR. JAMES MCCALLUM: I -- I can be a
25 bit helpful here. The -- the new Board was -- subject

1 to the exact check of dates again, I don't have Mr.
2 Shepherd's skill at this, but it was somewhere around
3 May the 5th or 6th that the new Board was appointed,
4 so would've been inside a month.

5 MR. BOB PETERS: Okay, Mr. Shepherd,
6 we were both wrong.

7 MR. JAMES MCCALLUM: But subject to
8 check.

9 MR. BOB PETERS: All right.

10 MR. KELVIN SHEPHERD: I -- I knew it -
11 - I recall it happened fairly quickly.

12 MR. BOB PETERS: Do you recall that
13 was -- was that a competitive process with a request
14 for proposal put out, or was that a sole-sourced
15 option?

16 MR. KELVIN SHEPHERD: It was a sole-
17 sourced option.

18 MR. BOB PETERS: And was that sole
19 source by the Manitoba Hydro Board of Directors, or
20 was that with Manitoba Hydro management involvement?

21 MR. KELVIN SHEPHERD: It was a Board
22 decision to sole source it. They picked the
23 consultant.

24 MR. BOB PETERS: Did they consult with
25 Manitoba Hydro management, meaning you, Mr. Shepherd,

1 about the engagement of Boston Consulting?

2 MR. KELVIN SHEPHERD: Well, they
3 definitely talked with me about it, yes.

4 MR. BOB PETERS: And would it be
5 correct that the reports from Boston Consulting have
6 culminated in approximately six hundred and fifteen
7 (615) PowerPoint slides with no full narrative report
8 other than a -- a short executive summary, a six (6)
9 page executive summary?

10 MR. KELVIN SHEPHERD: I think that's
11 the paper record, yes.

12 MR. BOB PETERS: Does that suggest,
13 Mr. Shepherd, there was more than the paper record?

14 MR. KELVIN SHEPHERD: Well certainly,
15 I think the, you know, the paper record in the slides
16 are valuable and -- and worthwhile, but the real value
17 from an engagement like this comes from the ability of
18 the Board to engage in -- in discussion and
19 consultation with the -- with the consultants.

20 And so the -- a significant amount of
21 value from the engagement comes from that process of
22 interaction and consultation. The -- I would say the
23 slides reflect more of a -- of a synopsis of some of
24 the key points, but there is a substantial amount of
25 discussion and engagement by Board members directly

1 with the consultants.

2 MR. BOB PETERS: Do you know how many
3 meetings that there were with Boston Consulting Group?

4 MR. KELVIN SHEPHERD: I think there
5 were -- I don't have a -- a exact number of meetings,
6 but there were several meetings. I know the meetings
7 took kind of two (2) courses. There was meetings of a
8 smaller subset of the Board that met quite frequently
9 with the -- with the Boston Consulting, and then there
10 were more formal, fuller engagements with the entire
11 Board.

12 MR. BOB PETERS: The cost of that
13 engagement, is that -- that's paid for by Manitoba
14 Hydro?

15 MR. KELVIN SHEPHERD: Yes.

16 MR. BOB PETERS: And that was -- I
17 think we've heard it approximately \$4.3 million?

18 MR. KELVIN SHEPHERD: Yes. I think
19 that's correct, 3.8 plus taxes, I think.

20 MR. BOB PETERS: That was expensed in
21 the year incurred?

22 MR. KELVIN SHEPHERD: Yes.

23 MR. BOB PETERS: Was that the
24 treatment? Yeah. There appears --

25 MR. KELVIN SHEPHERD: Well, maybe I

1 should just ask Jamie, here, first.

2 MR. JAMES MCCALLUM: Yeah, I'll just --

3 MR. BOB PETERS: Let's not complicate
4 this with accounting.

5 MR. JAMES MCCALLUM: Well, I have some
6 good news. I'm not an accountant.

7 MR. BOB PETERS: Okay. Good. All
8 right. You -- so I did -- I didn't mean to cut you
9 off.

10 MR. JAMES MCCALLUM: Yeah -- no, I was
11 just going to clarify, and -- and somebody who is an
12 accountant is sitting behind me, but we -- there was a
13 portion of the fee that is actually capitalized. I
14 think it's under \$1 million to -- to the capital
15 projects, but subject to check, I just wanted to
16 clarify that for the record, it wasn't the entire fee
17 expensed.

18 MR. BOB PETERS: Well, Ms. Bauerlein
19 can explain that to the panel when it's her turn, if
20 that's -- that's the reason for that.

21 There appeared to be, Mr. Shepherd, a
22 subcommittee of the -- of the Board of Directors that
23 worked with Boston Consulting Group. Is that your
24 understanding?

25 MR. KELVIN SHEPHERD: Yes. There was

1 a -- a subcommittee titled the capital subcommittee,
2 chaired by the one (1) of the Board members, Mr. Dave
3 Brown, and a number of other Board members were on the
4 subcommittee.

5 MR. BOB PETERS: Didn't this have a
6 fancy, Project Heartbeat? Was that the codename?

7 MR. KELVIN SHEPHERD: I guess travel
8 Manitoba's advertising is working.

9 MR. BOB PETERS: I walked into that,
10 so I'll -- were you on that subcommittee, Mr.
11 Shepherd?

12 MR. KELVIN SHEPHERD: I wasn't a
13 formal member of the subcommittee

14 MR. KELVIN SHEPHERD: I wasn't a
15 former member of the subcommittee, but I certainly
16 participated, I would say in the -- if not all, a
17 majority of the meetings. But they did also have --
18 have in camera meetings where I wasn't present or
19 parts of the meeting were in camera I should say.

20 MR. BOB PETERS: Were you the only
21 Manitoba Hydro executive on the subcommittee?

22 MR. KELVIN SHEPHERD: As I say, I
23 wasn't on the subcommittee. I simply was able to
24 participate in the -- in it, but other members of the
25 executive would've participated in parts of those

1 meetings, you know, based upon their expertise and
2 background.

3 MR. BOB PETERS: Including yourself,
4 Mr. McCallum?

5 MR. JAMES MCCALLUM: No, not in the
6 initial phases. I wasn't an executive of the company
7 at the time. I certainly had meetings with Boston
8 Consulting Group after I started in September of 2016,
9 in order to come up to speed on their work and was in,
10 you know, meetings that occurred subsequent to
11 September 6th.

12 MR. BOB PETERS: Is Boston Consulting
13 Group still retained or engaged by Manitoba Hydro?

14 MR. KELVIN SHEPHERD: No.

15 MR. BOB PETERS: Their work is
16 finished?

17 MR. KELVIN SHEPHERD: Their engagement
18 with the Board is finished, and their work with
19 Manitoba Hydro is finished.

20

21 (BRIEF PAUSE)

22

23 MR. BOB PETERS: Before I leave Boston
24 Consulting Group, I wonder if the Ms. Shubert or Ms.
25 Villegas could -- could find PUB/Manitoba Hydro 1st

1 Round question number 8. It's probably one (1) of the
2 few that didn't make the Board counsel book of
3 documents.

4

5

(BRIEF PAUSE)

6

7 MR. BOB PETERS: Thank you very much.
8 Appreciate that. When the Board reviews this
9 Information Response it was asked initially with
10 respect to a question, and it was one (1) that you
11 mentioned, the Affordable Utility Rate Accountability
12 Act, and was wondering what -- whether that was a
13 driving factor in what Boston Consulting Group was
14 sharing with the Manitoba Hydro board.

15

16 Do you know if that was the case, Mr.
17 Shepherd?

18

19 MR. KELVIN SHEPHERD: I think it was
20 one (1) of the factors. I mean, perhaps I am in a
21 position to comment at this point, and I would say
22 that, I mean, BCG developed their own independent view
23 of a number of factors, including the -- the
24 regulatory environment.

25

26 And I think they make, you know,
27 comments throughout some of the reports on the
28 regulatory environment. So certainly they identified

1 the Affordable Utility Rate Accountability Act as one
2 (1) of the influences on the desire to keep rates low.

3 MR. BOB PETERS: And in terms of
4 desire to keep rates low, is that the Manitoba Hydro
5 electric board of directors' desire to keep rates low?
6 O are you -- are you suggesting that's this Public
7 Utilities Board motivation for trying to keep rates
8 low?

9 MR. KELVIN SHEPHERD: I think it
10 represents the policy environment in which Manitoba
11 Hydro's board and management operated, and I'm sure it
12 may have been a consideration for the Public Utilities
13 Board, since they would set rates, with that being one
14 (1) of the policy factors in mind.

15 I think if -- if you -- as I mentioned
16 this before, the -- I think it was one (1) of the
17 limiting factors in -- in thinking about -- about rate
18 setting. Whether there was the only factor, I -- I
19 would say probably isn't the only factor.

20 MR. BOB PETERS: Is that first
21 paragraph that's quoted on this Information Request
22 something that Manitoba Hydro told Boston Consulting
23 Group?

24 MR. KELVIN SHEPHERD: Pardon me. Can
25 you just confirm what the first paragraph is?

1 MR. BOB PETERS: Yes, we can maybe
2 scroll up to the preamble at the top. Thank you. It
3 starts, "With respect to the Regulator" --

4 MR. KELVIN SHEPHERD: M-hm.

5 MR. BOB PETERS: -- "there's a clear
6 track record." And I'm wondering is that something
7 that Manitoba Hydro had told Boston Consulting Group?

8 MR. KELVIN SHEPHERD: So I'm not in a
9 position to know what everybody at Manitoba Hydro may
10 or may not have told the Boston Consulting Group.

11 What I can tell you is what I told
12 them, and I told them that, because I had went back
13 and looked at the record, that by and large the Public
14 Utilities Board had a track record of granting close
15 to what Manitoba Hydro had requested for rates, with a
16 couple of exceptions.

17 One (1) exception being when they
18 granted the 5 percent increase you talked about
19 earlier, which was more than what the Manitoba Hydro
20 had requested. And the only other one (1) was, I
21 think, in -- at the time, the 2016 interim rate where
22 we had requested 3.95 and the PUB had -- had approved
23 3.36. But this is a view that BCG developed. I'm not
24 sure how they developed, but I can tell you what I
25 told them, which is I -- I felt largely the PUB had

1 granted the Corporation rates that were fairly close
2 to what we had requested over many years.

3 MR. BOB PETERS: Did you tell Boston
4 Consulting that this Board does not have the
5 jurisdiction to approve Manitoba Hydro's capital
6 expenditures?

7 MR. KELVIN SHEPHERD: They understood
8 that, yes.

9 MR. BOB PETERS: And then when they
10 set -- they say, and I'll read it:

11 "Current ratesetting mechanisms do
12 not link rates to an allowable
13 return, disconnecting revenue
14 recovery from the system investment
15 plan."

16 Those were their words?

17 MR. KELVIN SHEPHERD: Yes.

18 MR. BOB PETERS: Those weren't what
19 you told them?

20 MR. KELVIN SHEPHERD: I don't recall
21 ever -- ever using exactly those words. I certainly
22 did talk with them about the -- the ratesetting
23 process, and the fact that we're essentially set rates
24 to recover appropriate costs; that, you know, we are
25 not a rate of return regulated utility. So I

1 explained to them that the regulatory environment here
2 is different.

3 MR. BOB PETERS: Is there any interest
4 from Manitoba Hydro to be regulated on a rate-based
5 rate of return?

6 MR. KELVIN SHEPHERD: I think it's
7 such a -- such a different system and it's simply, you
8 know, when you -- when you say "desire," I wouldn't
9 say that it's something we've spent much time, if any,
10 exploring. The current system is what it is. It's
11 what's laid out and, I mean, there are pros and cons
12 to different types of ratesetting systems. But
13 certainly I don't think, and certainly I didn't
14 express any view that one (1) system was superior to
15 another or more desirable than another.

16 I think the current system we've got is
17 appropriate, and the real challenge we have is really
18 a question of what's the right targets to -- for net
19 income to appropriately support the business going
20 forward in its cash flow on investment needs. That's
21 separate from whether you're rate of return regulated
22 or cost of service regulated.

23 MR. BOB PETERS: But does that last
24 answer, Mr. Shepherd, suggest that this Board should
25 be regulating Manitoba Hydro based on its cash flows

1 as opposed to its income statement?

2 MR. KELVIN SHEPHERD: I think cash
3 flows are one (1) important consideration. They
4 aren't the only one, but I think, as we've tried to
5 lay out in our application, both a view of -- of cash
6 requirements and a view of appropriate net income has
7 to be -- both of them have to be -- be looked at.

8

9 (BRIEF PAUSE)

10

11 MR. BOB PETERS: If I go back, please,
12 to page 27 --

13 THE CHAIRPERSON: Sorry. Can I -- can
14 I interrupt?

15 MR. BOB PETERS: Certainly.

16 THE CHAIRPERSON: Can I ask you a
17 question? Can you just go up the screen where we were
18 before on that quote? Mr. Shepherd, the question with
19 respect -- or -- or the statement with respect to the
20 Regulator:

21 "There is a clear record -- track
22 record of favouring low rates in
23 accordance with the AURAA."

24 Do you know of any Board decision that
25 has any reference to that statute?

1 MR. KELVIN SHEPHERD: I don't believe
2 I've seen it referenced in any Board decision that I'm
3 aware of.

4 THE CHAIRPERSON: Do you know of any
5 correspondence or communication that the Board has
6 ever issued where they've referred to that statute?

7 MR. KELVIN SHEPHERD: Not that I'm
8 aware of.

9 THE CHAIRPERSON: Was the report
10 reviewed by your management before it was issued to
11 the -- before the public presentation?

12 MR. KELVIN SHEPHERD: Before the --
13 you're referring to the September 21st presentation?

14 THE CHAIRPERSON: Correct.

15 MR. KELVIN SHEPHERD: Certainly we had
16 seen it, yes.

17 THE CHAIRPERSON: Do you know if your
18 legal department saw or reviewed that before it was
19 issued?

20

21 (BRIEF PAUSE)

22

23 MR. KELVIN SHEPHERD: I -- I --
24 subject to -- subject to check. I mean, I believe our
25 corporate counsel would've seen it, but I don't -- I

1 certainly did not ask for a full review. I --

2 THE CHAIRPERSON: Is -- is there a
3 sense that maybe BCG looked at the wrong statute?

4

5 (BRIEF PAUSE)

6

7 MR. KELVIN SHEPHERD: I believe BCG
8 looked at -- at that Act and -- and perhaps, you know,
9 in their view it had more weight than I would've given
10 it. I --

11 THE CHAIRPERSON: But -- but the --

12 MR. KELVIN SHEPHERD: -- I believe
13 it's a -- it's a factor they were thinking about.
14 Whether it's the wrong statute, I -- I don't know. If

15 you're referring to the -- you know, they should have
16 looked at the Hydro Act or the Public Utilities Board.

17 THE CHAIRPERSON: But there's a clear
18 suggestion in this, and in other materials, that this
19 Board was influenced by a statute -- by this statute.

20 MR. KELVIN SHEPHERD: Yes, they made
21 that -- that suggestion.

22 THE CHAIRPERSON: Thank you.

23

24 CONTINUED BY MR. BOB PETERS:

25 MR. BOB PETERS: in the time remaining

1 for me, Mr. Chairman, I'd like to turn to the modified
2 cash flow to capital expenditures discussion that was
3 held yesterday.

4 MS. PATTI RAMAGE: If we could just
5 backup for a moment, because we might be able to
6 answer the Chairman's question more precisely. If you
7 could -- if we could scroll up the screen and
8 determine where that quote came from, what BCG
9 referenced, pages 5 and 6. It'll allow me to look and
10 see.

11 MR. BOB PETERS: Thank you.

12

13 (BRIEF PAUSE)

14

15 CONTINUED BY MR. BOB PETERS:

16 MR. BOB PETERS: Mr. McCallum, this is
17 going to be -- this will be fun because we, as you
18 say, we now don't have any accountants on the panel.
19 So we'll take ten (10) minutes to talk about the cash
20 flow to capital expenditures ratio. I'd like to start
21 with the volume 1, page 183 of Board counsel's book of
22 documents. I might've been stretching it when I said
23 it would be fun.

24 But the -- the document that we have on
25 the screen is called a cash flow statement for

1 Manitoba Hydro?

2 MR. JAMES MCCALLUM: A projected cash
3 flow statement, yes.

4 MR. BOB PETERS: And it's provided
5 with every integrated financial forecast that Manitoba
6 Hydro prepares?

7 MR. JAMES MCCALLUM: That -- that's
8 correct, yes.

9 MR. BOB PETERS: And so when the Board
10 looks at this, they see that the projected cash flow
11 statement is divided into three (3) portions.

12 Is that correct?

13 MR. JAMES MCCALLUM: Three (3)
14 principal portions, yes.

15 MR. BOB PETERS: One (1) of them is
16 the operating activities, which reflects what Manitoba
17 Hydro does?

18 MR. JAMES MCCALLUM: Yes.

19 MR. BOB PETERS: And then the
20 financing activities to either talk about the source
21 of funds or the use of funds that it has from its
22 financing activities?

23 MR. JAMES MCCALLUM: For the most
24 part, yes.

25 MR. BOB PETERS: And then under

1 "investing activities" you set out what Manitoba Hydro
2 has invested in that year in property, plant, and
3 equipment net of contributions.

4 And that's what Manitoba Hydro has --
5 has built?

6 MR. JAMES MCCALLUM: Yes, that's fair.

7 MR. BOB PETERS: So when we -- we look
8 at the 2018 column, we see that Manitoba Hydro
9 received \$2.152 billion from its customers that year.

10 That's the forecast, correct?

11 MR. JAMES MCCALLUM: M-hm. Yes.

12 MR. BOB PETERS: And that comes 100
13 percent from the rates that are approved by the Public
14 Utilities Board plus export rates revenues?

15 MR. JAMES MCCALLUM: That's
16 essentially correct, yes.

17 MR. BOB PETERS: All right. And then
18 out of that \$2.152 billion, Manitoba Hydro has to pay
19 its suppliers, people who provide services and goods
20 to Manitoba Hydro?

21 MR. JAMES MCCALLUM: Yes, that's
22 correct.

23 MR. BOB PETERS: And then, not
24 insignificantly, Manitoba Hydro also has to and wants
25 to pay its employees?

1 MR. JAMES MCCALLUM: Well, I certainly
2 like it when they do.

3 MR. BOB PETERS: Of course. And so
4 that shows that \$892 million is forecast to be spent
5 on paying suppliers and employees; correct?

6 MR. JAMES MCCALLUM: Yes. And just
7 for -- for a nuance, there are employees that we pay
8 where the -- the cost of their salaries ends up in
9 that line further down, under "investing activities"
10 where we --

11 MR. BOB PETERS: Are you telling the
12 Board that that 892 million -- 892 million doesn't
13 contain 100 percent of Hydro's employees?

14 MR. JAMES MCCALLUM: That's correct.

15 MR. BOB PETERS: And approximately a
16 third of Manitoba Hydro's employees have their
17 salaries capitalized, I think is the accounting term?

18 MR. JAMES MCCALLUM: That's correct.

19 MR. BOB PETERS: And what you're
20 telling the Board is that one (1) out of every three
21 (3) Manitoba Hydro employees is working on a capital
22 project sufficiently connected to a capital project
23 that their remuneration is charged through to that
24 project?

25 MR. JAMES MCCALLUM: I mean, that's in

1 essence correct. We don't tag individual employees to
2 capital or to operating, but rather their time. So
3 there would be certainly employees who -- and we do
4 this via timecard, you know, of a portion of their
5 salary going to operating and a portion of their
6 salary going to capital.

7 MR. BOB PETERS: Thank you, Mr.
8 McCallum. And then continuing down on our projected
9 cash flow statement on page 183, Manitoba Hydro has to
10 pay interest on its debt that has -- comes due that
11 year; correct?

12 MR. JAMES MCCALLUM: That's right.

13 MR. BOB PETERS: And you've talked
14 about that yesterday, and -- and that is forecast to
15 be \$531 million.

16 And that's debt on assets being used to
17 serve customers?

18 MR. JAMES MCCALLUM: That is correct,
19 yes. That's -- that's the interest paid on -- that --
20 that's right.

21 MR. BOB PETERS: Well, that's
22 different than the interest that's accruing on
23 Keeyask, because Keeyask isn't yet serving Manitoba
24 customers; is it?

25 MR. JAMES MCCALLUM: That's right.

1 And you'd -- you'd see -- well, you can't see, but
2 inclus -- included in that number further down, the
3 2018 column, where you see 3.66 billion.

4 MR. BOB PETERS: Yes.

5 MR. JAMES MCCALLUM: Included in that
6 number would be interest associated with both Keeyask,
7 Bipole, and other projects that are not in service.

8 MR. BOB PETERS: And it also includes
9 in that \$3.66 billion number any contributions that
10 have been paid by customers to Manitoba Hydro for
11 building services?

12 MR. JAMES MCCALLUM: Inter -- yes,
13 that's right.

14 MR. BOB PETERS: All right. So
15 staying up at the top of the --

16 MR. JAMES MCCALLUM: Actually, let me,
17 just for a moment, check that.

18

19 (BRIEF PAUSE)

20

21 MR. JAMES MCCALLUM: Subject to check,
22 where customers advanced us funds in order to -- for
23 us to provide a service extension, that would be
24 included net in that property, plant, and equipment
25 line. But again, subject to check.

1 MR. BOB PETERS: All right. And thank
2 you for that. So then when we are up at the top
3 looking at operating activities on the cash flow
4 statement, Manitoba Hydro is showing that it -- it
5 forecast at the end of 2017 that's it's going to have
6 \$734 million that is going to be available to it to
7 spend?

8 MR. JAMES MCCALLUM: For 2018, yes.

9 MR. BOB PETERS: I'm sorry if I
10 misspoke. Yes, 2018. This is the cash flow statement
11 that is provided by Manitoba Hydro to its credit
12 rating agencies?

13 MR. JAMES MCCALLUM: I can -- I -- I
14 defer to Ms. Stephen, who is with us tomorrow as to
15 specifically what information is -- is -- that we send
16 the credit rating agencies. But clearly they have
17 access to the public record where they would find
18 this.

19 MR. BOB PETERS: All right. At the
20 bottom of the chart, we get down to the -- the -- the
21 last three (3) numbers, and we talk about Manitoba
22 Hydro's increase or decrease in cash and the cash at
23 beginning of the year. And then the final number is
24 the cash at the end of the year.

25 Am I correct that this is telling the

1 Board that at the end of 2018 Manitoba Hydro forecasts
2 that it will have \$488 million of positive cash flow
3 that it can use to invest in capital or spend
4 otherwise?

5 MR. JAMES MCCALLUM: I would not -- we
6 should not use the term cash flow to describe that
7 \$488 million. That's a cash balance.

8 MR. BOB PETERS: All right. So in --
9 instead of cash flow it has cash available of \$488
10 million?

11 MR. JAMES MCCALLUM: That -- that's
12 right. In our --

13 MR. BOB PETERS: To invest in capital
14 projects?

15 MR. JAMES MCCALLUM: We would have a
16 bank account with \$488 million in it.

17 MR. BOB PETERS: All right. I'd like
18 to -- to go to, if I could, Manitoba Hydro's exhibit
19 of yesterday, Exhibit 64, and page 19. And on this
20 statement that you presented yesterday, Mr. McCallum,
21 the first three (3) lines. And I don't want to check
22 dollar for dollar, but the first three (3) lines are
23 what we've already reviewed on the projected cash flow
24 statement appended to the integrated financial
25 forecast.

1 Would that be correct?

2 MR. JAMES MCCALLUM: Yes.

3 MR. BOB PETERS: And then what
4 Manitoba Hydro is doing here on this exhibit, page 19
5 of Manitoba Hydro Exhibit 64, is Manitoba Hydro is
6 telling the Board, Well, Manitoba Hydro also wants to
7 use some of that money, that cash that's left over,
8 that \$488 million as what we talked about in that
9 particular forecast year, or whatever it would've been
10 in these actual years, to pay off some business
11 operations capital expenditures; correct?

12 MR. JAMES MCCALLUM: No, no, we're --
13 we're mixing a lot of different things together here,
14 Mr. Peters.

15 MR. BOB PETERS: Okay. Well, let me -
16 - let me then --

17 MR. JAMES MCCALLUM: Okay. I was just
18 trying to explain.

19 MR. BOB PETERS: -- try to unpack it.
20 If I don't do it you will. On this statement, you're
21 showing the Board that you're adding the interest from
22 -- sorry, you're adding the investment activities from
23 business operations capital to page 19?

24 MR. JAMES MCCALLUM: That's -- I -- I
25 think that's right.

1 MR. BOB PETERS: And then in addition
2 to that -- now, the business operations capital -- and
3 we'll talk about this, I suppose, at a later time.
4 Manitoba Hydro has changed its category of what --
5 what Mr. Williams, sorry, what Dr. Williams used to
6 know because he's not in the room. He's been doing
7 this a long time. He would've called this base
8 capital or sustaining capital.

9 But now it's -- it's reclassified under
10 the heading of "business operations capital;" correct?

11 MR. JAMES MCCALLUM: That's correct,
12 yes.

13 MR. BOB PETERS: But business
14 operations capital not only includes the base and
15 sustaining capital of yesteryear, but it now also
16 includes some added projects that used to be
17 considered major projects of the company?

18 MR. JAMES MCCALLUM: Yeah, it -- it
19 does. I would add for clarity, as I think it's
20 important, that the vast majority of the line item you
21 see there is that base in sustaining capital. There's
22 a -- I -- subject to check, kind of in the order of
23 \$30 to \$50 million a year in these very later years
24 that -- that were previously called major new
25 generation and transmission projects that we we've

1 included here.

2 MR. BOB PETERS: All right. And then
3 you also are adding on this schedule the demand-side
4 management expenses that the company is making on an
5 annual basis.

6 Is that correct?

7 MR. JAMES MCCALLUM: Yes.

8 MR. BOB PETERS: And just to remind
9 the Board, demand-side management costs are
10 capitalized by the utility?

11 MR. JAMES MCCALLUM: That's correct,
12 yes.

13 MR. BOB PETERS: And then they're
14 amortized to recover them in rates over a ten (10)
15 year period?

16 MR. JAMES MCCALLUM: I was just
17 checking the amortization period, but, yes.

18 MR. BOB PETERS: And in addition -- so
19 -- so those demand-side management costs are already
20 included in the IFF that the Board has reviewed?

21 MR. JAMES MCCALLUM: Well, all of
22 these figures are included in the IFF, yes.

23 MR. BOB PETERS: Okay. And then the
24 mitigation and deferred other expenditures, those
25 reflect obligations that Manitoba Hydro has to others;

1 correct?

2 MR. JAMES MCCALLUM: That's right,
3 yeah.

4 MR. BOB PETERS: And then the
5 ineligible overhead also represents a capitalized item
6 that this Board has given direction to the utility on
7 in orders past?

8 MR. JAMES MCCALLUM: Correct.

9 MR. BOB PETERS: Okay. And we now
10 keep going down the list and we see City of Winnipeg
11 payments.

12 What did Manitoba Hydro get when it
13 paid Mr. Fergusson's client that money?

14 MR. JAMES MCCALLUM: Well, what we got
15 was Winnipeg Hydro.

16 MR. BOB PETERS: So you achieved some
17 assets, as well as a customer list?

18 MR. JAMES MCCALLUM: We acquired
19 Winnipeg Hydro in 2002. And as part of consideration
20 for that transaction there was a number of -- of
21 elements in consideration, but -- but one (1) was a
22 commitment to pay \$16 million a year to the city for,
23 subject to check, perpetuity. It is perpetuity.

24 MR. BOB PETERS: That 16 million was
25 in addition to a lump-sum payment?

1 MR. JAMES MCCALLUM: It was, yes.

2 MR. BOB PETERS: All right. We won't
3 revisit that. But then what we will revisit is on
4 this modified cash flow statement you add -- Manitoba
5 Hydro adds interest on Bipole III into the equation;
6 correct?

7 MR. JAMES MCCALLUM: Correct.

8 MR. BOB PETERS: And that's interest
9 on Bipole III, even though Bipole is not in service
10 yet?

11 MR. JAMES MCCALLUM: That is correct.

12 MR. BOB PETERS: That interest on the
13 Bipole III that's not in service would also be
14 included in your cash flow statement attached to your
15 IFF under that property, plant, and equipment item
16 that you drew my attention to; correct?

17 MR. JAMES MCCALLUM: That's where you
18 would find it on our projected finan -- cash flow
19 statement, yes.

20 MR. BOB PETERS: And is it correct,
21 Mr. McCallum, that Manitoba Hydro had to make a
22 subjective decision to include Bipole III interest,
23 but didn't include the Keeyask interest?

24 MR. JAMES MCCALLUM: I might pause on
25 the word "subjective." What we have done here is we

1 think for the Board's clarity and for planning
2 purposes that you ought to really be clear about what
3 this business is going to look like when the Bipole
4 III asset comes into service, given that it is not a
5 revenue producing asset in the main, subject to, you
6 know, \$15 million of incremental line losses versus in
7 the order of \$350 million of costs.

8 So we -- we felt that -- and -- and in
9 the financial industry, not to keep adding terms,
10 you'll often see people want to look at things pro
11 forma. What are you gonna look like when this has
12 happened? And we think that that's a very, very
13 significant consideration for this Board in looking at
14 today's rate request.

15 So turning to why we didn't do that for
16 Keeyask, there's a really important difference between
17 Keeyask and the US tie-line and Bipole. And the
18 important difference is Keeyask and the US tie-line
19 are investments that lead to significant incremental
20 revenue. As it looks now, insufficient --
21 insufficient incremental revenue.

22 But, nonetheless, incremental revenue.
23 And so, you know, we took a position that it wouldn't
24 be appropriate on this pro forma basis to -- to also
25 reflect an operating cash flow view that included the

1 interest on Keeyask.

2 MR. BOB PETERS: And not to -- not to
3 get too engineering on you, because --

4 MR. JAMES MCCALLUM: That you better
5 not do. The accounting I can maybe handle.

6 MR. BOB PETERS: But Manitoba Hydro
7 needs Bipole III to bring down its Keeyask energy.

8 Isn't that correct?

9 MR. JAMES MCCALLUM: We have an
10 engineer.

11 MR. BOB PETERS: You have an engineer
12 at hand?

13 MR. KELVIN SHEPHERD: Yes.

14 MR. BOB PETERS: And the answer was
15 yes?

16 MR. KELVIN SHEPHERD: Yes, the answer
17 is yes. Bipole I and II are basically, to all intents
18 and purposes, fully loaded. And Bipole III will be
19 required to carry energy from Keeyask.

20 MR. BOB PETERS: So Keeyask and Bipole
21 III could be considered a package?

22 MR. KELVIN SHEPHERD: I think it's
23 very clear when you look at -- at the projects that
24 you can proceed with Bipole independently for system
25 reliability purposes, but you can't implement Keeyask

1 effectively without some transmission capacity, which
2 Bipole provides. So that's how they are linked.

3 MR. BOB PETERS: All right. My third
4 last point, and I recognize that we're encroaching on
5 the end of my time and I will be brief. The next line
6 item on this cash deficit on current operations slide
7 shows the Board contributions from water conditions.

8 And, Mr. McCallum, can I summarize this
9 as saying, Here's where you're telling the Public
10 Utilities Board that Manitoba waters have been above
11 average, and as a result of being above average --
12 sorry. We'll go back to the page 19, I think.

13 MR. KELVIN SHEPHERD: No, I think we
14 just changed on the PowerPoint slide.

15 MR. BOB PETERS: I'm sorry. Yes, we
16 have to --

17 THE VICE-CHAIRPERSON: Mr. Peters, can
18 I just ask a quick question while you're finding the
19 chart?

20 MR. BOB PETERS: Yes, thank you.

21 THE VICE-CHAIRPERSON: So, Mr.
22 Shepherd, you said that Bipole III is needed to bring
23 the energy down from Keeyask. But Mr. McCallum said
24 that no revenue is attributed to Bipole III.

25 Could you just clarify that, please?

1 MR. KELVIN SHEPHERD: Sure. Bipole
2 III is really justified and -- and required for system
3 reliability purposes. So because Bipole I and II are
4 so heavily loaded, and studies have shown that the
5 impact of a failure -- an extended failure of either
6 Bipole I and II, or the Dorsey station would cause a
7 significant shortfall in energy supply, Bipole III's
8 primary purpose is for system reliability enhancement.

9 But, in effect, Keeyask could not
10 really proceed without a transmission capacity and
11 that is being provided by Bipole. So you could make
12 an argument that there is revenue dependent on Bipole,
13 but Bipole its -- by itself will not generate --
14 generate that revenue. But there's clearly a
15 dependency and I think that certainly is, you know,
16 pretty clear in the documentation that without Bipole
17 III the energy from Keeyask would effectively be
18 stranded.

19

20 CONTINUED BY MR. BOB PETERS:

21 MR. BOB PETERS: if I could, in two
22 (2) minutes or less with you, Mr. McCallum, the
23 contributions from water conditions was simply
24 Manitoba Hydro expressing to this Board what the value
25 is of the above-average water flow?

1 MR. JAMES MCCALLUM: That -- that's --
2 that's correct. In the --

3 MR. BOB PETERS: And -- and would it
4 be correct that on this statement, there is no recoll
5 -- recognition of any customer contributions?

6 MR. JAMES MCCALLUM: No, customer
7 contributions would be in the form of the receipts
8 from customers. You would see, for example, the
9 revenue that's being deferred to the Bipole III
10 reserve account is -- is --

11 MR. BOB PETERS: I was -- I wasn't
12 just referring to the Bipole III account. I'm -- I'm
13 treating it as customer contributions in aid of
14 construction?

15 MR. JAMES MCCALLUM: That would be in
16 the business operations capital expenditures on a net
17 basis, yes.

18 MR. BOB PETERS: It would be netted?
19 And so then when -- when we look at the bottom of this
20 schedule, the intention of Manitoba Hydro is to show
21 the Board that in 2015/'16, Manitoba Hydro was short
22 \$272 million of cash to pay those items?

23 MR. JAMES MCCALLUM: Not ex -- not
24 exactly. It -- it shows that on -- the -- the purpose
25 of this analysis is to show on a normalized or run

1 rate basis what the cash flows of the kind of core
2 operations of the business, as it's configured today
3 are. The fact is, the -- the -- we did receive that
4 contribution from water conditions. I'm not trying to
5 suggest it didn't exist. I'm just trying to say that
6 had we not had those water conditions the cash flow
7 would have been significantly worse. And that's a
8 very important thing to understand, because we can't
9 predict next year's water conditions.

10 MR. BOB PETERS: And so I'm not asking
11 you to predict with my last question -- or last area
12 is, if we look backwards in that rearview mirror that
13 we've gotten out, how many years back are there still
14 brackets about -- beside the cash flow deficiency on
15 the bottom of this schedule?

16 MR. JAMES MCCALLUM: You know, I -- I
17 don't have an answer to that.

18 MR. BOB PETERS: Would you expect it
19 goes back pre-NFAT days, or pre-the needs for and
20 alternatives to days?

21 MR. JAMES MCCALLUM: I wouldn't want
22 to speculate.

23 MR. BOB PETERS: All right.

24 MR. JAMES MCCALLUM: We went back to
25 2014/'15, and found a negative number. But beyond

1 that I -- I -- we haven't done the work, to my
2 knowledge.

3 MR. BOB PETERS: Mr. Chair, I want to
4 thank Mr. Shepherd, Mr. McCallum for their answers to
5 my questions. I'd also like to thank the panel for
6 their attention. Those are my questions.

7 THE CHAIRPERSON: Thank you. Before
8 we break I just want to correct the record, because it
9 happened this morning and it's happ -- it happened on
10 the interim, as well. And I just want to confirm that
11 the rate increase we're talking about is 7.9 percent.

12 On a few occasions Mr. Peters referred
13 to a 7.95 percent, which is a slippage because of the
14 3.95 percent, and we had that in the interim, as well.
15 And I'd just put it on the record, so that we don't
16 have to correct it later on. Okay. So we'll break
17 for ten (10) minutes. Thank you.

18

19 --- Upon recessing at 10:41 a.m.

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

21

22 THE CHAIRPERSON: Thank you. Before
23 we proceed with M. Hacault, a few panel members have
24 some questions. Ms. Kapitany...?

25 THE VICE-CHAIRPERSON: Mr. Shepherd,

1 just regarding some of the discussion you had with Mr.
2 Peters, could you clarify something for me. And this
3 is like having been on the NFAT panel, my recollection
4 is that Conawapa was still in the preferred
5 development plan at the end of the NFAT and that
6 Conawapa was included in the 3.95 percent rate
7 increase that Manitoba Hydro had put forward at that
8 time.

9 So I'm just wondering if you could
10 clarify that for me and -- and potentially come back
11 after the break -- it doesn't have to be right now
12 even. Like, even after the lunch break --

13 MR. KELVIN SHEPHERD: Sure, we'll --
14 we'll do that. I know I -- I wasn't certain so we
15 will clarify that.

16 THE VICE-CHAIRPERSON: Thank you.

17 MS. PATTI RAMAGE: Ms. Kapitany, I
18 don't know if it's of assistance but I've pulled up
19 from final argument what we set -- a brief paragraph.
20 If you'd like me to put that on the record now, and to
21 -- to assist in terms of -- of what are -- what my
22 language was in terms of how we ended off at the NFAT.

23 Would not help?

24 THE CHAIRPERSON: Well, I'm just
25 trying to -- to determine whether your submission is

1 what we need to look at, or whether we need to look at
2 the actual report of what the Board said.

3 So, do you want to hear -- you know, go
4 ahead, put it on the record.

5 MS. PATTI RAMAGE: From Hydro's -- if
6 I can just -- let me call up an email. Manitoba Hydro
7 said, let's see.

8 "The preferred development plan
9 contains two (2) key components that
10 require immediate commitment; 1.
11 Start construction immediately in
12 2014 of the Keeyask generation
13 station for 2019 in-service date;
14 and second, proceed with a 750
15 megawatt US transmission
16 interconnection for a 2020 in-
17 service date. The preferred
18 development plan also includes the
19 1485 megawatt Conawapa generating
20 station with an in-service date not
21 later than 2026. A decision
22 regarding the construction of
23 Conawapa is not required
24 immediately, however, in order to
25 protect the in-service date for

1 Conawapa as early as 2026 certain
2 actions and investments are -- are
3 requirement in the near term.
4 Recognizing the conditions will be
5 continually monitored to determine
6 if such continued investments are
7 warranted. And ultimately, to
8 determine if Conawapa should be
9 constructed and for what in-service
10 date."

11 So I thought that at least gives some
12 timeframe in terms of what the thinking was at the end
13 of that process. And then perhaps we can follow up
14 with additional information in terms of the rate
15 increase.

16 I also recalled that during the NFAT
17 Manitoba Hydro's evidence was that the -- that the
18 materials submitted were not for rate-making purposes.
19 They put that caveat on and we'll have to ask the
20 people in our back row, perhaps to -- to maybe put
21 some context to that.

22 THE VICE-CHAIRPERSON: Okay, that
23 would be helpful, thank you.

24 THE CHAIRPERSON: Mr. McCutcheon...?

25 BOARD MEMBER MCCUTCHEON: Good morning.

1 I think this question is for you, Mr. Shepherd, and it
2 probably references off page 179 in the Board
3 document. It's really the IFF16 updated. But I'm not
4 talking about the -- the specific figures, but the
5 trajectory and the rate request of Manitoba Hydro.

6 I think -- if the predictions contained
7 become accurate and I -- I appreciate that those are
8 always a challenge, the question was asked: What
9 would Manitoba Hydro at the 25 percent equity level in
10 ten (10) years time finds itself, what would happen at
11 that time?

12 I think your -- and I'll paraphrase,
13 your answer was, you know, Manitoba Hydro at that time
14 would review. They'd look at future energy needs,
15 those types of things. But also in your comments you
16 have talked about the mistakes of the past and, again,
17 in -- in reference to 20/20 hindsight, but from a
18 public perspective if the rate trajectory that's
19 requested by Manitoba Hydro was approved, what
20 assurances and -- and what types of controls can we
21 put in place or is -- can Manitoba Hydro put in place
22 in the future that we don't repeat -- repeat the
23 mistakes of the past and we end up back having these
24 types of meetings fift -- even though you and I won't
25 probably be involved. Certainly not me but fifteen

1 (15) years from now repeating what we're doing today.

2 MR. KELVIN SHEPHERD: Well, I think
3 there's -- so first thank you, Board member
4 McCutcheon, for the question. I think there's a
5 couple of things I could suggest.

6 So first, I think it's clear to me that
7 at 25 percent equity level is the minimum. And so
8 there should be a review and some policy decision
9 taken as to the appropriate long-term equity
10 requirement of the Company.

11 I think the KPMG report that has been
12 referred to earlier talked about 30 percent being more
13 desirable. I'm not going to make any suggestion
14 myself as to what it should be, but I think 25 percent
15 is viewed as a minimum. And so when you think about
16 the longer term, one (1) of the questions would be:
17 Should the equity position continue to be strengthened
18 to some degree?

19 I think there was a question about to
20 what level that should go to, and I -- I certainly am
21 not suggesting you need to go to the same level that a
22 publicly traded utility would -- would need to go to.
23 We're a crown and so there's some -- some level there
24 that's appropriate.

25 So I think the first thing would be --

1 to do is to consider what the appropriate long-term
2 equity level should be and how -- how long it takes to
3 get there.

4 I -- the reason I talked about future
5 resource development is that -- particularly with
6 Hydro, it's very, very long term, long time frames
7 and, you know, 2033 before we need Keeyask it seems
8 like a long ways out. The current view is after
9 Keeyask, we probably don't need new energy until
10 probably 2039 or 2040, and perhaps capacity until
11 three (3) or four (4) years after that. That seems
12 like a long ways away now, but by the time you get to
13 2027, I think it's appropriate for people to start
14 thinking long-term about that.

15 And then -- and then what is the
16 appropriate resource plan and what capital
17 requirements are required to fund it. And that kind
18 of may inform your equity target as well. If you --
19 if you see a very very large lumpy capital project
20 down the road, potentially, you know, your equity
21 structure which is more -- I think a more appropriate
22 way of saying the amount of debt you have should be
23 reduced in anticipation of having to fund that large
24 project further down.

25 But I guess what I struggle with is

1 that -- to some extent this business reminds me a lot
2 of what the communication business looked like in the
3 1980s. There's a lot of technological change. It's
4 not clear to me what the right resource plan is
5 certainly twenty (20) years from now and what capital
6 requirements will be required to -- to make that
7 happen.

8 But I think, you know, once you've
9 reached a minimum level of equity, I think there --
10 there needs to be thorough review to understand what -
11 - what is the appropriate long-term capital structure,
12 what are the future investment needs that will be
13 faced to ensure that Manitobans have a reliable energy
14 supply.

15 And then you would -- you would set
16 rates in the context of trying to understand that, you
17 know, together with the balance that you would want to
18 have a competitive jurisdiction. And so to the extent
19 that rates have changed elsewhere in those ten (10)
20 years, you would -- you would have to understand that
21 context as well.

22 So, hopefully, that gives you some
23 framework for thinking about what ten (10) years out
24 might -- might look like.

25 THE CHAIRPERSON: Thank you. Mr.

1 Hacault...?

2 MR. ANTOINE HACAULT: Thank you, Mr.
3 Chair.

4

5 CROSS-EXAMINATION BY MR. ANTOINE HACAULT:

6 MR. ANTOINE HACAULT: I'll have some
7 questions. They're not intended to elicit
8 commercially sensitive information so I'll put the
9 same caveat as Mr. Peters did. If I'm asking
10 something which might lead down that path, just warn
11 me. Please ask and you've been doing good -- a good
12 job of that if questions need clarification, I'll do
13 my best to clarify them.

14 I'm going to start by asking for an
15 undertaking which was discussed with counsel, and it
16 was to get a copy of the slide presentation made by
17 the chairman of the Manitoba Hydro Electric Board to
18 the Chamber of Commerce last Friday. And my
19 understanding is that -- that the Corporation is
20 willing to get a copy of those slides and provide them
21 to us?

22 MS. PATTI RAMAGE: Yes, that's correct
23 and rather than by undertaking, Mr. Hacault, I'm going
24 to say we'll get back to you after the lunch break so
25 that we don't have to clutter the record.

1 MR. ANTOINE HACAULT: Thank you very
2 much.

3

4 CONTINUED BY MR. HACAULT:

5 MR. ANTOINE HACAULT: I apologize that
6 in -- in advance I'm going to kind of jump around to a
7 lot of really discrete themes and starting. So the
8 first thing that there was a discussion between Mr.
9 Peters and -- and yourself, Mr. Shepherd and Mr.
10 McCallum on the new way to approach the -- the
11 weighted terms of the debt.

12 Is my understanding correct that the
13 Corporation has already embarked on a different
14 strategy for its debt management?

15 MR. JAMES MCCALLUM: Yep, that's
16 correct. Clearly we're working from forecasts here
17 that have a starting point of April the 1st of 2017,
18 which is already in the rearview mirror and through
19 the first six (6) or seven (7) months of the year.
20 We've been embarking on -- on, you know, the -- our --
21 our borrowing.

22 Subject to check, we've borrowed in the
23 order of 1 1/2 or \$2 billion already this year and --
24 and, you know, you'll borrowing it with this new debt
25 terming strategy in mind we've and -- and sometimes

1 it's better to be lucky than good. We -- we -- we
2 borrowed a bunch of money in the April timeframe using
3 five-year debt that we obtained at very attractive
4 rates before rates kind of shot up over the summer, so
5 we're pleased with that.

6 MR. ANTOINE HACAULT: Thank you. The
7 next slide I'd like to bring the panel's attention to
8 as in Manitoba Hydro 64; that's the presentation slide
9 7.

10 In your direct evidence, Mr. Shepherd,
11 you referenced the consolidated assets value of \$23.7
12 billion as being a book value, correct?

13 MR. KELVIN SHEPHERD: Yes.

14 MR. ANTOINE HACAULT: And you
15 indicated that the real value would be many multiples
16 of that number. Do you have any sense of how many
17 month -- multiples of that number it might be?

18 MR. KELVIN SHEPHERD: You know, I
19 would be speculating but, you know, looking at the --
20 at the age of our plant, there's clearly assets that
21 are on the book at zero value that would be many
22 hundreds of millions if not billions to -- to
23 replicate.

24 So I can say with some confidence it
25 would be a multiple but unless Mr. McCallum can wade

1 in with a more accurate estimate, I would simply say
2 that it's going to be -- be several multiples.

3 MR. JAMES MCCALLUM: Yeah, to my
4 knowledge, the Company has never conducted a
5 replacement value analysis of its entire system. I
6 think that -- the thing to bear in mind and thinking
7 about it, just by way of example, is that take
8 Limestone was a 1.3 or \$1.4 billion project in 1990 or
9 1992, and we are currently in the midst of building --
10 now it's a different project, but we're building a --
11 a facility that has 60 percent of the capacity at six
12 (6) times the price in today's dollars.

13 So, when you kind of work through these
14 things or Kettle, subject to check, was a three (3) or
15 \$400 million project in 1970. That's the -- those are
16 the numbers and those have been depreciated that are
17 in our balance sheet adding up to \$24 billion.
18 Obviously, if we had to replace these things using
19 current dollars it would be enormous.

20 MR. ANTOINE HACAULT: Correct, and if
21 we follow through in that reasoning, if somebody took
22 the time to determine the actual value as we do in, I
23 must say, the normal marketplace, if you go to a bank
24 -- or use an example, and you go to an apartment block
25 and say you bought it forty (40) years ago, you won't

1 go to the bank seeking financing based on what you
2 paid forty (40) years ago showing your equity ratio;
3 correct?

4 MR. JAMES MCCALLUM: So when -- I've
5 got some experience in this. When you go to borrow
6 money, I think you're comparing a hydroelectric dam to
7 -- to an apartment building. The bank will loan you
8 money against your -- that's your collateral to a
9 certain level based on how much they think they can
10 sell your collateral for if they need to.

11 So, their view of your apartment
12 building is based on their ability to sell the
13 apartment building, if they have to take it from you
14 because you've defaulted on your loan. It's kind of a
15 different kettle of fish with a hydroelectric dam or
16 really any other, you know, kind of special-purpose
17 business asset, then the banks look for the collateral
18 -- look for loan security to your cash flow off of
19 those assets; that's their principal concern. It's
20 called cash flow lending, how much debt can the cash
21 flows of these assets produce.

22 MR. ANTOINE HACAULT: Thank you, but
23 if you were looking solely as to whether or not you
24 had currently 25 percent equity in looking at a normal
25 value scenario, you're saying that the value of the

1 assets are multiples of what's shown here. So even if
2 we take a two-fold multiple if we had a total asset
3 value of \$50 billion, on that basis we have 50 percent
4 equity, correct?

5 MR. JAMES MCCALLUM: Well, no, you'd
6 have to work through the math because we're not,
7 obviously, at 25 percent equity today.

8 But, I think you need to be very
9 careful about distinguishing between replacement value
10 and value. Value is driven by, in this context, and
11 certainly in a lender's frame of mind is driven by
12 what the asset is worth, that's not what it cost to
13 replace it.

14 Our discussion yesterday was just to
15 give context to the scale of our business, that if we
16 had to replace all these assets which we don't which
17 we don't. We're just getting context, the \$24 billion
18 reflects historical cost and the -- the overall
19 system. If we had to replace it would cost us
20 significantly more. That doesn't speak to its value.

21 MR. ANTOINE HACAULT: I'll move on
22 after this question, but I was very specific in my
23 first question as to what the value of those assets
24 were and whether they were multiples.

25 I didn't ask for what was the

1 replacement cost of those assets and what's the
2 replacement cost mus -- multiples. So is the answer,
3 Mr. Shepherd, now changed that the value of the assets
4 is not multiples of the 3 -- 23.7 billion?

5 MR. JAMES MCCALLUM: Well, thank you
6 for clarifying that. I was -- obviously
7 misinterpreted your question.

8 The value of these assets to a third
9 party or to Manitobans, since they own them, really
10 relate back to the -- the services they provide, and
11 they relate to -- if you want to do an analysis,
12 basically, to the discounted cash flow analysis that
13 would go with them.

14 So, there is the cost of the asset.
15 There is the replacement cost of the asset, but the
16 current value, if you want to value the asset really
17 is based upon the services that they're providing and
18 the cash flow that will derive from that.

19 BOARD MEMBER GRANT: Could I interrupt
20 because I'm -- I don't take your time. But this is an
21 aspect that I'm a bit confused by.

22 So when you're valuing the physical
23 assets, presumably, it is the capitalized value of the
24 future income stream?

25 MR. JAMES MCCALLUM: No, and -- and

1 for the -- for the main, the assets are valued on the
2 balance sheet at their historical cost. What we paid
3 when we bought them.

4 BOARD MEMBER GRANT: And there's no
5 other accounting test that goes on in that respect?

6 MR. JAMES MCCALLUM: I'll -- I'm
7 afraid I'm not a professional accountant. I mean,
8 there impairment tests that are -- are -- are taken to
9 -- to support the -- the carrying values of those
10 assets, but -- but under the accounting -- and again,
11 subject to my controller tackling me, the -- the
12 accounting test is to support the historic value less
13 accumulated depreciation not on a what I'd call a
14 mark-to-market basis where you're moving the asset
15 values up and down basis a current view of their
16 worth.

17 BOARD MEMBER GRANT: So if I could
18 just follow-up on one (1) context then, one would
19 think if you received the 7.9 percent rate increase
20 that from any other perspective, the current valuation
21 of your asset would rise in terms of, you know, the
22 expected future income stream whereas you expressed
23 that the bank's concerned about your ability to repay
24 the loan and your cash flow.

25 But that doesn't get reflected at all

1 in your measure of equity?

2 MR. KELVIN SHEPHERD: Doesn't get
3 reflected on your balance sheet, no. The balan --
4 accounting and your asset value on the balance sheet
5 is -- is really set by your book value offset by your
6 depreciation and that's -- that's accounting.

7 If you want to talk about value from a
8 replacement point of view, it's -- it's a different
9 equation. And if you want to think about it as -- as
10 value to a third party who might be looking to acquire
11 an asset, it's usually based upon what cash they can
12 derive from -- from the asset.

13 BOARD MEMBER GRANT: Because I was --
14 I'm thinking of in terms of the meaning of the
15 debt/equity ratio, which we'll come back to I'm sure
16 many times. Thank you.

17

18 CONTINUED BY MR. ANTOINE HACAULT:

19 MR. ANTOINE HACAULT: I may have
20 further questions on that but I'll defer them to the
21 revenue panel.

22 Can you move to slide 8, please. Mr.
23 Shepherd, when you were going through this slide you
24 indicated that there were a lot of aging assets and
25 there was a lot of sustaining capital requirements to

1 maintain this system; something to that effect,
2 correct?

3 MR. KELVIN SHEPHERD: That's correct.

4 MR. ANTOINE HACAULT: But this is not
5 something new and, in fact, in previous hearings we
6 had lengthy discussions about Manitoba Hydro's needs
7 in that regard in coming up with an appropriate rate
8 increase; correct?

9 MR. KELVIN SHEPHERD: I wasn't here
10 for previous hearings, but I understand there's been
11 discussion of this issue previously, yes.

12 MR. ANTOINE HACAULT: Could I move to
13 slide 13, please. Now, I think one (1) of the
14 purposes of this slide was to illustrate that
15 industrial bills, at least on posted rates,
16 comparatively are low in Manitoba as compared to
17 Canada, correct?

18 MR. KELVIN SHEPHERD: Yes, that's just
19 a straight rate comparison.

20 MR. ANTOINE HACAULT: But this doesn't
21 go out in that ten (10) year time frame as to where
22 we're going to end up after six (6) years of 7.9
23 percent increases, if that materializes, correct?

24 MR. KELVIN SHEPHERD: Yes. This isn't
25 -- this is a comparison based upon the 7.9 percent

1 increase in '18/'19. We haven't attempted to project
2 out ten (10) years.

3 MR. ANTOINE HACAULT: In the context
4 of competitive rates, Boston Consulting Group actually
5 dealt with this issue as it relates to industrials;
6 correct?

7 MR. KELVIN SHEPHERD: They provided
8 the Board some views on it, yes.

9 MR. ANTOINE HACAULT: And at tab 8 of
10 our book of documents and I believe it's the last
11 page, I've reproduced a slide which Boston Consulting
12 prepared to illustrate how other provinces are dealing
13 with attracting and keeping industrial customers;
14 correct?

15 MR. KEVIN SHEPHERD: Yeah, this --
16 this was a summary they provided to the Board; give
17 some examples of other jurisdictions and what they
18 might do around energy intensive industry.

19 MR. ANTOINE HACAULT: And Hydro --
20 Manitoba Hydro does not have any of these incentives
21 in this province at this time, correct?

22 MR. KELVIN SHEPHERD: I would say for
23 new customers we have flexibility under our service
24 provisioning tariff to provide some relief on the
25 costs of provisioning service. But, generally

1 speaking, you're correct, we don't employ these types
2 of energy intensive rate mechanisms.

3 So we're limited. We're -- we're quite
4 limited in what we -- what we have available.

5 MR. ANTOINE HACAULT: And you would be
6 aware, Mr. Shepherd, that this has been, I'm going to
7 use the word, a criticism that we've been bringing to
8 this Public Utility Board's attention that, although
9 there's maybe the lowest published rates, there's a
10 lot of other options available in the market for our
11 international industrial users in addition to the
12 lowest published rates; correct?

13 MR. KELVIN SHEPHERD: Well, I'm
14 certainly aware you've talked to me directly about it.

15 MR. ANTOINE HACAULT: We'll backup
16 one (1) slide in this material. This is another slide
17 from the Boston Consulting Group, correct?

18 MR. KELVIN SHEPHERD: Yes, this was
19 part of their -- their material.

20 MR. ANTOINE HACAULT: And it's pretty
21 hard to summarize this, but am I getting the slide
22 correctly, that if there was a change in the approach
23 in investment over DSM over the next five (5) years
24 that the Utility could achieve two (2) things:
25 Firstly, a reduction in costs, correct?

1 MR. KELVIN SHEPHERD: Perhaps I'll
2 just wait till you go through your -- your
3 conclusions.

4 MR. ANTOINE HACAULT: Correct?

5 MR. KELVIN SHEPHERD: The change
6 you're talking about is a -- a reduction in the DSM
7 program?

8 MR. ANTOINE HACAULT: Yeah, that would
9 result in --

10 MR. KELVIN SHEPHERD: Really a
11 reduction in the DSM program would take less cost to
12 implement it, yes.

13 MR. ANTOINE HACAULT: And for reasons
14 which I'll get into a little bit later with the
15 revenue panel for the new members of the Public
16 Utilities Board that, in fact, increases Manitoba
17 Hydro's revenue.

18 So you spend less on DSM and that
19 increases Manitoba Hydro's revenues, correct?

20 MR. KELVIN SHEPHERD: With spending
21 less you have less efficiency, you have more load and
22 with more load you have more revenue, yes.

23 MR. ANTOINE HACAULT: And more revenue
24 at a higher domestic price rather than putting it on
25 the opportunity market and exports; correct?

1 MR. KELVIN SHEPHERD: Yes, that's
2 basically correct.

3 MR. ANTOINE HACAULT: And over the
4 last six (6) months, can you give us an idea of how
5 much the opportunity export markets are generating as
6 far as revenues per kilowatt hour?

7 MR. KELVIN SHEPHERD: I don't know,
8 Mr. McCallum, do you have a current figure? I -- I'd
9 tell you that I -- I believe we have been in the mid-
10 \$20 per megawatt range in terms of opportunity
11 pricing.

12 MR. JAMES MCCALLUM: For export prices
13 -- and I just want to have a quick consultation on a
14 CSI front.

15 MR. ANTOINE HACAULT: I'm not stuck on
16 a precise number if it's around a \$.02 range.

17 MR. JAMES MCCALLUM: These are --
18 that's -- that's in the ZIP Code. US dollars, \$.02.

19 MR. ANTOINE HACAULT: Okay. So if
20 domestic customers are paying \$.07, what's happening
21 is there's less power being used at \$.07, correct?

22 MR. KELVIN SHEPHERD: Correct.

23 MR. ANTOINE HACAULT: And that \$.07
24 power is being sold theoretically somewhere, and
25 possibly on the opportunity market at around \$.02,

1 correct?

2 MR. KELVIN SHEPHERD: Well, it was
3 never \$.07 power because there was nobody using it.
4 It's surplus power and it's sold at whatever we can
5 get. The maximum value we can get on the opportunity
6 market.

7 MR. ANTOINE HACAULT: Could I go back
8 one (1) more slide on this, please, at tab 8. This is
9 another slide generated by Bos -- Boston Consulting
10 Group, correct?

11 MR. KELVIN SHEPHERD: Yes.

12 MR. ANTOINE HACAULT: And it's headed
13 Rating Agencies Outline Key Drivers Indicating
14 Manitoba Hydro Self-sustaining Status.

15 So do I gather this was the opinion of
16 Boston Consulting Group as to the key drivers
17 indicating Manitoba Hydro self-sustaining status?

18 MR. KELVIN SHEPHERD: Yes, it's their
19 opinion having looked at different credit rating
20 reports as to what the drivers are and based on their
21 knowledge.

22 MR. ANTOINE HACAULT: And each of the
23 key drivers that are identified by Boston Consulting
24 Group gets a favourable checkmark; correct?

25 MR. KELVIN SHEPHERD: I believe that

1 you're saying in the current environment that's --

2 MR. ANTOINE HACAULT: Correct.

3 MR. KELVIN SHEPHERD: -- that's
4 correct, yeah.

5 MR. ANTOINE HACAULT: And not listed
6 anywhere in on -- on the key drivers is a debt/equity
7 ratio; correct?

8 MR. KELVIN SHEPHERD: It's not on this
9 slide.

10 MR. ANTOINE HACAULT: Now with respect
11 to your slide deck Manitoba Hydro 64, when I looked
12 through all the slides and listened to your
13 presentation, the focus is on a ten (10) year snapshot
14 from 2017 to 2027, correct?

15 MR. KELVIN SHEPHERD: Our focus has
16 been on a ten (10) year plan.

17 MR. ANTOINE HACAULT: And that ten
18 (10) year snapshot has Keeyask coming fully into
19 service when?

20 MR. KELVIN SHEPHERD: So first unit is
21 2021, fully into service 2023, Jamie?

22 MR. JAMES MCCALLUM: That's right. I
23 don't have an exact date off the top of my head, but
24 it's somewhere in the 20 -- '23/'24 fiscal year that
25 we complete the in-service.

1 MR. ANTOINE HACAULT: And when we were
2 going through the NFAT proceedings, choosing the right
3 snapshot or a different snapshot, had a pretty
4 significant effect, especially when there's a major
5 generating station coming in online that's going to
6 generate revenue; correct?

7 MR. KELVIN SHEPHERD: I'm sure that if
8 you looked at different views, it would give you
9 different perspectives, yes. Snapshot.

10 MR. ANTOINE HACAULT: Yeah. So if you
11 took a snapshot from 2023, when the Keeyask is fully
12 in-service and generating revenues and that was a ten
13 (10) year snapshot to 2033, you'd get a totally
14 different picture than what's being depicted in this
15 slide deck; correct?

16 MR. KELVIN SHEPHERD: No. I think you
17 would, first of all, have to understand how you got to
18 2023. And how you get to 2023 in your rates and
19 trajectory in that time period has a very big impact
20 on what the subsequent ten (10) years would look like.

21 So I don't think -- I don't think I
22 would characterize it as simply shift the timeframe
23 and look at it at a different timeframe. You have to
24 look at it from where we are today.

25 MR. ANTOINE HACAULT: But the big

1 difference in the way Manitoba Hydro is presenting for
2 the first time in a hearing its snapshot is a limited
3 ten (10) year snapshot and none of the slides really
4 focus on the twenty (20) year timeframe? The slides
5 in your -- your deck.

6 MR. JAMES MCCALLUM: First, I wouldn't
7 characterize this as a snapshot, that -- that to me
8 isn't what we're trying to present. We are trying to
9 present the plan and in the overview I articulated
10 perhaps less successfully than I would want, I guess,
11 why we believe a ten (10) year timeframe is the
12 correct time frame to plan over in terms of achieving
13 certain objectives.

14 I'm not suggesting it isn't important
15 to look out twenty (20) years or longer. I'm simply
16 suggesting that, you know, we believe that given the
17 risks facing the business, our ability to forecast and
18 manage that a different rate trajectory in a different
19 goal over ten (10) years is important in order to
20 properly manage the risks in the business and ensure
21 that over the longer timeframe, the Corporation and,
22 in fact, the Public Utilities Board has more options
23 in terms of how to deal with longer-term rate
24 stability.

25 MS. PATTI RAMAGE: Mr. Chairman, if I

1 could just interject and I don't intend to give
2 evidence here, but Mr. Shepherd did not have the
3 benefit of being here for the last twenty (20) years
4 of hearings and the preamble to that question
5 indicated for the first time ever we're going ten (10)
6 years.

7 I believe that's what was said and I
8 just wanted to put on the record that we only went to
9 twenty (20) year forecast in 2009; in fact, they were
10 ten (10) years always prior to that, and I just think
11 in fairness to Mr. Shepherd that should be stated. I
12 don't think Mr. Hacault is attempting to -- not
13 suggesting he's attempting to lead, he wasn't here
14 either.

15 THE CHAIRPERSON: No, I -- I
16 understand and it's noted for the record, thank you.

17 MR. JAMES MCCALLUM: I -- sorry, Mr.
18 Chair.

19 THE CHAIRPERSON: Yes...?

20 MR. JAMES MCCALLUM: I -- I might just
21 add, and this is in MIPUG MH round 1 to H to L. It's
22 just noted that in 1995, a -- again the comment has
23 been that we have always been focused on a twenty (20)
24 year trajectory for returning equity to a target
25 level.

1 In 1995, we were targeting at 25
2 percent equity by 2005/2006 which is an eleven (11)
3 year horizon.

4

5 CONTINUED BY MR. ANTOINE HACAULT:

6 MR. ANTOINE HACAULT: That makes me
7 have to go down another track well -- I'll -- and I'll
8 go down further with the revenue panel. But surely,
9 we're not suggesting that when we approved building
10 Wuskwatim in -- in the late 1990s and actually built
11 it 2004, that we were just looking at a ten (10) year
12 plan.

13 MR. JAMES MCCALLUM: I'm only being
14 responsive to your comments that there's been a --
15 Hydro's never been looking at ten (10) years before.

16 MR. ANTOINE HACAULT: With respect to
17 the concept of used and useful assets, would you agree
18 with me that the Keeyask generating station is not
19 used in any way until it starts to generate power?

20 MR. KELVIN SHEPHERD: Yes, it's not
21 used in any way that generates revenue or electricity
22 or benefit to customers.

23 MR. ANTOINE HACAULT: And, based on
24 your evidence, it's not being used or useful for
25 Manitobans directly for demand or energy until very

1 far out in the future?

2 MR. KELVIN SHEPHERD: I think our
3 current forecast would suggest that 2020 -- or 2033
4 time-frame, you know, give or take -- I mean,
5 dependent on the actual results. But that's the
6 current load forecast.

7 MR. ANTOINE HACAULT: Would you agree
8 with me that most of all you're not -- slides deal
9 with the possible negative issues that are -- might
10 arise in risks?

11 MR. KELVIN SHEPHERD: Could -- could I
12 just ask you to repeat that? I -- I think I got it,
13 but I --

14 MR. ANTOINE HACAULT: Would you agree
15 that most if not all the slides in Manitoba Hydro 64
16 deal with the negative risks or downsides?

17 MR. KELVIN SHEPHERD: I would suggest
18 that when we look at risk we're most often concerned
19 with the downside, but the plan and the forecast is a
20 forecast. No question that the downside risks are of
21 more impact financially and that's why they're focused
22 on.

23 MR. JAMES MCCALLUM: And in fact I
24 would argue, I -- I just -- for clarity, the exhibit
25 you reference is our presentation from yesterday? I

1 mean, I would argue most of the slides of a numerical
2 nature actually have more to do with comparing our
3 proposed rate plan with the 3.95 percent plan under
4 the same scenario of our base case, or -- you know,
5 our -- our -- our planned operating results.

6 MR. ANTOINE HACAULT: But, for
7 example, there are no slides on what happens if
8 interest rates continue to stay low. Correct?

9 MR. JAMES MCCALLUM: Well embedded --
10 "low's" a relative term. But certainly embedded in
11 our financial forecast are rising interest rates,
12 because that's the -- the forecast drawn from, you
13 know, third-party observers and we've been consistent
14 with that. But, no we have not produced -- we didn't
15 produce a scenario yesterday that showed rates staying
16 flat or going down further.

17 MR. KELVIN SHEPHERD: Further, just to
18 perhaps comment on that, I mentioned forecasts. So
19 the forecasts themselves, you know, do include some
20 upside. Things like the export of forecast, although
21 it's deteriorated from previous forecasts still does
22 anticipate appreciation in price over the time-frame.

23 MR. ANTOINE HACAULT: Thank you for
24 those clarifications. But that's an example of things
25 if we go back into hearings, on interest specifically,

1 nobody expected that we were going to benefit from the
2 low interest rates that we, in fact, did see for as
3 long as they did occur; isn't that correct?

4 MR. JAMES MCCALLUM: It is correct
5 that our past financial forecasts included the
6 assumption of higher interest rates for 2016 and 2017
7 and we're enjoying today. That is correct.

8 MR. ANTOINE HACAULT: And, in fact
9 that's, I would suggest, why it's important to come in
10 front of this Board every couple of years to know
11 what's actually happened as opposed to what's forecast
12 to happen.

13 MR. JAMES MCCALLUM: And, I think
14 that's entirely consistent with our position. Our
15 position is, we need to take a very strong profound
16 step on rates right now. And that the future is
17 something we're going to discover as time passes.

18 What we have is a financial model.
19 It's a best picture we can give today. I think we
20 know it's going to be wrong. The question is, is it
21 going to be wrong to the high side or high wrong to
22 the low side. And, as we discover that over the
23 course of the next years, we come back before this
24 panel to talk about what has changed and what it means
25 for -- for rates. But what we won't be able to do is

1 go back in time. If we don't get this rate wrong
2 (sic) we're gonna end up on the wrong path -- if we
3 don't get this rate right, we're going out on the
4 wrong path. Pardon me, for the record.

5 MR. ANTOINE HACAULT: I was going to
6 give you get a chance to correct that if you hadn't
7 corrected it yourself.

8 Also, I didn't see any slides focused
9 on whether the 7.9 percent rate path increase as to
10 what effect that would have on businesses choosing to
11 come to Manitoba. There's -- there's no slides
12 saying, well, if we raise them at 7.9 percent instead
13 of 3.95, or some lower amount, how many businesses are
14 going to choose to go elsewhere.

15 MR. KELVIN SHEPHERD: No, there isn't
16 a slide that shows that. But I would also suggest you
17 look back over the last number of years where rates
18 have been low and I would say that although people
19 coming to Manitoba consider that, that's not
20 necessarily the determining factor in why a business
21 locates in a -- in a location.

22 I think it's a factor, but it's not a
23 determining factor. For most businesses, there are a
24 few exceptions that are very energy intensive. But
25 for most industrial customers and business customers

1 rates are just one among a large range of things that
2 really are considered in a -- in a location exercise.

3 MR. ANTOINE HACAULT: But there's no
4 analysis for example, if this new pea plant Rockette
5 (phonetic) had been told we're on a 7.9 percent rate
6 increase path for the next six (6) years, we would
7 choose to go elsewhere.

8 MR. KELVIN SHEPHERD: So, I don't want
9 to get into individual customer discussions but I
10 would say that -- just say they're well aware of the
11 rate environment and they're well aware of -- of --
12 you know, reports and comments made by our Chair
13 publicly.

14 And so I think they certainly would be
15 -- I would say -- can't remember the exact term, but
16 they -- they would be well informed and expert in
17 making their own business decisions. And I'm sure
18 they would be aware of the environment here and have
19 factored that into their -- any decision they made.

20 MR. ANTOINE HACAULT: Thank you for
21 that answer, and I wasn't looking for private
22 information. This was publicly put on -- on some news
23 reports as to why they chose to come to Manitoba, so I
24 wasn't trying to get private information.

25 MR. KELVIN SHEPHERD: And I -- I think

1 you could talk to them about competing jurisdictions
2 and rate trajectories in those jurisdictions.

3 MR. ANTOINE HACAULT: There's no
4 slides discussing what industries would choose not to
5 expand their Manitoba operations under this new rate
6 trajectory, is there?

7 MR. KELVIN SHEPHERD: No.

8 MR. ANTOINE HACAULT: And there is no
9 slides talking about which businesses might choose to
10 relocate as a result of this 7.9 percent rate increase
11 path, is there?

12 MR. KELVIN SHEPHERD: I have not put
13 that in the slide. I certainly have talked to
14 customers. I understand some of the risks, and views,
15 and I'm sure that, you know, MIPUG will have more
16 comments on that that you can make from your own
17 informed perspective. But certainly, I -- I'm willing
18 to discuss that at -- at a high level, but I can't get
19 into individual customers and the discussions they've
20 had confidentially with me.

21 MR. ANTOINE HACAULT: I'm not asking
22 for confidential conversations, but I believe you, in
23 answer to questions of Mr. Peters, said there was no
24 analysis made of the impact on the provincial economy,
25 which compared a 3.95 percent increase trajectory

1 versus the 7.9 percent increase trajectory. Isn't
2 that correct?

3 MR. KELVIN SHEPHERD: I talked about
4 the economy. I -- I would say we certainly have
5 considered individual customers, and we try to
6 incorporate what we know of individual customers'
7 plans in our -- in our load forecast, and -- and -- so
8 certainly, we have had discussion about the potential
9 impacts on certain customers.

10 MR. ANTOINE HACAULT: Now, the other
11 thing that wasn't in the slides but was part of the
12 Boston Consulting Group reports was the additional
13 revenues that the Province of Manitoba is going to
14 generate as a result of projects being overbudget,
15 correct? There's no slides on that?

16 MR. KELVIN SHEPHERD: In -- in our
17 presentation?

18 MR. ANTOINE HACAULT: Yeah.

19 MR. KELVIN SHEPHERD: Yeah, there's no
20 slides that talk about -- I -- I believe what you're
21 talking about specifically are the -- the expenses for
22 Manitoba Hydro, or revenues, if you want to call it
23 that, for the Manitoba Government from water licence
24 fees, capital tax, the provincial guarantee fee.

25 We don't have a slide on that, but

1 certainly it's -- it's well known that higher capital
2 costs result in -- if you -- it results in more debt,
3 you have a higher provincial guarantee fee, and -- and
4 more capital tax.

5 MR. ANTOINE HACAULT: So if there is a
6 billion dollars increase in capital costs, am I right
7 in understanding that -- and this is a general
8 approach, there'd be .5 percent capital tax and a 1
9 percent guarantee fee on that billion dollars, which
10 would generate roughly about \$15 million on an annual
11 basis to the Province of Manitoba, all things being
12 equal?

13 MR. JAMES MCCALLUM: Yeah. All -- all
14 things being equal, if our debt goes up \$1 billion,
15 that's -- that's accurate.

16 MR. ANTOINE HACAULT: So for each
17 billion dollar increase in capital costs, if you have
18 to go to the -- to the market to get that debt, it's
19 about a 1 percent rate increase to consumers?

20 MR. JAMES MCCALLUM: Right. It's a --
21 a -- the capital tax in the debt guarantee fee or
22 provincial guarantee fee together would be \$15
23 million, and give or take our current domestic, you
24 know, general consumer revenue is about a billion
25 five. So yeah, it sounds about right, 1 percent.

1 Not -- not, though, just to be clear,
2 not per year. That would -- I mean, the rates would
3 need to go up once by 1 percent to fund that -- that
4 additional \$15 million in perpetuity.

5 MR. ANTOINE HACAULT: That's correct.
6 So in a \$3 billion increase in capital costs, if we'd
7 follow that example through, if you had to go to
8 market to get that \$3 billion of extra funds. It
9 would be equivalent to about a 3 percent one (1) time
10 rate increase to be able to deal with that government
11 charge of capital cost and of debt guarantee?

12 MR. JAMES MCCALLUM: That's right,
13 until such time as we started paying down some of that
14 debt.

15

16 (BRIEF PAUSE)

17

18 MR. JAMES MCCALLUM: And I think just
19 for -- I'm sure this is well understood that the debt
20 guarantee fee in the capital tax are not under the
21 control of Manitoba Hydro.

22 MR. ANTOINE HACAULT: Thank you for
23 that clarification for the -- the new Board. Although
24 it's not under the control of Manitoba Hydro, would
25 you agree with me, though, that Boston Consulting

1 Group pointed out that this was an area where, if the
2 Province chose to forgo new revenues on these new
3 assets, it would be a way to increase the debt/equity
4 ratio quicker?

5 MR. KELVIN SHEPHERD: Yeah.

6 Certainly, there was a discussion, and I don't think
7 it's any secret that the -- the Chair and the -- the
8 Board had a number of discussions with government
9 officials about Manitoba Hydro's finances, and
10 certainly, I think there was a -- a discussion on the
11 revenue stream from license fees, and capital tax, and
12 the provincial debt guarantee the flow to government.

13 MR. ANTOINE HACAULT: Could we go to
14 Manitoba Hydro Exhibit 59, where the curriculum vitae
15 is of Mr. Shepherd and Mr. McCallum?

16

17 (BRIEF PAUSE)

18

19 MR. ANTOINE HACAULT: Now, I believe
20 earlier on in your testimony, and in my cross-
21 examination, you referenced the telephone business as
22 being characterized by a lot of change.

23 MR. KELVIN SHEPHERD: It certainly has
24 been.

25 MR. ANTOINE HACAULT: So -- and it --

1 would it be fair to say that the -- both that SaskTel
2 and at MTS Allstream, the business was characterized
3 by a rapid evolution of firstly, technology, secondly,
4 competition, and thirdly, customer needs?

5 MR. KELVIN SHEPHERD: Certainly
6 technology, certainly competition, customer needs
7 continue to evolve, and regulation continued to
8 evolve, and depending on which company you're talking
9 about, shareholder or owner expectations evolved as
10 well.

11 MR. ANTOINE HACAULT: Okay. And
12 during your employment at MTS Allstream, that company
13 was a private company, correct?

14 MR. KELVIN SHEPHERD: It's publicly
15 traded. A slight difference between private. When
16 you're private, you have one owner and you're not
17 publicly traded. Believe me, it's quite different.

18 MR. ANTOINE HACAULT: Not government
19 owned. I improperly phrased my question. Thank you
20 for clarifying that.

21 MR. KELVIN SHEPHERD: Yeah.

22 MR. ANTOINE HACAULT: Was Mr. Sandy
23 Riley your current chair/director of Manitoba
24 Telephone System when you were there?

25 MR. KELVIN SHEPHERD: He was on the

1 board of -- of MTS, yes. He was a director.

2 MR. ANTOINE HACAULT: And your
3 employment at Manitoba Hydro was the first experience
4 that you had in running a vertically integrated Crown
5 hydroelectric utility?

6 MR. KELVIN SHEPHERD: Could you just
7 repeat that?

8 MR. ANTOINE HACAULT: Your employment
9 at Manitoba Hydro was your first experience in running
10 a vertically integrated Crown hydroelectric utility?

11 MR. KELVIN SHEPHERD: First experience
12 with an electric utility, yes.

13 MR. ANTOINE HACAULT: Next questions
14 are for Mr. McCallum. Can we go to his CV?

15 Looking at your curriculum vitae, you
16 were in investment banking for about ten (10) years
17 prior to employment at Richardson Capital Limited,
18 correct?

19 MR. JAMES MCCALLUM: That's right. A
20 little less than ten (10) years, but...

21 MR. ANTOINE HACAULT: And then you
22 became the managing director at Richardson Capital
23 Limited from 2004 to 2016?

24 MR. JAMES MCCALLUM: That's correct.

25 MR. ANTOINE HACAULT: And Mr. Sandy

1 Riley, is -- who is the newly appointed Chairman of
2 the Manitoba Hydro Board of Directors was and
3 continues to be the CEO and president of Richardson
4 Financial Group?

5 MR. JAMES MCCALLUM: He -- to my
6 knowledge, he still remains in that position, but to
7 your question, certainly at the time I was at
8 Richardson Capital, Mr. Riley was the CEO of
9 Richardson Financial Group, our parent company.

10 MR. ANTOINE HACAULT: Okay. And is my
11 understanding correct -- correct that Mr. Sandy Riley
12 serves as the managing director of Richardson Capital
13 Limited?

14 MR. JAMES MCCALLUM: He serves as a
15 managing director of Richardson Capital. There are --
16 there were five (5). There are now three (3).

17 MR. ANTOINE HACAULT: And is it -- am
18 I correct in my understanding that it is also your
19 first time during your employment history being
20 involved in running a vertically integrated Crown
21 Hydroelectric utility?

22 MR. JAMES MCCALLUM: Yes.

23 MR. ANTOINE HACAULT: Mr. McCallum,
24 prior to your employment with Manitoba Hydro, did you
25 have occasion to familiarize yourself with any of the

1 decisions of the Public Utilities Board on rate
2 regulation for this Corporation?

3 MR. JAMES MCCALLUM: I will admit to
4 not spending an enormous amount of my time until the
5 summer of 2016 in contemplation of joining Manitoba
6 Hydro. I didn't, in fact, live in Manitoba for the
7 continuous period of my employment.

8 MR. ANTOINE HACAULT: Which decisions
9 of this Board do you recall reading?

10 MR. JAMES MCCALLUM: Before coming to
11 Manitoba Hydro?

12 MR. ANTOINE HACAULT: In anticipation
13 of your employment at Manitoba Hydro.

14 MR. JAMES MCCALLUM: I couldn't
15 identify specific ones. I read a broad amount of the
16 public record.

17 MR. ANTOINE HACAULT: Did you read any
18 regulatory texts, and if so, which ones?

19 MR. JAMES MCCALLUM: I have not read
20 regulatory texts.

21 MR. ANTOINE HACAULT: Could you name a
22 regulatory texts that sets out rate-making principles
23 for a utility.

24 MR. JAMES MCCALLUM: I believe there
25 is one from 1966, that gets spoken of from time to

1 time, but I don't remember its name. There will be
2 others.

3 MR. ANTOINE HACAULT: Okay. Would you
4 be familiar with the contents of the principles that
5 apply for rate regulation as set out in that text?

6 MR. JAMES MCCALLUM: I wouldn't claim
7 an expert knowledge of them, no.

8 MR. ANTOINE HACAULT: Could you name
9 any of them?

10 MR. JAMES MCCALLUM: Principles of
11 cost causality, principles of intergenerational
12 fairness.

13 MR. ANTOINE HACAULT: Mr. Shepherd,
14 have you taken time to read any rate regulation texts?

15 MR. KELVIN SHEPHERD: No, I have not.
16 I have received briefings from regulatory staff, but I
17 have not read the regulatory texts.

18 MR. ANTOINE HACAULT: Could I go to
19 Manitoba Hydro Round 1 responses to MIPUG-17. Now,
20 attached to this interrogatory, there are CVs. And if
21 we could go to Mr. Scott Thomson's CV. It's the next
22 page, please.

23

24 (BRIEF PAUSE)

25

1 MR. ANTOINE HACAULT: Mr. Scott
2 Thomson was your predecessor, Mr. Shepherd?

3 MR. KELVIN SHEPHERD: Yes, he was.

4 MR. ANTOINE HACAULT: And his CV
5 discloses a fair amount of regulatory experience in
6 the gas industry, and then ending up being the
7 president and CEO of Manitoba Hydro, correct?

8 MR. KELVIN SHEPHERD: I believe he had
9 quite a bit of experience in the energy business, yes.

10 MR. ANTOINE HACAULT: And it's this
11 person with that amount of experience who would've had
12 a key involvement in what you describe as a plan that
13 has failed?

14 MR. KELVIN SHEPHERD: I believe Mr.
15 Thompson was here during some of that time period.

16 MR. ANTOINE HACAULT: And Mr. Thompson
17 I see was also the vice chair of the Board of
18 Directors of the Canadian Electricity Association?

19 MR. KELVIN SHEPHERD: Yes, I see that
20 here. Yeah. I -- I believe he -- he was, yes.

21 MR. ANTOINE HACAULT: And, in fact, he
22 had also presented evidence on behalf of this Utility
23 at the last GRA?

24 MR. KELVIN SHEPHERD: I believe he
25 presented here, yes.

1 MR. ANTOINE HACAULT: And I gather
2 you're not suggesting based on your previous comments
3 that he and his team were -- lacked competence to
4 perform their functions appropriately?

5 MR. KELVIN SHEPHERD: No, and I
6 believe that over the years, Manitoba Hydro has been
7 lead by many capable people, and capable managers.
8 And I knew Mr. Thompson to some degree personally, and
9 consider him a good leader. And obviously, he had
10 considerable experience in the field.

11 MR. ANTOINE HACAULT: Can we go to the
12 next CV, that of Vince Warden? Now, Mr. Peters was
13 making jokes about accountants, not in any bad way,
14 but he did a lot of cross-examination of Mr. Vince
15 Warden, who was a cert -- certified management
16 accountant and also had his fellowship, correct?

17 MR. KELVIN SHEPHERD: Yes. I don't
18 know Mr. Warden personally, but I understand he had a
19 long, distinguished career at Manitoba Hydro.

20 MR. ANTOINE HACAULT: In fact, his CV
21 shows that he had over forty (40) years of experience
22 with this Utility and its financial aspects, correct?

23 MR. KELVIN SHEPHERD: He was here a
24 long time.

25 MR. ANTOINE HACAULT: He went from

1 general accountant to -- at the Utility in 1967, going
2 up to being a chief financial officer in 1999, and
3 holding that chief financial officer designation until
4 his retirement, correct?

5 MR. KELVIN SHEPHERD: I think it's all
6 a matter of record, yes.

7 MR. ANTOINE HACAULT: And Mr. Warden
8 would have been there when the generation plants were
9 being built in the 1970s and early 80s, correct?

10 MR. KELVIN SHEPHERD: I presume so.
11 His employment record indicates he was employed with
12 Manitoba Hydro during that time frame.

13 MR. ANTOINE HACAULT: So he would have
14 been familiar with adding major investment in
15 generation at various points in Hydro's history,
16 correct?

17 MR. KELVIN SHEPHERD: He was there
18 during those time frames, yes.

19 MR. ANTOINE HACAULT: He would have
20 been there for the addition of Limestone generating
21 station, which both you and Mr. McCallum have
22 identified, correct?

23 MR. KELVIN SHEPHERD: I believe so.

24 MR. ANTOINE HACAULT: And in fact,
25 that's when the debt/equity levels were substantially

1 lower than what they were today when that big project
2 was undertaken, correct?

3 MR. KELVIN SHEPHERD: It was a
4 different world in 1991, yes.

5 MR. ANTOINE HACAULT: Now, if we could
6 go to Tab 1 of our book of documents.

7

8 (BRIEF PAUSE)

9

10 MR. ANTOINE HACAULT: Subject to
11 check, I'll just give you a little bit of context
12 before I -- I point your attention to some of the
13 facts, and I'll ask you whether there's a different
14 view, or whether you agree.

15 This hearing was in 2004. We've heard
16 that -- by Mr. McCallum that this was the worst
17 drought, as far as financial impact, on Manitoba Hydro
18 in its history. And we've heard what the PUB did as
19 far as rate increases being higher than what was
20 requested by Manitoba Hydro. And at this time we were
21 getting close to eminently adding another generating
22 station, that being the Wuskwatim generating station,
23 if my understanding is correct.

24 Am I right so far?

25 MR. KELVIN SHEPHERD: You have more

1 history, but I believe you're correct.

2 MR. ANTOINE HACAULT: Okay. And if I
3 could take you to page 202 of the transcript. Mr.
4 Peters is asking questions of Mr. Warden and
5 specifically with respect to whether or not Hydro
6 should consider being more aggressive in reducing its
7 debt. That's at lines 18 and 19.

8 Do you see that?

9 MR. KELVIN SHEPHERD: I see Mr.
10 Peters's question, yes.

11 MR. ANTOINE HACAULT: And --

12 MR. KELVIN SHEPHERD: Should I call
13 you Bob or Robert to distinguish you?

14 MR. ANTOINE HACAULT: And if we go to
15 line 25, and I'm going to read it in for the record:

16 "Reducing debt means that we have to
17 do things that would" --

18 Turning to page 2 of 3 --

19 -- "incur other risks that may not
20 be desirable. So reducing debt in
21 itself is probably not an isolated
22 objective."

23 Now, just want to make sure I've
24 understood the slide presentation.

25 Is it now Hydro's position and evidence

1 that the debt is unmanageable and has to be is reduced
2 and is a desirable thing?

3 MR. KELVIN SHEPHERD: Perhaps I'll --
4 I'll make a comment, and then Jamie may want to
5 provide his own view. I want to make it clear, we're
6 not talking about reducing the debt. The debt is
7 sitting at \$18 billion. We're talking about limiting
8 the increase in debt. That's a substantially
9 different question. And so, just for clarity, we're
10 not talking about reducing the current debt. Even
11 under the plan we've proposed the debt will continue
12 to increase, and it will be higher than it is today.

13 MR. ANTOINE HACAULT: But that's all
14 relative, right, Mr. Shepherd?

15 MR. KELVIN SHEPHERD: It's relative to
16 the debt we have today, yes. We -- we're -- we're
17 talking about a plan to appropriately manage debt
18 levels over the next ten (10) years, but that plan
19 doesn't result in redu -- in -- in reducing the
20 current debt in any way. In fact, it will result in
21 debt continuing to increase and simply is a question
22 about what the right level of debt is. And not
23 necessarily about reducing debt.

24 MR. ANTOINE HACAULT: Okay. I'll
25 bring you to the next answer of Mr. Vince Warden,

1 which starts at line 17. I think it'll help to
2 understand -- it will help me understand your
3 evidence. So, Mr. Warden is at this time answering a
4 question of Mr. Mayer and says:

5 "I'm not sure if I'm going to answer
6 your question quite as directly as
7 you might like. But if we --
8 anytime we're expanding as we are
9 with -- expect to be with Wuskwatim
10 then, of course, reducing debt is --
11 not possible, nor is it desirable
12 because debt is good. And that's
13 where we get our source of funds.
14 So borrowing for purposes of growth,
15 as I indicated earlier, is a good
16 thing to do. It is good for
17 Manitoba Hydro, good for its
18 ratepayers. So reducing debt is --
19 contrary to the whole concept of
20 growth and, in itself, not -- is not
21 a good objective for Manitoba
22 Hydro."

23 Isn't that what Manitoba Hydro is now
24 proposing? Before we even have Keeyask in service,
25 Manitobans are being asked to pick up 25 percent of

1 the capital cost in the form of debt -- equity of that
2 capital cost.

3 MR. KELVIN SHEPHERD: I'm not sure
4 there is a question in there, but let me -- let me try
5 to answer it. I believe and I -- I think I -- not
6 having been at the presentation, not knowing the
7 context, but if what Mr. Warden was saying that large
8 capital projects typically require some debt
9 financing, I totally agree with that. The question we
10 have is whether they should be entirely financed by
11 debt, including when you look at in particular Bipole,
12 a project that really has no revenue coming in to
13 support that debt.

14 And so my view is that -- and I think I
15 -- I've made it clear in my remarks that a critical
16 error, if you want to call it, a critical issue that
17 is coming home, so to roost, is the fact that we've
18 taken on two (2) huge projects that now cumulatively
19 together, 5 billion and 8.7 billion. You know, our --
20 our \$14, \$15 billion of investment that the plan was
21 to entirely fund those through debt financing. That
22 rates that were embedded in the rate base are
23 insufficient to fund the interest costs of that debt.

24 And so I'm not certain what Mr. Warden
25 would think of that plan. I can't comment on what he

1 might think of it, but I can tell you what I think of
2 it. And I think it was a plan that was extremely
3 risky. And I would characterize it as, you know, a
4 plan that incurred far too much debt in too far -- far
5 too short a period of time without, really, a good
6 plan to pay for it and predicated on forecasts that at
7 the time I'm sure people thought they were realistic.
8 They weren't plucked out of the air. They were based
9 on expert knowledge in -- at the time, but have proven
10 too optimistic.

11 And so I can't go back in time and
12 revisit those decisions. All I can do is look at
13 where we are today in the light of where we are and
14 where we're going. And what were saying is that if we
15 continue on this path, the debt burden is
16 unsustainable. And so, therefore, it's not a question
17 of reducing debt at this point. It's about limiting
18 the increase in debt to a more supportable level.

19 MR. JAMES MCCALLUM: And I -- I'd just
20 maybe add a few things. And I -- I think the most
21 important point is about the path from here. But you
22 know, I'm kind of hopping in the time machine a little
23 bit. We're back in 2004, is my understanding of this
24 transcript, when in front of the company is Wuskwatim,
25 which is a considerably different proposition than --

1 than Bipole and Keeyask at the same time, either on a
2 relative or absolute basis.

3 And I think, you know, as I read Mr.
4 Warden's comments here, and I've -- I've never met Mr.
5 Warden, but, you know, "Debt is good." I don't think
6 you should conclude from that that all debt is good
7 and debt in -- in unlimited quantities is good. In
8 fact, I made a point of asking Mr. Roman (phonetic) in
9 -- in the course of our Information Requests on -- on
10 his evidence as to whether debt could be unlimited.
11 And his response was that, no, it couldn't. And --
12 and that's a reasonable response.

13 And what we're talking about today and
14 in this hearing is about an idea of a ceiling. At
15 what point do you limit the growth of our debt? At
16 what point you take action to keep it from getting to
17 a level where it's unsustainable and we're causing all
18 kinds of unpredictability for our -- for our
19 ratepayers, with all the damage that goes with that?

20 MR. ANTOINE HACAULT: Thank you for
21 those responses. In the presentation I had referenced
22 the debt equity graph history of Manitoba Hydro, just
23 by way of background.

24 There wasn't an attempt to pre-fund 25
25 percent of Wuskwatim prior to Wuskwatim being built

1 was there?

2 MR. JAMES MCCALLUM: I don't know.

3 MR. ANTOINE HACAULT: And I would
4 suggest, if we look at the history, there wasn't an
5 attempt to pre-fund Limestone to the extent of 25
6 percent before Limestone was built was there?

7 MR. JAMES MCCALLUM: I don't know.
8 But on the question of Wuskwatim, the company at the
9 time had significantly more net income than it enjoys
10 now. I think that's an important point to understand.

11 MR. ANTOINE HACAULT: Go to page 205
12 of the transcript, and then I'll move on. And I'm not
13 avoiding any of the parts of the transcripts, members
14 of the Board. It's just a question of time. I put
15 both before and after so that the Board has a complete
16 picture of the context of the conversation. But I
17 want to put another statement of evidence of Manitoba
18 Hydro to this witness, and it starts at line 3:

19 "As long as the fixed assets exceed
20 the debt, then it's a good thing.
21 So we're investing in assets for the
22 growth of -- of the utility and
23 that's been the approach of Manitoba
24 Hydro ever since we -- we -- we were
25 formed in -- in 1961."

1 I'm suggesting to you that the new
2 approach of this new Board and the new plan presented
3 is a radical departure of what this Corporation has
4 been doing since 1961.

5 MR. KELVIN SHEPHERD: I wouldn't agree
6 with that characterization.

7 MR. ANTOINE HACAULT: Can you point
8 out anywhere in the history or any evidence which
9 shows pre-funding 25 percent of a major generating
10 station before it comes in service?

11 MR. JAMES MCCALLUM: I'd -- I'd like
12 to just jump in, because you made the comment earlier
13 and I elected not to respond. Our financial plan does
14 not see us pre-funding 25 percent of Keeyask or 25
15 percent of Bipole.

16 If you actually look at it what you
17 will see is that over the course of the five (5) or
18 six (6) years until Keeyask comes in service, our
19 financial plan generates about \$2 billion of equity
20 growth. These plans -- these plants, pardon me,
21 Bipole and Keeyask, total up to almost \$14 billion.
22 So we're not talking about pre-funding 25 percent.

23 MR. ANTOINE HACAULT: But that's your
24 target?

25 MR. JAMES MCCALLUM: Our financial

1 target is to return to a 25 percent equity ratio, or
2 put another way, a 75 percent debt ratio by 2027. And
3 the important target is to get our debt in absolute
4 dollars down.

5 MR. ANTOINE HACAULT: And in the first
6 plan that target was being met by a series of five (5)
7 7.9 percent increases, and then slowly backing off
8 when Keeyask was going to start to generate funds;
9 correct?

10 MR. JAMES MCCALLUM: I would -- the
11 first financial plan included five (5) years of 7.9
12 percent rate increases followed by a return to, in
13 year 6, to a -- a 2 percent or meant to be an
14 inflationary rate increase. So I would maybe take
15 issue with the "slowly backing off," but, yes.

16 MR. ANTOINE HACAULT: But that plan,
17 just to be sure we've got it on the record right, went
18 to 2 percent, when Wuskwatim would start to generate
19 revenue?

20 MR. KELVIN SHEPHERD: Well, not
21 Wuskwatim.

22 MR. ANTOINE HACAULT: Sorry, Keeyask.
23 Thank you for correcting --

24 MR. KELVIN SHEPHERD: Oh, now I'm
25 having the correct you? No, I -- I would tell you

1 that the -- the timing of the five (5) seven-nine (79)
2 has really nothing to do with the timing of Keeyask.
3 It was a view of taking five (5) years of -- of rate
4 action up front, accelerated rate action from the
5 previous plan as we also accelerated significantly our
6 cost reduction activities. The fact that Keeyask
7 happened to come into service in that time frame is
8 really coincidental in terms of the change in the rate
9 trajectory after the five (5) years.

10 MR. ANTOINE HACAULT: Thank you for
11 that response. I may be pursuing additional questions
12 on that with the revenue panel, but I need to keep on
13 going because I've got about -- how long do I have,
14 Mr. Chair?

15 THE CHAIRPERSON: You have until
16 12:37.

17 MR. ANTOINE HACAULT: I'll try not to
18 get too many people mad at me. I'll fast forward to
19 tab 2, please, of this book of documents. It's Vince
20 Warden evidence again. And we're now at the -- about
21 -- nearly ten (10) years later.

22 And the context is we've got a
23 Preferred Development Plan which has been talked
24 about, including Keeyask and Conawapa. And if we can
25 go to page 223, lines 8 to 10. Sorry, 222, one (1)

1 back.

2 Mr. Warden agrees with Mr. Peters,
3 which didn't happen very often, that at that time the
4 equity would bottom out at 10 percent equity in 2022.

5 Do you see that?

6 MR. KELVIN SHEPHERD: I see the
7 comment, yes.

8 MR. ANTOINE HACAULT: Yeah. And if we
9 go to the top of page 223, the next page, Mr. Peters
10 is reminding Mr. Warden, with his forty (40) years of
11 experience, that when he was around in 2004, and we've
12 just seen that, debt equity reached 87 percent, with
13 13 percent equity as a result of the drought.

14 Do you see that?

15 MR. KELVIN SHEPHERD: Yes, it's on the
16 transcript.

17 MR. ANTOINE HACAULT: And if we go
18 back to page 221, Mr. Peters is again testing Manitoba
19 Hydro on its concept of a debt and debt equity ratios.
20 And I'll start with Mr. Warden's response at line 13:

21 "Yes, our good/bad dis -- discussion
22 goes back a few years, Mr. Peters,
23 but good debt is -- is debt that we
24 borrow for investment in new
25 facilities as we do here."

1 So does the Corporation agrees that the
2 current debt it's taking on to invest in new
3 facilities is a good debt?

4 MR. KELVIN SHEPHERD: So first I would
5 say I think people agree that borrowing money to
6 invest in a facility that generates service for
7 Manitobans and is economic is good debt.

8 I think the challenge we have today is
9 different than what Mr. Warden was thinking of,
10 because I would suggest that some of the debt we're
11 taking on doesn't generate any revenue, and therefore
12 would be -- so, for example, Bipole, clearly
13 understood. It's -- it's a project that delivers
14 value for Manitobans. But the debt is not generating
15 revenue and it's not an investment in generating
16 revenue. It's an investment and liability. So that's
17 one (1) difference I would make.

18 And, secondly, I would suggest that the
19 business case and the economics for Keeyask have
20 deteriorated fairly significantly. And the cost has
21 increased. The time frame that we need the power in
22 Manitoba has moved out, and the export pricing market
23 has -- has decreased. So I would suggest, if
24 anything, you know, taking on debt -- a -- a certain
25 amount that is required, but just saying it's good

1 debt is probably not a good way of characterizing it.

2 And I think it's debt that we need a
3 plan to deal with. And we need to have a realistic
4 plan to limit the amount of debt going forward. As I
5 indicated before, we're sitting at \$18 billion of debt
6 today. That is going to go up, so we're not talking
7 about not blowing more. We're simply talking about
8 what's the sustainable level -- level of the debt
9 overall.

10 And I don't think you can isolate a
11 single project from the context of the Corporation's
12 overall plan, and talk about whether debt and a single
13 project is good or bad. I think you have to look at
14 the overall financial plan of the company and the debt
15 that the company is -- is taking on and which it will
16 have to support for many, many years.

17 MR. ANTOINE HACAULT: But you're not
18 suggesting Mr. Warden wasn't aware that Bipole was in
19 the plans and being built?

20 MR. KELVIN SHEPHERD: I wasn't here
21 when Mr. Warden was testifying, and I wouldn't suggest
22 that he didn't know that. I'd presume he would know
23 that a project like Bipole was there, but I'm just
24 telling you my view. And my view that -- is that not
25 all new facilities of the same. And facilities are

1 invested in for different reasons. I think there's a
2 very good reason to invest in Bipole.

3 I understand we have to borrow money to
4 make that investment. That's what typically private
5 or publicly traded companies do. I'm simply
6 suggesting that considering 100 percent debt
7 financing, \$14 billion of investment in a very short
8 period of time is a very, very risky proposition when
9 you're looking at the types of assets were talking
10 about.

11 MR. ANTOINE HACAULT: Okay. I will
12 have further questions on that, but I am going to move
13 on. Thank you very much for your -- your thoughts on
14 that. Often the devil's in the details, but I don't
15 have enough time to get into them. So the next
16 transcript I was going to is tab 3.

17 Have you, Mr. Shepherd, had the
18 opportunity to review the PUB decisions with respect
19 to this particular General Rate Application in 2010
20 and 2011, which I'll characterize as a risk hearing
21 because it had a enhanced focus on the risks facing
22 the Corporation?

23 MR. KELVIN SHEPHERD: I don't believe
24 I actually have reviewed these, no.

25 MR. ANTOINE HACAULT: Were you aware

1 that Manitoba Hydro retained KPMG to do an extensive
2 analysis of Manitoba Hydro risk management practices?

3 MR. KELVIN SHEPHERD: I'm aware that
4 KPMG did do a review, yes.

5 MR. ANTOINE HACAULT: And that they
6 made several recommendations which Manitoba Hydro
7 implemented?

8 MR. KELVIN SHEPHERD: Yes.

9 MR. ANTOINE HACAULT: Okay. And
10 what's extracted, I'm not going to go through a lot of
11 it, but just one (1) or two (2) references, is -- and
12 it can be subject to correcting later.

13 But is your understanding was that
14 Hydro concluded that Manitoba Hydro staff had the
15 appropriate people in the appropriate risk management
16 strategies and was doing a reasonable job?

17 MR. KELVIN SHEPHERD: Yeah, from my
18 recollection. You know, there were specific areas for
19 improvement, but overall I think they had a positive
20 view.

21 MR. ANTOINE HACAULT: And there's a
22 lot of good things that are said about -- by the four
23 (4) experts at KPMG with respect to the Manitoba Hydro
24 staff and its ability to deal with risk, including
25 drought risks?

1 MR. KELVIN SHEPHERD: Yes, I believe
2 KPMG had some positive comments.

3 MR. ANTOINE HACAULT: And KPMG also
4 reviewed the issue of -- of advancing Keeyask in that
5 report; didn't it?

6 MR. KELVIN SHEPHERD: I believe they
7 did. I'm not familiar with all the details, but I do
8 recall them looking at that.

9 MR. ANTOINE HACAULT: And this was
10 before the needs for and alternatives to major hearing
11 occurring; correct?

12 MR. KELVIN SHEPHERD: Yes, my
13 understanding it was.

14 MR. ANTOINE HACAULT: And if we can go
15 to page 3706, at the bottom of the page one (1) of
16 Manitoba Hydro's experts at KPMG, Mr. Anurag Gupta,
17 provides his views that the way Manitoba Hydro was
18 evaluating the advancement of that project was
19 appropriate; correct?

20 MR. KELVIN SHEPHERD: That was his
21 view, yes.

22 MR. ANTOINE HACAULT: And that
23 actually the proper way to do it, if we flip to page
24 3707, at lines 19 and following, is that you should be
25 modelling at least thirty-five (35) years of cash flow

1 to decide what you should be doing; correct?

2 MR. KELVIN SHEPHERD: Just for
3 clarification, you're on page 3708?

4 MR. ANTOINE HACAULT: 3707, lines --

5 MR. KELVIN SHEPHERD: Oh.

6 MR. ANTOINE HACAULT: -- 19 and
7 following.

8 MR. KELVIN SHEPHERD: Yeah, so I -- I
9 see his opinion, yes.

10 MR. ANTOINE HACAULT: And I won't go
11 through it, but there was also a discussion of the
12 drought risk and opinions by KPMG on how to deal with
13 that residual risk, and whether or not 2.76 billion
14 dollars of returned earnings was sufficient. That's
15 at page 3712.

16 The last couple questions I'm going to
17 ask relates to tabs 6 and 7. Those are extracts from
18 the NFAT hearing.

19 Given my time limitations, could you
20 just confirm that at tab 6 the extract quoting Dr.
21 Adam Borison is quoting an expert which Manitoba Hydro
22 called to testify?

23

24 (BRIEF PAUSE)

25

1 MR. KELVIN SHEPHERD: Counsel advises
2 me that, yes, we -- we did have the Dr. Borison as a
3 Hydro expert.

4 MR. ANTOINE HACAULT: Yeah. And at
5 tab 7 is also an extract of NFAT evidence, and this
6 time extracting evidence from Mr. Barnlund and Mr.
7 Rainkie, who both would've been providing evidence on
8 behalf of Manitoba Hydro?

9 MR. KELVIN SHEPHERD: Yeah.

10 MR. ANTOINE HACAULT: And at the top
11 of page 3243 Mr. Barnlund is responding:

12 "There's obviously a number of
13 considerations a consumer would
14 obviously have to take into account.
15 And if -- I don't have time to go
16 back, but we're talking about
17 different rate projectories and how
18 things work. Do we go aggressively
19 initially, or do we do a slow steady
20 increase?"

21 And I'm continuing in the quote:

22 "Probably the main one (1), and I
23 think the purpose of why we're here
24 is to look at the difference in
25 bills at 2063 to see the total value

1 and the total respective costs are
2 of each of the plans."

3 This was fifty (50) years out; correct?

4 MR. KELVIN SHEPHERD: Pardon me?

5 MR. ANTOINE HACAULT: This was fifty
6 (50) years out, not ten (10) years?

7 MS. PATTI RAMAGE: Mr. Hacault --

8 MR. KELVIN SHEPHERD: Well, I'm --
9 perhaps counsel will --

10 MS. PATTI RAMAGE: I -- I think it
11 might be useful. Mr. Barnlund is here and will be up
12 on a panel two (2) -- in a week or two (2) from now.
13 And if we're going to review what Mr. Barnlund
14 testified to, with respect to development plans, and
15 as I had mentioned earlier that there were -- there is
16 context around the materials provided at the NFAT that
17 was with respect to development plans, what it can and
18 cannot be used for. It's not information I can
19 provide you right now, but it's certainly not
20 information Mr. Shepherd can provide either.

21 I think it would be fair to the
22 witnesses to put it to the person when we actually
23 have the individual who made these statements. He
24 will be on a panel and -- and it can be put to him,
25 and he can also explain to the Board the -- the

1 context that it was provided in.

2 Because my experience certainly is, is
3 that information that Manitoba Hydro provides this
4 Board in the context of a capital generating --
5 capital plan proceeding is quite different from that
6 and intended for different purposes than that in a
7 rate hearing. And -- and particularly given we have
8 this witness, I think that might be the better place
9 to ask these questions.

10 MR. ANTOINE HACAULT: The reason I was
11 going to ask the question, which I hadn't asked yet,
12 was to determine whether Mr. Shepherd's view is that
13 the Corporation's evidence is now different. We
14 shouldn't be looking at a fifty (50) year frame as to
15 how a consumer should look at this. We should be
16 looking at the ten (10) year time frame.

17 THE CHAIRPERSON: Well, instead of --
18 instead of testifying, you can put the question to
19 him.

20 But I agree with Ms. Ramage in the
21 sense that when Mr. Barnlund testifies, you know, you
22 can put the -- the evidence to him and ask what's
23 changed, or if his view from before is consistent to
24 now or if it's changed or whatever. But if you want
25 to put the question to Mr. Shepherd, you can do so.

1 And we'll just decide what weight we attach to it.

2 MR. ANTOINE HACAULT: So I've put the
3 question to Mr. Shepherd and I'll have one (1) more
4 question, and then I'll --

5 MR. KELVIN SHEPHERD: Could you just
6 briefly rephrase the question?

7

8 CONTINUED BY MR. ANTOINE HACAULT:

9 MR. ANTOINE HACAULT: Is whether the
10 Corporation's view is now different that a consumer
11 shouldn't be looking out fifty (50) years at the
12 difference in bills. And what the total value of the
13 respective costs are.

14 MR. KELVIN SHEPHERD: Well, I -- I
15 don't have the context of the consumer perspective,
16 but -- that -- that this question is asked in. But if
17 what you're asking me is do I think consumers --
18 personally I'd be more concerned about the next ten
19 (10) years than something fifty (50) years out.
20 Simply, it's very hard to forecast fifty (50) years
21 out.

22 So I think we've tried to articulate
23 that we do believe there's benefit to consumers here.
24 We understand there's additional costs to consumers
25 over the ten (10) year plan. I -- I'd be the first to

1 say that higher rates will collect more revenues in a
2 shorter period of time. Those revenues will create
3 benefits over the longer period of time. So I'll try
4 to answer your question that way. But in the context
5 of the previous discussion, I just don't have the full
6 context of what was going on with it.

7 MR. JAMES MCCALLUM: And -- and I'm
8 not sure Manitoba Hydro's evidence was to look at a
9 fifty (50) year time frame. This was a discussion, if
10 I'm understanding it correctly, around the rate
11 impacts of alternative development plans. It wasn't a
12 rate increase perspective.

13 MR. ANTOINE HACAULT: Okay. Thank
14 you. I'll end my questioning there.

15 THE CHAIRPERSON: Thank you. We'll --
16 we'll reconvene in an hour. Thank you.

17

18 --- Upon recessing at 12:37 p.m.

19 --- Upon resuming at 1:40 p.m.

20

21 THE CHAIRPERSON: Okay, we're ready to
22 proceed. I believe, Dr. Williams, you're up.

23 MS. PATTI RAMAGE: Mr. Chair, perhaps
24 before Mr. Williams begins --

25 THE CHAIRPERSON: Good, sorry. yes.

1 MS. PATTI RAMAGE: -- we have
2 distributed around the room the -- our chairman's
3 presentation from the Chamber of Commerce last Friday.
4 I understand it will be Manitoba Hydro Exhibit 67 for
5 the record.

6 THE CHAIRPERSON: Thank you.

7 MS. PATTI RAMAGE: And that satisfies
8 Mr. Hacault's request.

9

10 --- EXHIBIT NO. MH-67: Manitoba Hydro's
11 chairman's presentation to
12 the Chamber of Commerce
13 last Friday.

14

15 THE CHAIRPERSON: Yes, thank you. Dr.
16 Williams...?

17

18 CROSS-EXAMINATION BY DR. BYRON WILLIAMS:

19 DR. BYRON WILLIAMS: Yes, good
20 afternoon members of the panel and just for the
21 Board's information, I missed Mr. Peters, with his new
22 glasses, cross-examination this morning but My Learned
23 Friend Ms. Dilay was taking notes, I reviewed those
24 so to the extent that there is some crossover, it will
25 be with a purpose and not with the intention of

1 duplicating.

2 Mr. McCallum, in your conversation with
3 Mr. Peters actually on Monday afternoon, you noted
4 that this was the first time that you had testified
5 before the Public Utilities Board. You recall that?

6 MR. JAMES MCCALLUM: I do recall that.

7 DR. BYRON WILLIAMS: And would it be
8 fair to say that you have not appeared before any
9 other Canadian regulator of electric utilities as a
10 witness on matters relating to electricity utility
11 rate regulation?

12 MR. JAMES MCCALLUM: That is correct.

13 DR. BYRON WILLIAMS: And likewise, no
14 regulator in the United States on electric utility
15 rate regulation?

16 MR. JAMES MCCALLUM: Correct.

17 DR. BYRON WILLIAMS: And you had a
18 conversation with My Friend Me. Hacault in terms of
19 your great affection for texts, regulatory texts, do
20 you recall that, sir?

21 MR. JAMES MCCALLUM: From this
22 morning, yes, I do.

23 DR. BYRON WILLIAMS: And you do not
24 profess familiarity with Bonbright's Principles of
25 Utility Regulation whether the '88 or '61 version,

1 sir?

2 MR. JAMES MCCALLUM: Insofar as I
3 wasn't aware there were two (2), I guess I'm
4 confirming that.

5 DR. BYRON WILLIAMS: And, sir, the
6 great Alfred Kahn K-A-H-N The Economics of Regulation,
7 Principles and Institutions from 1970; that would not
8 be a do -- a learned text that you would be familiar
9 with, sir?

10 MR. JAMES MCCALLUM: I can acknowledge
11 it is not on my bedside table.

12 DR. BYRON WILLIAMS: Strangely, there
13 is a lawyer to my right who may have it on her bedside
14 table. And at the risk of testifying, I believe Mr.
15 Wiens may have spoke of Bonbright being beside his ta
16 -- table as well.

17 Mr. Shepherd, welcome to the Public
18 Utilities Board on behalf of our clients.

19 MR. KELVIN SHEPHERD: Thank you.

20 DR. BYRON WILLIAMS: And, sir, you had
21 this conversation with Mr. Peters but at a high level
22 you're familiar, sir, that Manitoba Hydro is regulated
23 under what is generally described as a cost of service
24 model, sir?

25 MR. KELVIN SHEPHERD: Yes.

1 DR. BYRON WILLIAMS: And you're aware
2 again at a high level that other electric companies in
3 North America are regulated on what is known as a rate
4 base, a return model; agreed, sir?

5 MR. KELVIN SHEPHERD: Many others are,
6 yes.

7 DR. BYRON WILLIAMS: And you came to
8 Manitoba Hydro in 2015, after serving as president of
9 MTS Allstream which I think we now know as Bell MTS;
10 is that right, sir?

11 MR. KELVIN SHEPHERD: Parts of it are
12 Bell MTS and parts of it are a different company.

13 DR. BYRON WILLIAMS: And, sir, you
14 were with MTS -- I'll use that shorthand -- for about
15 fifteen (15) years?

16 MR. KELVIN SHEPHERD: Yes.

17 DR. BYRON WILLIAMS: And the
18 regulatory body responsible for interprovincial
19 corporations, telecommunication corporations such as
20 MTS would be the Canadian rel -- Radio Television and
21 Telecommunications Commission, or CRTC; agreed, sir?
22 You're nodding your head.

23 MR. KELVIN SHEPHERD: Yes, the CRTC.

24 DR. BYRON WILLIAMS: And prior, of
25 course, com -- to coming to MTS you served at Sasktel;

1 agreed?

2 MR. KELVIN SHEPHERD: Yes.

3 DR. BYRON WILLIAMS: And, sir, during
4 your fifteen (15) years at MTS, you'll agree with me
5 that with regard to the regulation of rates for local
6 telephone service, the CRT was -- CRTC was gradually
7 moving towards forbearance from rate regulation of
8 local telephone service in regions where the market
9 was judged to be competitive?

10 MR. KELVIN SHEPHERD: In areas where
11 there was -- it was judged to be competitive, yes.

12 DR. BYRON WILLIAMS: And, sir, I'm not
13 sure if you're prepared to admit this but you knew me
14 back in -- over a decade ago, sir. And I'll suggest
15 to you that we first met when we were involved in a
16 dialogue related to telecommunication services and
17 infrastructure in northern Manitoba First Nation
18 communities?

19 MR. KELVIN SHEPHERD: I do recall
20 that. I don't think you were a doctor then but...

21 DR. BYRON WILLIAMS: And, sir, was I
22 better looking?

23 MR. KELVIN SHEPHERD: We can
24 complement each other later.

25 DR. BYRON WILLIAMS: And, sir, based

1 on your work in -- in -- with northern First Nations,
2 as well as your long-standing leadership position at
3 MTS, you're familiar at a high level with the concept
4 of the high cost serving area subsidy regime as
5 overseen by the CRTC; agreed?

6 MR. KELVIN SHEPHERD: Yes.

7 DR. BYRON WILLIAMS: And you are
8 aware, sir, that under this subsidy regime money is
9 collected from telecommunication companies to
10 subsidize residential telephone services in rate
11 regulated high cost serving areas; agreed?

12 MR. KELVIN SHEPHERD: Yes, I think
13 there may have been some changes just recently but,
14 historically, that has been the case.

15 DR. BYRON WILLIAMS: And, sir, by --
16 well, that's probably be a distraction in terms of
17 recently. You'll agree that the description of high -
18 - you'll agree with me that a description of high
19 costs. Let me try that again. High cost serving
20 areas, I'll suggest to you, sir, are narrowly defined
21 rate bands that clearly identify those areas where the
22 cost of providing services substantially higher than
23 the average cost for other parts of the incumbent
24 local and exchange carriers territory; agreed?

25 MR. KELVIN SHEPHERD: Yeah, I think

1 it's a fair description. High cost serving area sort
2 of describes itself.

3 DR. BYRON WILLIAMS: And just before
4 we leave that, sir, you'll agree with me that in terms
5 of where those high cost serving areas were identified
6 by the CRTC, they were prim -- primarily in northern
7 regions; agreed?

8 MR. KELVIN SHEPHERD: No, there were
9 high cost serving areas certainly in northern regions,
10 but often rural areas, rural areas in southern
11 jurisdictions were also -- fell into the high cost
12 serving area definition.

13 DR. BYRON WILLIAMS: Okay, fair
14 enough, sir. And you've, sir -- switching gears a
15 little bit, you had a discussion with My Learned
16 Friend Mr. Peters this morning in terms of the work
17 that Manitoba Hydro undertook in 2016 with the Boston
18 Consulting Group?

19 MR. KELVIN SHEPHERD: Yes.

20 DR. BYRON WILLIAMS: You recall that?

21 MR. KELVIN SHEPHERD: Yes.

22 DR. BYRON WILLIAMS: And subject to
23 check, and with reference to Coalition first round
24 112, external cost for the Boston Consulting Group
25 engagement totaled in the range of \$4.5 million, sir?

1 MR. KELVIN SHEPHERD: I think it was
2 4.3 but it's in that range.

3 DR. BYRON WILLIAMS: Okay. And if we
4 could pull up PUB Hydro MFR-72. The revised
5 attachment which is the 615 page PowerPoint and
6 specifically page 147.

7 Sir, this is the retainer letter for
8 Boston Consulting Group dated July 12th, 2016; agreed?

9 MR. KELVIN SHEPHERD: Yes.

10 DR. BYRON WILLIAMS: And it's
11 addressed to you and -- and if -- we don't need to but
12 if we turn to the last page we would see it was signed
13 by you; agreed?

14 MR. KELVIN SHEPHERD: Agreed.

15 DR. BYRON WILLIAMS: And just going to
16 the bottom of page 147, please. Right there is
17 lovely. Here you are talking with Boston Consulting
18 about the second phase of week -- of work after their
19 original four (4) week engagement; is that correct,
20 sir?

21 MR. KELVIN SHEPHERD: That's correct.

22 DR. BYRON WILLIAMS: And you can see
23 at the bottom of this page, just above the four (4)
24 last bullets, that the immediate scope of this phase 2
25 engagement was to align the Board and management along

1 a number of specific tasks; agreed?

2 MR. KELVIN SHEPHERD: That's correct.

3 DR. BYRON WILLIAMS: And the for --
4 the fourth and last bullet on this page, being page
5 147 of PUB MFR-72, the attachment, is for Boston
6 Consulting Group to provide a communications narrative
7 and stakeholder management plan to address these
8 immediate issues and long-term govern -- governance
9 issues for Manitoba Hydro; agreed?

10 MR. KELVIN SHEPHERD: Yes,

11 DR. BYRON WILLIAMS: And if we go to
12 the next page, being page 148 of the attachment, and
13 we direct our attention to the five (5) modules that
14 Boston Consulting Group anticipated over the six (6)
15 weeks of their engagement, sir, we'll see the -- the
16 fifth one being a communication and stakeholder
17 management plan; agreed?

18 MR. KELVIN SHEPHERD: Yes.

19 DR. BYRON WILLIAMS: That would be
20 done in partnership with Manitoba Hydro and customized
21 to certain audiences, including internal PUB, the
22 public, ratepayers, et cetera; agreed?

23 MR. KELVIN SHEPHERD: Yes.

24 DR. BYRON WILLIAMS: And so would --
25 sir, apart from their financial analysis, Boston

1 Consulting Group was also to engage in providing
2 communications, guidance and advice; agreed?

3 MR. KELVIN SHEPHERD: That's right.

4 DR. BYRON WILLIAMS: And, sir, I take
5 it as -- it is consistent with your view of an
6 independent expert that they're to provide
7 communications advice on how to sell Manitoba Hydro's
8 narrative to ratepayers?

9 MR. KELVIN SHEPHERD: The word "sell"
10 isn't exactly how I would characterize it, but they
11 were to provide input and advice to us. Ultimately,
12 the communications to customers would be Manitoba
13 Hydro's responsibility.

14 DR. BYRON WILLIAMS: Okay. So if it
15 wasn't "sell," would you accept the term "management"
16 instead, sir?

17 MR. KELVIN SHEPHERD: Explain,
18 communicate, manage, yes.

19 DR. BYRON WILLIAMS: Okay. Now, given
20 the expenditure of \$4.5 million, or somewhere between
21 4.3, sir, 4.5, the Boston Consulting Group research
22 was obviously important to the Manitoba Hydro board;
23 agreed?

24 MR. KELVIN SHEPHERD: Yes.

25 DR. BYRON WILLIAMS: And important to

1 management, including yourself?

2 MR. KELVIN SHEPHERD: It was
3 important. I could give more context around that, if
4 you -- if you want, but I would agree it was
5 important.

6 DR. BYRON WILLIAMS: And, sir, it
7 would be incumbent upon you to have some level of
8 familiarity with these materials; agreed?

9 MR. KELVIN SHEPHERD: Yes, I believe
10 the material that's been filed I certainly will have
11 seen before.

12 DR. BYRON WILLIAMS: Now, sir, I
13 believe you discussed with My Learned Friend Mr.
14 Peters this morning that apart from the PowerPoints in
15 -- in this attachment, there is no additional formal
16 report by Boston Consulting Group; would that be fair,
17 sir?

18 MR. KELVIN SHEPHERD: I think that's
19 fair. There is a short summary report, but it's --
20 it's fairly high level, and really summarizes what I
21 think is in the PowerPoint material.

22 DR. BYRON WILLIAMS: And I understand
23 your point, sir, from your conversation with Mr.
24 Peters that there was some dialogue and back-and-forth
25 within your committee groups. You testified to that

1 this -- this morning, sir?

2 MR. KELVIN SHEPHERD: Yes.

3 DR. BYRON WILLIAMS: Apart from that
4 though, sir, and given the 4.54 -- in excess of \$4
5 million expenditure, was Hydro ever asked to provide a
6 formal response to the series of PowerPoints prepared
7 by Boston Consulting Group?

8 MR. KELVIN SHEPHERD: No.

9 DR. BYRON WILLIAMS: And, sir, is
10 there a documented formal follow-up process within
11 Manitoba Hydro tracking how it is responding to the
12 advice of Boston Consulting Group and its
13 recommendations?

14 MR. KELVIN SHEPHERD: Could I just ask
15 you to repeat. So you're asking is there a formal
16 follow-up...?

17 DR. BYRON WILLIAMS: So, sir, let --
18 let me try it in little pieces.

19 MR. KELVIN SHEPHERD: Yeah.

20 DR. BYRON WILLIAMS: There was a lot
21 of advice given to the Manitoba Hydro board and to
22 Manitoba Hydro by Boston Consulting Group; agreed?

23 MR. KELVIN SHEPHERD: Agreed.

24 DR. BYRON WILLIAMS: There were
25 important benchmarking exercises undertaken; agreed?

1 MR. KELVIN SHEPHERD: Agreed.

2 DR. BYRON WILLIAMS: There was a whole
3 strategy in terms of approaches to the export market
4 and recommendations related to that, sir?

5 MR. KELVIN SHEPHERD: True.

6 DR. BYRON WILLIAMS: And what I'm
7 asking you, sir, is -- is Manitoba Hydro formally
8 following up with those recommendations and is there
9 some sort of documentation of how it is responding to
10 those recommendations, sir?

11 MR. KELVIN SHEPHERD: I'd say that the
12 -- the recommendations have largely been incorporated
13 in our new strategy and our new plan. And so we've
14 taken I -- I would say output from the -- the review,
15 and have developed a -- a new plan which includes
16 various elements of the -- of the recommendations, and
17 that's what we're tracking.

18 DR. BYRON WILLIAMS: And to the -- and
19 to the extent that you rejected those recommendations,
20 sir, is there anything formal calculating or
21 articulating that rejection?

22 MR. KELVIN SHEPHERD: No.

23 DR. BYRON WILLIAMS: And there's no
24 written document, sir, tracking how you've responded
25 to the Boston Consulting Group recommendations? It's

1 just implicit in your actions, is that your evidence?

2 MR. KELVIN SHEPHERD: My -- my
3 evidence would be that it's -- it's been incorporated
4 into our new business plan and that we're tracking our
5 plan which includes a number of elements and that
6 would -- the plan's been reviewed with the Board, and
7 -- and that's basically how we've taken the input and
8 -- and learnings from the BCG report and incorporated
9 it going forward, and we will be tracking our plan.

10 DR. BYRON WILLIAMS: Okay and just so
11 -- sir, and if I've asked this just there's -- there's
12 no kind of list of recommendations on one side, and
13 Hydro's response on the other side? You're shaking
14 your head?

15 MR. KELVIN SHEPHERD: No. No, not to
16 my knowledge.

17 DR. BYRON WILLIAMS: Mr. McCallum, we
18 will chat more about the financial markets next week
19 when we have a bit more time, but you would agree that
20 ultimately the interest rate that any bond issuer pays
21 is a function of the re -- required return an investor
22 -- investor demands in exchange for putting capital at
23 risk by buying an issuer's debt securities?

24 MR. JAMES MCCALLUM: I would agree
25 with that.

1 DR. BYRON WILLIAMS: And you look so
2 solemn, sir.

3 MR. JAMES MCCALLUM: I was actually
4 trying to remember if those were exactly my words.

5 DR. BYRON WILLIAMS: They're --
6 they're fairly close. And when Manitoba Hydro
7 estimates its inter -- its interest rate costs, sir,
8 it starts with an estimate of the sovereign debt
9 costs, i.e., the government of Canada; agreed?

10 MR. JAMES MCCALLUM: Agreed.

11 DR. BYRON WILLIAMS: And then it
12 estimates -- estimates the provincial spread that
13 investors will demand from the province of Manitoba
14 over and above the benchmark Government of Canada bond
15 yield; agreed?

16 MR. JAMES MCCALLUM: Yes.

17 DR. BYRON WILLIAMS: Mr. Shepherd,
18 Manitoba Hydro undertook four (4) public Information
19 Requests with the public in October -- sorry, public
20 information sessions with the -- with the public in
21 October and November of 2016; agreed, sir?

22 If you need to re --

23 MR. KELVIN SHEPHERD: I think so. I'm
24 just trying -- I was counting on my fingers but one
25 (1) in Winnipeg. I think -- I'm trying to remember

1 with -- if it was in Morden, one (1) in Thompson and
2 one (1) in Brandon.

3 DR. BYRON WILLIAMS: Okay. And, sir,
4 you'll -- you'll agree that counting with your fingers
5 is not the recommended business management approach at
6 Manitoba Hydro, sir?

7 MR. KELVIN SHEPHERD: It's effective,
8 as long as you have them. Safety first.

9 DR. BYRON WILLIAMS: If there's any
10 stochastic modelling, sir, that may cause some
11 problems though I suspect.

12 MR. KELVIN SHEPHERD: I have experts
13 to help me with that.

14 DR. BYRON WILLIAMS: And, sir, as
15 president and CEO, you were part of those
16 presentations along with Mr. -- Mr. Riley?

17 MR. KELVIN SHEPHERD: Mr. Riley
18 participated in some of the presentations and other
19 members of the board were in others but I was in all
20 four (4).

21 DR. BYRON WILLIAMS: You were the
22 constant presence?

23 MR. KELVIN SHEPHERD: Yes.

24 DR. BYRON WILLIAMS: And in essence,
25 this was part of the rollout of the communication

1 narrative flowing from the dialogue between Manitoba
2 Hydro and Boston Consulting Group?

3 MR. KELVIN SHEPHERD: It -- it was
4 part of what the Board had requested us to do. And as
5 well, we were -- we're obligated to hold a number of
6 public information sessions in any event so it had a
7 dual purpose but, you're right, the primary driver was
8 to communicate the results of the Board's review.

9 DR. BYRON WILLIAMS: And, sir, we're
10 not going to go there quite yet, but you'll agree with
11 me -- or sorry, it doesn't -- you'll agree that for
12 the purposes of the public interest information
13 sessions, PowerPoint presentations were prepared both
14 for you and for Mr. Riley, sir?

15 MR. KELVIN SHEPHERD: Yes.

16 DR. BYRON WILLIAMS: And as president
17 and CEO of Manitoba Hydro, it would be a com --
18 incumbent upon you to ensure that the information
19 presented was both fair and accurate; agreed?

20 MR. KELVIN SHEPHERD: Yes, that's
21 true.

22 DR. BYRON WILLIAMS: Now, I'm going to
23 switch gears just for a second, and this can go either
24 to Mr. Shepherd or Mr. McCallum. I want to go back to
25 MFR-72, which is the Boston Consulting Group material,

1 and specifically page 28. And if we could scroll down
2 on that page, please, a bit more so we can see the
3 footnotes; that's beautiful.

4 Sir, -- meaning either of the sirs,
5 this was part of the material presented by Boston
6 Consulting Group to the Manitoba Hydro Electric Board?

7 MR. KELVIN SHEPHERD: Yes.

8 DR. BYRON WILLIAMS: And what this
9 table purports to do at a high level is examine both
10 the capitalization of certain utilities and crown
11 corporations, as well as their respective credit
12 ratings as presented by one (1) of the agencies,
13 namely, Standard & Poor's; agreed? If you look at the
14 right-hand side --

15 MR. KELVIN SHEPHERD: I believe so,
16 yeah. Oh, yes, S&P credit rating, yep.

17 DR. BYRON WILLIAMS: And, sir, this
18 may be putting too much pressure on both your eyesight
19 and mine, but you'll agree that this table, if we look
20 to the source at the bottom, was derived from a 2015
21 audited financial statement from S&L?

22 MR. KELVIN SHEPHERD: Yes.

23 DR. BYRON WILLIAMS: And, sir, if we
24 look at this table from left to right, there is an
25 examination, first of all, of investor-owned regulated

1 utilities; agreed?

2 MR. KELVIN SHEPHERD: Yes.

3 DR. BYRON WILLIAMS: Four (4) American
4 ones, sir?

5 MR. KELVIN SHEPHERD: I believe those
6 are all -- yes, those are all US utilities.

7 DR. BYRON WILLIAMS: And then
8 unregulated merchant generators are our next over to
9 the right, sir?

10 MR. KELVIN SHEPHERD: Yes.

11 DR. BYRON WILLIAMS: And then US
12 government-backed Hydro, sir?

13 MR. KELVIN SHEPHERD: Yes.

14 DR. BYRON WILLIAMS: And then a number
15 of Canadian Crown corporations, all hydro -- or excuse
16 me, all power utilities?

17 MR. KELVIN SHEPHERD: Power utilities
18 not necessarily hydro.

19 DR. BYRON WILLIAMS: Yes, I misspoke.
20 And, sir, you'll see that among the US government-
21 backed hydro -- so in the yellow column towards the
22 middle of this display -- there's a reference to
23 Bonneville Power, sir?

24 MR. KELVIN SHEPHERD: Yes.

25 DR. BYRON WILLIAMS: And at Bonneville

1 at 18 percent is ranked by Standard & Poor's at a MS.
2 double A minus credit rating; agreed?

3 MR. KELVIN SHEPHERD: Yes.

4 DR. BYRON WILLIAMS: And this may be
5 to you or to Mr. McCallum or it may be for next week,
6 but you would -- you're generally aware that
7 Bonneville Power secures gre -- credit both in the
8 private capital market and from the US federal
9 government, with its US federal government debt being
10 subordinate to its private debt?

11 MR. KELVIN SHEPHERD: I'm going to
12 turn over this to Mr. McCallum. I believe he's --

13 DR. BYRON WILLIAMS: And, Mr.
14 McCallum, if you'd prefer to wait until next week on
15 this one, we can do that.

16 MR. JAMES MCCALLUM: I can't pledge
17 familiarity with the way Bonneville Power finances
18 itself.

19 DR. BYRON WILLIAMS: Okay. Thank you.
20 We will explore this next week, so there's your heads-
21 up, sir.

22 Sir, as -- as we look at this
23 information presented by Boston Consulting Group, and
24 focusing to the right-hand side on the US government-
25 backed hydro and the Canadian Crown corporations and

1 realizing this is a snapshot in time from Standard &
2 Poor's, we see that they will be in the range between
3 A and AAA; agreed?

4 MR. KELVIN SHEPHERD: Yes.

5 DR. BYRON WILLIAMS: With -- with the
6 lowest as presented in this table being Hydro One with
7 51 percent capitalization, sir?

8 MR. KELVIN SHEPHERD: Yes.

9 DR. BYRON WILLIAMS: And the highest,
10 at least at -- at this point in time being BC Hydro
11 with a AAA rating, sir?

12 MR. KELVIN SHEPHERD: Yes.

13 DR. BYRON WILLIAMS: And if we move,
14 sir, to the left-hand side of this information
15 presented by Boston Consulting Group, we will see a
16 survey of the investor-owned regulated utilities, as
17 well as the unregulated merchant generators; correct?

18 MR. KELVIN SHEPHERD: Yes.

19 DR. BYRON WILLIAMS: And at the low-
20 end of this scale, sir, we see a B+ and the high-end
21 been an A-, sir?

22 MR. KELVIN SHEPHERD: Yes.

23 DR. BYRON WILLIAMS: And when we focus
24 on the investor-owned regulated utilities, sir, at
25 capitalization levels between 51 and 62 percent, they

1 range from a BBB to an A-, sir?

2 MR. KELVIN SHEPHERD: Yes.

3 DR. BYRON WILLIAMS: Now, I wonder if
4 we can turn back to MFR -- keep this in your -- a
5 mental picture of this slide, sir, but turned back to
6 MFR-71, and specifically page 14.

7 And, sir, you'll agree -- and if you
8 need the front page, I can provide it to you but that
9 this is from Mr. Riley's presentation to the Manitoba
10 public, sir? If you want -- I'll -- I'll give a copy
11 to Ms. Ramage, if that helps.

12 MR. KELVIN SHEPHERD: I think the
13 slide just changed on me here.

14 DR. BYRON WILLIAMS: Yeah, we want to
15 go to slide 14, please.

16 MR. KELVIN SHEPHERD: Yes. Okay.
17 Yeah, I recognize this slide.

18 DR. BYRON WILLIAMS: Okay. And, sir,
19 you'll see that similar to the excerpt from Boston
20 Consulting it is, again, footnoted from 2015 audited
21 financial statements of SNL?

22 MR. KELVIN SHEPHERD: Yes.

23 DR. BYRON WILLIAMS: And as we
24 compare this document, sir, to the previous one
25 prepared by Boston Consulting, you'll see that it does

1 not actually provide the Standard and Poor ratings?

2 MR. KELVIN SHEPHERD: I see that. I
3 know the title says Credit Rating, but the scale is
4 missing.

5 DR. BYRON WILLIAMS: And, sir, it also
6 does not show the US government-backed hydro utilities
7 such as Bonneville Power?

8 MR. KELVIN SHEPHERD: No, it's a
9 subset of the previous slide.

10 DR. BYRON WILLIAMS: Sir, was there
11 any written text, apart from the PowerPoints that --
12 that was prepared for these public presentations?

13 MR. KELVIN SHEPHERD: I've gotta go
14 back in my memory here a bit. Certainly, I believe I
15 probably had some notes. If you're familiar with my
16 chair --

17 DR. BYRON WILLIAMS: Probably not.

18 MR. KELVIN SHEPHERD: Probably not.

19 DR. BYRON WILLIAMS: Okay. Sir, we'll
20 -- I'm not familiar with them but we'll leave it that
21 -- like that. And if you're -- if it comes to your
22 mind, I'm not asking for an undertaking, just your
23 legal counsel. But if there were written notes in
24 terms of Mr. Riley's presentation that comes to your
25 mind, we certainly like to receive those.

1 But, I'm not asking for an undertaking.

2 MR. KELVIN SHEPHERD: The -- the
3 written notes probably wouldn't reflect what he said
4 in any event. Somebody has video if you really want
5 the video, but I'm not sure what media organization
6 has it. I don't.

7 DR. BYRON WILLIAMS: That's fair
8 enough, sir. Again, this can go to you or to Mr.
9 McCallum. Among Canadian Crown corporations you are
10 aware that some other provinces have an expectation
11 that the Crown utility will provide regular dividend
12 payments?

13 MR. JAMES MCCALLUM: Yes.

14 DR. BYRON WILLIAMS: Hydro Quebec
15 would be one of those, sir?

16 MR. JAMES MCCALLUM: As an example,
17 yes.

18 DR. BYRON WILLIAMS: There are others?

19 MR. JAMES MCCALLUM: BC Hydro in the
20 past has paid dividends. I believe Sask Power in the
21 past has paid dividends.

22 DR. BYRON WILLIAMS: And as president
23 and C -- and I'm mindful of your conversation with My
24 Friend Mr. Peters this morning, but to you, Mr.
25 Shepherd, as president and CEO of Manitoba Hydro, it

1 is fair to say that Manitoba Hydro is not mandated to
2 provide dividends to the province of Manitoba?

3 MR. KELVIN SHEPHERD: We're not
4 mandated and don't do so on a regular basis. I
5 believe in our history there have been occasions when
6 there have been kind of special dividends that the
7 government has taken, but not as -- not as a regular
8 policy.

9 DR. BYRON WILLIAMS: And when you use
10 that term "special dividend," sir, you mean special
11 dividends pur -- pursuant to a specific statutory
12 provision, and not -- not absent legis -- legislative
13 direction?

14 MR. KELVIN SHEPHERD: Yes, that's
15 right.

16 DR. BYRON WILLIAMS: And indeed, you
17 know of nothing which directs Manitoba Hydro to pay
18 dividends to the province of Manitoba today?

19 MR. KELVIN SHEPHERD: No.

20 DR. BYRON WILLIAMS: And it's fair to
21 say that you know of nothing which even authorizes
22 Manitoba Hydro to pay dividends to the province of
23 Manitoba today?

24 MR. KELVIN SHEPHERD: I don't think we
25 would be -- there's not a policy and I don't think

1 we'd be authorized to under the current mandate.

2 DR. BYRON WILLIAMS: Again, these
3 questions can certainly go to Mr. McCallum, if he
4 feels more comfortable with them but I leave them open
5 to both -- both of you.

6 When we go to the left-hand side of the
7 presentation by Manitoba Hydro and -- and look at
8 those investor-owned regulated utilities, in terms of
9 equity as compared to total capitalization, we see a
10 range between 51 and 62 percent; agreed?

11 MR. KELVIN SHEPHERD: Yes.

12 DR. BYRON WILLIAMS: And when we look
13 to the private market -- market to reg -- sorry, to
14 the reg -- investor-owned regulated utility market, we
15 will tend to see that sort of capitalization ranging
16 between 50-50 debt -- equity to debt and 60/40 equity
17 to -- to debt; agreed?

18 MR. KELVIN SHEPHERD: Yes, I think
19 most, if not all of these, regul -- regulated
20 utilities -- allow I'd have to check are rate of
21 return regulated and typically in a rate of return
22 regulated environment, the debt equity is -- allowable
23 amount of equity is -- is fixed.

24 DR. BYRON WILLIAMS: And when we speak
25 of equity in the context of investor-owned regulated

1 utilities and I'm going to give you three (3) elements
2 of this question.

3 Equity is actual cash or contributions
4 in kind that is contributed to a corporation either
5 through an initial public offering, a secondary
6 offering or by allowing equity returns to remain in
7 the Corporation; agreed?

8 MR. JAMES MCCALLUM: I -- I might
9 clarify a few things. Certainly the allowance to keep
10 net income into the Corporation as opposed to paying
11 out any portion of that net income as dividend would
12 contribute to equity.

13 A secondary offering is typically
14 thought of as a sale of shares between two (2)
15 investors, but an initial public offering or a
16 treasury offering would be perhaps a more accurate way
17 to describe it.

18 DR. BYRON WILLIAMS: Thank you and I
19 appreciate that clarification. In this context equity
20 is provided by shareholders who are a separate legal
21 class of security holders apart from debt holders;
22 agreed?

23 MR. JAMES MCCALLUM: I'd agree with
24 that, yeah.

25 DR. BYRON WILLIAMS: And based upon

1 your knowledge of the marketplace, sir, equity is
2 contributed to a for-profit corporate -- corporation
3 in the expectation that that capital will be used in
4 the business to generate profits; agreed?

5 MR. JAMES MCCALLUM: It's -- it's
6 agreed, yeah. There's -- capital is contributed --
7 any investor buys a share in a corporation with the
8 hopes of receiving a return of their capital in the
9 form of a -- of a dividend over time, and with a bit a
10 luck, with appreciation of the value of the share.

11 DR. BYRON WILLIAMS: So both the
12 return of the dividend, as well as appreciation, a
13 capital gain; agreed?

14 MR. JAMES MCCALLUM: That's what
15 investors are there for, yep.

16 DR. BYRON WILLIAMS: And that could be
17 -- that dividend could be on an ongoing basis, or
18 after sale of the corporate assets and windup of the
19 company; correct?

20 MR. JAMES MCCALLUM: That's right.

21 DR. BYRON WILLIAMS: And clearly with
22 corporations like this investor-owned equity is
23 contributed to the corporation when it's created;
24 agreed?

25 MR. JAMES MCCALLUM: Well, I mean,

1 sometimes. Sometimes corporations are, you know, like
2 Apple or Compaq are created in people's garages with
3 kind of 50 bucks and an idea but --

4 DR. BYRON WILLIAMS: And then there's
5 an IPO.

6 MR. JAMES MCCALLUM: And then there's
7 an IPO.

8 DR. BYRON WILLIAMS: Okay. Fair
9 enough. Equity may also be contributed to -- in the
10 event that there is a lumpy capital project for which
11 the company does not have sufficient retained earnings
12 on hand; agreed?

13 MR. JAMES MCCALLUM: I would agree
14 that it is part of any company, utility or otherwise,
15 if they have a major investment program they're
16 embarking on they will look at how to finance that
17 investment program, and a lot of times you will see
18 companies either -- you know, at various points,
19 depending on how long and how big the program is will
20 go to the -- to the equity markets and the debt
21 markets to issue the securities that generate the
22 funds to pay.

23 DR. BYRON WILLIAMS: And certainly if
24 they wish to earn a return as a regulated utility,
25 they will want to keep that equity debt ratio fairly

1 consistent; agreed?

2 MR. JAMES MCCALLUM: Well, I think
3 they want to keep it fairly consistent for a bunch of
4 reasons, including managing the risk of their
5 corporation.

6 DR. BYRON WILLIAMS: Yes. Now, sir,
7 in the event of dis -- financial distress equity as
8 compared to debt is more at risk; agreed?

9 MR. JAMES MCCALLUM: That -- that's
10 right. In financial distress we're taken to -- to its
11 -- I won't say it's extreme, but one stop before
12 extreme is entering court-approved bankruptcy
13 protection. You'll almost always find that the debt
14 holder is in a much, much better place than the equity
15 holder.

16 DR. BYRON WILLIAMS: And in fact, some
17 debt covenants have all sorts of conditions attached
18 to them to protect debt holders and give them priority
19 over equity holders; agreed?

20 MR. JAMES MCCALLUM: I would -- yes, I
21 would agree with that. That's the way the law
22 typically works.

23 DR. BYRON WILLIAMS: Sir, you're
24 familiar with the concept of the weighted average cost
25 of capital intimately?

1 MR. JAMES MCCALLUM: I'm familiar with
2 weighted average cost to capital.

3 DR. BYRON WILLIAMS: And you would
4 agree that the cost of debt and the cost of equity
5 combined is the weighted average cost of capital when
6 we look at these investor-owned regulated utilities?

7 MR. JAMES MCCALLUM: No, I wouldn't
8 agree with that. That wouldn't be accurate. What you
9 do is you prorate or weight -- that's why we call it
10 the weighted average cost of capital. You look at the
11 cost of capital. So in the case of, let's take, Duke
12 Energy at 53 percent equity. So let's assume and I --
13 I am not an expert in Duke Energy's capital structure,
14 but let's assume the entire balance of the 47 percent
15 is debt.

16 Then you would take 53 percent of their
17 cost of equity and add it to 47 percent of their cost
18 of debt after tax and then you'd have your weighted
19 average cost to capital.

20 DR. BYRON WILLIAMS: Yes, and I -- I
21 probably asked the questions per -- poorly because
22 that's what I intended to put to you, but thank you
23 for that clarification.

24 And generally speaking for Duke equity,
25 a debt being less risky tends to be less expensive

1 than equity; agreed, sir?

2 MR. JAMES MCCALLUM: Yes, that's --
3 that's typically the case, that debt is less expensive
4 than equity.

5 DR. BYRON WILLIAMS: And when we look
6 at these investor-owned regulated utilities, you'll
7 agree that that capital structure of 50/50 or 60/40,
8 they've come to not by accident but because that's the
9 best compromise between the cost of debt and the cost
10 of equity, given their particular financial
11 circumstances, sir?

12 MR. JAMES MCCALLUM: I -- I would
13 assume so. I mean, there is a gigantic -- gigantic
14 pool of financial theoretical literature around the
15 optimal capital structure. There's some fellows named
16 Modigliani and Miller that wrote extensively on this,
17 but...

18 DR. BYRON WILLIAMS: This, sir, -- the
19 balance they're trying to achieve includes that if --
20 if -- if debt rises higher then the interest rates
21 associated with the debt is going to be higher;
22 agreed?

23 MR. JAMES MCCALLUM: Yeah, well, two
24 (2) things happen. As your debt rises higher as a
25 portion of your capital structure, typically your cost

1 of debt will increase and as too will your cost of
2 equity because you become a more riskier company.

3 DR. BYRON WILLIAMS: Okay.

4 MR. KELVIN SHEPHERD: And your -- and
5 your ability to actually acquire debt. It's not
6 unlimited.

7 DR. BYRON WILLIAMS: Yes. And hence,
8 for these companies they're BBB to A- rating, sir;
9 agreed? You're nodding your head.

10 MR. KELVIN SHEPHERD: Yes, that's --
11 that's what happens if you're -- if you're debt equity
12 and your risk of your business is perceived as too
13 risky, then effectively at some point in time you just
14 can't access the debt market really at any reasonable
15 cost.

16 DR. BYRON WILLIAMS: Now, I'd like to
17 turn Manitoba Hydro to Appendix 10.12 of its
18 application.

19 THE CHAIRPERSON: Sorry, can I
20 interrupt for a second.

21 DR. BYRON WILLIAMS: Yea and just keep
22 track of the time, sir, served in terms of my --

23 THE CHAIRPERSON: You may have lost
24 five (5) minutes then. Can -- sorry, can we go back
25 to MFR-72, page 8.

1 Mr. McCallum, I'm looking at the --
2 sorry, at the Canadian Crown corporations and I
3 understand there are a number of factors that go into
4 these bond rating analysis, but, can you explain to me
5 why one (1) corporation would have eight (8) times the
6 level of equity as another and they're rated at the
7 same level? And I'm referring to Hydro Quebec and MB
8 Power.

9 MR. JAMES MCCALLUM: Well, in -- in --
10 in all of the -- Hydro One and I -- I can't recall --
11 I'll get to your question as soon as I can, Mr. Chair,
12 but Hydro One is listed here as a Canadian Crown
13 Corporation. At -- at some point -- now we're
14 referencing 2015 audited financial statements.

15 I can't recall when they -- when they
16 had their initial public offering, but they're no
17 longer a Crown corporation.

18 THE CHAIRPERSON: Yeah, I -- I realize
19 that, but Hydro Quebec and MB Power are both Crown
20 corps.

21 MR. JAMES MCCALLUM: So the -- the
22 other four (4) here are -- are all -- or five (5), I
23 guess, including Manitoba Hydro all enjoy the credit
24 rating of their provincial owner. These aren't credit
25 ratings that are necessarily established on their

1 standalone financial strength. They're -- they're --
2 it is true that some of the rating agencies award a
3 credit rating to Manitoba Hydro. Specifically, should
4 we issue debt in our own name, but are credit rating
5 is -- is entirely determined by the credit worthiness
6 of the province.

7 THE CHAIRPERSON: So they're --
8 they're -- notwithstanding the difference in equity,
9 theirs are tied to their -- if I could call it
10 provincial masters?

11 MR. JAMES MCCALLUM: Yes.

12 THE CHAIRPERSON: Thank you.

13 DR. BYRON WILLIAMS: Mr. Chair, I'm --
14 obviously I'm always subject at that --

15 THE CHAIRPERSON: Sorry, you have
16 another minute and 10 seconds.

17 DR. BYRON WILLIAMS: I might waste it
18 by just saying, I recognize we're always at the call
19 of the board and we're always subject to their will.
20 I was being a bit flippant so.

21

22 CONTINUED BY DR. BYRON WILLIAMS:

23 DR. BYRON WILLIAMS: Turning to
24 appendix 10.12 is Manitoba's partial response to an
25 Order of the Public Utilities Board from 2008

1 regarding efforts to achieve -- to develop some
2 operating -- operating and administrative expense,
3 benchmarking; agreed?

4 MR. KELVIN SHEPHERD: Yes, it looks
5 like it's a summary of the order.

6 DR. BYRON WILLIAMS: And if you scroll
7 down the page towards the bottom of this page, you'll
8 see that for a variety of reasons while the Order was
9 given in 2008, given the pending implementation of
10 IFRS -- and scroll onto the next page -- Manitoba
11 Hydro engaged in a dialogue with the Board about
12 extending when that benchmarking information would be
13 provided; agreed?

14 MR. KELVIN SHEPHERD: Appears to be
15 the case, yes.

16 DR. BYRON WILLIAMS: And you'll see
17 some inquiries from my clients, sir, in 2014/'15 in
18 terms of the status of the benchmarking inquiry;
19 agreed? First paragraph, sir.

20 MR. KELVIN SHEPHERD: First paragraph,
21 yeah, okay.

22 DR. BYRON WILLIAMS: And, sir, what is
23 attached to Appendix 10.12 is some work conducted by
24 Boston Consulting Group pursuant to their retainer
25 with you in terms of benchmarking, agreed?

1 MR. KELVIN SHEPHERD: Yes.

2 DR. BYRON WILLIAMS: And if we go to
3 the -- page 4 of this PowerPoint, please? Thank you.

4 And sir, you'll accept subject to check
5 that the Boston Consulting Group benchmarking
6 attachment was five (5) pages long, sir?

7 MR. KELVIN SHEPHERD: I know it was a
8 number of pages. Five (5) could be the case, yes.

9 DR. BYRON WILLIAMS: And is it
10 accurate to say, sir, that as part of the benchmarking
11 exercise, that all Manitoba Hydro was provided was
12 five (5) slides?

13 MR. KELVIN SHEPHERD: There were --
14 I'm -- I remember discussions. There's certainly more
15 detailed input that went into this, but this was
16 probably the high level summary of it, and it -- and
17 it -- to help qualify it a bit, this was indeed a very
18 high-level operational benchmarking exercise. It's
19 not what I, in my experience in industry would
20 characterize as a detailed benchmarking review.

21 DR. BYRON WILLIAMS: Sir, apart from
22 the five (5) slides, are there any other report from
23 Boston Consulting Group in the possession of Manitoba
24 Hydro in terms of benchmarking? You're shaking your
25 head.

1 MR. KELVIN SHEPHERD: Not to -- not
2 to my knowledge.

3 DR. BYRON WILLIAMS: Okay. Sir, have
4 you made inquiries of your friends and sister Crown
5 corporation of Manitoba Public Insurance in terms of
6 the benchmarking analysis they undertake, whether via
7 the Gartner Group or the Ward group?

8 MR. KELVIN SHEPHERD: I haven't talked
9 to -- to MPI about the benchmarking, no.

10 DR. BYRON WILLIAMS: And have -- did
11 Manitoba Hydro seek any explanatory notes from Boston
12 Consulting in terms of how this benchmarking was
13 conducted, sir?

14 MR. KELVIN SHEPHERD: As I said, we --
15 certainly I recall a -- a meeting where we reviewed
16 these results with BCG, but I don't think there's
17 explanatory notes, no.

18 DR. BYRON WILLIAMS: We're going to
19 scroll slowly through these next four (4) pages.
20 You'll see this does -- go back to the previous page
21 for one (1) second, please. Page 4 of 7 does some
22 benchmarking with regard to generation, agreed?

23 MR. KELVIN SHEPHERD: Yes.

24 DR. BYRON WILLIAMS: Next page,
25 please. Page 5 does benchmarking with regard to

1 transmission, sir?

2 MR. KELVIN SHEPHERD: Yes.

3 DR. BYRON WILLIAMS: Next page,
4 please. Page 6 does benchmarking with regard to
5 distribution, agreed?

6 MR. KELVIN SHEPHERD: Yes.

7 DR. BYRON WILLIAMS: And page 7 looks
8 at customer service, agreed?

9 MR. KELVIN SHEPHERD: Yes. Those are
10 the titles on each side.

11 DR. BYRON WILLIAMS: If we could go
12 back to slide 5 for a couple of moments, please, sir.
13 This is the slide relating to transmission
14 benchmarking?

15 MR. KELVIN SHEPHERD: Yes.

16 DR. BYRON WILLIAMS: And if we were
17 trying to explain this slide to the Board, you'll see
18 on the left-hand side a break -- a -- a breakdown of
19 the business area cost into subcomponents to show the
20 major areas of spending, agreed?

21 MR. KELVIN SHEPHERD: Yes.

22 DR. BYRON WILLIAMS: To the right,
23 you'll see those cost areas compared to those of other
24 utilities, agreed?

25 MR. KELVIN SHEPHERD: Yes.

1 DR. BYRON WILLIAMS: And we don't need
2 to go the other pages, but a -- they would be in a
3 similar format, being pages 4 through 7?

4 MR. KELVIN SHEPHERD: It's a similar
5 approach to presenting the results, yes.

6 DR. BYRON WILLIAMS: And, sir, for
7 each benchmark, the right-hand side shows the range of
8 valley -- values for the various utilities with the
9 four (4) colours setting out the maximum range for the
10 four (4) quartiles, agreed?

11 MR. KELVIN SHEPHERD: Yes.

12 DR. BYRON WILLIAMS: And the Manitoba
13 Hydro value is shown on the range is the value in the
14 orange box, agreed?

15 MR. KELVIN SHEPHERD: Yes, on the
16 bars.

17 DR. BYRON WILLIAMS: And so if we were
18 to look at the transmission slide, and let's go to
19 maintenance state -- and station operation equipment.
20 Manitoba Hydro with the orange slide or bar to the
21 extreme right is within the fourth quartile, sir?

22 MR. KELVIN SHEPHERD: Yes.

23 DR. BYRON WILLIAMS: And ideally,
24 that's not a place one would want to be?

25 MR. KELVIN SHEPHERD: True.

1 DR. BYRON WILLIAMS: And if we go up
2 one (1) slide to the comparison -- no, stay on this
3 page, but at one (1) line up -- excuse me, I misspoke
4 -- the figure 7 on the next to last column represents
5 the -- the potential improvement. If a cost matched
6 the median, the savings would be \$7 million, according
7 to this analysis?

8 MR. KELVIN SHEPHERD: It's presenting
9 the opportunity, yes.

10 DR. BYRON WILLIAMS: And if one
11 achieved the first quartile to the -- the last column,
12 you would see a -- a \$69 million opportunity, sir?

13 MR. KELVIN SHEPHERD: If you could
14 achieve top quartile performance, yes.

15 DR. BYRON WILLIAMS: And if we go back
16 to the quartile which appear roughly in the middle of
17 this page, sir, you'll see for operational activities
18 such as maintenance, monitoring, scheduling, station
19 operations, telecommunications, tariff services and
20 scheduling, or transmission services and scheduling,
21 Manitoba Hydro ranking in the fourth quartile, sir?

22 MR. KELVIN SHEPHERD: Yes.

23 DR. BYRON WILLIAMS: Now, sir, one (1)
24 page we did not talk about was page 2 -- or page 3 of
25 7 on this slide. And what this does, sir, I'll

1 suggest to you is a -- a parallel bench-making --
2 benchmarking exercise for some of the Corporation's
3 full-time equivalent positions, agreed?

4 MR. KELVIN SHEPHERD: Yes.

5 DR. BYRON WILLIAMS: And as you'll see
6 in the little bubble on the left-hand side, sir, this
7 wasn't for the full Corporation, but it was a
8 benchmarking against about two thousand one hundred
9 and fifty (2,150) full-time equivalent positions, sir?

10 MR. KELVIN SHEPHERD: Yes.

11 DR. BYRON WILLIAMS: And if we go down
12 underneath the bar graph in the first line, there,
13 you'll see Manitoba Hydro percentile position being
14 presented across and to the right. Do you see that,
15 sir?

16 MR. KELVIN SHEPHERD: I do.

17 DR. BYRON WILLIAMS: And, for example,
18 the first column, sales and customer service, Manitoba
19 Hydro ranked by 'B' -- Boston Consulting in the 88th
20 percentile, sir?

21 MR. KELVIN SHEPHERD: Yes.

22 DR. BYRON WILLIAMS: The next column
23 over, in the hundred percentile Sir?

24 MR. KELVIN SHEPHERD: Yes.

25 DR. BYRON WILLIAMS: Not ideal

1 territory?

2 MR. KELVIN SHEPHERD: When you do
3 these benchmarking studies, you do them to determine
4 how you look compared to other people in the industry.
5 Obviously, you prefer to have better operational
6 benchmarks than -- than worse, but you also, I think -
7 - I would caution that you have to perhaps understand
8 that there are differences, and you have to then go
9 behind the benchmarks to understand what the real
10 opportunities are.

11 DR. BYRON WILLIAMS: And sir, in terms
12 of this five (5) page benchmarking exercise by Boston
13 Consulting Group, has Manitoba Hydro prepared a formal
14 written response to it, sir?

15 MR. KELVIN SHEPHERD: No.

16 DR. BYRON WILLIAMS: And has Manitoba
17 Hydro invited Boston Consulting Group back to perform
18 future benchmarking exercises, sir?

19 MR. KELVIN SHEPHERD: No.

20 DR. BYRON WILLIAMS: I wonder if we
21 can turn to Coalition information requests, First
22 Round, 114, please. And we can -- sir, you'll see on
23 this page, being page 1 of 2, there was -- the
24 question was asked whether there were any performance
25 or incentive bonus plan components to the compensation

1 provided to executives. You're nodding your head. Is
2 that a yes, sir?

3 MR. KELVIN SHEPHERD: I see the
4 question there, yeah.

5 DR. BYRON WILLIAMS: Yeah. If we
6 could go down to the response, just right there is
7 fine for right now.

8 Sir, looking at response (b) would it
9 be fair to suggest that apart from the two (2) vice
10 presidents responsible for Manitoba Hydro's major
11 capital construction projects, there is not a
12 performance-based incentive plan for any other
13 executives?

14 MR. KELVIN SHEPHERD: That's true.

15 DR. BYRON WILLIAMS: But for those two
16 (2) presidents, there is a -- a performance-based
17 incentive plan, agreed?

18 MR. KELVIN SHEPHERD: Tied directly,
19 however, only to the performance of their duties with
20 respect to the major capital projects.

21 DR. BYRON WILLIAMS: And when was that
22 performance plan implemented, sir?

23 MR. KELVIN SHEPHERD: It was some --
24 I've just got to get my -- my timing straight in my
25 head, here. I believe the -- they were -- these two

1 (2) particular vice presidents were assigned the
2 accountability for the two (2) projects -- we're
3 talking Keeyask and Bipole here, just for clarity --

4 DR. BYRON WILLIAMS: Thank you.

5 MR. KELVIN SHEPHERD: -- in the spring
6 of 2016, and that's when these changes would have been
7 put in.

8 DR. BYRON WILLIAMS: And if you can
9 scroll down to answer number (d) and I guess letter
10 (d) perhaps. Sir, so these -- without going into
11 personal details, the first incentive payments were
12 made in July of 2017, sir?

13 MR. KELVIN SHEPHERD: Yes. They were
14 based upon the prior year's performance.

15 DR. BYRON WILLIAMS: So they were
16 based upon a -- what temporal period were they based
17 upon, sir? And if you need to do this --

18 MR. KELVIN SHEPHERD: It would have
19 been year --

20 DR. BYRON WILLIAMS: -- by way of
21 undertaking --

22 MR. KELVIN SHEPHERD: -- year -- it
23 would have been year ending -- our fiscal year ending
24 in March 31st of the 2017.

25 DR. BYRON WILLIAMS: So the bonus

1 would be attracted to the achievement of certain
2 targets for the period between -- ending in March of
3 2017, sir?

4 MR. KELVIN SHEPHERD: That's right.

5 DR. BYRON WILLIAMS: Would it be
6 possible by way of undertaking to get a -- a
7 description of the pref -- the performance targets, or
8 -- or is that -- and certainly, sir, you can chat with
9 your legal counsel, and if -- if in some way that
10 discloses too much personal information, but what our
11 client is trying to get at is what --

12 MR. KELVIN SHEPHERD: What's the
13 metrics?

14 DR. BYRON WILLIAMS: -- what are the
15 metrics?

16 MR. KELVIN SHEPHERD: Yeah. I, you
17 know, subject to consultation, but I think I'm
18 perfectly prepared to talk about the metrics and
19 disclose it.

20 DR. BYRON WILLIAMS: Okay. And I
21 don't think we need to turn there, sir, but in terms
22 of the effect, if any, of the proposed 7.9 percent
23 rate increases on the Manitoba economy, it would be
24 fair to say that Manitoba Hydro has not undertaken any
25 specific analysis?

1 MR. KELVIN SHEPHERD: No.

2 DR. BYRON WILLIAMS: Okay. Mr. Chair,
3 we -- we have many questions for Manitoba Hydro, but
4 most of those will be deferred until next week. We
5 appreciate this opportunity, and mindful of the
6 interests of our -- our comrades, we'll -- we'll stand
7 down now.

8 THE CHAIRPERSON: Thank you very much,
9 Dr. Williams. Mr. Gange...?

10

11 CROSS-EXAMINATION BY MR. WILLIAM GANGE

12 MR. WILLIAM GANGE: Mr. Shepherd, My
13 name is Bill Gange. I'm here on behalf of the Green
14 Action Centre. Dr. Williams is trying to block my
15 way, but it's not the first time that that's
16 happened, and I want you to know that.

17 I -- we've prepared some documents that
18 I think are mostly all on there -- well, I know that
19 they're all on the record. But we've gathered them
20 together, and I'll have them marked as Exhibit 15, GAC
21 book of documents re: policy. And if you could call
22 up the first one.

23

24 --- EXHIBIT NO. GAC-15: Book of documents re:
25 policy

1 MR. WILLIAM GANGE: Yesterday, that
2 the Board Chair, Mr. Shepherd, stated the Board's
3 mandate. And you'll see it set out there in the
4 middle of that page. The board has two (2) concerns
5 when dealing with the rate application, the interests
6 of the Utility's ratepayers, and the financial health
7 of the Utility. Together and in the broadest
8 interpretation, these interests represent the general
9 public interest.

10 From -- from a policy perspective, sir,
11 did -- as -- as you gave directions, and as the
12 Manitoba Hydro Electric Board gave directions with
13 respect to this rate application, were those two (2)
14 interests attempted to be balanced in -- in this rate
15 application?

16 MR. KELVIN SHEPHERD: There was an
17 attempt to do so, yes.

18 MR. WILLIAM GANGE: So it's not -- the
19 -- the material that's been filed and the approach
20 that's been taken, from your perspective, is not just
21 with respect to the financial health of the Utility,
22 but also your position is that you were trying to take
23 into account the interests of the Utility's
24 ratepayers. Is that correct, sir?

25 MR. KELVIN SHEPHERD: That's our

1 position.

2 MR. WILLIAM GANGE: Okay. And if we
3 could go to the second page. Thank you. This was a -
4 - a slide from Ms. Ramage's opening statement
5 yesterday. And I'm looking at the last bullet, where
6 it says:

7 "Today's reality is that we have a
8 choice between rate increases today
9 or even larger rate increases in the
10 future. That is why we need to get
11 this right."

12 So obviously, that statement by Ms.
13 Ramage is a statement that's endorsed by Manitoba
14 Hydro?

15 MR. KELVIN SHEPHERD: Yes, I think
16 we've presented the view that rate increases are
17 required. And the question is, what's the right path
18 of rate increases and over what period of time? And
19 we've presented information that shows that a higher -
20 - series of higher rate increases earlier in the
21 timeframe provides for an overall lower rate increase
22 if you look at rates over a longer period of time.

23 MR. WILLIAM GANGE: And, sir, in -- in
24 looking at -- at that statement, on behalf of Manitoba
25 Hydro, would you agree with me that -- that as Ms.

1 Ramage said, "That's why we need to get this right,"
2 that -- that there's more than just one (1) aspect of
3 getting it right.

4 So that, for instance, the balance
5 between the -- the financial health of the Company,
6 and as the Chair quoted, the balance with respect to
7 the interests of the Utility's ratepayers, that has to
8 be -- has to be right as well?

9 MR. KELVIN SHEPHERD: I agree there's
10 -- it's a complex balance. It's -- we need to take
11 all those factors into account. In particular, I
12 think when we look at -- at, you know, what we do over
13 multiple years, any single rate increase, you know,
14 potentially is less impactful, but certainly the rates
15 over time, it is important to understand those --
16 those issues, and attempt to -- to balance them.

17 MR. WILLIAM GANGE: And -- and, sir,
18 as I understand it, the -- the position that you're
19 taking is that higher rates than what was suggested
20 during the Needs for and Alternatives to hearing,
21 higher rates than -- than what was suggested then may
22 mean less risk and lower rates in the long run as
23 charged by Manitoba Hydro. Do I have that correct,
24 sir?

25 MR. KELVIN SHEPHERD: I'd probably try

1 to clarify that, perhaps just a bit if I could. I
2 think the -- it helps manage risks in both the near
3 term and the long term, because you have a better
4 opportunity to -- to deal with your financial issues,
5 even in the near term.

6 So if you're looking at, you know, the
7 next five (5) years, when we're borrowing a
8 significant amount of money, we're completing these
9 projects, and you're more exposed, the impact of some
10 risks is -- is more impactful in the short term. This
11 rate plan definitely helps you manage those risks
12 better than --

13 MR. WILLIAM GANGE: From the
14 perspective of the Corporation?

15 MR. KELVIN SHEPHERD: I think from the
16 perspective of rate holders as well, because, you
17 know, the -- you're -- you have a rate plan that is
18 going to put the visi -- put not only the Corporation,
19 I would say, in a stronger position, but I think when
20 you have more ability to manage your risk, you are
21 also managing that risk on behalf of customers.

22 So I think there is an improvement in
23 risk management, certainly in the short term, as well
24 as the long-term. And I think over the longer term,
25 you put yourself in a better position to reduce the

1 rate impact on customers over the longer term. But
2 there is a trade-off for that, and the trade-off is,
3 you know, you're -- you're accelerating the rate
4 increases into a shorter period of time, and so
5 there's a cost to be paid for that risk mitigation.

6 MR. WILLIAM GANGE: And would you
7 agree with me, sir, that that cost that you just
8 referred to is particularly significant when it comes
9 to low-income, high-energy-burden customers in the
10 short term?

11 MR. KELVIN SHEPHERD: I think the --
12 certainly, higher rates impact those customers more,
13 and I think, you know, the impact over a shorter
14 period of time certainly does affect those customers,
15 but I would suggest it probably affects them
16 significantly over the longer term as well.

17 MR. WILLIAM GANGE: And if we could go
18 to the next page on -- on our list, this is a -- a
19 transcript from your presentation yest -- yesterday,
20 sir. And at page 135 of -- of your -- that -- of the
21 transcript from yesterday, this is something that you
22 said:

23 "We are sensitive to concerns that
24 justifiably exist about the negative
25 impacts on our low-income indigenous

1 electric heat and heavy industrial
2 customers. We are not asking for
3 any more than we think is
4 necessary."

5 That -- that was a -- a thoughtful,
6 considered response that -- that you made in terms of
7 your opening presentation, correct, sir?

8 MR. KELVIN SHEPHERD: I am sensitive
9 to the concerns, and I -- I believe our Board
10 understands those concerns. And I -- I am actually
11 quite concerned about these -- these issues, and we've
12 tried to find a route that in -- that will balance
13 those. But as I was saying yesterday, I'm not sure
14 that Manitoba Hydro by itself can really mitigate all
15 the impacts, because the impacts are -- are not
16 necessarily simply associated with electricity rates.
17 They are associated with conditions of income, and
18 poverty, and social position.

19 MR. WILLIAM GANGE: And, sir, the --
20 the comment that you made, "We are not asking for any
21 more than we think is necessary." Would you agree
22 with me, sir, then what -- what you think is necessary
23 may be more than what low-income, high-energy-burden
24 customers can afford?

25 MR. KELVIN SHEPHERD: There are

1 certainly some customers that will have a difficult
2 time affording any rate increase, and these are, as we
3 said, that we recognize they're significant rate
4 increases.

5 MR. WILLIAM GANGE: And -- and if we
6 could go to page 8. So this comes from the -- the
7 Boston Consulting Group, and -- and I've highlighted a
8 couple of sections from page 200 of -- of 615. And I,
9 particularly, sir, want to address a couple of issues.
10 Where it says that:

11 "Manitoba Hydro's rates are the
12 lowest in Canada across all rate
13 classes, leaving headroom to raise
14 rates, Manitoba Hydro residential
15 customers pay a smaller share, 1.4
16 percent of disposable income than
17 the Canadian average of 1.8
18 percent."

19 So that -- that comment from the Boston
20 Consulting Group must've given you some comfort in
21 terms of the -- the overall effect of raising rates.
22 Is -- is that a fair summary or conclusion on my part?

23 MR. KELVIN SHEPHERD: I'm not sure
24 "comfort" is the right word, but I think, you know,
25 analytically, we know that for probably a -- a pretty

1 significant portion, but not all customers, there is
2 some level of affordability, that rates can go up.

3 MR. WILLIAM GANGE: Right. And -- and
4 then the Boston Consulting Group goes on to say:

5 "However, rate increases are likely
6 to impact some segments
7 disproportionately, and impacts
8 could be politically sensitive. Low
9 income and remote First Nations
10 customers are more sensitive to rate
11 increases."

12 And -- and that's -- that's a statement
13 that's just plain and obvious on its face, isn't it,
14 sir?

15 MR. KELVIN SHEPHERD: Yeah. I think
16 it's factual.

17 MR. WILLIAM GANGE: Yeah. There's no
18 argument with that -- that although there -- the --
19 the 1.4 percent of disposable income may apply across
20 the board, it's recognized by Manitoba Hydro that --
21 that some of your customers are -- are significantly
22 higher than that 1.4 percent?

23 MR. KELVIN SHEPHERD: Yeah. I -- I
24 think there's no question. And it's -- it's because
25 of the way rates are set and the way legislation asks

1 us to set rates. It's -- we're not to discriminate
2 geographically or by density, and therefore
3 essentially, the way the cost structure works -- I
4 recognize is a very high level, because experts in
5 this will -- will assume that there's a lot more
6 complexity in our -- our cost of service study, but I
7 know at -- at a gross margin level, costs are
8 allocated to customer classes, and rates are then set
9 for customer classes.

10 But the customer classes, residential
11 or general, small or large industrial, it is not a
12 customer class that says, You have a certain income,
13 or an ability to pay, or you have electric heat versus
14 gassy. Customer classes have not been established in
15 that way.

16 MR. WILLIAM GANGE: However, the
17 Boston Consulting Group did suggest that -- that one
18 (1) way of dealing with this would be to differentiate
19 rate increases according to different -- different
20 categories, agreed, sir?

21 MR. KELVIN SHEPHERD: Yes. They
22 suggested that, and that's one (1) possible course of
23 rate action is to somehow differentiate rates based
24 upon customers' income levels, or ability to pay, or
25 some other metrics that may be established.

1 MR. WILLIAM GANGE: And sir, are --
2 are -- when you came in to your position, did you
3 develop any familiarity with the evidence that was
4 produced at the last GRA by Green Action Centre
5 through Mr. Roger Colton?

6 MR. KELVIN SHEPHERD: I -- I know
7 people talk generally about it, but I don't think I --
8 I have read the specific evidence. But I know in --
9 in reviewing some of the issues, some of the positions
10 brought forward by Green Action Centre were discussed
11 with me, yes.

12 MR. WILLIAM GANGE: And -- and this --
13 this may be unfair. If it is, just let me know. But
14 are --

15 MR. KELVIN SHEPHERD: Don't -- don't
16 worry.

17 MR. WILLIAM GANGE: Are you -- are you
18 familiar, sir with -- with Dr. Colton's analysis -- or
19 actually, Mr. Colton's analysis, that -- that 6
20 percent to 10 percent of disposable income represents
21 a -- a concern, an -- an energy poverty concern?

22 MR. KELVIN SHEPHERD: I've seen 6 and
23 10 percent metrics before and, you know, I've read the
24 recent bill affordability work that was done, and --
25 and that was -- those are two (2) of the benchmarks

1 that have been applied in terms of trying to
2 understand energy poverty, yes.

3 MR. WILLIAM GANGE: And yesterday,
4 sir, you -- in -- in your questioning from My Friend
5 Mr. Peters, you confirmed that Manitoba Hydro in this
6 application is not considering rate design like
7 special rates for all electric customers during winter
8 heating, bill affordability in time of use rates?

9 MR. KELVIN SHEPHERD: No. We have not
10 proposed anything in this particular rate application.

11 MR. WILLIAM GANGE: And, sir, are --
12 are you aware that -- that in the -- the last order,
13 73/'15, that the Board affirmed its jurisdiction to
14 find cross subsidization as part of the package of
15 solutions?

16 MR. KELVIN SHEPHERD: I would have to
17 check that wording to totally understand that, but I
18 would understand that even in today's rate-setting
19 process, there's some degree of cross-subsidization.

20 MR. WILLIAM GANGE: So --

21 MR. KELVIN SHEPHERD: For example, I'm
22 aware of the concept of the zone of reasonableness,
23 and the fact that costs are not perfectly recovered
24 through rates, and so there's -- and on top of that, I
25 mean, as I described the rate-setting process, there's

1 implicit cross-subsidization in the current rates,
2 because I -- I don't believe that the cost of serving
3 a -- a rural customer are the same as a urban
4 customer, or a Northern customer. So there's already
5 implicit cross-subsidization in the system.

6 MR. WILLIAM GANGE: And -- and sir,
7 yesterday in -- again, in answer to some questions
8 brought by Mr. Peters, you indicated that -- that
9 charging different rates based upon income was, from
10 your perspective, more in the field of social policy,
11 and that it wasn't directly related to -- or dir --
12 directly tied into applications for electrical rates.
13 Do you recall that concept being discussed yesterday?

14 MR. KELVIN SHEPHERD: Yeah, and I
15 could -- I could clarify that, and would like to -- to
16 indicate that that's largely a question of our mandate
17 and the directive that has been -- been given to us.
18 But income, for example, as a -- a way to tailor
19 rates, it's -- typically, income metrics are better
20 done through, you know, tax systems and things like
21 that, and not necessarily through rate setting.

22 And so my comment was -- about Manitoba
23 Hydro not necessarily having the tools to implement
24 all of these mechanisms I think go back to two (2)
25 things. One (1) is we -- we -- we're not -- may not

1 be the most effective administrator and mechanism to -
2 - to look at those issues, and under our current
3 policy mandate, we don't believe we have the ability
4 to -- to look at that as a -- as a test.

5 MR. WILLIAM GANGE: Sir, you're --
6 you're aware that in Board decision 73/'15, and I've
7 put in front of you page 28 of 108 from the last GRA
8 decision, that the Board concluded that it has
9 jurisdiction to order the implementation of a bill
10 affordability program?

11 MR. KELVIN SHEPHERD: I beli -- I
12 believe the Board concluded that in this order, yes.

13 MR. WILLIAM GANGE: Yes, so that -- so
14 that whether you see it as your mandate and -- and I
15 guess I -- I should step back -- mandate from whom?
16 From -- from the -- from the Hydroelectric Board, or
17 from government?

18 MR. KELVIN SHEPHERD: It's in our act,
19 to begin with. We have a mandate under our act and
20 the act provide -- put some restrictions in, and
21 secondly, I think yes, there's mechanisms for
22 government to issue directives about public policy,
23 and to my knowledge, we do not have a directive that
24 has been issued by government to us, but they
25 certainly have the capability to do so, should they

1 desire.

2 MR. WILLIAM GANGE: But you'd agree
3 with me, sir, that -- that part of your mandate also
4 comes from this Board?

5 MR. KELVIN SHEPHERD: I think the
6 Board has rate-setting authority, and part of that
7 ultimately goes to a question of how rates are
8 designed, for sure.

9 MR. WILLIAM GANGE: Right. So that if
10 we go to the next page, page 6 of -- of our Exhibit
11 number 15. Again, this is from page 29 of 108 from
12 the last GRA ruling, where Green Action Centre and --
13 and your counsel have had a fairly long-running
14 dispute over legislative authority. And in this
15 decision, the Board found that it said:

16 "The Board does not read the
17 legislative requirement for post --
18 stamp rates to prohibit the creation
19 of a lower income customer class,
20 provided that no geographic
21 limitations are imposed on such a
22 class. Similarly, while (43) (3)
23 prevents the co-mingling of
24 government funds with Manitoba Hydro
25 funds, it does not prohibit the

1 creation of a rate class that pays
2 less than the average cost to serve
3 such customers."

4 So the Board specifically advised you
5 that from its perspective, it has the ability
6 legislatively to provide a mandate to you to create
7 those kinds of -- of rate classes, did it not, sir?

8 MR. KELVIN SHEPHERD: As I read this
9 particular highlighted text, that's -- that's what
10 it's saying, and I think what I said is that I would
11 agree, you know, that providing you don't have
12 geographic limits, you could establish a different
13 class.

14 I don't believe we have good tools to
15 administer a class based on income, but -- but that's
16 a -- a question of implementation.

17 MR. WILLIAM GANGE: Right. But in
18 this -- in this hearing, you've -- that -- that the --
19 the direction in terms of the ability of Manitoba
20 Hydro to create a rate class for low-income customers
21 has not been followed through on, has it, sir?

22 MR. KELVIN SHEPHERD: No, and I think
23 -- as I mentioned yesterday, that doesn't -- I would
24 not read into that that we're resistant to the idea of
25 looking at things going forward. I think the

1 practical reality is that we could only accomplish so
2 much in the time we had for this rate filing, and we
3 did not believe we were in a position, given the other
4 substantive issues in front of us, to deal with this
5 issue in this rate application. But there are, I
6 think, a number of rate design issues that -- and they
7 range from these ones to some of the ones dealing with
8 industrial customers, and -- and other factors that
9 could be and should be explored.

10 And I -- I'd just say that the --
11 Manitoba Hydro is not to opposed to the idea of
12 exploring such things. We simply think they need to,
13 you know, be things that can be implemented. We think
14 there are public policy issues at play. As I was
15 saying, we believe government has a role, and
16 certainly, government has, in the past, you know, has
17 played some role in -- in addressing these income
18 issues in particular.

19 So I don't think it can be all solved
20 through -- through rates, but don't mistake me by
21 thinking that because we haven't filed something in
22 this particular application that that means that I'm
23 opposed to the idea going forward of exploring
24 solutions.

25 MR. WILLIAM GANGE: Okay. Thank you.

1 And I -- and I -- I hear you -- I -- I hear those
2 comments. I'm just wondering -- because one (1) of
3 the explanations that -- that has -- has been provided
4 to Green Action Centre, and -- and to others is that -
5 - that both with rate design and bill affordability,
6 that given that -- that this is a year in which there
7 is a significant rate increase being sought by
8 Manitoba Hydro, that it wasn't the time to be dealing
9 with other issues which may benefit low-income
10 customers, but would correspondingly affect non-low-
11 income customers.

12 And -- and in fact, our expert, Mr. --
13 Mr. Chernick, comments on that in -- in his material
14 that it would increase the rates, because you've got
15 to make up the money somewhere else. So -- and -- and
16 is that a fair characterization, that it's Manitoba
17 Hydro's view that it's not the right time?

18 MR. KELVIN SHEPHERD: I would say it's
19 -- that is one (1) of the factors that was discussed,
20 and a concern that, at this point in time, it would be
21 difficult to -- to balance that. It does tend to be a
22 zero sum gain. And so if you're going to have lower
23 rates for some customers, that means higher rates for
24 other customers, and I think I recognize that reality
25 going forward. We will probably have to face that

1 issue.

2 But as I was saying, given the time and
3 the resource constraints, and the strategic issues
4 that we are bringing forward, we do not think this was
5 the application -- the rate application -- and quite
6 frankly, there's significant issues that require, I
7 think, a fair amount of -- of work to come to the
8 right conclusion, and we just weren't in a position to
9 do that at this rate application.

10 MR. WILLIAM GANGE: Given the decrease
11 in your staff, are you ever going to have the
12 opportunity to do that? And I -- and I don't say that
13 in a flippant manner, sir. I -- I -- because I have -
14 - I have personally great admiration for the people
15 that -- that are on your staff that have to respond to
16 the -- the IR requests, but -- but, quite frankly,
17 when you reduce your staff by 15 percent, I just don't
18 know how -- how you're ever going to get there, to --
19 to be able to tackle such a big issue as this bill
20 affordability program. Is that a fair criticism?

21 MR. KELVIN SHEPHERD: No, I don't
22 think so. I -- I think it's a fair concern. I think
23 part of the challenge certainly is staffing, but I
24 think we will address that, and we will get to the
25 priority issues that we have to. Some of it has to do

1 with the regulatory calendar, for sure, and -- and how
2 people are -- apply, but I wouldn't directly go to the
3 15 percent reduction and conclude that means that we
4 won't get to these issues.

5 MR. WILLIAM GANGE: And sir --

6 THE CHAIRPERSON: Mr. -- Mr. Gange,
7 you've got a few minutes to wrap up.

8 MR. WILLIAM GANGE: How much more time
9 do I have, Mr. Chair?

10 THE CHAIRPERSON: About three (3)
11 minutes.

12 MR. WILLIAM GANGE: Three (3) minutes?
13 Thank you.

14 THE CHAIRPERSON: Yeah.

15 MR. WILLIAM GANGE: Time flies when
16 you're having fun. So -- so, Mr. Shepherd, I -- I'm
17 sure you're with me on that page of having fun.

18 But the -- the that -- that issue of --
19 of finding the staff and -- and -- in order to deal
20 with those issues, are -- are you aware, sir, of the
21 length of time that -- that this Board has been urging
22 Manitoba Hydro to deal with rate design with -- with
23 virt -- with -- with very little impact?

24 MR. KELVIN SHEPHERD: I'm aware it's
25 been a long-standing issue, and -- and I guess my only

1 comment on that is -- and I don't know what all the
2 conflicts have been internally, or whether it's
3 resource constraints, but generally speaking, if
4 something isn't being done, that's probably more of a
5 leadership issue, because at the end of the day,
6 leadership sets priorities and allocates resources,
7 and the things that are important will get done.

8 MR. WILLIAM GANGE: And -- and given
9 the Chair's comments to me, I'm just going to make a
10 couple more -- I have a couple more questions, sir.

11 Are -- are you able to -- to commit to
12 this Board that Manitoba Hydro's going to do a better
13 job in terms of -- of following up in directions that
14 the Board gives to Manitoba Hydro, because I'll tell
15 you that -- that that rate-setting issue, Professor
16 Miller has been fighting on that since 2002.

17 And we're -- we're going to deal with
18 that longer, but it does seem to me that we need a
19 commitment from Manitoba Hydro that if the Board makes
20 direction -- gives directions to you, that -- that
21 resources have to be provided to follow-up on those
22 directions.

23 MR. KELVIN SHEPHERD: Yes, I take -- I
24 take your -- your point, and I'd say a couple of
25 things. First, there has been substantial change at

1 Manitoba Hydro, both in leadership and a new Board.
2 We do take the orders and direction from the Public
3 Utility Board seriously.

4 I recognize there's this backlog and
5 history of, for whatever reason, and I'm not sure why,
6 of some things not being done, and I recognize we have
7 to do a better job. And this is an area that -- I'm
8 talking about bill affordability and -- and rates that
9 will simply become more important to resolve if we go
10 forward with higher rate increases. And so I think
11 it's one (1) of the outcomes of the plan we have that
12 we will have to find solutions.

13 MR. WILLIAM GANGE: Thank you. Those
14 are my questions. Thank you, Mr. Chair.

15 THE CHAIRPERSON: Thank you, Mr.
16 Gange. We'll break for 15 minutes now. Thank you.

17

18 --- Upon recessing at 3:02 p.m.

19 --- Upon resuming at 3:23 p.m.

20

21 THE CHAIRPERSON: Mr. Monnin...?

22 MR. CHRISTIAN MONNIN: Thank you, Mr.
23 Chair.

24

25 CROSS-EXAMINATION BY MR. CHRISTIAN MONNIN:

1 MR. CHRISTIAN MONNIN: My McCallum,
2 Mr. Shepherd, I'm over here. If you just lean back
3 you can completely ignore me and you won't see me.

4 My name is Christian Monnin. I'm
5 counsel for the Intervenors General Service Small and
6 General Service Medium customer classes, in addition
7 to Keystone Agriculture Producers.

8 You'll be pleased to know that my
9 intended cross-examination for you gentlemen this
10 afternoon is relatively short in comparison to what
11 you've gone through to date.

12 I'd like to ask you a few questions
13 with respect to the issue of reduced load growth. My
14 understanding is that one (1) of the main drivers for
15 this request for rate increases, the capital plan, but
16 another one is -- is the -- is the anticipated or
17 expected reduced domestic load growth; is that
18 correct?

19 MR. KELVIN SHEPHERD: Yes, that's one
20 of the factors.

21 MR. CHRISTIAN MONNIN: Is it fair to
22 say that Manitoba Hydro recognizes that for every
23 percentage increase in real electricity prices there's
24 a corresponding result in a decrease in domestic
25 consumption; is that fair to say?

1 MR. KELVIN SHEPHERD: There's
2 definitely a sensitivity to it, yes. And, I mean, I
3 could ask Mr. McCallum to comment more, but we've
4 attempted to quantify that in the -- in the forecast.

5 MR. CHRISTIAN MONNIN: And in that
6 regard, Manitoba Hydro has then acknowledged that with
7 a rate increase there will be a corresponding
8 reduction in the consumption on the domes -- domestic
9 load growth?

10 MR. KELVIN SHEPHERD: Yes, there's --
11 there is some linkage between pricing and -- and
12 consumption. There's no doubt about that.

13 MR. CHRISTIAN MONNIN: And with
14 respect to the proposed rate increase that the
15 Corporation is seeking, what -- what extent of the 7.9
16 percent is to offset the anticipated reduction
17 domestic load growth that will occur from these rate
18 increases?

19 MR. JAMES MCCALLUM: I don't have an
20 answer to that. I don't recall having done that
21 analysis, but tomorrow we'll have Ms. Morrison here
22 with us who -- who is the expert in the load forecast.

23 MR. CHRISTIAN MONNIN: Okay, but I
24 take it from your answer you haven't done that
25 analysis, but has -- has Manitoba Hydro done that

1 analysis?

2 MR. JAMES MCCALLUM: Subject to check,
3 not that I'm aware of.

4 MR. CHRISTIAN MONNIN: Thank you. I'd
5 like to ask you some questions on intergen --
6 intergenerational fairness.

7 In particular, Mr. McCallum, I believe
8 your evidence yesterday, and we don't need to go
9 there, at page 260, lines 10 through 18, the end of
10 that paragraph you indicated that if anyone has been
11 treated unfairly it's not been today's ratepayer.

12 Is that fair to say that's part of the
13 evidence you gave yesterday?

14 MR. JAMES MCCALLUM: Those were an
15 excerpt of my comments, yes.

16 MR. CHRISTIAN MONNIN: And is it fair
17 to say that that -- that evidence is anchored in the
18 logic or that statement is anchored, among other
19 things, but primarily in the concept of fairness
20 between generations with respect to the assets that
21 the Company holds?

22 MR. JAMES MCCALLUM: I think it would
23 be anchored in the comment that from my point of view
24 or the perspective that from my point of view, today's
25 ratepayers are not paying the full and current cost of

1 operating the Utility.

2 MR. CHRISTIAN MONNIN: And would that
3 be grounded to a certain extent -- and I know that we
4 went through your -- your library on regulatory
5 principles earlier today, but you did actually mention
6 the -- the notion of intergen -- intergenerational
7 fairness as one (1) of the principles or concepts that
8 you're familiar with?

9 MR. JAMES MCCALLUM: I would say I am
10 familiar with the term and the concept in general. I
11 clearly am not professing -- clearly not professing an
12 expert level of knowledge in the competing theories
13 around all this stuff.

14 MR. CHRISTIAN MONNIN: And truth be
15 told you and I both, but in addition to inter --
16 intergeneral (sic) fairness, are you familiar with the
17 concept of intergenerational inequity?

18 MR. JAMES MCCALLUM: Well, I would --
19 I am not familiar with it as a different term than
20 intergenerational fairness, but they would seem to
21 relate by their title to similar concepts.

22 MR. CHRISTIAN MONNIN: And again,
23 subject to check, but would you agree with me that in
24 very simple manner intergenerational equity, this
25 scenario occurs when we have a situation where the

1 perceived optimum time for construction of an asset
2 doesn't match the current need for that asset?

3 Do you agree with such a statement?

4 MR. KELVIN SHEPHERD: You -- you know,
5 I would suggest that neither Mr. McCallum and I
6 profess to be regulatory principal experts. However,
7 we do have people within the Corporation that are.
8 And so if we do want to get into that specific
9 discussion, I'd -- I think we'd be happy to have that
10 panel at the right time answer those types of detailed
11 questions.

12 MR. CHRISTIAN MONNIN: That's a fair
13 answer, Mr. Shepherd, I appreciate it.

14 Moving along, either gentlemen, would
15 you agree that there's the possibility on account of
16 the detrimental impact of the proposed rate increases
17 note -- notably approximately 40 percent in the first
18 five (5) years that some ratepayers in the General
19 Service General -- Service Small and General Service
20 Medium may not be around to enjoy the asset or the
21 anticipated period of lower rates.

22 MR. KELVIN SHEPHERD: I think there
23 might be a whole range of factors that go into, you
24 know, that question, right. And -- and I would
25 suggest that -- I certainly don't see evidence that

1 would say that electricity rates alone would drive
2 that type of equation in that timeframe.

3 And most customers I've talked to
4 electricity rates are important. Their part of their
5 cost equation, but they alone don't necessarily drive
6 their business. There are possibly some exceptions,
7 but not as a general rule.

8 MR. CHRISTIAN MONNIN: And -- and
9 viewed from another angle, I believe I had also
10 understood Mr. McCallum's evidence from yesterday that
11 Manitoba Hydro's never been in a similar situation; is
12 that fair to say?

13 MR. JAMES MCCALLUM: I think that's
14 fair to say in my assessment. We've never been in
15 quite such a critical debt position.

16 MR. CHRISTIAN MONNIN: In that regard,
17 looking at past experience, is it fair to say that
18 there's nothing that Manitoba Hydro can point to in
19 order to suggest that when Manitoba Hydro's existing
20 assets were built, Limestone and Waskwatim, there was
21 an expectation that there would be a negative net
22 income burden for twenty (20) to thirty (30) years; is
23 that fair to say?

24 MR. JAMES MCCALLUM: Yeah, I think our
25 outlook, looking ahead to Keeyask coming on stream and

1 -- and the revenues and costs associated with that. I
2 can't speak to the outlook that would've existed in
3 1990, say, as we were maybe in -- or 1988 whatever the
4 right time frame is, similarly ahead of -- of
5 Limestone coming on-stream.

6 You know, however, it -- it is clear
7 from -- from history, at least to me and my knowledge
8 of it, that Limestone was, you know, fairly well
9 timed. It came on-stream, and enabled us to service
10 some fairly attractive export contracts. It was at a
11 time when export prices were, in general, rising,
12 interest rates were falling. It was a different
13 period for the Company then -- then -- in terms of its
14 growth expectations and other expectations, and we see
15 now it was also relatively speaking a -- a smaller
16 project relative to the overall size of the Company.

17 MR. CHRISTIAN MONNIN: But
18 appreciating that we're not going to address the issue
19 of intergenerational inequity today, we'll deal with
20 that later, but is it fair to say that what's really
21 being asked of today's ratepayers who -- your position
22 is that they -- they haven't been treated unfairly,
23 but is it fair to say that what's really being asked
24 for today's ratepayers is to pay now for an asset that
25 they may, indeed, never benefit from; is that fair to

1 say?

2 MR. KELVIN SHEPHERD: Well, first, I
3 would suggest that the majority of -- there's a -- a
4 fairly major component here of this issue, which is
5 Bipole III. And those ratepayers will benefit
6 immediately through risk reduction and reliability
7 enhancement.

8 And as I've said before, approximately
9 5 billion of this debt is really associated with
10 Bipole III. And so the benefits of that will be felt
11 pretty quickly when it goes in. Now, the benefits are
12 not benefits in terms of revenue, they're benefits in
13 terms of system reliability and risk avoidance.

14 I think Keeyask is a different issue.
15 And certainly, as we've indicated domestic customers
16 in Manitoba it doesn't appear as if energy from
17 Keeyask -- power from Keeyask will be required
18 domestically until the early 2030s/2033 timeframe.

19 MR. CHRISTIAN MONNIN: In listening to
20 the -- the cross-examinations of My Friends earlier
21 today, there is a lot of reference back to prior
22 hearings, which I'm sure you're thrilled to hear.

23 I'm feeling a little left out so I'm
24 going to jump in on that one as well. I was here for
25 the Needs For and Alternatives as well. Former

1 counsel for the Board, Mr. Sven Hombach, once made a
2 comment which I -- there's method to my badness here.

3 But, he gave an example with regards to
4 the amortization period that we're looking at for the
5 NFAT and -- and he said, temporarily that amortization
6 period is -- is about eleven (11) or twelve (12) years
7 longer than the moment when the Wright Brothers first
8 took flight at Kitty Hawk Bane and when man first
9 stepped foot on the moon.

10 And the point he was making there is
11 that we're dealing with a very primitive asset so to
12 speak of -- of water rushing through turbines that a
13 lot can happened in that timeframe.

14 So I'm not looking at that long of a
15 temporal limitation, but we're looking at a twenty
16 (20) year period, twenty (20) or thirty (30) year
17 period before what I understand Keeyask can become net
18 -- net income positive.

19 And so would you agree that over the
20 twenty (20) or thirty (30) year period there's a
21 potential for changes in the way in which electricity
22 is generated?

23 MR. KELVIN SHEPHERD: Absolutely. I
24 think I referred to one (1) of the risks being
25 technological change and regulatory change and there's

1 -- clearly, this industry is facing a number of things
2 that will affect how electricity is generated and
3 distributed and consumed.

4 MR. CHRISTIAN MONNIN: And so my last
5 line of questioning on this point, we've dealt more
6 with ratepayers are being asked now for something they
7 may never benefit from. And I appreciate there's --
8 there's some -- a read of tea leaves in that, but
9 wouldn't you agree that the proposed traj --
10 trajectory of rate increases places an undue burden on
11 current ratepayers for an uncertain benefit for future
12 ratepayers, based on the technological differences we
13 might be seeing.

14 MR. KELVIN SHEPHERD: Just let me
15 process that for a second. Could you just repeat it
16 again? You're talking about -- your question's
17 related to an unfair burden on current ratepayers for
18 an uncertain benefit for future ratepayers?

19 MR. CHRISTIAN MONNIN: Yes, based on
20 the change in technology we might see, we might be
21 frontloading all these rate increases for a stranded
22 asset, for lack of a better term.

23 MR. KELVIN SHEPHERD: Well, if the
24 asset is stranded, certainly the, you know, there's a
25 burden on both current and future ratepayers that --

1 that would come into play. Because I don't think the
2 current rate plan, you know, relieves the burden of
3 that asset on the -- on the company and on ratepayers.
4 It only partially addresses the -- reduces the amount
5 of debt being incurred and -- and to some extent
6 helps, you know, stabilize and -- and provide
7 opportunity for -- for more stable or potentially
8 lower rates in the future.

9 But, if you assume that the asset is
10 going to be stranded prematurely, there's I think
11 still significant costs that would have to be
12 recovered at some point.

13 MR. CHRISTIAN MONNIN: Thank you, Mr.
14 Shepherd. I believe I understood your evidence
15 yesterday when Mr. Peters began his cross-examination
16 that it was in early 2016 it was determined to proceed
17 with Keeyask; is that fair to say?

18 MR. KELVIN SHEPHERD: Could you
19 qualify that a little bit. It was in early 2016 that
20 it was determined by who?

21 MR. CHRISTIAN MONNIN: I believe the
22 question was put to you -- to you personally or the
23 board -- you in your capacity, sir, with -- with the
24 Corporation or the Board, that it was in early 2016
25 that the decision was made to proceed with Keeyask.

1 MR. KELVIN SHEPHERD: No, let me --
2 let me clarify that if I -- if I spoke in a way that
3 wasn't clear. I think I was asked when I started in
4 my role as CEO at Manitoba Hydro in late 2015, if I
5 came into the position with a view, and whether I, you
6 know, I think there's some expiration of -- of what my
7 belief was around these projects.

8 And I indicated that I spent some time
9 reviewing the projects and certainly my own
10 conclusion, not the conclusion of the new board, the
11 new board was not appointed until May of 2016, but my
12 own conclusion before the new board came on was that
13 Keeyask was well advanced. And I undertook a number
14 of sort of what -- what-if scenarios and -- and really
15 came to my own personal conclusion in my management
16 role that we should continue with Keeyask.

17 If I had come to some other conclusion,
18 it would have required a substantially, you know,
19 bigger review but I had at least satisfied myself that
20 the project was, at that time, on track; that it was -
21 - that it had been advanced to a significant degree.
22 I visited the site, saw the construction.

23 When the board came on, the new Board,
24 I'm talking about that was appointed in -- in May of
25 2016, I was asked the question about the project and I

1 -- I told them my view at the time, but I think, like
2 any probably prudent Board of Directors they wanted to
3 seek an independent view of the project and an
4 independent view of their options and so they -- they
5 undertook that but...

6 Yeah, I think it's fair they asked me
7 about the project and -- and at that time -- oh,
8 sorry, at that time, you know, the -- the capital
9 project tracking was on track. We were just starting
10 the first full year of construction of -- of concrete
11 placement and we had not yet seen some of the
12 revisions to load forecasts and price forecasts that
13 developed throughout the subsequent year so.

14 So that's what the 2016, if -- if
15 that's -- that was my own personal conclusion after a
16 few months at the -- at the company, but it was not
17 necessarily the board's conclusion at that time.

18 MR. CHRISTIAN MONNIN: And I believe
19 also, again, when you exchanged with Mr. Peters
20 yesterday that your evidence was that Manitoba Hydro's
21 current board would not have approved the building of
22 Keeyask if the Board was consulted at the time.

23 Do you recall saying that?

24 MR. KELVIN SHEPHERD: What I said was
25 that the chair had made that statement publicly.

1 MR. CHRISTIAN MONNIN: And do you know
2 if that -- and I -- are you able to advise today that
3 the current board would not have approved the building
4 of Keeyask if -- if it was consulted at the time? Is
5 that based on what it now knows or what was known at
6 the time?

7 MR. KELVIN SHEPHERD: I can only
8 conclude from my conversation with the chair and his
9 public remarks that it's based upon what he knows now.
10 I think you have to accept he wasn't in -- involved in
11 the company at the time, and he's making a statement
12 based upon with his knowledge of today's situation.

13 But that's his statement. It's his
14 public statement, that's what I was confirming.

15 MR. CHRISTIAN MONNIN: Thank you. I
16 appreciate the answer. I just want to ask you a few
17 questions with regards to Boston Consulting Group.

18 I understand that Boston Consulting
19 Group when performing its review of Keeyask and Bipole
20 III was asked the following questions primarily: How
21 sound was the original rationale for the project?

22 Is that fair to say?

23 MR. KELVIN SHEPHERD: Yes, I think
24 they were asked to review the original -- rationale
25 the original case.

1 MR. CHRISTIAN MONNIN: And can the
2 project be stopped without undue risks or breakage
3 costs; that's another one of the questions?

4 MR. KELVIN SHEPHERD: Stopped or
5 paused, yes.

6 MR. CHRISTIAN MONNIN: And what is the
7 downside risk if the existing project is run to
8 completion?

9 MR. KELVIN SHEPHERD: Yes.

10 MR. CHRISTIAN MONNIN: What viable
11 alternatives exist to maximize value?

12 MR. KELVIN SHEPHERD: Yes. So there
13 are other alternatives that could be pursued.

14 MR. CHRISTIAN MONNIN: And when you
15 say "paused," what do you mean by that, sir?

16 MR. KELVIN SHEPHERD: For example, and
17 this is just for example. Keeyask, if it was
18 concluded that, you know, we didn't need the power
19 from Keeyask for an extended period of time, could you
20 put the project on hold for five (5) years. In other
21 words, suspend activities and pick up construction at
22 a later point in time and -- and as an option is that
23 the viable or is more economically attractive than
24 continuing with the project to conclusion.

25 So that would be an example of -- of

1 paused.

2 MR. CHRISTIAN MONNIN: And this is
3 something that was discussed with Boston Consulting
4 Group or what? I -- I don't think that was addressed
5 in any of the -- whatever they produced; is that fair
6 to say?

7 MR. KELVIN SHEPHERD: Well, certainly,
8 it was -- it was discussed, yes.

9 MR. CHRISTIAN MONNIN: And --

10 MR. KELVIN SHEPHERD: And it was
11 something that I know as a management team, I reviewed
12 the options around as well.

13 MR. CHRISTIAN MONNIN: And in those
14 same discussions was it discussed whether the -- the
15 project could be brought online in phases? I believe
16 there's seven (7) turbines, can you just stagger them
17 out? Is that something that was discussed?

18 MR. KELVIN SHEPHERD: Not in -- in any
19 serious way because I would tell you that it's -- I
20 don't think it's a -- a practical alternative and --
21 and not something that certainly I'm aware of was
22 discussed in any -- at least in any serious way.

23 MR. CHRISTIAN MONNIN: When you say
24 you don't think it's a practical alternative, is that
25 your personal belief or was that something that Boston

1 Consulting Group came up with?

2 MR. KELVIN SHEPHERD: It's the advice
3 I got from my -- my generation team.

4 MR. CHRISTIAN MONNIN: My Friend Mr.
5 Williams asked you some questions with respect to the
6 benchmarking which Boston -- Boston Consulting Group
7 did, in particular, regards to operational efficiency.

8 And I understand that the cost
9 reduction plan of Manitoba Hydro was brought forward
10 in February of 2017?

11 MR. KELVIN SHEPHERD: Yes, the --
12 you're talking specifically about the restructuring
13 and the voluntary departure program?

14 MR. CHRISTIAN MONNIN: To what extent,
15 if any, did the benchmarking that Boston Consulting
16 Group provided to Manitoba Hydro group figure into the
17 development of the cost reduction plan that was rolled
18 out in February of 2017?

19 MR. KELVIN SHEPHERD: It's a data
20 point, just a data point. I wouldn't say it drove it,
21 but it's definitely a data point that you can look at
22 to see whether there's some opportunity.

23 MR. CHRISTIAN MONNIN: So taken -- I
24 take away from that being a data point it was just one
25 (1) small consideration in -- in the development of

1 the cost reduction plan?

2 MR. KELVIN SHEPHERD: It's one (1)
3 factor. I mean, I've been involved with benchmarking
4 studies over the years, including people that are
5 probably have done much, much, much more extensive
6 benchmarking than was done in this case, and you have
7 to be cautious with benchmarking to understand who
8 you're benchmarking against, the differences, you
9 know, geographically dispersion, scale, what level of
10 service differentially you may be delivering.

11 So, I would just caution you to use the
12 BCG study for what it is. It's a directional
13 indicator, but it's not something myself, as a
14 manager, would look at and -- and say it's definitive
15 and you can go here and cut X and cut Y there. It's
16 just not -- I don't think it's just not that type of
17 granular study. But it is a directional point, and
18 it's certainly something I was aware of when we
19 developed our -- our staff reduction plan.

20 MR. CHRISTIAN MONNIN: Mr. Chair,
21 members of the Board, those -- those are my questions.
22 Mr. Shepherd, Mr. McCallum, thank you very much.

23 THE CHAIRPERSON: Thank you, Mr.
24 Monnin.

25 Mr. Williams...?

1 CROSS-EXAMINATION BY MR. KEVIN WILLIAMS:

2 MR. KEVIN WILLIAMS: Good afternoon.
3 Thank you, Mr. Chair. I just had a relatively few
4 questions that can be responded to by either Mr.
5 McCallum or Mr. Shepherd, and I'm course asking these
6 questions on behalf of the Business Council of
7 Manitoba.

8 Hydro, by way of this General Rate
9 Application, is seeking a 7.9 increase for the balance
10 of fiscal 2018 and fiscal 2019, correct?

11 MR. JAMES MCCALLUM: Not exactly. We
12 -- the final proposed rate increase is 7.9 percent to
13 be effective April the 1st, 2018 which would be the
14 first day of our next fiscal year. So, it would be in
15 place for the -- the entirety of the fiscal year, but
16 wouldn't -- wouldn't affect fiscal 2000 -- pardon me,
17 fiscal 2019 wouldn't affect fiscal 2018's revenues.

18 MR. KEVIN WILLIAMS: Okay. What
19 amount of rate increase does Manitoba Hydro say is the
20 minimum required in order for credit rating agencies
21 to constitute -- to continue to consider Manitoba
22 Hydro as self-supporting and financially independent
23 of the province of Manitoba?

24 MR. KELVIN SHEPHERD: We haven't taken
25 a position on -- on that.

1 MR. KEVIN WILLIAMS: Why is 7.9
2 percent for the years in question the appropriate
3 amount to maintain -- of an increase as opposed to,
4 say, 6.9 or 5.9 or some amount in excess of the
5 interim increase that was granted?

6 MR. JAMES MCCALLUM: Yep, but we may -
7 - I mean, the -- the rate increases we are proposing
8 reflected a balance between a view of what -- what
9 could be tolerable by the customers and what was
10 required as the first of a series of steps to restore
11 our financial strength, minimum level of financial
12 strength.

13 So that's -- that's how we came to the
14 number. It wasn't the, you know, I think there was --
15 oh, I know, there were certainly views as to acting
16 more quickly in the form of higher rate increases but,
17 ultimately, came to the view that as to this balance,
18 balance of risk management, balance of time that you
19 are vulnerable, we came to -- came to the rate
20 proposals that -- that we did.

21 MR. KEVIN WILLIAMS: Thank you. Does
22 Manitoba Hydro have a position or a view as to what
23 level of rate increase is the minimum required in
24 order to minimize the risk of a credit rating
25 downgrade of the province as it relates to Manitoba

1 Hydro's financial circumstances?

2 MR. JAMES MCCALLUM: I think narrowing
3 that down to a specific number is pretty, pretty
4 difficult in my experience, and certainly the credit
5 rating agencies themselves and -- and -- and I'll just
6 pause to -- to maybe make clear that, you know, credit
7 rating agencies are an important player but -- but
8 bond investors, they're also a really important
9 player. Ultimately, they are the folks that decide
10 how creditworthy you are and what - what price they're
11 going to charge you to take -- loan you their money.

12 I think what -- what -- so -- so there
13 -- there -- the rating agencies, or the investors are
14 not going to tell you where there is a bright line
15 test of this rate works for us and that rate doesn't.
16 Our financial plan is focused on demonstrating a -- a
17 strong commitment to coming to terms with -- with what
18 we regard as -- as a perilous level of debt and doing
19 it in a disciplined way over a period of time that
20 makes sense and -- and starts with taking a -- a first
21 step.

22 So, I think that's the, you know, we
23 don't have a -- a specific number beneath which we
24 think we're going to trip over the -- the line of not
25 being self sustainable. We do definitely believe --

1 or I definitely believe that the 3.95 percent rate
2 path shouldn't be well received by credit investors.
3 Looking at our situation and reflex a perpetuation of
4 -- of a very perilous level of debt, and that, you
5 know, if -- if that's where we arrive after a
6 significant period of reviewing the matter, I -- I --
7 I'm not sure where that'll take us.

8 MR. KEVIN WILLIAMS: Thank you. Are
9 you able to quantify in absolute dollar terms the
10 additional interest cost Manitoba Hydro would
11 experience in either of the years in question in the
12 event of a general interest rate increase in the
13 capital markets, let's say, 1 percent?

14 MR. JAMES MCCALLUM: Yes, we can -- we
15 can quantify that. You really -- in order to do that
16 for you, we -- we -- you need to make some assumptions
17 which I don't want to do on your behalf in terms of
18 when the rate increase -- the interest rate increase
19 presented itself.

20 Now, we spoke about yesterday that
21 regardless of the -- the debt terming strategy, or
22 even the really the rate strategy we follow here, over
23 the next ten (10) years we need to go to the capital
24 markets for in the order of 19 to \$23 billion.

25 If we woke up tomorrow, I don't expect

1 this to happen, but if we woke up tomorrow and
2 interest rates were 1 percent higher and -- and kind
3 of main -- maintained that -- that additional 1
4 percent over our forecast for the whole period, we
5 would find ourselves, you know, by 2027 with upwards
6 of \$200 million a year more interest cost.

7 It really depends on when the interest
8 rate increase comes, how much of -- where -- where
9 we're at in our borrowing program, where we're at in
10 our refinancing program. It -- it's -- it's a -- it's
11 a difficult question to answer, but I think the --
12 it's not difficult it's just you would need an
13 assumption as a -- as a bit of a guidepost.

14 But I think our point overall is that
15 all debt -- we don't -- we don't borrow money for
16 seventy (70) years. We don't borrow money for the
17 length of -- that these assets operate. You -- you
18 can't efficiently do it. And so we are borrowing in
19 five (5), ten (10) and sometimes thirty (30) and
20 sometimes forty (40) year increments.

21 All of that debt will come due and will
22 need to be refinanced and as it needs to be
23 refinanced, you are exposed to whatever has happened
24 up or down to the interest rate environment in
25 between.

1 MR. KEVIN WILLIAMS: Thank you. Thank
2 you, those are my questions.

3 THE CHAIRPERSON: Thank you. Mr.
4 Shefman...?

5

6 CROSS-EXAMINATION BY MR. COREY SHEFMAN:

7 MR. COREY SHEFMAN: Thank you, Mr.
8 Chair. Before I begin I just wanted to acknowledge
9 again that we are holding this hearing on Treaty 1
10 territory. I hope that my questions today are taken
11 in the spirit of the treaties.

12 Mr. Shepherd, yesterday in your
13 presentation you referred to the fact that Hydro's
14 major generation facilities -- sorry, Manitoba Hydro's
15 major generation facilities are located in the
16 territory of the Cree peoples of Treaty 5.

17 Do you recall that?

18 MR. KELVIN SHEPHERD: Yes, that's the
19 -- our largest generation stations -- our principal
20 generation stations.

21 MR. COREY SHEFMAN: And I'm going to
22 be -- sorry, just I'm going to be referring to
23 yesterday's testimony somewhat. I'm not going to
24 necessarily pinpoint where in the transcripts we are
25 unless you require that.

1 In fact, would you agree that Manitoba
2 Hydro's revenue comes from electricity, which is
3 generated almost entirely, if not entirely, on the
4 traditional and ancestral lands and waters of First
5 Nations across Manitoba?

6 MR. KELVIN SHEPHERD: Yeah, I think
7 that's a fair characterization. I think the province
8 of Manitoba is located on the ancestral lands of
9 indigenous people and we operate and provide service
10 in Manitoba.

11 MR. COREY SHEFMAN: Thank you. Would
12 you agree that Manitoba Hydro's export revenue is also
13 based on generation and transmission infrastructure
14 built on the lands and waters of Manitoba First
15 Nations?

16 MR. KELVIN SHEPHERD: Yes, I think
17 that's factual.

18 MR. COREY SHEFMAN: Would you agree
19 that Manitoba Hydro's export revenue also contributes
20 to lowering electricity costs for every user group
21 that is served by Manitoba Hydro?

22 MR. KELVIN SHEPHERD: Yes, that's my
23 understanding. It's -- basically comes back to lower
24 rates for all Manitobans.

25 MR. COREY SHEFMAN: Would you agree

1 that the construction and operation of the dams and
2 other infrastructure that generates Manitoba Hydro's
3 electricity negatively impacted -- or impacts the
4 ability of First Nations in Manitoba to exercise their
5 inherent aboriginal and treaty rights?

6 MR. KELVIN SHEPHERD: I would agree
7 there are impacts from the construction of
8 hydroelectric -- electric facilities and there are
9 impacts that to -- to those treaty rights, yes.

10 MR. COREY SHEFMAN: And we know that
11 Hydro has, in fact, compensated for some of those
12 negative impacts in the past through agreements that
13 it's made either with individual First Nations or
14 groups of First Nations; is that correct?

15 MR. KELVIN SHEPHERD: That's correct.
16 Primarily -- I guess it would be both because, for
17 example, the Northern Flood Agreement would be with
18 the group of First Nations, but there are other
19 individual agreements as well.

20 MR. COREY SHEFMAN: That's what I was
21 thinking about as well. I believe Hydro's
22 documentation refers to these agreements as mitigation
23 measures; is that correct?

24 MR. KELVIN SHEPHERD: We would
25 probably refer to them as mitigation or payments to

1 deal with -- directly with impacts but the term could
2 be used interchangeably I think almost.

3 MR. COREY SHEFMAN: Okay. Given where
4 we've discussed Manitoba Hydro generates its revenue
5 and given the impacts of Manitoba Hydro's projects on
6 First Nations, do you agree that Manitoba Hydro bears
7 a special responsibility to First Nations?

8 MR. KELVIN SHEPHERD: Perhaps --
9 perhaps you could expand a little bit on what you mean
10 by "special." I believe we have a responsibility that
11 directly relates to First Nations to the -- to
12 impacts, and I believe that we -- when we seek, you
13 know, a new project like Keeyask we have a
14 responsibility to approach and engage First Nations
15 and engage in a -- in finding solutions that work for
16 those First Nations.

17 So if that's what you mean by
18 "special," I would -- I agree we have a unique
19 responsibility that other organizations might not
20 have.

21 MR. COREY SHEFMAN: I think unique
22 responsibility captures what I was interested in
23 there. So, I think that's fine.

24 Speaking about Keeyask, in particular,
25 which you just mentioned, we also heard you talk

1 yesterday about the importance of -- or your -- your
2 belief that it was particularly important, the
3 relationship between Manitoba Hydro and the four (4)
4 Keeyask Cree Nation partners.

5 Do you recall seeing that? Do you
6 recall discussing the importance of that relationship?

7 MR. KELVIN SHEPHERD: I believe we
8 have an important relationship with many First Nations
9 communities, but we have a particular relationship
10 that's important with our four (4) Keeyask Cree Nation
11 partners in Keeyask.

12 MR. COREY SHEFMAN: And is it fair to
13 say that as part of becoming partners with those Cree
14 Nations that Manitoba Hydro was able to, and did in
15 fact, obtain their free prior and informed consent for
16 the project?

17 MR. KELVIN SHEPHERD: We certainly
18 through a long process of engagement worked with the
19 communities, ensured that they had appropriate support
20 to fully understand the project to make decisions and,
21 ultimately, there were community referendums or votes
22 on the -- on the Keeyask agreement.

23 And so, we had made a commitment I
24 believe not to move ahead with that project unless we
25 had agreement and -- and support in place from -- from

1 those Nations. And so we put that in place through
2 that -- it's called the Joint Keeyask Development
3 Agreement and the other agreements we have around the
4 Keeyask development.

5 MR. COREY SHEFMAN: And it was your
6 understanding that as part of those agreements you
7 received the consent, the free, prior and informed
8 consent of those First Nations to go ahead with the
9 project?

10 MR. KELVIN SHEPHERD: Well, per --
11 perhaps -- I know my counsels prodding me here
12 nervously. I am familiar with free, prior, informed
13 consent and -- and -- I mean, it -- it is elaborated
14 in the UN declaration of Indigenous Rights and...

15 I think why I'm -- why I'm reluctant
16 to use that term is I think in Keeyask, I think we
17 generally followed the principles that have been
18 outlined and I think we're probably ahead maybe of
19 many other organizations in how we did it.

20 But free, prior and informed consent as
21 a term, I'm not sure totally exactly what it means and
22 what the legal obligations are but if what you want
23 me to say is that we engaged in a process I think that
24 respected and engaged our indigenous communities that
25 were most affected by the project, we've done that.

1 And I think we've obtained, you know,
2 community vote. I'd be the first to tell you I've
3 been to the communities and not everybody in the
4 community is in agreement with the project, so these
5 are some of the issues that you get into around --
6 around free, prior and informed consent as to exactly
7 what test do you meet.

8 So, I -- I'm reluctant to say that we -
9 - we obtained free, prior and informed consent but I'm
10 not at all reluctant to say that I think we engaged in
11 a very progressive process. And that largely I think
12 accomplished a similar objective.

13 MR. COREY SHEFMAN: I gather from your
14 description that your aim -- your aim and principal,
15 perhaps, this might be a way of putting it was to get
16 to that point of what we're calling, free, prior and
17 informed consent; whether you met a particular test
18 you've told us is difficult to tell, but that was
19 where -- that was the direction you wanted to head.

20 MR. KELVIN SHEPHERD: It was a guiding
21 principle that we had I think probably before that
22 concept was even articulated.

23 MR. COREY SHEFMAN: Thank you. That's
24 -- I appreciate that clarification.

25 To the best of your knowledge has

1 Manitoba Hydro obtained the consent of any other First
2 Nations for any other projects besides Keeyask?

3 MR. KELVIN SHEPHERD: I believe
4 Wuskwatim would be an example.

5 MR. COREY SHEFMAN: Besides Wuskwatim?

6 MR. KELVIN SHEPHERD: I think we have
7 engaged other communities on projects. We haven't
8 followed through with the process of a vote which we
9 did on -- on other projects, but for example, there
10 have been other projects that we engaged in, consulted
11 on. I think reached agreements around impacts or
12 economic benefits but not necessarily a formal vote.

13 In all of those projects though, we
14 followed all the regulatory requirements and licensing
15 requirements. And as you would understand there, you
16 know, Section 35 rights that the Crown has to --
17 obligations the Crown has to meet and consult on and
18 so on those projects the Crown has done that and
19 they've taken into account commitments and engagement
20 that Manitoba Hydro's made on the projects.

21 MR. COREY SHEFMAN: I'm going to move
22 on. We're going to come back to the issue -- those
23 issues in a moment but we're going to move on for now.

24 Yesterday you heard my colleague Mr.
25 Luk mention that at the end of this proceeding the

1 Assembly of Manitoba Chiefs intends to propose a
2 reduced rate for First Nation ratepayers.

3 We also heard today that the Boston
4 Consulting Group report recommended differentiated
5 rates as one (1) option for dealing with the different
6 impacts which rate increases would have on different
7 groups.

8 Do you recall both of those things?

9 MR. KELVIN SHEPHERD: Yes.

10 MR. COREY SHEFMAN: Put aside for a
11 moment, if you will, whether you view such a pro -- a
12 proposal as the most efficient way of proceeding or
13 even whether it's technically possible, we'll address
14 that later on.

15 Do you agree that such a proposal would
16 be one (1) effective way of compensating First Nations
17 for the impacts of Hydro's infrastructure on their
18 territory and their ability to exercise their treaty
19 rights?

20 MR. KELVIN SHEPHERD: I'm not sure it
21 would be an effective way. I understand -- and -- and
22 the reason I say that, and let me expand a little bit.
23 In -- in many cases, some but not all, of electricity
24 costs and First Nations are compensated for through
25 agreements with the federal government.

1 And so in some cases, and I think we
2 heard maybe an example yesterday, a lower rate is not
3 necessarily going to improve the benefit of the
4 community directly. It may simply lower the
5 obligation of the federal government to pay for -- for
6 costs.

7 However, I would -- I recognize there's
8 a particular burden on First Nations because in many
9 communities, I won't say all, but I would say the
10 majority of First Nations communities I've got -- been
11 on, the infrastructure is abysmal. People are living
12 in overcrowded homes, inadequate homes, heating of
13 electricity costs maybe -- and probably are higher
14 than normal because of that.

15 So I recognize that as a serious
16 concern. I hear it in the community meetings. I've
17 heard the request for, you know, free hydro or reduced
18 Hydro rates from community members and Elders. So I'm
19 not -- I empathize with that. I just am not sure
20 exactly when you look at the complexity of the
21 situation, what the best solution to solve the problem
22 is.

23 I have seen situations where, you know,
24 the lower the bill it still does not actually help the
25 person being affected because of -- of these other

1 structural issues and the way things work. So I'm not
2 adverse to the idea of exploring those -- those
3 options. I just would caution you that it may not,
4 you know, be a silver bullet or address all of these
5 issues.

6 I think there's a bigger complex issue
7 at play and I hear -- I hear the concern. I -- I feel
8 the concern. I -- I -- but I don't know if that's the
9 total solution; maybe it's part of a solution.

10 MR. COREY SHEFMAN: I appreciate your
11 candour. We spoke a moment ago about how Hydro -- how
12 Manitoba Hydro addresses impacts of its project on
13 First Nations through accommodation -- accommodation
14 agreements. In other provinces these sorts of
15 agreements are often referred to as Impact Benefit
16 Agreements.

17 Are you familiar with that term?

18 MR. KELVIN SHEPHERD: I am.

19 MR. COREY SHEFMAN: When it's
20 impossible to mitigate all of the impact of a project
21 directly, Impact Benefit Agreements will often address
22 those unaccommodated impacts by providing compensation
23 directly to the impacted First Nation.

24 Would you agree with me on the broad
25 strokes of that definition?

1 MR. KELVIN SHEPHERD: I think -- yes,
2 I think I understand that that's generally what these
3 agreements apply to.

4 MR. COREY SHEFMAN: Does Manitoba
5 Hydro currently include the anticipated costs of
6 Impact Benefit Agreements or analogous agreements in
7 its revenue requirement?

8 MR. KELVIN SHEPHERD: If we have an
9 agreement in place, we do.

10 MR. COREY SHEFMAN: You don't include
11 -- include the anticipated costs, however?

12 MR. KELVIN SHEPHERD: If we have an
13 agreement in place and -- and it's progressed to the
14 point where we believe there's certainty about it, it
15 does get reflected in -- in our -- in our IFF.
16 However, you know, there's many situations where we're
17 in discussions with First Nations but may not have
18 agreement on -- on -- on either an agreement or the
19 quantum and, therefore, if you can't quantify it we
20 don't include it in the forecast.

21 MR. COREY SHEFMAN: Now where you are
22 including it in the forecast, are you doing so only
23 for new infrastructure or for all infrastructure?

24 MR. KELVIN SHEPHERD: For all
25 infrastructure, we have agreements that are -- I guess

1 for the older projects and we have agreements with --
2 with projects that, you know, like Keeyask for example
3 that are still in construction.

4 MR. COREY SHEFMAN: Would it be fair
5 to say that there is currently Manitoba Hydro
6 infrastructure for which there are no Impact Benefit
7 Agreements or equivalent?

8 MR. KELVIN SHEPHERD: I think it would
9 be fair to say that there's -- you know, if you go
10 back there are some projects that, you know, don't
11 have any agreement associated with them.

12 MR. COREY SHEFMAN: Given your
13 comments earlier today and yesterday about what you
14 viewed as the relation -- your relationship --
15 Manitoba Hydro's relationship with First Nations,
16 would you agree with me that in order to address the
17 impact which Manitoba Hydro's infrastructure has on
18 First Nations, that it would be prudent to anticipate
19 the need for Impact Benefit Agreements or their
20 equivalent on all Manitoba Hydro infrastructure?

21 MR. KELVIN SHEPHERD: Well, certainly
22 if I could forecast them it would be prudent to -- to
23 do so. I think the difficulty we have in doing that
24 is that there are sixty-three (63) First Nations, plus
25 the Metis people in Manitoba. We have different

1 agreements and relationships and many different
2 discussions underway, and it is very difficult to
3 accurately quantify that.

4 So what happens is when we move forward
5 and we reach new agreements, those agreements are --
6 are put into our financial plan, or if we reach a
7 degree of certainty around them, we may not have
8 concluded the agreement, but if we've got enough
9 certainty around them we -- we will put them in.

10 But as you can appreciate, many of
11 these discussions take a long time. There are often
12 very large differences of view as to what an agreement
13 should be worth and -- and I don't think it's possible
14 for us to -- to look ahead and -- and really quantify
15 that so we -- we take the approach of if we have
16 certainty, we -- if we have agreement it's included.
17 If we have a reasonable degree of certainty that we
18 understand what the agreement entails we include it,
19 but we can't accurately include, you know,
20 expenditures that we really don't -- can't quantify.

21 MR. COREY SHEFMAN: Thank you.
22 Manitoba pays -- Manitoba Hydro pays water rentals to
23 the province of Manitoba, correct?

24 MR. KELVIN SHEPHERD: Yes, that's
25 correct.

1 MR. COREY SHEFMAN: Is it correct that
2 these water rentals are ostensibly payment by Manitoba
3 Hydro for the water which it uses to the putative
4 owner of the water Manitoba?

5 MR. KELVIN SHEPHERD: You know, I'm --
6 I would like to have probably seek advice from
7 somebody that's an expert on the history of water
8 licence fees. I think -- I can tell you how they're
9 calculated. I don't really know at the end of the day
10 whether there's simply another form of tax or whether
11 they reflect a royalty. I'd have to go back probably
12 in antiquity to figure that out.

13 MR. COREY SHEFMAN: Sure, let me
14 clarify. The -- the term -- you're familiar with the
15 term "water rental," correct?

16 MR. KELVIN SHEPHERD: Water rental or
17 water licence fee. Yes.

18 MR. COREY SHEFMAN: It's a generally -
19 - when you're licensing something from somebody, it's
20 because the person who you are paying the license fee
21 to owns the thing and you are paying to use the thing.
22 General here.

23 MR. KELVIN SHEPHERD: General
24 principles if I was a private individual, I -- that
25 would be the case.

1 MR. COREY SHEFMAN: Okay. Let's
2 assume for a moment that that is the model that
3 Manitoba is using. And perhaps it's not, but for the
4 sake of discussion.

5 Does Manitoba Hydro make water rental
6 payments to any government other than the government
7 of Manitoba?

8 MR. KELVIN SHEPHERD: I would have to,
9 you know, I -- I would have to seek some advice on
10 that; not to get caught was some weird exception that
11 I'm not familiar with. I don't -- subject to check,
12 I don't believe so, but I would -- I would have to --
13 have to make sure that I'm accurate there.

14 MR. COREY SHEFMAN: Thank you. I --

15 MR. KELVIN SHEPHERD: But certainly
16 the majority -- the vast, vast majority are -- are
17 related to the province of Manitoba.

18 MR. COREY SHEFMAN: Okay. I assume
19 you're aware that Manitoba Hydro is exempt from the
20 assessment of property tax by municipalities?

21 MR. KELVIN SHEPHERD: Yes.

22 MR. COREY SHEFMAN: However, Manitoba
23 Hydro has budgeted for grants in lieu of taxes to pay
24 municipalities for Manitoba Hydro's use of land within
25 a municipality, correct?

1 MR. KELVIN SHEPHERD: We pay a grant
2 in lieu of taxes, yes.

3 MR. COREY SHEFMAN: It's not only if
4 you budgeted for them you, in fact, make those
5 payments even though there's no strict legal
6 obligation for you to do so?

7 MR. KELVIN SHEPHERD: We pay -- pay a
8 grant in lieu of taxes.

9 MR. COREY SHEFMAN: I believe I may
10 have --

11 MS. PATTI RAMAGE: I -- I think you've
12 overstepped on that question in terms of a legal
13 obligation. I believe there is a legal obligation.

14 MR. COREY SHEFMAN: Understood. Thank
15 you. And I apologize for that Board members.

16 Does Manitoba Hydro make any similar
17 payments to First Nations to rent, for lack of a
18 better term, Manitoba Hydro's presence on their
19 traditional territories?

20 MR. KELVIN SHEPHERD: I -- I don't
21 think the characterization "rent" would be -- be
22 appropriate. We have a variety of agreements, but
23 they're related to mitigation or impacts or economic
24 development, or -- or those types of arrangements. I
25 -- I don't believe we would pay a rent per se.

1 I can -- again, in the vast hinterland
2 of Manitoba Hydro, maybe there's some exception to
3 that, but it's not a rule and not a general rule.

4 MR. COREY SHEFMAN: That's fine, we'll
5 move on. Yesterday your counsel, Ms. Ramage, spoke in
6 her opening statement about how the requested 7.9
7 percent increase is larger than any rate increase ever
8 approved by the PUB -- by the Public Utilities Board.
9 In other words, and these are my words, it's
10 unprecedented.

11 Would you agree with that
12 characterization?

13 MR. KELVIN SHEPHERD: I think it's
14 also the highest rate that we've asked for. So I'm
15 not sure that PUB has been asked to approve one, but -
16 - but I would agree that it's -- it is a significantly
17 higher request than -- or rate that's been approved
18 for Manitoba Hydro.

19 MR. COREY SHEFMAN: And you'd agree
20 that it's an unprecedented request? There is no
21 precedent for it in Manitoba.

22 MR. KELVIN SHEPHERD: I believe it's
23 strictly de -- defined unprecedented, it hasn't been
24 asked for it before.

25 MR. COREY SHEFMAN: And we've

1 discussed today and you've acknowledged that the
2 increased rates will have the greatest impact on the
3 ratepayers with the least ability to pay; is that
4 correct?

5 MR. KELVIN SHEPHERD: I would say it
6 will have a higher impact on people with lower
7 incomes. It will have a higher impact on people with
8 high energy bills. They may have the ability to pay,
9 but it will have a bigger impact on high energy bill
10 customers as well.

11 So it's not strictly related to the
12 people that have the least ability to pay --

13 MR. COREY SHEFMAN: But they are one
14 (1) of the groups who fall into that --

15 MR. KELVIN SHEPHERD: They're clearly
16 one (1) of the groups in -- and we would acknowledge
17 that they're a group that will be more impacted simply
18 because they have lower income.

19 MR. COREY SHEFMAN: Thank you. My
20 colleague Mr. Luk yesterday referred to some
21 statistics regarding poverty rates faced by First
22 Nations in Manitoba. Those statistics will be entered
23 later in the hearing.

24 For now, would you agree with me that
25 First Nations on reserve face, on average,

1 significantly higher poverty and unemployment rates
2 than Manitobans living off reserve?

3 MR. KELVIN SHEPHERD: It would be my
4 observation and what I understand the data to show.

5 MR. COREY SHEFMAN: My Friend from the
6 Green Action Centre earlier this afternoon directed
7 you to something you said in your direct evidence that
8 you were quote:

9 "Sensitive to concerns that
10 justifiably exist about the negative
11 impacts on our low-income indigenous
12 electric heat and heavy industrial
13 customers." end quote.

14 I understood the statement to mean that
15 you were aware that the increase would have a
16 particularly significant impact on, among others,
17 indigenous peoples; is that fair?

18 MR. KELVIN SHEPHERD: I think it's
19 fair to say that that's a concern of mine.

20 MR. COREY SHEFMAN: Your response to
21 his question was that -- and I'm quoting my reading of
22 it and correct me if I'm wrong, or my recollection of
23 it. Your response to his question was, higher rates
24 impact those customers more.

25 Is that fair?

1 MR. KELVIN SHEPHERD: I think higher
2 rates will have a bigger impact on First Nations
3 communities than many other communities, yes.

4 MR. COREY SHEFMAN: Would you agree
5 with me that the effect on First Nations communities
6 would -- is disproportionate to the effect on non
7 First Nations people?

8 MR. KELVIN SHEPHERD: I think because
9 of the -- the level of the -- the information you just
10 talked about, the level of poverty, unemployment and
11 other issues, including the infrastructure issues and
12 -- and bills, I think that's probably a fair
13 characterization.

14 MR. COREY SHEFMAN: Thank you. You're
15 aware, I assume that neither the federal or provincial
16 building codes applied to housing built on reserve?

17 MR. KELVIN SHEPHERD: I've been told
18 that. I -- I'm not an expert on building codes, but I
19 have been told that -- that that's the situation.

20 MR. COREY SHEFMAN: Would you agree
21 with me that it's common sense -- that it is a
22 commonsense inference that substandard building
23 construction will inevitably lead to higher energy
24 consumption? For ex--

25 MR. KELVIN SHEPHERD: I think -- I

1 think substandard conduct -- construction homes with
2 substandard insulation, overall quality of
3 construction and those sorts of things, certainly,
4 you're going to see a higher energy consumption per
5 square foot than a well constructed home that meets
6 national standards.

7 MR. COREY SHEFMAN: And so on that
8 basis as well, then, given what we've discussed about
9 the state of housing on reserve, on that basis, as
10 well, First Nations living on reserve will again face
11 a disproportionate impact of the increased rates
12 because they're dealing with -- with that issue as
13 well?

14 MR. KELVIN SHEPHERD: I think First
15 Nations -- again, not all but I would say the vast
16 majority of First Nation communities I have been on
17 suffer from inadequate housing infrastructure.

18 By inadequate I would say not enough
19 homes leading to multigenerational occupancy,
20 overcrowding of homes, that leads to all sorts of
21 issues and I think it's a combination of housing
22 standards, plus other things.

23 But generally, I would think the energy
24 consumption can be -- can be high on a home on a First
25 Nation.

1 MR. COREY SHEFMAN: Thank you. We're
2 going to move on. You said yesterday in your direct
3 evidence, page 253 and 254 of the transcript I'm
4 quoting:

5 "All of us should be embarrassed and
6 perhaps even ashamed at the living
7 conditions that some Manitobans were
8 in." end quote.

9 And then you also said, quote:

10 "Fundamentally, I believe the root
11 cause of this problem is social
12 policy and inadequate income."

13 Is that correct?

14 MR. KELVIN SHEPHERD: Yes, that's
15 personally what I believe, but I believe the facts
16 align with that.

17 MR. COREY SHEFMAN: I agree as well.
18 I take it that you would agree that the level of
19 economic development in reserves isn't what it is
20 compare -- in the rest of the province? It isn't at
21 the same level as it is in the rest of the province.

22 MR. KELVIN SHEPHERD: No, it is not.
23 As I think you can tell from unemployment and other
24 issues in the communities.

25 MR. COREY SHEFMAN: And you gave your

1 evidence yesterday that you have had the personal
2 opportunity since becoming CEO to visit some reserves;
3 is that correct?

4 MR. KELVIN SHEPHERD: Dr. Williams
5 earlier referenced my first meeting with him and as a
6 result of that meeting, I spent several weeks meeting
7 -- visiting and meeting the community members and
8 community leaders and Elders in a number of northern
9 First Nations communities.

10 And since joining Hydro I've - I've
11 done many more. So, yes, I've -- I won't say that
12 I've been to every community in my tenure in Manitoba,
13 but I've been to the majority of them I would say and
14 in the north in particular.

15 MR. COREY SHEFMAN: And you'd agree in
16 your visits to those communities, you haven't observed
17 much commercial activity, particularly when compared
18 to the neighbouring settler communities?

19 MR. KELVIN SHEPHERD: There really
20 aren't neighbouring communities, per se. Most of the
21 northern communities I've been to are pretty remote
22 and pretty isolated, but there is a very low -- if --
23 I would say almost negligible level of commercial
24 activity.

25 MR. COREY SHEFMAN: If we can pull up,

1 please, appendix 7.1 of the application at page 3.
2 I'm going to put to you that this chart shows, among
3 many other things, that for Manitoba Hydro's
4 customers, generally -- general service accounts make
5 up about 12.1 percent of your total accounts, 68,522
6 of 564,643. Does that sound correct to you?

7 MR. KELVIN SHEPHERD: You're talking
8 general service accounts?

9 MR. COREY SHEFMAN: Yes.

10 MR. KELVIN SHEPHERD: So it looks like
11 total general services is --

12 MR. COREY SHEFMAN: 68,000.

13 MR. KELVIN SHEPHERD: Oh, yes, you're
14 about as a percentage of customers, yes.

15 MR. COREY SHEFMAN: Yes, yes, as a
16 percentage of customers --

17 MR. KELVIN SHEPHERD: I hadn't done --
18 done the math in my head but it's -- it's in that
19 range.

20 MR. COREY SHEFMAN: About 12 percent.
21 Now if we can turn to AMC IR Round 2, Number 2(b).
22 We're going to go to page -- just the answer. If we
23 can just keep scrolling down a little bit there.
24 There we go, that's -- that'll be fine.

25 Given what you know about the level of

1 economic development on reserve, would it surprise you
2 to learn that according to the data that Manitoba
3 Hydro has put on the record in this Information
4 Request, the average percentage of general service
5 accounts on reserve is actually higher than Manitoba
6 Hydro's customers, generally?

7 MR. KELVIN SHEPHERD: No, it generally
8 wouldn't surprise me and the reason for that is that
9 you can see the number of customers overall is
10 smaller. So you're seeing the effect of the smaller
11 scale here and a community that, you know, the general
12 service customers would generally be administrative
13 offices, police, hospital, and those types of
14 organizations.

15 So as a percentage of customers it
16 appears higher, but that's because you have a
17 relatively small number of other customers to compare
18 it to. So I think what you're seeing there is the
19 effect of scale.

20 MR. COREY SHEFMAN: It -- it doesn't
21 concern you, for example, that -- and I pick at random
22 Fox Lake First Nation 30 percent of the customers on
23 that reserve are listed as general service. That
24 doesn't surprise you?

25 MR. KELVIN SHEPHERD: No, it doesn't

1 surprise me. I've been to Fox Lake many times. It's
2 a -- a very, relatively small community, and I think
3 you're looking there really at -- at primarily, you
4 know, infrastructure that is common, regardless of the
5 size of the community.

6 MR. COREY SHEFMAN: I'm going to
7 suggest to you that there will be a public -- there
8 may be a public presentation made to the Public
9 Utilities Board in the course of this hearing by an
10 individual with direct knowledge of this issue and
11 that that person may advise the Board that these
12 numbers do not, in fact, reflect reality; that there
13 are not this many general service accounts on at least
14 significant portion of these reserves.

15 How would you respond to the suggestion
16 from a person with that direct knowledge that Manitoba
17 Hydro numbers are incorrect?

18 MR. KELVIN SHEPHERD: Well, I would be
19 interested in understanding why they're incorrect.
20 These basically come from our billing and account
21 system. And so if they're not accurate, I'd like to
22 understand why and work to correct the issue.

23 MR. COREY SHEFMAN: Would you agree
24 with me that if some of these general service accounts
25 which are listed are, in fact, band owned housing that

1 those band owned housing -- that band owned housing --
2 because they're listed as general service accounts
3 would not be eligible for certain DSM measures which
4 residential accounts -- residential customers would be
5 eligible for?

6 MR. KELVIN SHEPHERD: You know, now
7 you're getting down to a level that I'm -- I'm not
8 particularly comfortable that I have the detailed
9 knowledge. I know certainly people on our panel will
10 be able to answer those detailed questions --

11 MR. COREY SHEFMAN: We will --

12 MR. KELVIN SHEPHERD: -- but I -- I
13 mean, I think the question of -- so I'm -- I'm not
14 quite sure how band owned housing would be treated in
15 this account scenario.

16 MR. COREY SHEFMAN: That's fine.
17 We'll reserve the question. Moving on.

18 We spoke earlier about the -- and you
19 spoke to My Learned Friend from the Green Action
20 Centre about how the issue of low income customers and
21 the customer's ability to pay is something which is a
22 public policy question and can't really be resolved
23 here.

24 Do you recall that?

25 MR. KELVIN SHEPHERD: I recall the

1 discussion.

2 MR. COREY SHEFMAN: You mentioned
3 yesterday that Manitoba Hydro benefits from a debt
4 guarantee from the province of Manitoba, and that that
5 guarantee allows Manitoba Hydro to borrow at lower
6 rates; is that correct?

7 MR. KELVIN SHEPHERD: Yes, I think it
8 allows us to access debt at a rate that is
9 significantly lower than we would otherwise be able to
10 do so. And in fact, probably allows us to access debt
11 period that we couldn't otherwise access.

12 MR. COREY SHEFMAN: Do you know of any
13 other business in Manitoba that benefits from the same
14 debt guarantee?

15 MR. KELVIN SHEPHERD: I personally
16 don't, but Jamie, are you aware.

17 MR. JAMES MCCALLUM: I'm not --

18 MR. COREY SHEFMAN: Thank you.

19 MR. JAMES MCCALLUM: -- specifically
20 aware of any businesses, but, you know, there are
21 government programs certainly that offer access to
22 financing for businesses. I -- I'm not sure.

23 MR. COREY SHEFMAN: Thank you. I
24 understand that Manitoba Hydro has a monopoly in the
25 business of supplying electricity in this province?

1 MR. KELVIN SHEPHERD: Under the Hydro
2 Act, yes.

3 MR. COREY SHEFMAN: How many other
4 businesses in this province benefit from a legislative
5 monopoly?

6 MR. KELVIN SHEPHERD: I don't -- I
7 don't know offhand. I know certainly you would have
8 some organizations like insurance, public insurance,
9 for example, that some aspects of their base --
10 businesses would be I think considered monopoly.

11 But beyond that I -- I'm not familiar
12 with any that would be. If you go back many, many
13 years, telecommunications would have fallen into that
14 but that's obviously been competitive for quite a few
15 years.

16 MR. COREY SHEFMAN: Given Manitoba
17 Hydro's view that energy poverty alleviation is
18 properly the responsibility of the Manitoba
19 government, which we discussed yesterday and today,
20 what discussions has Manitoba Hydro had with the
21 province of Manitoba to address that problem, and
22 create those programs?

23 MR. KELVIN SHEPHERD: Well, without
24 getting into specifics, I think over the years there
25 have been many discussions with government around

1 programs and -- and some of those I think historically
2 have really been reflected more in some of the
3 programs offered under the Affordable Energy Act, for
4 example, or -- or our demand-side management program
5 which is -- is reviewed and approved by government at
6 this point in time.

7 MR. COREY SHEFMAN: Would you agree
8 with me that fairness and equity are two (2) of the
9 principles and goals that underlie the rate design
10 process?

11 MR. KELVIN SHEPHERD: I think a high
12 level, yes, they're important principles.

13 MR. COREY SHEFMAN: Would you agree
14 with me that one (1) aspect of equity and fairness is
15 reducing the impact of high electricity bills on
16 people in poverty?

17 MR. KELVIN SHEPHERD: I believe
18 society as -- as a whole has -- has an obligation to
19 try to look after those that are in a poor position
20 to look after themselves. There's many ways we do not
21 but I believe overall as a society we have that
22 obligation.

23 MR. COREY SHEFMAN: In -- inn Mr.
24 Peter's cross-examination yesterday you stated that
25 Manitoba Hydro did consider alternative rate designs

1 which might -- which may have included lower rates for
2 one (1) group and higher rates for others, but you
3 didn't propose that -- those rates here because you
4 wanted to focus this proceeding on Manitoba Hydro's
5 financial health and the significant increase which
6 has already been requested.

7 Do you recall saying that?

8 MR. KELVIN SHEPHERD: Yes, I think I
9 did say that, among other reasons, but that was one
10 (1) of the reasons.

11 MR. COREY SHEFMAN: So would you agree
12 with me that, in fact, you do agree -- you do believe
13 that Manitoba Hydro has a role to play in setting
14 rates and in designing rates, which could address the
15 impacts of energy poverty and the inequity inherent in
16 requiring everyone to pay the same rate. It's just
17 now isn't the time?

18 MR. KELVIN SHEPHERD: I believe
19 there's a role for us to play and I believe there may
20 be a role that rate design can assist. I don't
21 believe there's a silver bullet, but I would agree
22 that there are options that can be considered.

23 MR. COREY SHEFMAN: Mr. Shepherd,
24 we've discussed that by your own admission, the
25 requested rate increases are unprecedented.

1 We've discussed how First Nations are
2 disproportionately impacted by rate increases.

3 We will hear later in this hearing
4 about the direct impact of rates on the energy poor.

5 If now isn't the time to propose
6 alternative rate designs to address those issues, when
7 is the time?

8 MR. KELVIN SHEPHERD: So I would
9 suggest that first we're appearing here to ask for a
10 rate increase, you know, that covers three (3) years.
11 An interim increase that's already been in place since
12 August of 2016, 3.36 percent. An interim increase --
13 increase of 3.36 percent that was awarded August 1st
14 of -- of 2017. And our request for a 7.9 percent rate
15 increase effective April 1st.

16 And so I believe in the context that
17 we're appearing here, we're asking for approval of
18 those rates. In terms of your timing as to when it's
19 appropriate, I think it's appropriate at any time, but
20 certainly if the Board ultimately concludes that our
21 plan is reasonable and decides to proceed with it, you
22 know, successive increases as we've proposed will
23 exasperate the need for us to find a solution.

24 And so I think it certainly is going to
25 be incumbent upon us to do that. Having said that, I

1 believe the previous rate trajectory of -- of, you
2 know 3. -- whether it's 3.36 or 3.9 or whatever it
3 would have been would've also increased the -- is
4 increasingly need to -- to find solutions.

5 So, I understand the concern. I -- I
6 understand the desire for people have a solution
7 today. I don't have a solution today, but I believe
8 we do need to find one.

9 MR. COREY SHEFMAN: I appreciate your
10 comments about the -- or increasingly urgent need for
11 something like -- for a program like this in light of
12 Manitoba Hydro's request.

13 Assuming for a moment that the current
14 rate application is approved, are you prepared to
15 commit that at the next General Rate Application
16 Manitoba Hydro will include within at an alternative
17 rate design which addresses energy poverty?

18 MR. KELVIN SHEPHERD: We're talking
19 energy poverty in general not -- not specific to First
20 Nations, or --

21 MR. COREY SHEFMAN: Well, let's start
22 with energy poverty for First Nations and, second,
23 energy poverty in general.

24 MR. KELVIN SHEPHERD: What I -- what I
25 can commit to use that as the CEO of Manitoba Hydro

1 I'll make it a priority for us to bring forward
2 options and to work with stakeholders.

3 I think it's proven difficult to reach
4 consensus or necessarily the correct option. But if
5 you want my personal commitment as the CEO that we'll
6 make it a priority to move forward and -- and work on
7 the issue then I'll give you my commitment to do that.
8 I think.

9 As I was saying earlier, I think that's
10 a leadership issue. It's not an issue of resources or
11 people in the ratesetting --

12 MR. COREY SHEFMAN: Thank you, sir.
13 Oh, sorry did I --

14 MR. KELVIN SHEPHERD: No, no. So --
15 no, I -- I agree that it's -- it is a significant
16 issue and I'll tell you, it's personally concerned me
17 and I wish I had a solution today, but I don't. But I
18 think we do have to find one moving forward.

19 MR. COREY SHEFMAN: Thank you, sir, we
20 will -- now that it's on the record, we will I promise
21 to hold you to that.

22 MR. KELVIN SHEPHERD: And I would
23 expect no less,

24 MR. COREY SHEFMAN: Moving on --

25 THE CHAIRPERSON: Mr. Shefman, you've

1 got five (5) minutes.

2

3 CONTINUED BY MR. COREY SHEFMAN:

4 MR. COREY SHEFMAN: I see. Okay, we
5 are going to move on then. Do you agree, sir, that
6 Manitoba Hydro has an important role to play in the
7 reconciliation between Indigenous peoples and the rest
8 of Canadian society?

9 MR. KELVIN SHEPHERD: Yes, assuming
10 that Manitobans are a subset of Canadian society.

11 MR. COREY SHEFMAN: Of course. And
12 you've referred to Manitoba Hydro in the past as a
13 leader in Indigenous relations. Do you recall that?

14 MR. KELVIN SHEPHERD: Yes, and I
15 believe we have been.

16 MR. COREY SHEFMAN: Are you familiar,
17 sir, with the Truth and Reconciliation Commission of
18 Canada's Calls To Action.

19 MR. KELVIN SHEPHERD: Yes, I am.

20 MR. COREY SHEFMAN: Have you read the
21 calls to action?

22 MR. KELVIN SHEPHERD: I have.

23 MR. COREY SHEFMAN: Can you tell us
24 when you read the calls to action?

25 MR. KELVIN SHEPHERD: I first read

1 them I think when they were first published and I
2 attended a session where Senator Murray talked about
3 them.

4 MR. COREY SHEFMAN: Senator Sinclair.

5 MR. KELVIN SHEPHERD: Or Senator
6 Sinclair, pardon me.

7 MR. COREY SHEFMAN: Does Manitoba
8 Hydro have an official action plan, or an official
9 written policy for adopting the Truth and
10 Reconciliation Commission's Calls To Action and
11 affecting its role and reconciliation.

12 MR. KELVIN SHEPHERD: We --

13 MS. PATTI RAMAGE: I'm a little
14 concerned about -- I know, Mr. Shepherd, this is a --
15 a topic that I think is dear to his heart, quite
16 frankly, but I'm not -- and I know he wants to be very
17 open and transparent, I'm just not sure that this is
18 the forum and I'm concerned where we're going in terms
19 of rates. And if maybe --

20 MR. COREY SHEFMAN: I can advise as to
21 the relevance.

22 MS. PATTI RAMAGE: -- can advise as to
23 the relevance and --

24 THE CHAIRPERSON: Yeah, I mean, I
25 think -- I think it's a valid point. We're here --

1 we're here for a ratesetting hearing. I understand
2 affordability and things of that nature, I'm not sure
3 the truth and reconciliation report is -- you need to
4 indicate how that falls into ratesetting.

5 MR. COREY SHEFMAN: If I may, Mr.
6 Chair, the relevance we argue is that the Truth and
7 Reconciliation Commission's Report includes a call to
8 action related specifically to the corporate sector in
9 Canada; that call to action includes a direct
10 reference to the United Nations declaration on the
11 rights of Indigenous peoples and calls on the
12 corporate sector to implement under the UN declaration
13 on the rights of Indigenous peoples as a guiding
14 principle of reconciliation.

15 The -- I will call it the declaration.
16 The declaration speaks about free, prior and informed
17 consent, which I discussed earlier, and other
18 obligations of resource using corporations like
19 Manitoba Hydro.

20 When Manitoba Hydro -- if Manitoba
21 Hydro is to implement these obligations which it has -
22 - which we argue it has, that will affect its revenue
23 requirement and it will affect the general policy, and
24 we're here today to discuss the general policy around
25 ratesetting. It will affect the general policy in

1 terms of the way that rates are proposed, and set as
2 it relates to First Nations's.

3 THE CHAIRPERSON: Ms. Ramage...?

4 MS. PATTI RAMAGE: And I have to be
5 careful because again I -- I know Mr. Shepherd would
6 like -- I'm sure he'd like to have a private
7 conversation with you, in any event, but I think
8 that's the equivalent of hearing that a piece of major
9 litigation has an effect on rates. But it doesn't --
10 I don't think it's for discussion in this forum.

11 MR. COREY SHEFMAN: But I believe we
12 have on the record, Mr. Shepherd saying that they
13 already include accommodation agreements as part of
14 their -- the IFF. The -- the road that the Truth and
15 Reconciliation Commission's Calls To Action leads to
16 is more accommodation agreements and better
17 accommodation.

18 THE CHAIRPERSON: Well, here's the
19 problem. The problem is, this is a very wide question
20 that can lead into a lot wider questions, and quite
21 frankly, you're past your time in any event. If you
22 want to -- I'm going to have to consider this further,
23 if you want to put the question, if -- I'm not sure
24 it's suitable for another panel. So we're not going
25 to answer it right now. We were out of time for you.

1 And I'm -- I'm really concerned about
2 the appropriateness of going -- delving too far into
3 this area for the purpose of this hearing, so.

4 MR. COREY SHEFMAN: Thank you, Mr.
5 Chair.

6 THE CHAIRPERSON: Thank you.

7 MR. COREY SHEFMAN: And since I'm out
8 of time, thank you, Mr. Shepherd.

9 MR. KELVIN SHEPHERD: Thank you.

10 THE CHAIRPERSON: Mr. Orle...?

11

12 CROSS-EXAMINATION BY MR. GEORGE ORLE:

13 MR. GEORGE ORLE: Good afternoon, Mr.
14 Shepherd, Mr. McCallum. My name is George Orle. I
15 appear on behalf of Manitoba Keewatinwi Okimakanak.
16 You can call them MKO, it makes it a little bit easier
17 for all of us.

18 I'm not going to get into a lot of
19 detail over what's been done. I regard this much in
20 the way of an introductory, even though you might find
21 the two (2) days of being introduced as a little much.
22 It's very much like a speed dating service, we get to
23 know what you want to do, in a general sense, and we
24 find out also.

25 I was happy to hear that the current

1 executive feels that they want to have a better
2 relationship and to follow up on directions from the
3 Board, the Public Utilities Board, I should say, to
4 follow up on matters that are of interest to the
5 Intervenors and that are put in part of their reports.

6 But I'm wondering whether I can
7 reconcile that with the comments made yesterday to the
8 extent that:

9 "Intervenors represent only their
10 own members, not the people of
11 Manitoba who will pay higher rates
12 if they succeed."

13 As an Intervenor I take a little
14 exception to that matter, because if you look around
15 and from what you've heard my colleague behind me
16 represents the city of Winnipeg, some 700,000 people.
17 Mr. Shefman and I represent all of the First Nations
18 in Manitoba, the Coalition represents all the
19 consumers in Manitoba; we have representatives that
20 look after the small and general businesses; and we
21 have representatives here that look after the power
22 users; and we also have representatives that look
23 after the interests of Keystone farmers, which is the
24 umbrella organization for agriculture in Manitoba.

25 So, gentlemen, I'd like you to

1 appreciate the fact that I can't think of another
2 group of people in Manitoba that is not represented
3 here. And to the extent that we come together on a
4 number of issues, I think you take it that we're not
5 talking about individual interests that may not have a
6 benefit for the entire province.

7 That being said, we're here to take a
8 look at rates that are being proposed by Manitoba
9 Hydro. And a in very general sense, I liken it to a
10 situation where both of you gentlemen have had
11 significant experience in the private sector dealing
12 with large corporations, and I liken it to your
13 marketing director coming to you and saying:

14 "Our market is slipping, we've got
15 too much inventory, we can't sell
16 what we have, but here's our plan.
17 We're going to increase the cost of
18 our product."

19 I don't think that you'd let that go by
20 without having some significant discussion and review
21 of just what -- what that entails.

22 If I could have the slide number 43
23 brought up, please.

24 MS. PATTI RAMAGE: Is there a question
25 coming, Mr. Orle?

1 THE CHAIRPERSON: Yeah, I think
2 there's a question now coming.

3 MS. PATTI RAMAGE: Okay.

4

5 CONTINUED BY MR. GEORGE ORLE:

6 MR. GEORGE ORLE: On this slide, which
7 was part of your presentation yesterday, in the second
8 bullet, there's no basis whatsoever for Intervenor
9 evidence of no deterioration.

10 And, sir, where -- where do you get the
11 position that Intervenor evidence -- or that any
12 Intervenor has said that there is no evidence of any
13 deterioration?

14 MR. JAMES MCCALLUM: Mr. Bowman
15 offered that in evidence. And I believe it was Mr.
16 Harper, on behalf of the Coalition, offered that in
17 evidence.

18 MR. GEORGE ORLE: Sir, there's a
19 difference between recognizing deterioration and
20 agreeing on what the manner in which it ought to be
21 dealt with is.

22 MR. JAMES MCCALLUM: I -- I would
23 agree with that. But what the line is here is that
24 there's no basis whatsoever for evidence of no
25 deterioration. We're talking about a situation where,

1 when we last came before this Board, we expected to
2 make \$600 million in the ten (10) years between 2018
3 and 2027, and now we're talking about, on a like-for-
4 like basis, losing 1.2 billion.

5 We're talking about being \$3 billion
6 more in debt than we talked about before, and we're
7 talking about having \$3 billion less of revenue than
8 we had before.

9 MR. GEORGE ORLE: One (1) of the
10 questions comes up is, What do you attribute that
11 deterioration to? And I'd like to deal with it
12 firstly with rates. And there's been a suggestion
13 that the rates have not been high enough and that they
14 have not been approved at a high enough rate.

15 Is it not true, sir, that it's Manitoba
16 Hydro that chooses the rates that they're going to put
17 into the application?

18 MR. KELVIN SHEPHERD: I think -- I
19 can't quite recall when or in what response, but I
20 think I indicated previously, and perhaps there is
21 even a slide in her presentation that says Manitoba
22 Hydro has not been requesting the correct rates.

23 So I'm certainly not suggesting that
24 this is some problem with approvals. I -- I think
25 Manitoba Hydro has -- has not requested sufficient

1 rates in the past.

2 And I think I previously indicated that
3 when I looked at what Manitoba requested -- Manitoba
4 Hydro requested over many years and what the PUB
5 approved, largely the PUB has approved rates that are,
6 you know, more or less in line with what Hydro's
7 requested, with perhaps one (1) or two (2) exceptions.

8 MR. GEORGE ORLE: So your answer is
9 that it was Manitoba Hydro that did not ask for the
10 right amount of rates that they needed?

11 MR. KELVIN SHEPHERD: I think we're
12 said that, that in -- with the benefit of hindsight,
13 and retrospectively. But I think it could have been
14 reviewed at the time, knowing where the company was
15 going with its resource plan, that higher rates would
16 have been more prudent to request.

17 MR. GEORGE ORLE: That's correct, sir.
18 And a public perception, I believe it was your
19 Chairman, that indicated that the rates were rates
20 that had not been approved by the board or the board
21 had approved too low of a rate.

22 MR. KELVIN SHEPHERD: I'm sure my
23 Chairman says lots of things, but what I can tell you
24 is my perspective. And my perspective is when I look
25 back, I think the record shows this, that -- that the

1 PUB has largely approved what Manitoba Hydro's
2 requested, and so I don't think there's any basis to
3 suggest that somehow the regulatory approval process
4 has somehow not approved rates that have been
5 requested.

6 If anything, I would go back and say
7 that -- and perhaps this is why our current request
8 may seem so shocking to people, but I believe my
9 obligation is to request the rates that I think are
10 required.

11 MR. GEORGE ORLE: Okay.

12 MR. KELVIN SHEPHERD: The purpose of
13 this hearing, as I understand it, is to have a
14 thorough review of -- of everything, and to ultimately
15 approve rates that are fair and appropriate, and
16 balance the financial requirements of the Utility with
17 the interests of customers.

18 But I think I would say that in the
19 past Hydro has largely, in some cases not, raised
20 rates when they could've raised them. And if those
21 rates had been raised on a more regular basis, then
22 some of our financial challenges today would -- would
23 have -- would be less. I'm not saying they would be
24 totally avoided, because I think there has been other
25 deterioration in export markets that clearly --

1 perhaps is hard to forecast, and certainly not
2 controlled by Hydro. But there are things that are
3 controllable, and one (1) of them is to request rates
4 that we think are required.

5 MR. GEORGE ORLE: Okay. If I could go
6 to slide 32, please.

7 In slide 32, you reinforced what you
8 thought were the Manitoba Hydro risks that have now
9 come together in terms of being able to justify a 7.5
10 percent or 7.9 -- I'm sorry, I get those wrong too --
11 increase. And one (1) of the risks, or a number of
12 the risks that you set out, are risks that were dealt
13 with in NFAT hearing.

14 Now, I believe you indicated you'd read
15 that report.

16 MR. KELVIN SHEPHERD: Yes, I haven't -
17 - I've not read the report in that last couple weeks,
18 but I -- I have read it previously.

19 MR. GEORGE ORLE: Okay. It's a three
20 hundred (300) some odd page report but, sir, it's
21 based upon thousands of pages of testimony.

22 Are you aware of that?

23 MR. KELVIN SHEPHERD: I am acutely
24 aware that there was a very extensive, exhausting, and
25 detailed review, and --

1 MR. GEORGE ORLE: And there were a
2 number of experts from all sides that came before the
3 Public Utilities Board.

4 MR. KELVIN SHEPHERD: Lots of experts.

5 MR. GEORGE ORLE: And dealing with the
6 risks at that time, taking both the upsides and
7 downsides, Manitoba Hydro indicated that they would
8 need a 3.9 percent increase in rates for the next
9 foreseeable future. That's correct?

10 MR. KELVIN SHEPHERD: I want to just
11 correct the way you stated it. I think there were a
12 whole range of scenarios evaluated during NFAT.

13 And I think NFAT was not a rate-setting
14 process. It was review around Needs For and
15 Alternatives To. And clearly there were a number of
16 different scenarios with different rates, but there
17 was -- I think the recommended scenario at the end of
18 the day, had a rate of 3.95 percent, a nominal rate
19 associated with it.

20 MR. GEORGE ORLE: That's correct. And
21 it wasn't a number plucked out of the air?

22 MR. KELVIN SHEPHERD: Is there a
23 question there?

24 MR. GEORGE ORLE: I'm asking you where
25 -- that number came from Manitoba Hydro, based upon

1 the analysis that they had their experts, their
2 employees and their analysis, and they came up with
3 that number as being supportive of the plan that they
4 are putting forward.

5 THE CHAIRPERSON: Sorry, Mr. Orle, are
6 you making that as a statement, or are you asking if
7 he agrees with that statement?

8

9 CONTINUED BY MR. GEORGE ORLE:

10 MR. GEORGE ORLE: Do you agree with
11 that statement?

12 MR. KELVIN SHEPHERD: I agree that
13 Manitoba Hydro, at the time, put forward the 3.95
14 percent rate. Yes, it was one (1) of the -- it was
15 the rate -- a rate in the scenarios that was
16 evaluated.

17 MR. JAMES MCCALLUM: It -- it was in
18 the context of numerous development plans considered
19 and rate impacts of each considered, I think. And
20 we'd be wise, I think, to maybe hold this question
21 over to -- for Ms. Carriere tomorrow, or in the
22 future, who was actually at NFAT which I was not, to
23 be more specific.

24 But I think, Mr. orle, just to maybe
25 get to the point here. At no point in NFAT or

1 otherwise would Manitoba Hydro had said the 3.95 path
2 was guaranteed, or a contractual commitment. I think
3 we would've been very clear that as things -- NFAT
4 covered a whole host of analysis of things going right
5 and things going wrong and the impacts thereof, and I
6 think we were very clear that in so far as things go
7 wrong, the potential future rate path could be a lot
8 different --

9 MR. GEORGE ORLE: Yeah.

10 MR. JAMES MCCALLUM: -- and worse.

11 And what we're talking about today, as we look at
12 things -- and there's been a number of charts produced
13 by us, by Mr. Bowman, by others, as to comparisons to
14 NFAT. And in fact, in our view and estimation, the
15 data says what -- it's very clear, what we projected
16 at NFAT in the way of export prices, in the way of
17 capital costs, in the way of domestic load growth,
18 have proven to be wrong.

19 MR. GEORGE ORLE: That's just what I'm
20 saying, that these were all considerations taken into
21 account at the time of that hearing and the 2015 GRA.

22 MS. PATTI RAMAGE: I -- I would -- I'd
23 like to clarify here, Mr. Chairman. The NFAT, and I
24 think I said this earlier, and in fairness to these
25 witnesses, was not a rate hearing.

1 THE CHAIRPERSON: Yeah, I --

2 MS. PATTI RAMAGE: It was comparative
3 rates. If -- if My Friend would like to just put to -
4 - I would suggest that we would -- this would be
5 better to the revenue requirement panel who have
6 people who were at that hearing and understand the --
7 the -- what actually occurred at that hearing, 'cause
8 it was not a rate hearing and it's been --

9 THE CHAIRPERSON: I -- I what -- I
10 want to make sure the record's correct.

11 MS. PATTI RAMAGE: Yeah.

12 THE CHAIRPERSON: NFAT dealt with a
13 number of issues that -- as I understand it, the 3.95
14 arose in the GRA that was following NFAT in the 2015
15 hearing, which was a rate-setting hearing, and that
16 one (1) did not relate to the other.

17 MS. PATTI RAMAGE: I think that's
18 correct. I think you may have seen indicative 3.9 --
19 3.95s before that also. But in the context of the --
20 in the context of the NFAT, it was put in for
21 comparative analysis to see what the various plans did
22 up and down. It wasn't as an approval --

23 THE CHAIRPERSON: Yeah.

24 MS. PATTI RAMAGE: -- or as a number
25 that was being sought.

1 THE CHAIRPERSON: Okay. Mr. Orle --
2 Mr. Orle, you can continue. You have -- you have the
3 next panel as well to -- to deal with --

4

5 CONTINUED BY MR. GEORGE ORLE:

6 MR. GEORGE ORLE: The risks that are
7 set out here and the next one's hydrology, that was
8 discussed both in NFAT and at the 2015 hearings?
9 There was evidence given on that, correct?

10 MR. KELVIN SHEPHERD: I'm sure there
11 was, yes.

12 MR. GEORGE ORLE: Okay. So this is
13 not a new risk or a risk that hasn't been taken into
14 account by Hydro in the past?

15 MR. KELVIN SHEPHERD: It's a risk
16 inherent in Hydro's generation system, which is
17 extremely dependent on hyd -- on hydro generation.

18 MR. GEORGE ORLE: Okay. Export
19 revenue, that's not a new risk, is it?

20 MR. KELVIN SHEPHERD: The risk is not
21 new, no.

22 MR. GEORGE ORLE: You've known about
23 the risk of export decline since it -- I believe you
24 said since 2008?

25 MR. KELVIN SHEPHERD: In 2008, the

1 export prices were significantly affected. However,
2 since then they have continued to decline and remain
3 at lower than -- than forecasted levels.

4 MR. GEORGE ORLE: And they were
5 declining at the time of the 2015 GRA when you asked
6 for the raise at that time?

7 MR. JAMES MCCALLUM: Well, they were
8 anticipated to increase at that time, and they have
9 not.

10 MR. GEORGE ORLE: The debt -- the debt
11 load of Manitoba Hydro has been known for some time?

12 MR. JAMES MCCALLUM: Every -- every
13 time we report our financial results, yes.

14 MR. GEORGE ORLE: Okay. And part of
15 what you're asking for the deterioration is the
16 increase in that debt and the servicing of that debt?

17 MR. JAMES MCCALLUM: We've put
18 forward, I think, as we've -- we've talked about a
19 financial plan that does not see us reducing our debt
20 from today's level, but rather curbing some of its
21 growth, which in turn would lead to, all else being
22 equal, lower servicing costs.

23 MR. GEORGE ORLE: Okay. The debt
24 that's been incurred includes the amounts that have
25 been paid out for Conawapa?

1 MR. JAMES MCCALLUM: It would include
2 the, subject to check, \$379 million that's been
3 invested in Conawapa to date, yes.

4 MR. GEORGE ORLE: And I believe that,
5 with respect to Conawapa, that at the time that
6 Conawapa was taken off the -- the program in June
7 2014, the evidence in NFAT was that there was \$4.5
8 billion of sunk costs into Conawapa?

9 MR. JAMES MCCALLUM: Can you provide a
10 source for that information?

11 MR. GEORGE ORLE: Yeah. Diana, can I
12 have that slide from the -- the NFAT decision.

13 THE CHAIRPERSON: Mr. Orle, I -- I
14 will tell you you've got five (5) minutes left.

15 MR. GEORGE ORLE: Okay. I'll end off
16 on this one.

17 THE CHAIRPERSON: Thank you.

18

19 CONTINUED BY MR. GEORGE ORLE:

20 MR. GEORGE ORLE: Do you see there in
21 table 10, the original estimate was 4.9, there was the
22 update of 10.7, and then if you go down a little
23 further down the page --

24 MR. JAMES MCCALLUM: Yeah.

25 MR. GEORGE ORLE: -- it talks about

1 sunk costs of four (4) -- I'm sorry, .4 billion for
2 Conawapa.

3 MR. KELVIN SHEPHERD: Point four (.4).

4 MR. JAMES MCCALLUM: Point four (.4).

5 I...

6

7 (BRIEF PAUSE)

8

9 MR. JAMES MCCALLUM: Yeah, I'm just
10 looking for the point four (.4).

11 MR. GEORGE ORLE: Yeah, I'm sorry,
12 it's the fourth line down at the very end.

13 MR. JAMES MCCALLUM: I'm sorry, it
14 must be late in the day or --

15 MR. KELVIN SHEPHERD: Yes, it's -- I
16 see it. It's -- it's the -- it's the 379 million
17 rounded. So 400 million.

18 MR. GEORGE ORLE: Yeah. I'm sorry,
19 did I -- did I say 4 billion?

20 MR. KELVIN SHEPHERD: Yeah.

21 MR. GEORGE ORLE: I'm Sorry.

22 MR. KELVIN SHEPHERD: That's why we
23 were a little shocked.

24 MR. GEORGE ORLE: I -- I can -- I can
25 see why.

1 MR. KELVIN SHEPHERD: A small rounding
2 error.

3 MR. GEORGE ORLE: But that -- that
4 number is included in the -- in the overall debt.

5 MR. JAMES MCCALLUM: As I just said,
6 yes.

7 MR. KELVIN SHEPHERD: Yeah.

8 MR. GEORGE ORLE: And it's included --
9 it's part of the amount that you pay over to the
10 provincial government as part of the security on the
11 loan?

12 MR. JAMES MCCALLUM: We pay the debt
13 guarantee fee on 1 percent of all of our debt,
14 correct.

15 MR. GEORGE ORLE: Yeah. And that
16 includes the .4 billion?

17 MR. JAMES MCCALLUM: Yes.

18 MR. GEORGE ORLE: Okay. There's a
19 gift that continues giving to the provincial
20 government.

21 MR. JAMES MCCALLUM: Is that a
22 question?

23 MR. GEORGE ORLE: No. It's part of
24 what you have to expense and you pay out, and it's
25 part of your cash that you expend each year, correct?

1 MR. JAMES MCCALLUM: The interest, yes
2 it is.

3 MR. GEORGE ORLE: And to the extent
4 that you have problems with -- with cashflow or an
5 adequate amount of cashflow, part of that is as a
6 result of the capital amounts that you borrowed
7 against which you have to pay the interest on?

8 MR. JAMES MCCALLUM: Interest is a
9 cashflow demand on the company, specifically as to
10 Conawapa, three hundred and seventy nine (379) or call
11 it \$400 million would be generating in the order of 16
12 to \$20 million of annual interest costs --

13 MR. GEORGE ORLE: And I believe --

14 MR. JAMES MCCALLUM: -- put into BGF.

15 MR. GEORGE ORLE: -- in your
16 presentation, you said approximately 31 percent of
17 your operating costs relate to payment of interest,
18 the carrying costs on financing?

19 MR. JAMES MCCALLUM: Well, I -- I
20 believe what I said is that in the order of sixty (60)
21 -- you're saying. that was actually Kelvin who -- who
22 spoke to this slide yesterday. Hey, do you want to...

23 MR. KELVIN SHEPHERD: Yeah, I -- I
24 believe what I -- sorry, I apologize there. I wasn't
25 sure my mic was on.

1 I believe what I said was, it's roughly
2 60 percent of -- I -- I could be wrong here, but I
3 think what I said was about 31 percent is the current
4 ratio of O& -- operations and maintenance costs, and
5 that that 31 percent would decline to approximately
6 half that.

7 MR. JAMES MCCALLUM: But I'm looking
8 at -- at slide 10 of our presentation. Yes, net
9 finance -- apologies for not having the number right
10 on top my head -- but last year our net finance
11 expense, and that would've been what went through the
12 income statement, was 31 percent of our overall
13 expenses.

14 MR. GEORGE ORLE: Okay. And the
15 interest paid on these -- these capital projects --
16 these are capital projects that were decided upon by
17 Manitoba Hydro?

18 MR. KELVIN SHEPHERD: Again, if the
19 question is there that -- are you talking all capital
20 projects or the major capital projects?

21 MR. GEORGE ORLE: The major capital
22 projects.

23 MR. KELVIN SHEPHERD: The major
24 capital projects. And I stand corrected here, but as
25 I understand it Bipole III was approved by the

1 Manitoba Hydro Board. I believe, the Keeyask was
2 reviewed during NFAT and a recommendation was made to
3 government. And I believe it -- you know, any major
4 new hydraulic station requires government approval to
5 proceed so, ultimately, the authority rests with them.

6 But certainly Manitoba Hydro supported
7 it and approved it through our Board.

8 MR. GEORGE ORLE: Okay. And when
9 Board member McCutcheon asked how can we be sure that
10 in the future we won't be in the same position of
11 capital projects unable to achieve funding from them,
12 cashflows that are not sufficient to carry the
13 carrying costs on these, and you indicated that we
14 would try harder on it.

15 Would not one (1) way of being able to
16 ensure that there's some review of these, is to have a
17 body such as the Public Utilities Board approve
18 capital projects?

19 MR. KELVIN SHEPHERD: Well, certainly
20 -- first, I think you mischaracterized my remark. I
21 did not say try harder. I gave some specific areas
22 that I thought could be focused on.

23 But I would point out there was an
24 extensive public review, the NFAT process, that
25 reviewed the Needs For and Alternatives, and looked

1 at, in particular Keeyask, in a great deal of -- of
2 detail. And so I think we can learn from the process,
3 but I believe, as I was saying, ultimately for a maj -
4 - as I understand it and I stand to be corrected if
5 I'm wrong, but as I understand it, any new major hydro
6 electric facility ultimately requires government
7 approval, government in -- you know, delegated, I
8 guess you would say, the review authority through --
9 through -- to the PUB who conducted a very extensive
10 review and made a recommendation to government.

11 So, I think, to the extent that you
12 have a project like Keeyask, it deserves a full and
13 thorough public review, and I think that was
14 undertaken.

15 MR. GEORGE ORLE: Sir, it was
16 undertaken once major work had already been done on
17 both of those projects, is it not correct?

18 MR. KELVIN SHEPHERD: As I understand
19 the -- the history of -- of the Keeyask and many hydro
20 projects, they have a very long time-frame, and so you
21 sometimes do have expenditures that are required over
22 a period of many years. But if you're referring to
23 part of the criticism, as I understand -- I wasn't
24 here at the time -- but part of the criticism being
25 that there is already a significant sunk cost on

1 Keeyask. I understand that criticism.

2 MR. GEORGE ORLE: Okay. Boston Group
3 said that, based upon --

4 THE CHAIRPERSON: Mr. Orle, you -- can
5 you wrap it up now?

6 MR. GEORGE ORLE: The last question.

7 THE CHAIRPERSON: Thank you.

8

9 CONTINUED BY MR. GEORGE ORLE:

10 MR. GEORGE ORLE: Boston Group
11 indicated that if they had reviewed this matter at the
12 time that it was initiated that they would not have
13 approved it. Do you agree with that?

14 MR. KELVIN SHEPHERD: Can you point me
15 to this point in the deck were BCG would say that.
16 I've heard -- I'm not sure if that's what they did
17 say. I know they made some other comments --

18 MR. GEORGE ORLE: I'll -- I'll --

19 MR. KELVIN SHEPHERD: -- that might
20 lead you to that conclusion. But BCG was -- is a
21 consultant, not an approval process.

22 MR. GEORGE ORLE: I'm just asking you,
23 if I -- I'll pull the part out. I don't have it right
24 now.

25 If they had said that they would not

1 have gone ahead with it, would you agree with that?

2 MR. KELVIN SHEPHERD: I -- I believe
3 that they're -- the essence of what they were saying
4 was that they believed -- I believe their words were -
5 - were slightly different -- but I believe they --
6 that's the essence of what they concluded, that in
7 their view the project should not have proceeded. Now
8 that's with the benefit of several years and the
9 updated data.

10 MR. GEORGE ORLE: Thank you. Thank
11 you.

12 THE CHAIRPERSON: Thank you, Mr. Orle.
13 I'm just going to ask, before we get to re-
14 examination, if the panel has any questions?

15 Okay, I -- I have -- sorry, Mr. Shep --
16 Mr. Shepherd, I have a question.

17 Earlier today I asked the question of
18 what P90 was on Keeyask, and I believe you gave the
19 answer as 8.7 million plus 900 million.

20 MR. KELVIN SHEPHERD: I was doing that
21 from memory but I believe --

22 THE CHAIRPERSON: Six mil -- 9.6
23 billion, is that correct?

24 MR. KELVIN SHEPHERD: Yeah, I believe
25 -- certainly that's the figure I have in my head. I -

1 - I'm more focused on the control budget, but I think
2 the P90 numbers, it's in the range of a billion more.

3 THE CHAIRPERSON: Okay. I'm just
4 wondering -- Kristen, can you pull up PUB Exhibit 42-
5 1, and go to page 437. It's PUB-Manitoba Hydro-2,
6 it's 25(a) and (b).

7

8 (BRIEF PAUSE)

9

10 THE CHAIRPERSON: It's four thirty-
11 seven (437). Okay. That's fine.

12 The question was to provide an
13 alternative scenario for the IFF16 update, based on a
14 thirty-two (32) month delay, and then 'B' was based on
15 P90 cost estimate.

16 And this -- this is where I was little
17 confused, because -- can you go to the to the -- to
18 the final paragraph. And I don't know if I'm
19 understanding these correctly. Just stop there.

20 It's -- it goes through the eleven (11)
21 month delay, and then the 32 month delay which moves
22 up from, as I understand, from a P50 to a P90. And it
23 says:

24 For this analysis the budget is been
25 increased by 1.2 billion, from 8.7

1 billion in the update with the
2 interim, to 9.9 billion"

3 So I'm just wondering if the P90 for
4 Keeyask is 9.6 billion or 9.9 billion.

5 MR. KELVIN SHEPHERD: So I -- I --

6 THE CHAIRPERSON: And if -- if you
7 want to provide it --

8 MR. KELVIN SHEPHERD: -- I -- so -- I
9 should probably, unless Jamie could comment --

10 MR. JAMES MCCALLUM: Subject to -- to
11 check or additional comment from the row behind, I
12 think my -- my recollection of the P90 budget is the
13 same as Mr. Shepherd's, which is approximately \$9.6
14 billion. I admit I haven't looked at it in a little
15 while.

16 I believe what you've got here is -- is
17 in addition to the increase in the budget, you've also
18 got a later in-service date. And until such time as
19 the project comes into service, we continue to
20 capitalize the interest on it.

21 And so I think you've got really two
22 (2) things working together here. And an overall
23 increase in the contingency amount to bring you to --
24 to the higher capital cost, and then the addition of
25 time just has the consequence -- we're still making

1 those interest payments --

2 THE CHAIRPERSON: Right.

3 MR. JAMES MCCALLUM: -- but instead of
4 putting them through the P&L we capitalized them to
5 the project.

6 THE CHAIRPERSON: Okay. I thought
7 that part of the movement to the P90 was that it would
8 trigger a delay, and that's one (1) of the reasons the
9 amount was going up.

10 MR. KELVIN SHEPHERD: Not necessarily.
11 I mean, I would have to review the P90 estimate in
12 detail, but it may not necessarily trigger a -- the --
13 a thirty-two (32) month delay.

14 THE CHAIRPERSON: Okay. If -- if
15 maybe tomorrow, when the panel is looking at it, if
16 they could look at the issue of the P90 and we could
17 confirm whether it's 9.6 or a different amount.

18 MR. JAMES MCCALLUM: Let us check
19 that.

20 THE CHAIRPERSON: Sure.

21 MR. JAMES MCCALLUM: I'm -- I'm,
22 subject to check, pretty sure that the 9.6 billion
23 assumed the same in-service date.

24 THE CHAIRPERSON: Okay.

25 MR. JAMES MCCALLUM: And so what we're

1 looking at here is the increment of interest.

2 THE CHAIRPERSON: Thank you -- than
3 you very much. Thank you everybody for today and for
4 keeping on schedule. And we will adjourn and meet at
5 nine o'clock tomorrow morning. Thank you.

6

7

(PANEL RETIRES)

8

9 --- Upon adjourning at 5:08 p.m.

10

11 Certified correct,

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15 _____

16 Cheryl Lavigne, Ms.

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