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

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David Cordingley	)
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Corey Shefman	) Manitoba Chiefs

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William Gardner (np)	)Witnesses
Kimberley Gilson (np)	)

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--- Upon commencing at 9:09 a.m.

THE CHAIRPERSON: Good morning, everyone. Ms. Steinfeld...?

MS. DAYNA STEINFELD: Thank you, Mr. Chair. We are continuing with Intervenors' closing submissions today, commencing with the Assembly of Manitoba Chiefs, followed by GSS/GSM/KAP and then the City of Winnipeg. We will take a morning break, where appropriate, as between those Intervenors scheduled. The lunch break is scheduled for 1:30 and then after the lunch break, we will have the closing submissions from MIPUG and the time scheduled for the afternoon includes the time requested from -- requested by counsel for MIPUG, as well as time for an afternoon break, where appropriate. Thank you.

THE CHAIRPERSON: Thank you. Before we start, we will have to keep to the schedule quite strictly today as we need to finish at four o'clock.

So Mr. Luk and Mr. Shefman, you're up. Thank you.

FINAL SUBMISSIONS BY ASSEMBLY OF MANITOBA CHIEFS:

MR. SENWUNG LUK: Good morning my Learned Friends, good morning, Panel members. I think you must be glad that this is the last day of Intervenor submissions. And I thank you for being patient with our submissions and our evidence over the course of the past number of weeks. I do apologize for beginning a little bit late as we had some technical difficulties with document production, but I hope to make up the time during this presentation, which I don't -- I don't anticipate taking the full hour.

So if we could move to the next slide. Thank you. You've heard from many different Intervenors, many different user groups, about the application that's before you, but Manitoba First Nations are unique. And why is that? It's because Hydro's infrastructure sits on Indigenous lands. But the benefit of that instruct -- infrastructure has predominantly flow to nonindigenous communities, as a result, First Nations in Manitoba are disproportionately poor and live in substandard housing that's difficult to heat.

Obviously, those are bigger social problems. Those are bigger historical problems and your decision here can't solve all of that. It can't make the past hundred and fifty (150) years of history go away. It can't rectify every inequality, but it can help. It can help because it's within the Board's jurisdiction to help. Board has limited jurisdiction over rates and rates have an impact on poverty, on reserve, on people trying to make ends meet in First Nations communities.

And not to be too grandiose about it, but what you do here with this application can be a step forward on the journey of reconciliation that we're meant to be on; that the legislature of this province has recognized as an -- as an important priority.

Before I continue, I think I forgot to put some documents on the records so I do have three (3) documents. The first is the written submissions of AMC which -- all -- all of these have -- well, they have been sent to the parties and to the Board.

MR. KURT SIMONSEN: Can I give you your numbers, please?

MR. SENWUNG LUK: Please. Thank you.

MR. KURT SIMONSEN: The AMC final argument book of documents will be AMC-20.

The AMC written submissions will be AMC-21 and the closing presentation will be 22.

MR. SENWUNG LUK: Thank you. Mr. Simonsen.

--- EXHIBIT NO. AMC-20: AMC final argument book of documents.

--- EXHIBIT NO. AMC-21: AMC written submissions

--- EXHIBIT NO. AMC-22: AMC closing presentation.

MR. SENWUNG LUK: And I don't -- I don't intend to -- to read from our -- our written submissions and -- and the presentation we've prepared here is a bit of a truncated express version of what we have to say.

So, Ms. Schubert, if we could go to the next slide. What AMC is recommending to this Board today are four (4) things.

First, AMC is not taking a position on Hydro's revenue requirement, but our submission is that Hydro's needs, Hydro's financial needs, have to be balanced against the needs of low income ratepayers.

Our second submission is that the Board should order Hydro to implement bill affordability measures immediately that offer discounts to residential customers in on-reserve First Nations communities.

Third, that the Board should order Hydro to design a bill afford -- affordability program for off-reserve ratepayers and report back to the Board for approval of this program within a year. And AMC is willing to assist Hydro in this process if -- if it's provided with capacity funding. And I'll just say, parenthetically, there -- there's a lot of interest in energy issues among the Chiefs, but it's simply not within the budget that exists with -- in AMC to deal with them in -- in a substantive way that enables them to engage in the kinds of processes that are necessary to design workable programs.

And our fourth recommendation is in relation to on-reserve data collection. And it relates to the -- the kind of data that we've seen in evidence here, and that there's been a fair amount of acknowledgement that that data isn't good enough. It's not really telling us enough about how First Nations communities use energy.

And we understand that -- that there are logistical difficulties, as well as historical social difficulties with Hydro going into Manitoba First Nations in order to do this kind of research and AMC is pleased to provide assistance if there's capacity funding provided to it. AMC is prepared to play a liaison role in enabling that kind of data collection that will better the kinds of rates and programming that Hydro offers.

Now, that -- that's a roadmap to our submissions and where -- where we'll go now is -- is the first submission in -- in relation to -- an overarching picture of energy poverty which relates to the first -- first three (3) of our submissions. And I know this -- this ground has been trod a fair bit by My -- My Learned Friends already, so I won't belabour the point.

But, looking back at the evidence, these are the three (3) points that really jumped out at me. On Hydro's rate trajectory by 2024 about one (1) in six (6) households in Manitoba will be energy poor and six (6) in ten (10) low income households in Manitoba will be energy poor. And this arises because of the rate trajectory that Hydro says that we are on which projects a 40.5 percent rate increase by 2024.

And what there's no dispute about is that the ill-effects of energy poverty will disproportionately hit First Nations communities. As Dr. Simpson, witness for the Consumer Coalition observed, there can be such a thing as an energy poverty trap. And Dr. Simpson described it as the following:

"As energy prices begin to rise, it eats a bigger and bigger portion of the budget. Individuals who are or near -- at or near energy poverty will be less and less able to have any money savings to use to weatherize or improve the energy efficiency of their homes in order to realize savings down the line."

It becomes so expensive to heat your home that you can't -- you don't have enough money to spend to make your home more efficient so it doesn't need the heat. And the higher the rates get, the deeper this trap becomes and the harder it is for people to get out of it. And the greater the amount of poverty in a community, the more difficult it is for those community members to be able to handle these rate increases.

You've heard in evidence data taken from the Census that 96 percent of residents in First Nations communities live below the poverty line. The median annual income is $11,915 and that reserves in Manitoba had the highest rates of child poverty in Canada at 76 percent; three-quarters -- more than three-quarters of children on reserve are poor. This is a shameful amount of poverty, in our submission.

From AMC's perspective, much of this poverty can be attributed to the Crown not having lived up to the treaty bargain of land sharing. The province has interpreted the treaties to mean that Manitoba First Nations gave up almost all of the land and that the province has an almost exclusive right to benefit from that land, not First Nations. And these are the lands where Hydro has built its physical plant. The results are plain to see.

And zooming in on a particular issue that -- about on-reserve living conditions that's relevant to the rate increase is housing. As Mr. Shepherd, the CEO of Hydro, conceded housing conditions in the reserves that he visited were abysmal. We heard evidence about how those houses were mostly not built to code. We heard evidence from the report that was issued by the Senate committee, whose task it was to study this issue, and it found that nationally there is about a $9.7 billion deficit in terms of what was required to bring those houses up to the standards that other Canadians would find acceptable.

And that same committee found that

federal funding was inadequate to manage and maintain housing on reserve. That problem is exacerbated in remote communities because of the lack of infrastructure, the difficulty of getting building materials to those places and it is, indeed, true that the federal government provides a certain top-up for remoteness but as a Senate committee found, that top-up is simply insufficient.

As the Senate committee concluded, it will almost be -- it will be almost impossible to address the housing and infrastructure deficit with federal funding alone and in -- in our submission, part of the puzzle is what the Board does here today. It's not sufficient to -- federal funding alone won't get these communities to where they should be, but the rate increase will make things worse. And the discount that we're putting on the table will at least stop things from mak -- getting worse and maybe it'll make things better.

Now, that -- why that is relates to energy use. Given this infrastructure deficit, given the way these homes are built, given the fact that many of them are leaky, it's not surprising that energy use would be higher on reserve. The debate that you heard before you in the evidence was focused on how much higher it was, but there is no debate that it is higher. And Hydro's witnesses conceded that.

And that in and of itself is sufficient reason to conclude that this rate increase that Hydro is applying for will have disproportionate effects on reserve, but there is more, because for many Manitobans gas is an option, and we saw data in the record suggesting that 82.8 percent of households in Manitoba have access in some form to gas heat; that's almost diametrically opposite of the picture for First Nations where only 2 out of 63 First Nations have access to natural gas as a heat source.

And then when you look -- when you zero down at those two (2) communities, you can see that the consumption patterns of those two (2) communities are not different than the other communities where only electricity is available, which suggests that even though gas might be available to the community within the community's boundaries, it's not reaching those homes for a number of reasons that we canvassed with the witnesses. It may be that the houses haven't been built to accommodate gas. It may be very expensive to build distribution lines for gas to bring it in from the mainline to -- to each individual neighbourhood.

So nobody disputed that energy use -- energy poverty is a big problem and nobody disputed that it's a disproportionately big problem for First Nations. So, what to do. We saw in Hydro's submissions in relation to bill affordability, that their approach is focused on demand-side management, on DSM and that's not a -- that -- it's -- it's not a bad thing to do in and of itself, but it's important to remember that DSM can only do so much.

The scale of the problem is too big in that you saw, for instance, that the centrepiece of Hydro's DSM programming for on-reserve houses is based on insulation retrofits, but there may be other problems with the houses that can't be fixed with insulation. If a window has a chunk taken out of it, if the doors don't fit the frames, those are going to be places where the heat leaks out, and as good as the insulation gets, it's not going to -- it's not get to make that home as efficient as one that's been built to code.

And as Hydro said, some of the homes are so structurally unsound that they simply can't be retrofitted at all, and that many of these more useful measures at improving efficiency are simply uneconomical to be installed in on-reserve houses.

So, according to Hydro's own data, 77 percent of homes on reserve aren't -- haven't been eligible for the current Manitoba Hydro insulation programs. So as good as those programs are, there are a lot of -- there's a -- it -- it's a small chunk -- it's a small piece of the puzzle. The problem is bigger than what it -- what those programs can handle.

And the timing is also an important issue. If we think that there's going to be a massive program of -- of rebuilding on-reserve houses either financed by the federal government or through a massive Manitoba Hydro-led DSM initiative, those are initiatives that are going to take years to roll out, but the rate increase that Manitoba Hydro is asking for comes into effect on April 1st, 2018. It is not possible to deal with all those problems before April 1, 2018. And the fact of the matter is that Indigenous Power Smart has been running as a Hydro program for more than three (3) years, and in the latest consumption data that you saw put into evidence before you, the gap is still large between on-reserve and off-reserve consumption.

So in our submission, something more substantial needs to be done, and the proposal that we put before the Board is for a discount rate for on-reserve residents, and it would be useful to begin by going briefly through the question of jurisdiction. We note that Hydro has disputed the ability of the Board to make an order for low income rates and for an on-reserve rate, and so we think it's useful to just go briefly through this terrain. There -- there's a lot more to the argument that's in our written submissions, but this is -- this is the -- this is the overview presentation of -- of what's in there.

Now, multiple Board decisions have affirmed that this Board has the jurisdiction to order bill affordability programming, and the enabling legislation that -- that empowers this Board is very broad. It gives this Board the power to consider any compelling policy considerations that the Board considers relevant to the matter. The Ontario Divisional Court, a panel of three (3) respected judges, looked at a similarly drafted piece of legislation in Ontario, and also concluded that the Ontario Energy Board had the power to order bill affordabil -- bility programming.

Now, if we look back at the -- the previous Board decisions that did consider this Ontario decision and -- and found that this Board does have that jurisdiction, they were operating within a social context where the rate increases being put forward were in the 3.95 percent range. The rate increases being put forward -- being put before you today are double that, and the concern that the 3.95 percent increases sparked in the Board in those previous decisions, in our submission, are only magnified here because of the scale of the increases that are being put on the table.

(BRIEF PAUSE)

MR. SENWUNG LUK: Next slide, please. Thank you. Now, just briefly on Charter values, the Supreme Court of Canada has said that you as a Board have to do a proportionate balancing of Charter values with the objectives of the statute that you are working under. It's indisputable that equality is a Charter value, one (1) of the fundamental values of the Charter. And the courts have been clear that treating people the same when they're fundamentally different doesn't quite must -- doesn't quite pass muster in terms of what equality means for the Constitution.

For instance, if a hospital has no sign language interpreter for any of its patients, that formally treats everyone the same, but it's obviously much worse for hearing-impaired patients. And the court concluded that that kind of treatment breaches the principle of equality under the Charter.

In our submission, Hydro rates that treat all residents the same, when on-reserve residents are different in many fundamental ways, also has difficulty passing muster under this principle of equality. In our submission, the Charter value of equality compels this Board to look expansively at its jurisdiction, and to take into account these important systemic differences in energy usage and social situation of First Nations communities. And it suggests, in our submission, a rate structure that offers discounts to people whose houses need more heat and who have fewer options.

Now, we started earlier talking about how the Supreme Court says, You have to do proportionate balancing between this principle of equality and the other statutory objectives. And when we look at the -- the cease -- the Crown Corporation Governance and Accountability Act, in our submission, the -- the fundamental -- one (1) of the fundamental objectives of that Act is to maintain the financial health of the Corporation of Manitoba Hydro.

And it's important to note that the proposal we're putting before you is of little or no risk to that financial health at all. The discounts will produce revenue losses, but what we're suggesting is that those revenue losses be recovered from other ratepayers. And when you balance out the -- the benefits to equality of the rate proposal we are putting forward with minimal financial risk for Hydro, in -- in our submission, it can be seen that Charter values eminently support the proposal we're putting forward.

(BRIEF PAUSE)

MR. SENWUNG LUK: So it's our position that neither special rates for on-reserve or special rates for low income people violate section 39(2.2) of the Manitoba Hydro Act. We know there's -- we know you -- you've heard a different submission from Hydro, and in our submission, their position is -- is incorrect and should be rejected by this Board.

Now, just thinking broadly about this geographical rates prohibition, if I could -- maybe this would be an occasion to bring up the book of authorities, Tab 4.

(BRIEF PAUSE)

MR. SENWUNG LUK: At page 46 is where section 39 is found, 39(2.1) and (2.2).

MR. KURT SIMONSEN: I don't think we have those digitally, sorry --

MR. SENWUNG LUK: Okay. I'm sorry. Could I -- I think probably many are -- many people are quite familiar with -- with the passage I'm about to allude to. And at 39(2.1), the Act says that:

> "The rates charged for power supplied to a class of grid customers within the Province shall be the same throughout the Province."

39(2.2) says, "for the purpose of subsection 2.1," and I'll go to the -- subparagraph (b):

> "Customers shall not be classified based solely on the region of the Province in which they are located or on the population density of the area in which they are located."

So what that -- what that statutory scheme says to me is, the Board is not allowed to classify it, to set a -- a cla -- to -- to set a class of grid customers on the basis of location alone, but it is allowed to classify customers based on other salient characteristics. It may be that customers who fall under the rubric of -- who -- who have those other salient charis -- characteristics might be geographically concentrated. For instance, all the industrial customers may be found in industrial parks, but that doesn't make rates for industrial customers a rate based solely on geography. There are other salient features that separate out industrial customers from the rest of the customer base. Their loads are -- their -- their needs are different. Their consumption patterns are different.

And the same is true, in our submission, of on-reserve customers. They have a different history and different social conditions. They have a different housing stock, stemming from a different jurisdiction and legislative regime. They have a different application of the building code. There is a different funding mechanism for renovating and maintaining those houses, and a different set of permissions that -- that need to be obtained before those -- that housing stock can be improved.

And finally, there is a massively

different degree of access to alternative heating sources because natural gas simply doesn't serve the vast majority of First Nations and First Nation's homes. These are all salient differences between on-reserve residential customers and off-reserve residential customers, and the Board has jurisdiction to treat them differently.

(BRIEF PAUSE)

MR. SENWUNG LUK: Next slide, please. Thank you. As Mr. Shepherd said on cross-examination, in recognizing the seriousness of energy poverty in First Nations communities, I don't have a solution today, but I believe we do need to find one. The good news is, we do have a solution today, a discount for on-reserve residents is just that solution.

You'll note that in the evidence, much of the objections that were brought forward against a bill affordability program were administrative in nature. How do you tell who is eligible? How do those people apply? How do you requalify them every year? Won't it take a lot of money to run the -- all those forms, and -- and look at all those forms, and then see who's in and who's out? None of those problems exist for on-reserve residents. Hydro knows already exactly who those people are. There is no administrative hurdle to implementing the kind of discount we are putting before you today.

Now, what to implement? We base our suggestion off of Mr. Chernick's very helpful model, and we say that the LICO-125 electric space heating rate, which you see in the second column from the right in the -- the -- this table that's drawn from -- from his slide deck, that rate is what should be implemented for on-reserve residential customers right away, but with certain modifications, two (2) modifications.

First is that -- well, I guess I should talk a bit about what's -- what's in that to -- to remind the panel a bit about what's in that rate. The LICO-125 electric space heating rate combines Mr. Chernick's LICO-125 All rate with the non-LICO ESH rate. So what the LICO-125 All rate does is that it gives a 500 kilowatt hour block of consumption at a discount of four cents ($0.04) a kilowatt hour to persons who are within 125 percent of the low income cutoff.

Can we go back to the previous slide? Thank you. And then what the non-LICO electric space heating rate does is it gives no discount in the summer, 150 kilowatt hours in the spring months, 250 in the fall months, 500 in the winter. And when you add those together for his LICO-125 ESH rate, you get 500 for summer, 650 for spring, 750 in the fall, 1,000 in the winter.

So what -- what are we proposing? We are proposing that on-reserve customers automatically get a 500 kilowatt hour discount, and that on-reserve residential customers also get the electric space heating discount, but that discount would be tailored to the blocks that Mr. Chernick designed when he considered the different electric space heating consumption patterns on reserve.

And those -- those -- the -- the way that's disaggregated can -- can be found in our written submissions, and in an undertaking that Mr. Chernick helpfully answered. But if -- if we could go to the next slide, what that adds up to is a 500 kilowatt hour per month discount in the summer, 755 in the spring, 925 in the fall, and 1,345 in the winter.

(BRIEF PAUSE)

MR. SENWUNG LUK: And I'll just pause

here for a second to note that this is not really so radical a proposal. In fact, it's very much like how the Affordable Energy Program, DSM program that -- that Hydro has designed works. For off-reserve customers, to qualify for the affordable energy program, you have to apply, and you have to prove that you're low income, but for on-reserve customers, you qualify automatically, and that -- that's exactly what we're proposing here.

Similarly, for the Affordable Energy Program there's a certain number of -- there's a certain number of measures that are designed for houses off reserve. And similarly, Hydro has helpfully made modifications to its Affordable Energy Program for on reserve customers and the Indigenous Power Smart Program covers different kinds of things that take into account the different situation that on reserve housing is in.

So what we're suggesting here is basically following the same logic that on reserve residents would be ipso facto qualifying for the -- the rate that -- the 500 kilowatt discount that Mr. Chernick gives to low income customers. And that's justified by the evidence that 96 percent of on reserve residents are below the poverty line.

And we are arguing that there should be different kinds of electric space heating blocks that -- for -- for on reserve customers to get this discount and that's -- that's because the housing is different. The amount of heat it takes to -- to make those houses livable is different.

(BRIEF PAUSE)

MR. SENWUNG LUK: Now, of course, that's going to result in some lost revenue. And as you will see in our written submissions that adds up to a little bit -- in our calculations it adds up to a little bit less than $7 million a year. And if -- if we were to recover those rates only from residential customers that would add up to a -- according to our estimate a point-one-zero-two cent (.102) per kilowatt hour addition to residential rates. On our estimate that -- for a 750 kilowatt hour bill per month that adds up to seventy-five cents ($0.75) a month.

If the lost revenue is recovered from all customers, then it adds a point zero-three-three cent (.033) per kilowatt hour premium over everyone else's rates. And by our calculation on a 750 kilowatt hour bill for a typical resident that adds up to twenty-five cents ($0.25) a month. And all of that math is in our written submissions if -- if the panel wants to go there.

And in our submission, it is fair to recover the lost revenue from all classes because everyone's rates are lowered by export revenue. The burden of those exports falls disproportionately on First Nations whose traditional lands are affected, whose constitutional rights to harvest and their traditional lifestyle on those lands have been impaired.

Implementing this scheme would be a small recognition of a number of things. It would be a recognition of the extra burden that the electrical system has placed on First Nations. It would be a recognition of the different situation of on reserve infrastructure, especially housing. And it would be a recognition of the different economic situation, of the pervasive poverty that exists in many communities. Any of those reasons are sufficient to justify what we're putting before you today.

Now, you heard a lot of evidence about the role of social assistance, and whether INAC pays the -- the whole Hydro bill for anyone on social assistance. There -- there is -- there is some dispute in the evidence about what exactly that meant. It was unclear if social -- if -- if when social assistance pays for the Hydro bill that that amount ends up being clawed back from what -- what that social assistance recipient would end up receiving at the end of the day.

It may be that there's different arrangements in different communities. We don't know. The -- the evidence hasn't been clear on that, and that has to be figured out. But that in and of itself shouldn't stop the Board from immediately ordering the discount for on reserve residents, even if it means excluding social assistance recipients at first.

And social assistance is an important perspective to -- to close off our submissions on -- on this issue, because as the Board has heard, Hydro rates are so high that sometimes it can be unaffordable for some people in some communities to live without social assistance. That the jobs that are available in these communities simply don't pay enough to pay the Hydro bill, and that some people have to quit their jobs in order to be able to afford to live.

And this is a systemic form, in our submission, of the energy poverty trap that Dr.

Simpson alludes to. And the higher these Hydro rates get, the fewer the jobs in northern and isolated communities that -- that will be there to -- that pay enough to enable the person who holds that job to pay their Hydro bills.

And one (1) of the benefits of the rate that we are suggesting is that if, indeed, it is -- if, indeed, social assistance does pay for the Hydro bill, we're making it -- by -- by implementing a discount it -- it's easier for that person to afford her Hydro bills by getting a job. It makes that -- it makes that step easier to climb.

And the Board, in our submission, while it should implement the on reserve discount right away, it shouldn't stop there. There are a lot of needy people off reserve, including many needy indig -- Indigenous people, and the Board should order Hydro to engage with stakeholders to design a ready to implement rate increase when Hydro applies for its next -- I'm sorry -- correct that. The Board should order Hydro to engage with stakeholders to design a ready to implement rate, a bill afford -- a Bill Affordability Program when Hydro applies for its next rate increase.

And this is, in our submission, an

appropriate forum for dealing with the issues, the complexities of how social assistance is to be accounted for in bill affordability programming. And also to deal with the kinds of administrative hurdles that -- that inevitably exists in that -- that are challenges to the implementation of a program of this nature.

But we ask the Board to take cognizance of the fact that this has been an issue that has been brought before the Board since -- at least since 2008, and those Intervenors have been here for much longer than us. We'll -- we'll know that -- we'll -- correct me when -- when I get the dates wrong, but starting from 2008, the Board had ordered Hydro to come up with something to do better. And still that hasn't happened.

And in our submission, something more, something with more teeth is required at this point. And we submit that the Board should let Hydro know that it's not wi -- it -- it won't be willing to consider a next rate application unless it comes with a ready to implement Bill Affordability Program that has been designed with participation from stakeholders.

(BRIEF PAUSE)

MR. SENWUNG LUK: Now, I'll just close off with one (1) -- a -- a set of very important but -- but less complex issues. We submit that the border -- the Board should order Hydro to collect better data on on-reserve consumption. Hydro's witnesses have admitted that the classification of electric space heating customers on -- on reserve is erroneous, that they are under accounted by a significant amount. And you can see that when you look at the -- the tables that compare consumption of on reserve customers with electric space heating versus those without. And the consumption patterns are almost identical, which makes no sense until you realize that a large number of people have been inappropriately classified as non-electric space heating.

And if there is a Bill Affordability Program that's -- that's going to be implemented, that's targeting electric space heating customers, all of those people are going to not get the benefit because they have been inappropriately classified by Hydro.

The second classification problem is general service on reserve. We saw extremely high numbers of general service commercial customers in communities that don't have road access. It -- it doesn't make a lot of sense. And it's difficult to figure out what's going on. And we are asking for the Board to ask Hydro to report back on why those numbers are the way they are, why there is a higher proportion of general service customers on reserve than off reserve when it's well known that economic development in commercial activities less pronounced on reserve. And we're -- we're asking the Board to task Hydro to look at that problem and -- and report back to the Board on whether these customers have been appropriately classified.

And finally, we note that the Residential Energy Use survey of 2014 had only thirty-five (35) Indigenous respondents, and that's one (1) of the reasons why there -- there isn't good enough data to talk in detail about on reserve consumption patterns. And we acknowledge that Hydro is -- is undertaking efforts to do more surveying. And AMC is pleased to assist Hydro in this process. But, once again, AMC does not have the financial resources to do this in a substantive way, and it will need capacity funding to move forward in those endeavours.

So just to conclude, number 1, energy

poverty is serious and the Board must balance the real effects on vulnerable people of Manitoba's appli -- Manitoba Hydro's application with Hydro's financial risks. But regardless of whether you grant Manitoba Hydro the rate increase, you've heard -- you've heard enough evidence about energy costs on reserve and affordability issues on reserve that, in our submission, it's sufficient for you to order an on reserve discount immediately.

And third, the Board should order an engagement process that designs -- that -- that is geared towards designing a bill affordability measure that benefits off reserve residents as well as other low-income Manitobans, and that the Board should order better data collection for on reserve customers.

AMC would like to take part in the design of the Bill Affordability Program and assist in better data collection on reserve. But just to conclude, AMC doesn't have the resources to participate in and of itself. And we ask the Board to encourage Hydro to provide the resources to AMC to assist in better serving an important but vulnerable part of Hydro's customer base.

So I know my -- my time is closing and I would encourage you to -- to look at our written submissions for more detail. And barring any questions from the panel that will conclude our submissions.

THE CHAIRPERSON: Thank you, Mr. Luk. I'd ask the panel if the panel has any questions. Dr. Grant...?

BOARD MEMBER GRANT: I have several if I can -- the indulgence of the panel. I want to preface it by saying I think your participation here has been refreshing in terms of actually bringing a concrete proposal that we can talk about in focus. I think it's been really beneficial.

I just had a couple comments, and maybe you can help me out here. I think you're being too generous to Dr. Simpson about the energy poverty trap because I think you seem to be identifying a sort of a different situation.

Am -- am I correct that if I'm living on reserve and I -- and I'm -- I'm on social assistance then both my utility bill -- none of that's my responsibility. But then I'm fortunate enough to get a job. Am I then -- and -- and I'm off social assistance.

Do I suddenly inherit both the rent on the house, if it's a band house, as well as the utility charge? Because then I think the utility charge becomes so imposing that there's your energy trap that just employment just isn't realistic; right? It's just it -- am -- am I correct in that understanding of how most band housing is organized?

MR. SENWUNG LUK: Dr. Grant, I can say that I've heard the same things about arrangements. We haven't been able to locate any systemic information about the treatment of social assistance payments. We -- we have -- we -- we know it's on the record that this -- that kind of phenomenon has been described anecdotally. But whether and how it works may be a function of INAC contribution agreements that -- that are individually tailored to each community.

We don't know the extent to which that is true for every community. And I know there is some dispute on the record about how exactly that worked, whether there -- there is some sort of clawback on social assistance as a result INAC paying the Hydro bill or -- or not. Like, that -- so unfortunately we -- we couldn't do any better in terms of -- of clarifying the evidence on -- on that particular issue, but certainly we have heard those same anecdotes that -- that you're describing. And, indeed, that is a form of the -- the energy poverty trap that -- that ensnares people.

BOARD MEMBER GRANT: The other question was, I have to say my -- my -- I -- I take your point about frustration with the time it takes for a DSM program to rollout. But sort of my knee-jerk intuition is that a dollar spent on a DSM program, especially when there is substandard housing, might have a greater impact on a bill than a dollar of rate relief.

Is it -- and I'm -- I'm sure I missed this point earlier, were First Nations actively involved in the design of the Indigenous Power Smart Program? Let me put it this way. Do you think -- your issues with the DSM program, is it in the design of them and their effectiveness?

Could they be improved to be much more effective through more Indigenous participation? Or is it simply that any DSM program, however designed, is -- is not going to give you the immediate and long-term relief that you need?

MR. SENWUNG LUK: In -- I can say that we are not aware of any part of the evidence that suggests Indigenous participation in designing the Indigenous Power Smart Program. And I -- I don't -- I don't have as encyclopedic knowledge of the record as

-- as I'd like. So I -- if -- if I've misstated the record, I'm happy to be corrected on that.

However, it would be our submission that it's -- it's not an either/or approach. It makes sense, in our submission, for all of these things to be happening at the same time. The -- the pow -- the increases are happening, if they happen, in April. No amount of DSM is going to redu -- is -- is going to make everyone's home more efficient by 7.9 percent by April.

Now, you know, do -- I think there's a lot of virtue in engaging with First Nations on DSM issues. And with -- with the more participation by First Nations and First Nations organizations, I think it is reasonable to expect that there can be more savings to be gotten from a DSM initiative.

And, you know, I -- I think that -- that's one (1) of the virtues of -- of the rate proposal that Mr. Chernick put forward that we modified, is that the blocks that -- that are attributable to electric space heating, they can be varied over time.

And when the DSM does have the -- the significant effects that -- that we hope for it, then that may be a time, you know, at -- at each -- at each rate application is an opportunity to look at how successful that DSM and DSM programming has been, and to scale back if the Board thinks it is necessary that discount that -- that we are suggesting.

(BRIEF PAUSE)

MR. COREY SHEFMAN: If I can just add one (1) comment in response to question, Mr. Grant -- or Dr. Grant. I apologize. The other issue -- and acknowledging absolutely that DSM is an important part of -- of doing what we've talked about throughout this hearing, we have -- there's evidence on the record, and I apologize, I don't have the specific numbers in front of me, but there is evidence on the record that the number of homes on reserve eligible for the -- for upgrades and other types of DSM assistance under the Indigenous Power Smart Program is significantly lower than the number of actual homes on reserve.

In some cases, that's because homes have already been upgraded. But I -- in fact, I do have the numbers in front of me. Only three thousand seven hundred and seventy-eight (3,778) of sixteen thousand (16,000) on reserve homes are eligible for this program, meaning 77 percent of on reserve homes are not. The reasons why those 77 percent are not is -- has been a topic of discussion.

But the fact is that while the Indigenous Power Smart Program -- and we've said throughout this hearing is a step in the right direction, it isn't enough. And particularly in the face of the increases being requested. It isn't enough.

BOARD MEMBER GRANT: Just two (1) other quick ones if I could.

THE CHAIRPERSON: Sure.

BOARD MEMBER GRANT: Your third recommendation with respect to off reserve -- thank you -- for bill affordability, is that First Nation off reserve or just off reserve generally?

MR. SENWUNG LUK: I think that would be off reserve generally, including Indigenous people who -- who live off reserve.

BOARD MEMBER GRANT: And the fourth point, finally, any concern about if this date is collected do you have any concern about who has access to it? It's public information. The Board has access, Hydro has access.

Any concerns along those lines?

MR. SENWUNG LUK: I -- I think in

terms of the basic consumption data that that has been a matter of record before this proceeding. It's -- it's there -- I -- I can't...

(BRIEF PAUSE)

MR. SENWUNG LUK: I think it's -- it's a fair principle to say that to the extent that that information is available for off reserve customers, it should be -- it should be -- it should exist for on reserve customers as well. And that where that data exists, and a lot of this does exist already. It's been produced in the record. But it has been conceded that it's not accurate. And that accuracy is something that Hydro should be aiming towards in -- in future proceedings.

BOARD MEMBER GRANT: Thank you.

THE CHAIRPERSON: I have one (1) question. Your proposal is -- is essentially to have, if I can call it, a modified Chernick model for the discount. And then you talked about the bill affordability measures.

Would you see the bill affordability measures as being let's work on -- with the materials we have to date? Or would you -- is your proposal that as part of the bill affordability measures that the Chern -- Chernick model be used as the basis for that? The only time you talked about the Chernick model was in relation to the discount and I -- I didn't know if you were trying it strictly to that, or if you're trying to the overall bill affordability.

MR. SENWUNG LUK: Yeah, we -- I don't think we have a -- we -- we don't have a position on -- on that particular question at this time. And I -- I think it should be -- it should be open to the engagement process to look at the Chernick model as well as a number of other models. And to -- to recommend one (1) or multiple of those measures as -- as good policy.

And -- and just answer -- to your question about data collection, I -- I think that's one (1) of the -- one (1) of the important things that -- that needs to be done quickly in order to effectively run this engagement process that's being envisioned for -- for designing a Bill Affordability Program.

We've seen that, for instance, there -- there isn't good enough systematic data about, for instance, social assistance. And that's -- that's one (1) of the things that AMC can assist in -- in gathering is -- is that is that kind of systemic data that -- that we think will be useful for rolling out the -- the further phase that -- in -- that's described in -- in our third recommendation.

THE CHAIRPERSON: Okay. Thank you very much, gentlemen, for your appearance today and -- and your contribution throughout. Thank you.

MR. SENWUNG LUK: Thank you very much.

THE CHAIRPERSON: Mr. Monnin, you're up next. I -- I think maybe we'll take a ten (10) minute break now before you start, so we don't have to interrupt you.

MR. CHRISTIAN MONNIN: That works, Mr. Chair. Thank you.

THE CHAIRPERSON: Thank you.

--- Upon recessing at 10:14 a.m.

--- Upon resuming at 10:27 a.m.

THE CHAIRPERSON: If we can resume. Mr. Monnin...?

FINAL SUBMISSIONS BY GSS/GSM/KAP

MR. CHRISTIAN MONNIN: Thank you, Mr. Chair, members of the Panel. I have a few housekeeping comments to make at the outset.

There's tech -- technical difficulties. There seems to always be some technical difficulties. Last evening I sent out a supplementary book of documents which everyone received. Prior to that, I had sent out a book of documents, a January 26th transcript correction from LEI and LEI response to Undertaking Number 72.

I'm told, unanimously, that the book of documents, the transcript correction and the undertaking did not make its way through, however, we've prevailed. More importantly, the Panel members have hard copies of the book of documents and the supplemental book of documents and electronic copies have been provided with Mr. Simonsen.

And on that point, the Undertaking Number 72, would be filed as GSS/GSM Number 15. The January 26th transcript corrections would be filed as GSS/GSM-16. The book of documents would be GSS/GSM-17 and the supplementary book of documents would be GSS/GSM-18.

MR. KURT SIMONSEN: Thank you very much.

--- EXHIBIT NO. GSS/GSM-15: Answer to Undertaking

No. 15

--- EXHIBIT NO. GSS/GSM-16: January 26th transcript corrections.

--- EXHIBIT NO. GSS/GSM-17: GSS/GSM Book of documents.

--- EXHIBIT NO. GSS/GSM-18: GSS/GSM supplementary book of documents.

MS. PATTI RAMAGE: Mr. Chairman, before we begin, and Manitoba Hydro hasn't seen the -- the one book of documents and I understand that will come up, but the supplementary book of documents includes in it a scope of work for benchmarking study document that has not appeared on the record anywhere and has not been tested.

And so, we -- we would like to make a point of registering our objection to introducing new evidence of -- of this magnitude in argument. I think at this point I just want to register the objection. I haven't heard what Mr. Monnin is saying about this document, but it's not something that we have seen or that we had the opportunity to test during the oral proceeding.

THE CHAIRPERSON: Thank you. Sorry, so noted. Mr. Monnin...?

MR. CHRISTIAN MONNIN: Yeah, Mr. Chair, I would propose to -- this -- the point is noted from My Friend but, however, before she objects she ought maybe listen to what submissions I have to make with regards to this document, which was prepared by my office, and then she could probably register objection. It seems that the proverbial cart is before the horse, objecting even before any words have gotten out of my mouth.

So, I would recommend to this Board that on behalf of GSS/GSM and KAP I'd be allowed to make my submissions with regards to that particular document -- the book of documents, and then in accordance, if -- if My Friend still thinks it's appropriate she can then object.

THE CHAIRPERSON: Well, the way I interpreted she's -- she's placing her -- putting a place mark, she's not saying you can't go ahead but she's putting you on notice that she may suggest that we not accept any of your evidence at a later point or suggest what weight we should apply to, but certainly you can proceed with it.

CONTINUED BY MR. CHRISTIAN MONNIN:

MR. CHRISTIAN MONNIN: All fair -- all's fair in love and war, Mr. Chair.

Members of the Panel, on behalf of GSS/GSM, thank you -- and Keystone Agriculture Producers, I'd like to thank you for the privilege of making final submissions, and appearing throughout this -- this process as an Intervenor and having the voices heard of these intervening parties.

In summary, the key points that GSS -- General Service Small, rather, and General Service Medium Customer Class and Keystone Agriculture Producers wish to underscore this morning as follows:

That the compound impact of Manitoba Hydro's projected rate increases must be considered by the Public Utilities Board during its deliberation -- deliberations in these proceedings.

That a properly conducted macroeconomic analysis which appropriately addresses the full impacts of all the projected rate increases on the Manitoba economy ought to be conducted.

And the Public Utilities Board ought to consider improvements to the revenue cost coverage ratios for certain classes.

With regards to operating

administrative costs, an independent review of Manitoba Hydro costs, staffing and operating procedures ought to be conducted.

And we'll touch upon Mani -- the issue of Manitoba Hydro's capital plan, its reversible and long-held positions regarding the timing to increase equity thickness as being significant drivers of the proposed rate increases, that is, the rush to 75/25 and the issue of Keeyask.

I will deal with these items in turn. I will also be referring from time to time to the book of documents, and the supplementary book of documents during my submissions.

The compound impact of Manitoba Hydro's projected rate increases must be considered by the Public Utilities Board during its delib -- deliberations in these proceedings. As has been noted in Manitoba Hydro's oral presentation on February 5th, 2018, it is seeking final approval of an across-the-board increase of 3.36 effective August -- 3.36 percent effective August 1st, 2016; a 3.36 interim effective August 1st, 2017; and a 7.9 percent effective April 1st, 2018.

This is, indeed, accurate and it's noted that the Board has consistently underscored this fact throughout this hearing. However, it's respectfully submitted that these requested rate increases cannot be examined in isolation from the projected rate increases being proposed by Manitoba Hydro. And this submission is supported on several occasions by the evidence that we've heard in these proceedings.

Going to tab 1 of the book of documents, pages 4522 and 4523 of the transcript, lines 13 through 25. And here's an exchange that I had with Dr. Adonis Yatchew. In particular, starting on lines 13, where it reads:

"But the takeaway from that, at least my understanding is, assuming that the Board accepts the proposed rate application and this general rate application that is, in your evidence that will telegraph to the public and to the ratepayers that we're likely fall -- falling down the path of all the rate increases that are being proposed."

And in particular, line 23, is the evidence:

"Once you've accepted that, that the

primary objective here is a target
financial ratio within a certain
timeframe, [next page over please]
it's that the rationale --
page down, please] it's that the
rationale for the primary rationale
for accepting this 7.9 -- 7.9 in
this application, then that the
rationale one would have to try to
appreciate why that rationale
changes the following year."

And at tab 2 of the book of documents, in particular, page 4987, lines 4 through 20 and it is an exchange that I had with Mr. Colaiacovo and, in particular, page 20 and at line 23 he says:

"I think the only way you come to
that conclusion, those rates are
required, is if you believe that the
target of 75 percent debt and the
timing goal must be achieved by
2027; if you don't believe that,
then the 7.9 percent rate increase,
I believe, does not have sufficient
support."

Now, Manitoba Hydro's trying to say

that this isn't the case, and that you don't need to go there. And, in particular, at tab 3 of the book of documents, My Friend Ms. Ramage, in her closing submissions on behalf of her client, indicated:

"The main challenge for you is to fix the rate increase for April 1st, 2018. You are not being asked to approve five (5) years of this rate increase. You're not being asked to approve Manitoba Hydro's new financial plan. What my client seeks is a 7.9 percent increase effective April 1st, 2018. The Board can take comfort in the fact that it cannot be wrong in awarding 7.9 percent on April 1st.

However, at the same time, Manitoba Hydro takes the following position, if you go to tab 4, which is -- slide deck 47 from their presentation, their closing presentation, where they say:

"You're not being asked to look at five (5) years, you're just being asked to look at this snapshot."

But at the same time, they say:

"A twenty (20) year 3.9 percent rate

path is too long."

We need to be faster. There's only one way, according to Manitoba Hydro, that you can address the concern raised in tab 4, slide 47 from the presentation on February 3rd, 2018. And that is to move towards approving all the projected rate increases.

So in some, yes, we agree that within this application you have a specific request for approval is being made but the evi -- evidence bears out that during your deliberations, you need to consider all the projected rates that we know are out there.

I'd like to move on to the second point: properly conduct a macroeconomic analysis which appropriately addresses the full impacts of all the projected rate increases on the Manitoba economy ought to be conducted. Now, we've heard from a few witnesses on this point: The City of Winnipeg, London Economics International, Dr. Yatchew, Dr. Compton, Dr. Simpson.

Have the witnesses provided evidence which would constitute sufficient macroeconomic analysis? All of these witnesses in one way or -- one shape or form have suggested that there will be significant economic impacts from the rate increases. Dr. Yatchew suggests that elasticity of demand might be higher than assumed by Manitoba Hydro. This could significantly impact for the generate -- generation needs. Dr. Simpson and Compton show as many 30 -- thirty-nine hundred (3900) jobs lost and this is consistent with London Economics International's overall range of jobs lost.

Now, Manitoba Hydro's been quick to try and poke holes and undermine the evidence that has been provided by the experts. However, we urge the Panel to look -- to look at the evidence on this particular issue. And we also urge the Panel to look at what has Manitoba Hydro contributed to this particular discussion, which is important in your deliberations?

At tab 5, please, of the book of documents. Here's an exchange with Mr. Peters and Mr. Shepherd. Lines 11 through 25:

Q. Would it be correct, Mr. Shepherd, that Manitoba Hydro hasn't conducted an analysis of the rate impacts on the various customer classes in terms of what their economic impact would be?

A. I think it would be fair to say that I haven't seen an analytical impact study. We certainly considered qualitatively, and discussed the risk, but I would tell you, personally, I have not seen any kind of qual -- quantitative analysis or attempt to quantitatively identify those impacts beyond, I would say, certainly some views on understanding what the, you know, impacts might be in terms of, you know, low income customers and bill affordability, and those types of analysis which -- which I would say have -- we have seen."

Next tab over, please. Exchange between myself and Mr. Shepherd regarding -- here I was having a discussion with them about the fact that rate increases would actually have a reduc -- a reduction of the load growth or load demand and he said, yes, that's one (1) of the factors and a question I put to him:

"Is it fair to say that Manitoba

Hydro recognizes for every
percentage increase -- increase in
real electricity prices, there's a
corresponding result in a decrease
in de -- in domestic consumption; is
that fair to say?"

Mr. Shepherd on next page acknowledges that there's definitely a sensitivity to it and that there is some linkage and I asked him -- and I -- then I asked questions of Mr. McCallum, starting at line 13:

"And with respect to the proposed
rate increase that the Corporation
is seeking, what extent of the 7.9
percent is to offset the anticipated
reduction domestic load growth that
will occur from these rate
increases?

I don't have an answer to that. I
don't recall having done that
analysis, but tomorrow we'll have
Ms. Morrison here with us who's an
expert in load forecast.

Okay. But I take it from your
answer you haven't done an -- done

that analysis but has Manitoba Hydro
done that analysis?
MR. MCCULLUM: Subject to check,
not that I'm aware."

Tab 7, in particular, page 2120 -- 21 of the transcript, lines 10 through 25. An exchange with Mr. McCallum, again, here about what impact the carbon tax would have in conjunction with the rates.

"Is it safe to say that prior to
this application Manitoba Hydro did
not turn its mind to the impact of
the impending carbon tax and what
that will have on the ratepayers'
ability to absorb the proposed rate
increases?
Well, at the time we prepared our
application we didn't have knowledge
of the province of Manitoba's
choices around the carbon tax."

And then you'll see -- remind him that, at least you knew the federal carbon tax was going to be coming in in any event and he acknowledged that.

At page 2122.

"So it's safe to say that
8] it's safe to say that it didn't

factor into Manitoba Hydro's analysis while preparing its application?

I wouldn't -- yeah, I wouldn't agree -- I would agree with that directionally and it's safe to say in the same vein that Hydro has not attempted to identify the trade-offs between the impact of the rate increases on the financial health, on the one hand, and that of the province and the ratepayers on the other hand when preparing its application.

Is that safe to say?"

Next page over, starting at lines 4 running through 22 and it's page 2123 of the transcript.

"Well, I don't think I'd agree with that. [says Mr. McCallum] I think we had a tremendous amount of discussion around the executive and Board around impacts on the rate increases on the economy. I think, ultimately, our job is look at --

after the health of the Utility and I think that we put forward -- here we've said is what we believe is the minimum required to do so.

And those deliberations, when -- was an in-depth analysis done on behalf of Manitoba Hydro on the impacts that these rate increases would have on the one hand, and on the benefits or the impacts of the province and the ratepayers and the other?

A. In-depth analysis, no. When we relied on the judgment and experience of the executive team and its Board of Directors who are collectively a group of fairly experienced individuals."

The next tab is tab 8. I think I've underscored the point. All that leads is -- is an exchange with Mr. Bowman, from MIPUG -- or MIPUG also identifies the fact that there is a paucity.

"Hydro's filing provides no apparent estimate of the economic impact of Manitoba Hydro raising rates outside

of the limited scope of the
incremental elasticity. How much
less power might be used on an
incremental basis due to higher rate
increases to the customers' price
response."

So, indeed, that is the contribution that we would submit that Manitoba Hydro has made to what the impact of these rate increases would have. On the one hand, we had Mr. McCallum saying that we talked around at the Board -- at the board table and -- and these are experienced individuals.

But on the other hand, they'll say, well, it's really not our job. Our job is to look at the well-being of the Utility.

Now, what we have before you, for example, London Economics is the first to admit that there has been some limitations in the illustrative analysis that was prepared in these proceedings. In fact, the evidence shows that all the experts have acknowledged some limitations with their reports. This is not meant to attack or to undermine the good work of Dr. Compton, Dr. Simpson, Dr. Yatchew, Tyler Markowsky from the City. They all recognize that there are some limitations.

Just to underscore some of those limitations, for example, at tab 8 -- pardon me, tab 9, in particular, starting at page 4528, lines 10 through 25. And here I'm having a discussion with respect to the ability -- or is -- pardon me for a moment here. About fuel switching and -- and the ability of certain entities in the general service small and general service medium and agricultural industries to be able to do fuel switch. And it says:

"It's safe to say that your report you didn't get very granular and to the ability of the agricultural sector to switch to fuel?
No, no, I did not.
And that's certainly an analysis that can be done, but it was not done in the context of this report?
I -- there's a fair amount of territory that I was trying to cover here and there were all kinds of detailed analyses that could be done that are useful to do that are not in the report."

And again at page 4529. Being mindful of the time, lines 7 through 25, in particular, speaking with some limitations to the report that Dr. Yatchew did, going at line 24, 25 at page 4529 and page 4530, he says:

"My analysis -- my analysis was to bring -- relied on the -- those kinds of empirical studies, which -- which, as I've said earlier, I think can inform the discussion here. However, the distributional effects on a -- on the best information that I can. That I was able to provide relatively easy was the electricity share of costs on an industry basis. And that's in appendix 4."

And, again, I'm not here to criticize or attack Dr. Yatchew's report. It's just underscore that like London Economics, Dr. Yatchew's recognized some limitations in his evidence that he provided regarding the economic impacts of the rates that are being proposed.

At tab 10, here is an exchange with myself and Dr. Compton, in particular, but also Dr. Simpson. Page 4752 of the transcript, lines 6 through 18:

"And would you agree with me that

apart from the decision of using the simplifying assumption that passing on the cost to consumers in the form of higher prices is the more likely result of what's going -- not going to incur increasing rates. I think I need more information to know better or not. It would be more likely or not. The reason why we made this simplifying assumptions become -- is because passing on the rates to consumers involves changing the relative prices and the model doesn't allow for us to do that. So we're trying to be as conservative as possible in making our estimates."

Next page over, 4753:

"And do I understand from the takeaway from that answer is that because the model was limited, you chose a simplifying assumption?

Yes."

As noted previously, it's not meant -- these points that I'm underscoring in the transcript is not meant to undermine the work, however, these self limitations lend support to the position that a properly conducted macroeconomic analysis which appropriately addresses the full impacts of all the projected rate increases on the Manitoba economy ought to be conducted.

Now, there's a chink in the armour of that position and I'll readily admit it. It's -- it's -- this is predicated on considering the full breath of projected rate increases that Hydro has put forward, but not necessarily put forward.

We've talked about rate shock. We've talked about the -- the projected rate increases being near rate shock. Now, if this Board were to decide a 7.9 is not appropriate and give some signal that we're not going down that path, then we're not dealing with the -- the rate increases that are being anticipated or being considered, and therefore, perhaps, the Board will be satisfied with what they have on the evidence for the economic analysis.

Point being is that if this Board decides that, we're not buying into what you're selling Hydro at 7.9 percent and we're not doing it this year, we're not doing it next year, we're doing it years going forward, then perhaps the Board doesn't need to deal -- to dig deeper on the economic impacts but if the Board -- the point being, is if the Board is truly considering going -- to use a vernacular for -- for the Keystone Agriculture Producers, going whole hog on -- on the projected rate increases then perhaps this Board needs to give better consideration to the full economic impact of all these rate increases.

I'd like to take this moment to touch upon some of the points that were addressed on cross-examination by Hydro of London Economics International. During cross-examination this Board will recall that counsel for Hydro cross-examined London -- Mr. Goulding from London Economics on a few points but one, in particular, had to do with the -- the use of guidelines for estimating swine farrow finish costs and -- and -- so the point is this, was it appropriate for an illustrative analysis to use documents which provides assumptions for farmers to use when filing -- when filling in a workbook to estimate their costs?

As you know, in its report LEI relied on the report guidelines for estimating swine farrow finish costs 2016. This document was developed and issued by the government of Manitoba and in our cross-examination Manitoba Hydro counsel themselves referred to the document as the government of Manitoba's guidelines for estimating swine farrow finish costs.

The point is this, it's unlikely that the government of Manitoba itself is issuing guidelines which are inconsistent with reasonable potential outcomes, otherwise, farmers would be making investment decis -- decisions based on meaningless calculations.

To suggest that the assumptions cannot be used for an illustrative exercise calls into question the entire purpose of the document prepared by the province of Manitoba.

Another point which was raised in cross-examination of London Economics by My Friends at Hydro had to do with the use of North American industry classification system data for hotels and traveller accommodation, rather than the CANSIM data, which is the Canadian subset. And so are the reasons why it's more appropriate to use the CANSIM data when exploring impact on specific types of consumers -- pardon me, the question should be, are there reasons why it may not be appropriate to use CANSIM data and the answer is yes.

The CANSIM data aggregates disparate establishments with different costs under the North

American industry classification system. The illustrative examples prepared by LEI were based on specific types of retailers and traveller accommodations and that's with the North American industry classification system.

LEI used the NI -- NAICS category 453, which is miscellaneous store retailers. And that's defined as a sub sector, comprises establishments primarily engaged in retailing a specialized line of merchandise and other types of specialty stores; florists, office supply store, stationery stores, gift, novelty and souvenir stores, used merchandise stores, pets, pet supply stores, art dealers, manufactured mobile home dealers are also included.

It's clear that there's a wide range of retailers listed. I could have used different -- I could use different electricity users pat -- patterns. Convenience stores are clearly different from manufacturers and mobile home dealers.

Similarly, CANSIM which was relied on by Dr. Yatchew, and which My Friends at Hydro underscored during their cross-examinations of Mr. Goulding. As CANSIM category 7211, traveller accommodation, this group is equally quite broad. The industry group comprises est -- establishments primarily engaged in providing short-term lodging facilities, such as hotels, motor hotels, resorts, motels, casino hotels, bed-and-breakfast homes and housekeeping cottages and cabins. These establishments may offer food and beverage services, recreational services, conference rooms and con -- convention services, laundry services, parking and other services. In this point, inclusion -- including a bed-and-breakfast establishments and housekeeping cottages may skew the results relative to the example that LEI was presenting.

Certainly, using Canadian data is generally preferable when looking at Canadian jurisdictions. There often -- however, there are often situations where access to a larger, more granular data sets from the US may be preferable to facilitate analysis. LEI chose to use data that was more focused on a specific subsector analysis. Would the results change directionally were CANSIM data used? No. Increased electricity rates would still have negative impact on margins for each of these industries.

So in closing on this point, members of the Board, it suggests that the evidence submitted is that -- there is sufficient evidence submitted to demonstrate economic harm or impact in -- with regards to the proposed universe of the rate increases. An in-depth analysis of macroeconomic harm and harm specific to customer classes would be helpful to this Board regarding longer-term considerations should it choose to go there.

I'm out to the next point. I'm about the half -- I'd say I'm about 60 percent through of my -- my submissions, Mr. Chair.

The next point is Public Utilities Board ought to consider improvements to the revenue cost coverage ratios for certain classes. Now, this Board is well aware of the principles of rate design. At the outset of these proceedings, oh, so many months ago, everyone likely received a door prize of Bonbright's rate design principles. It's not necessary to go over the principle of unity or -- or zone of reasonableness, however, certain points bear to be noted.

The goal of rate design is to derive the prices that Utility customers in each and every class served by Utility company will pay for each billing component. The rate design process determines how best to recover the costs that Utility companies must collect in the form of rates and the provision of utility services. This must be consistent with regulatory principles and policies which have been well-canvassed during these proceedings.

It's important to note also that rate-making fairness means avoiding a situation where any class or customers pay -- pays an arbitrarily high rate for electricity services because the customer class is required to contribute the over -- overall cost of service in a manner that has the effect of subsidizing another class. One (1) particular class, which I represent, general service small non-demand, is a standout regardless of what perspective or lens this Board chooses to use in these proceedings.

Starting at Tab 12 of the book of documents, this is taken from Tab 8 of Manitoba Hydro's filing. You've all seen this many times before, figure 8.12, the comparison of class RCC results. General service small is sitting at one point (1.) -- it's at one-twelve point five (112.5) in the PCOSS18, which is outside the zone of reasonableness.

The next tab over, there's a table prepared by Our Friends at MIPUG, Mr. Bowman, table 7.7/1, PCOSS18. And the top of the -- of the table, the second column over, GSS -- sorry, general service small non-demand, one -- one-fifteen point seven (115.7) under revenue to cost ratio.

The next tab over. Again from Our Friends at MIPUG, the orange line showing general service small, not necessary general service non-demand, hovering above the zone of reasonableness line.

The next tab over. This is prepared from -- by Mr. Harper, slide 32 of his presentation. I'm not getting into the marginal cost argument or discussion. Simply if you look at the revenue marginal cost percentages on the right-hand column, general service small non-demand is at 141.9 percent.

The next tab over. This is from Manitoba Hydro's slide deck, slide 73, February 5th, 2018, where My Friend Ms. Ramage was making submissions that once Bipole III comes into service, it's going to level out the field for many of these -- these classes. Once again, general service, non-demand sees an increase, and at 115.3 percent of the RCC.

In short, what is clear throughout is that the general service non-demand is consistently outside the zone of reasonableness. And certainly, we're suggesting an adjustment ought to be made. Now, there's loit -- legal authority for this Board to do such things. At Tab 24 -- no need to go there -- at Tab 24 of the book of documents is Board Order 7-'03. In particular, at page 103, where the Board made an adjustment of 1 percent to the general service small.

Another decision, which I think is important enough to turn to, at page 25, from a sister jurisdiction in Nova Scotia.

(BRIEF PAUSE)

MR. CHRISTIAN MONNIN: I haven't put the complete decision in, Mr. Chair. It's well over a hundred pages. I just put the relevant pages in.

And in particular, Kristen, if you can go to Tab 25.

(BRIEF PAUSE)

MR. CHRISTIAN MONNIN: And scroll down to -- it will be page 92 of the decision, starting at paragraph 271.

(BRIEF PAUSE)

MR. CHRISTIAN MONNIN: Under revenue to cost ratios, the only point I want to raise here is throughout this hearing, there was a discussion about changing the ratio band from ninety-five (95) to a hundred -- a hundred and five (105). That was denied, and it kept at ninety-five (95) to one o-five (105).

But here, what is significant at page -- at paragraph 272, the Board recognizes the issue of the small general -- sorry, the small general and general demand classes be on the high end of the R/C ratio band. The small business advocate -- that's the SBA -- has recommended that the R/C ratio for the small general and general demand classes be lowered to one o-three (103) from one o-five (105). They were even within the zone of reasonableness, on the outer limit at one o-five (105), and they said, Let's bring them down a few points.

Here we have a situation where they're way outside. I'm not the only one. I acknowledge that, and there's a lot of -- there's -- there's lot of Intervenors here who are advocating strongly and reasonably for adjustments in their favour. But this is -- we're saying, If you just look at any particular lens, and how you look at the RCCs, and apply the principles for rate-making, general service small non-demand is completely outside of the zone of reasonableness on a consistent basis.

I would like to move on to the issue of operating and administrative costs. An independent review of Manitoba Hydro costs, staffing, and operating procedures ought to be conducted.

(BRIEF PAUSE)

MR. CHRISTIAN MONNIN: The Board will recall that My Learned Friend Ms. Ramage's opening statements regarding the steps taken by Manitoba Hydro with respect to the operating and administrative costs. If you'd please go to Tab 17 of the book of documents, page 46. In particular, it starts at -- at line 9, but in particular, starting at line 15.

Manitoba Hydro's already taken steps this year to reduce its workforce by nearly 15 percent. This includes a reduction in the number of vice presidents by 30 percent, and over the next short while, the eliminate -- the elimination of eight hundred (800) full-time positions. We would not presume to come to this Board with this -- this rate ask without having taken these steps. Unfortunately, these and other cost control measures are not enough to provide Manitoba Hydro sufficient revenue to meet its obligation and manage its risks.

First, I'd like to take this moment to pause and to acknowledge that no one disputes that there have been meaningful steps taken by Manitoba Hydro with respect to reduction, in particular staff reduction. In addition, I'd like to recognize how difficult it has and must be in this environment to oversee the workforce reduction that Manitoba Hydro has taken.

However, where the Board needs to give further thought and further consideration is the comment that these and other cost control measures are not enough. It's respectfully submiss -- submitted that what the record shows is that at present, there isn't the necessary details or information to make that determination.

(BRIEF PAUSE)

MR. CHRISTIAN MONNIN: Tab 19 in the book of documents, please. Now, this is page 2,075 of the transcript. It's my exchange with Ms. Bauerlein of Manitoba Hydro. And again, being mindful of the time, I won't take you through all the exchange. But the first one, I think, frames the issue:

"As I understand matters in this GRA, Manitoba Hydro did not have the ability to prepare a detailed operating and administrative expense breakdown. Is that correct?

Correct.

And the reason for that is due to the fact of the full measure of the impact, for example, the voluntary departure program and other directions are -- are still moving along. Is that correct -- but did not come -- did not fin -- finalized yet?

That's correct. To do a detailed budget, we have to understand exactly where every person is going to be and exactly what function they're going to be doing. With the people leaving, there's still a lot of transition happening across the Company."

The next tab over, please.

(BRIEF PAUSE)

MR. CHRISTIAN MONNIN: And the Board will recall that even MIPUG's witnesses were also asked on cross about this particular issue. Here, an exchange with Mr. Forrest and myself at page 6,175 of the transcript, lines 9 through 25:

"Your evidence was that staffing -- the staffing complement is still high, notwithstanding the recent cuts that were made. Is that -- do I recall correctly?

Correct.

And I understand -- I also understand MIPUG's evidence in Mr. Bowman's prefiled testimony that -- to be that due to the significant scale of changes having recently being imposed, much of the normal details filed in support of an O&A forecast is unavailable. Is that fair?

Yes."

And then I asked Mr. Bowman:

"Well, what does Mr. -- what does

MIPUG recommend? How -- how do we -
- what should this Board direct?
What should Hydro do on that?"

And I think if you go to page -- go to page 617 of the transcript, and in particular, lines 10 through 18, that also frames quite well this issue. Next page over, please. Sorry, you're there.

And here's his evidence, starting in line 10. Even when you go back to the start of that period, 2004, there were comments in a Board Order about -- about keeping O&A under control. So the -- the -- I think that the ideas -- the recommendation should -- should encourage Hydro to follow through, and should encourage Hydro to -- Hydro to file data that this Board can then assess how that turned out, and whether -- whether further pressure is required.

Now, my -- the Board will recall that My Learned Friend Ms. Ramage raised some concerns about this in her closing arguments. And turning to supplementary book of documents, Tab 1, which is the transcript, and not the soon-to-be impute -- impugned document, starting at line 10, My Friend refers to -- now, I'm going to move on to a bit of a new topic here and address operating and administrative ministry costs. I'm going the next page over, please, Kristen.

At 7,862, line 14.

And My Friend Ms. Ramage's refers to the evidence given by London Economics. As part of their written evidence of this application, London Economics recommended that Manitoba Hydro's rate increase -- Manitoba Hydro's request for a rate increase should be held in abeyance until further analysis of operating expense is performed. Manitoba Hydro is very concerned with this recommendation, particularly given it's based -- it's based on very preliminary and very inconclusive evidence.

In his oral testimony at page 6,820 of the transcript, Mr. Goulding from Lond -- London Economics acknowledged that further analysis would be required -- would need to be performed before any conclusions could be drawn. Manitoba Hydro is also concerned with the key performance indicators used by London Economics in their analysis comparing the Corporation's operational efficiencies with other utilities.

And then she goes on, but she goes on to raise a whole bunch of reasons why further research needs to be done, or unconclusive, and we agree. In fact, that's -- a take-away from London Economics's evidence is that further needs -- further analysis needs to be done. And -- and, you know, if you look at Hydro's submissions on that, she raises concerns with KPIs used by London -- London Economics in their analysis comparing the Corporation's operating effic -- efficiencies, seemingly the point being that Manitoba Hydro was so different, it cannot be compared.

Well, their own consultant, Boston Consulting Group, managed to -- to do comparables. It's done in other jurisdictions. She says that overall, Manitoba Hydro would like to emphasize that the analysis prepared by LEI is of limited value, as comparisons among utilities are typically very difficult due to the complex nature of utility operations and a myriad of factors that can influence them.

Seemingly, My Friend from Hydro is saying, It can't be done. Well, it has been done. It ought to be done. So the question is: Should the complexity and cost associated with comparing utilities affect a decision that a benchmarking of Manitoba Hydro O&A cost is required? No.

We urge you not to agree that the complexity of forming a cost benchmarking study is a valid argument that should not be undertaken. Such bench -- such a benchmarking would provide value to the Board in assessing the success of Manitoba Hydro's Voluntary Departure Plan, for example. With regard to costs, that's acknowledged. And Mr. Goulding notes on page 6,820 of his -- of his evidence, it's not a trivial amount of money, but I think you have to think about it -- it partially as an investment in transparency and being able to assure that good decisions are being made.

Moreover, Ms. Ramage mentions that several of the metrics that LEI had selected for making comparisons will improve instantaneously once Keeyask comes into service. And so on that point is the que -- the question is: Does the improvement of select KPI metrics following Keeyask's in-service date affect this position? No.

LEI's analysis focused on current Manitoba Hydro and peer utility operations. The impact of a future in-service facility will impact KPI metrics, admittedly. However, this does not and should not undermine the attempt to determine the appropriate -- appropriateness of current O&A costs.

MR. KURT SIMONSEN: Mr. Monnin, how much more time do you have?

MR. CHRISTIAN MONNIN: I'd say about

fifteen (15) minutes, sir.

THE CHAIRPERSON: Yeah. I have him till 11:30.

MR. KURT SIMONSEN: Okay.

THE CHAIRPERSON: So.

(BRIEF PAUSE)

MR. CHRISTIAN MONNIN: Now, being mindful of the time, being mindful of My Friend's peremptorily lodged objection, at Tab 2, there's a simple exercise say -- the point is this. They're saying, It's too complex, it can't be done. And this is something that a lawyer did after drinking several cups of -- of Neocitran. It's not that complex.

And what I did here, it simply says, "Suggest a scope of work for benchmarking study." I left it blank where it says, "the blank is seeking." A cynic might say, That might be a perfect place for the Public Utilities Board to be inserted. But it talks about the timeframe, the peers, the techniques, and so on. It's not that complicated. They're not a backwater jurisdiction. Other jurisdictions do such things.

And so, you know, in these hearings,

you -- you hear a lot about -- you hear a lot of quotes, and there's some that stick with you. And -- and so one (1) that stuck with me is -- is from Mr. McCallum. Now, it's taken out of the complex -- context a little bit, but I think it's appropriate to this particular point. If you go to Tab 18, please.

(BRIEF PAUSE)

MR. CHRISTIAN MONNIN: And at page 220. And here, Mr. McCallum was talking about certain metrics that Hydro is using, but here's what I think is important, lines 7 through 14. He says:

> "And frankly, for all the blinding pages of numbers, and I'm guilty of showing you more today, there's considerably more art than science to a lot of this. The people I've seen do better at making complex decisions, managing businesses, or investing are the ones who don't let a spreadsheet override common sense and accumulated wisdom."

And I agree with Mr. McCallum, probably for reasons he doesn't want me to agree with him, but it -- this is a very common sense recommendation. Hydro has indicated that they've put in a significant amount of changes to their O&A, and they say, Well, it isn't enough, but at the same time, their evidence is saying, We don't have the data to inform you.

And it's pretty basic that when you're looking to cut costs, the first thing that an employer will do is cut the staff complement. That's just the start. And we suggest that doing a comprehensive O&A benchmarking is a common sense step to be taken by this Board.

(BRIEF PAUSE)

MR. CHRISTIAN MONNIN: Manitoba Hydro -- so I'll move on to -- to the next and last point, Manitoba Hydro's capital plan, its reversal on long-held positions regarding the timing to increase equity thickness is -- equity thickness are significant drivers of the proposed rate increases. Simply put, that refers to the decision to rush to 75/25, and an issue of Keeyask.

The first point is simply recognition that one (1) of the main drivers of this need is to increase rates as Manitoba Hydro's decision to speed up in half the time to the 75/25 equity thickness. And that's something that I believe My Friend Dr. Williams indicated yesterday, that this is something that the Board specifically asked for it to relax in the NFAT report.

And I won't take you to Tab 21 of the transcripts. It's an exchange between myself and Mr. Colaiacovo, which Mr. -- Dr. Williams had in his presentation yesterday. It -- it simply -- the point we're making is that we adopt the position that Dr. Williams is taking on this particular point with respect to Mr. Colaiacovo's evidence.

On the issue of Keeyask, the Board's trepidation, or -- or more candidly, the skeptic -- skepticism that we see with the recommendations that are contained in the London Economics report have been duly noted. However, there's a question that can be asked, and it's the following: Are there ways that the Board can gain a better understanding of the risks associated with continuing with Keeyask without ordering a pause in construction?

We would venture to say yes. The Board could order a further update of the BCG analysis. The update would be subject to peer review by a panel consisting of nominees from Manitoba Hydro and consumer groups. It could use the -- utilize the most current data on Keeyask costs and overruns, export market projections, load growth, take into account elasticity of demand and response to projected rate increases, alternative cases such as downsizing the project, updated gas scenarios to develop up-to-date analysis of Keeyask economics. This can be done.

Kristen, if you can go to Coalition MH-1-214(a), please. And this will be my final piece. I'm in the short strokes here, folks.

(BRIEF PAUSE)

MR. CHRISTIAN MONNIN: Sorry, Coalition IR Manitoba Hydro 1-214(a).

(BRIEF PAUSE)

MR. CHRISTIAN MONNIN: Right there, please. The only point I wish to make here is -- is -- I'm not debating which NPV ought to be used, but simply if you look at the P90 on the extreme right, at seven point five (7.5), the -- this analysis shows that continuous construction on a P90 cost estimate, a real discount rate of seven point nine (7.9) would not benefit ratepayers. And just based on that alone, given what we've heard from MGF, from between 9.5 to 10.5 billion, I'm not going to say if this should be adopted or not, but it's there.

And so because the framework for the analysis already exists, the experts could probably respond -- we submit will respond promptly, and findings could be received prior to start of the summer construction season.

And so in closing, based on all the foregoing, what are the recommendations that are being made? That the Board is going to need to approve a rate increase. We think that the 3.95 or what was proposed by Dr. Williams yesterday is consistent with previous rate increases. We think a review of the rates should be done an annual basis. We think there's an adjustment to the RCCs for the general service small, should be in the range of 1 percent. There should be an update to the BCG analysis to determine current viability of Keeyask, including alternative approaches, and that prior to the next rate hearing, an independent Manitoba Hydro cost benchmarking and customer impact analysis should be performed.

Thank you, Mr. Chair, and members of

the panel, for your time, and I'll try to answer any questions, should you have any.

THE CHAIRPERSON: Thank you, Mr. Monnin. Any questions from the panel?

Okay, I've got two (2) -- two (2) questions, Mr. Monnin, and I think you've answered one (1). You asked for an adjustment of 1 percent for GSS/GSM, so your position on the RCC is that it -- other than that adjustment, it should remain at ninety-five (95), one o-five (105), or should it be changed to ninety (90), one ten (110)?

MR. CHRISTIAN MONNIN: No, I think that's been a -- a regulatory principle with this Board for quite some time, and at this point, I see no reason to deviate from that.

THE CHAIRPERSON: Okay. The second question is: Your proposals on the benchmarking study, when Mr. Goulding was on the stand, I put it to him that -- and I believe he agreed that what he was proposing was to shut down Keeyask for a year in order to do these three (3) studies. As I read your -- or as I listen to your recommendation, is it that Keeyask be shut down in order to do it, or that it continue, but that we have a benchmarking study done before the next GRA, because they seem to be different?

MR. CHRISTIAN MONNIN: Right. So with regard to the Keeyask piece, the Board's, as I referred to, trepidation, and -- or more candidly, skepticism with shutting down Keeyask at all has been noted, and therefore, there's been a recalibration of the recommendation that you can't -- the -- the study could -- a revised study of the BCG analysis can be done in advance of the summer construction season.

The other benchmarking pertained to the operating -- the OM&A, and the -- we're saying that that should be done by the next General Rate Application.

Sure.

THE CHAIRPERSON: Okay. I mean, I'm sort of looking at the Board members in terms of, we have to go through a decision-making process and write an order. Your -- your suggestion that what be done before the construction season? Can you -- can you give me the timing in terms of when you think studies will be done?

I -- I mean, I understand the issue of certain studies done before the next GRA. I'm having trouble understanding what you think will be done immediately.

MR. CHRISTIAN MONNIN: So starting

with the Keeyask --

THE CHAIRPERSON: Yeah.

MR. CHRISTIAN MONNIN: -- what's being -- what we're submitting now is the Board could order a further update of the BCG analysis, and that update would be subject to peer review by a panel consisting of nominees from Hydro and consumer groups. The update would utilize the most current data on Keeyask cost and overruns, export market projections, load growth, take into account elasticity of demand, and response to projected rate increases, alternative cases such as downsizing the project, and updated gas scenarios to develop an up to date analysis of Keeyask economics.

And the point on that was because the framework analysis already exists with BCG. The experts could respond promptly and findings could be received prior to the start of the summer construction season, without taking the boots off the ground.

The next piece would be the proposed benchmarking for the O&A. And that has a longer arc on it. And that we're saying could be ordered to be done between now and the next -- before the next GRA to be considered at that point in time.

THE CHAIRPERSON: Thank you.

MR. CHRISTIAN MONNIN: Thank you, Mr. Chair.

THE CHAIRPERSON: Any questions? Ms. Ramage, did you want to -- I -- I don't know if you're going to want to say anything now or just keep it for reply.

MS. PATTI RAMAGE: I think we'll just keep it for reply with our objection noted.

THE CHAIRPERSON: Thank you. Mr. Monnin, thank you very much. Mr. Ferguson, you're up.

(BRIEF PAUSE)

THE CHAIRPERSON: Mr. Ferguson...?

FINAL SUBMISSION BY THE CITY OF WINNIPEG:

MR. DARYL FERGUSON: Thank you, Mr. Chair and panel members. You should have before you a hard copy and it's also on the monitors of the City of Winnipeg's PowerPoint with its closing submissions, which would be marked as City of Winnipeg Number 5.

MR. KURT SIMONSEN: Thank you very much.

--- EXHIBIT NO. COW-5: Final submissions by City of Winnipeg

MR. DARYL FERGUSON: And I'll try to be brief in -- in my submissions, cognizant of -- of the time, Mr. Chair. So if we could go to the -- the City of Winnipeg's position outlined on the first page of the presentation. The City of Winnipeg submits that Manitoba Hydro has not met its burden of establishing that a 7.9 percent across-the-board rate increase is required to properly balance the interests of ratepayers and the financial health of the utility. And that's an important point for you to consider in -- when -- when looking at all the evidence that's been put before you.

Next page, please. And on this page I've set out three (3) bullet points that describe the Board's mandate. I'll really only take you to the last bullet point, which is the Court of Appeal's decision in Consumers Association of Canada, where they identified that there are -- are really two (2) concerns that the Board has when dealing with a rate application: the interests of utility ratepayers and the financial health of the utility. And the City submits that on both aspects of that test Manitoba Hydro has failed to meet its burden to establish a prima facie case for a 7.9 percent rate increase.

Next page, please. If -- if you consider Manitoba Hydro's application their rate application focuses solely on the financial health of the utility. And you need look new -- no further than Hydro's opening comments PowerPoint, where the focus is entirely on debt and cash flow analysis. And if you look at that presentation, you will see that there is not a word in it about the impact on ratepayers.

And central to their application is a change in financial forecasting, that rather than seek to achieve certain financial ratios in accordance with the time period under NFAT, they've compressed that time period to seek to obtain those ratios within a ten (10) year period. And in the City's submission that is an arbitrary decision made by Manitoba Hydro and without any real justification that they have shown to this Board in this hearing.

And moreover, Manitoba Hydro in its application has failed to take into consideration the interests of ratepayers. So they've only really addressed one-half (1/2) of the test, one-half (1/2) of their burden, the financial health of the utility. And I'll come to the -- the -- their submissions on that in a moment. But they have failed to address the

-- the second issue, which is the interests of ratepayers.

So on -- on Manitoba Hydro's financial health, the City Winnipeg did not present any evidence specific to this issue, other than to speak to the NFAT process, which Mr. Markowsky was involved in when he was an employee, an economist with Manitoba Hydro. But I would point out a couple of things.

The -- the NFAT process involved a very extensive analysis of Manitoba Hydro's financial circumstances. And I've -- in the third bullet point I've -- I've given you a -- an extract from Manitoba Hydro's financial target review 2015 talking about it and -- and telling you about how extensive that analysis was. It generated fifteen thousand three hundred (15,300) discrete financial projections based on varying water flows, export prices, and interest rates and examined the impacts on the annual equity net income and cumulative retained earnings, assuming indicative 3.95 percent rate increases.

And -- and the City of Winnipeg would submit to you that that analysis was far more extensive and far more informative for you than the financial analysis that has been brought before you on this application. And that analysis should be given greater weight when you consider the application that is before you.

Next slide. So as it concerns the financial health and the financial projections made by Manitoba Hydro in this application, a couple of comments. The City Winnipeg agrees completely with the closing submissions made by Dr. Williams and the Consumers Coalition yesterday. Simply put, the case has not been made out to justify a 7.9 percent rate increase or to justify Hydro's arbitrary changes to its financial forecasting modelling to a ten (10) year period.

In its closing submissions and, indeed in its opening submissions, Manitoba Hydro presents a -- a dire consequences picture of what will happen if it's not granted 7.9 percent increase. They readily admit that it's an extraordinary increase beyond anything ever asked of this Board before.

And if we can go to the next slide, please. When -- when I was thinking about this and -- and having young children myself, I was -- I was struck by and reminded by the children's story "The Remarkable Story of Chicken Little." The presentation that Manitoba Hydro has made before you is just that. The sky is falling. Chicken Little, while frolicking in the garden felt a leaf fall upon her tail and immediately went out telling everybody the sky is falling, the sky is falling.

(BRIEF PAUSE)

MR. DARYL FERGUSON: In the City's submission the Intervenors' evidence, taken as a whole, has established that the sky is not falling, that Manitoba Hydro has not demonstrated a 7.9 percent rate increase is necessary. It's not justified. It's changed in its financial modelling to a ten (10) year timeline.

And if anything, it relies on speculation and hypothetical concerns about water flows and export prices and interest rates, all of which were part of the extensive analysis done in the NFAT process. All that was looked at. And -- and yet here we are again. Manitoba Hydro raising what-ifs. We can all conjure up a million what-ifs, but that isn't the answer to -- to the question that you have to determine.

In short, the City Winnipeg submits that nothing has changed from the pre -- picture that was presented before you when you made Order 80/'17 in

July of 2017. They have not demonstrated a prima -- prima facie case for a 7.9 percent increase, and they have not demonstrated its financial circumstances have markedly changed to depart from NFAT and from its financial model -- modelling.

Now, the City -- what the City says is a more fundamental flaw in Manitoba Hydro's application is the -- the complete lack of consideration of the second element of the test or the concerns highlighted by the Court of Appeal. And that is the interests of ratepayers. And it's Manitoba Hydro's burden to address that issue before you.

It's not a burden imposed upon Intervenors or PUB counsel. It's Manitoba Hydro's burden to address the impact on ratepayers and the impact on their financial health. They're the party coming forward seeking a rate application increase. They bear the burden of addressing that. And they simply have not addressed that at all.

And in the -- in the second and third bullet point on this page, when asked in Coalition-1-120 (b) to (d) to provide -- and -- and it's -- I've -- I've extracted it here:

"Copies of analysis and reports of the impact of any proposed rate

increases on the Manitoba economy,
each of Manitoba Hydro's customer
classes/subclasses, low income
customers, delinquent customers, and
Manitoba Hydro's bad debt
allowance."

Manitoba Hydro's response couldn't be clearer. It has not undertaken specific analysis to determine the impact of the proposed rate increases on the Manitoba economy or the referenced groups. So in this application they completely ignored one-half (1/2) of the test, one (1) -- one-half (1/2) of the concerns identified by the Court of Appeal that need to be addressed in any rate application, and that is that the impacts on ratepayers.

If we could go to the next page, please. And in the evidence before you Manitoba Hydro's President and CEO confirmed this. And -- and Mr. Monnin took you to the transcripts extracts of this a few moments ago. But he confirmed that the economic impacts of rate increases on customers were not analyzed by Manitoba Hydro, and that there was no overall attempt to quantify the economic impact of rate increases on Manitoba. All they did was focus on their financial health based upon their new financial model of a ten (10) year time period to obtain certain accounting ratios on its balance sheet.

And while Manitoba Hydro and -- and Mr. Shepherd indicated this in his opening statement that there would be cost consequences to ratepayers, they didn't look at what those cost consequences were and they conducted no analysis to address that point before you.

And so what the City of Winnipeg did was it did provide submissions to you on the economic impact of the proposed rate increases on the City of Winnipeg and by extension, the residents and businesses of Winnipeg. And regardless of the criticisms that were made of Mr. Markowsky's report in cross-examination by Manitoba Hydro, there is but one (1) inescapable conclusion, and those are set out in the truisms that are set out in the City's oral submissions PowerPoint and -- and three (3) of them I've listed here.

There is no question that the City of Winnipeg's direct electricity expenses will increase, and that represents a negative impact on the City's operating budget. And I would just pause there to -- to remind the Board that the City is statutory obliged annually to have a balanced operating budget. So any increases in its direct electricity expenses impact decisions that the City will have to make in terms of taxes, fees, or reduction in services to Mani -- to -- to Winnipeggers and the businesses in Winnipeg.

There is also no question that the City of Winnipeg's indirect costs, and by that I mean the increased costs of goods and services the City will -- will purchase from businesses who supply it goods and services, will also increase. Now, it was raised in -- in Mr. Markowsky's evidence that given the size of the City it -- it may be able to avoid some of those impacts by requiring bidders to -- to not pass those costs on. And there may be some truth to that.

But at the end of the day, there's no question that some of those an additional costs to businesses in Manitoba who supply goods and services to Winnipeg will get passed on, so that they can achieve their return on investment. And that, too, those indirect costs represent a negative impact on the City of Winnipeg's operating budget.

And the third point that the City of Winnipeg would make is that -- that regardless of the criticisms of Mr. Markowsky's report or, for that matter, the -- the criticisms of other Intervenors who spoke to the impact on GDP in Manitoba, there's no question that the economy of Winnipeg, and for that matter the economy of Manitoba as measured by gross domestic product, will be impacted.

And one need only consider what I would call the "trickle-down effect." You're going to have residents in Winnipeg who are going to be faced with a 7.9 percent increase, and so that's going to reduce their disposable income. The City of Winnipeg may well have to pass on its increased costs to balance its operating budget through additional taxes or fees, and that's going to further reduce disposable income of residents. And the costs that Winnipeggers pay for purchase of their service goods and server -- services are also going to be increased.

And so there's going to be a rationalization by -- by the citizens and businesses of Winnipeg in how they spend their money because they're simply going to have less money to do so. And that will lead to negative impact on the City's gross domestic product.

And Manitoba Hydro doesn't dispute this. It recognizes these impacts. And in their fin -- in -- in their written final argument at page 164 they -- they do recognize that. They accept that -- they accept the City's evidence that in order to meet its statutory requirements of an annual -- annual balanced operating budget the City will have to address these negative impacts by increasing revenues through taxes, fees, and other charges imposed by the City of Winnipeg.

So it's not a contentious issue that -- that this rate increase that they're seeking, which they describe as exceptional and unheard of in the history of applications before you, is going to have a negative impact on Winnipeg, and therefore a negative impact on residents and businesses in Winnipeg, and for that matter, all Manitobans.

Now, as to the criticisms that were made of Mr. Markowsky's underlying assumptions, two (2) comments that I would make. First, Mr. Markowsky readily acknowledged that the approach he took did not break down matters on the various metrics that he was asked about by Manitoba Hydro in cross-examination. He didn't hide from that fact. And, indeed, what he said was he was looking at more of the directional impact. And the directional impact is negative on the City.

And the second point that I would raise is all of those metrics were metrics in the possession of Manitoba Hydro. They billed the City of Winnipeg.

They know the breakdown of kilowatt hours that are billed to the City. They know the various rates that are billed to the City.

Rather than cross-examining and saying, You didn't do this, you didn't do that, and leaving it open as a suggestion or an implication that had you done it there would have been a significant change in your conclusion, what Manitoba Hydro ought to have done and could have done, because it had the information, is bring that forward themselves and say, Well, we've actually -- look -- look, here, we've actually run that analysis on these metrics. And here's what it shows, and it shows that your calculation is way off the board. They didn't do that. They chose not to do that.

And if one believes what we see in the Free Press in terms of the costs that Manitoba Hydro is expending for this application, it's not a matter of resources that Manitoba Hydro couldn't have done that. And so there's an evidentiary principle in -- in law known as adverse inference, And I say it's open to you, when Manitoba Hydro had all of that information and could have brought it to your attention and said, Look, if we run these metrics on Mr. Markowsky's analysis this is the true impact on the City and they didn't do that, the inference must be -- the adverse inference that you can draw from that is, it wouldn't have significantly changed his conclusions.

(BRIEF PAUSE)

MR. DARYL FERGUSON: So if we could go one (1) page prior, please. So in conclusion, the City of Winnipeg submits that Manitoba Hydro has failed to make out the case for the proposed 7.9 percent rate increase. It's failed to justify its new financial forecasting model predicated on a ten (10) year forecast. It has not established that circumstances have so drastically changed that the conclusions of NFAT, which is a mere three (3) years ago, are no longer valid.

And in the last bullet point on this page, I ask that the Board consider Manitoba Hydro's own words from July of 2015:

> "In setting financial targets, it was recognized that the target may not be attained during years of major investments in generation and transmission system."

And that's exactly what Manitoba Hydro's case is before you in this application. They are saying the increase in capital costs related to investments in Keeyask and Bipole III are so significant that they cannot attain the financial ratios on their balance sheet and, therefore, they need this rate increase.

And yet, a mere few years ago they recognized that in these periods of intense capital spending those ratios are not going to be met and what should be considered is the longer-term picture. And that longer-term picture, as shown in NFAT, was that those ratios will be reached.

And as the Consumers Coalition in its submissions yesterday submitted to you and demonstrated to you that they -- that they in fact, would be reached. It might take a year longer, I believe was Dr. Williams eviden -- or his submission, but they are still attainable. And so the justification to move to a ten (10) year model simply isn't borne out. They didn't present any evidence to say why on an accounting basis, why on a financial analysis basis that change was necessary.

So to conclude the City of Winnipeg asks you to consider the two (2) concerns that the

Court of Appeal has identified for you to consider on the issue of the financial health of the utility. Manitoba Hydro, in the City's submission, has not demonstrated that the concerns it raises justify a 7.9 percent increase.

On the other concern, the impact on ratepayers, Manitoba Hydro simply did not address this at all in their application. And for no other reason than that alone their request for a 7.9 percent increase ought not to be granted. The succe -- the exceptional rate increase, which is larger than any previous rate increase sought from the Public Utilities Board by Manitoba Hydro, is simply not borne out on the evidence. And to go back to -- to your mandate, it's neither just, nor reasonable, nor in the public interest.

Now, I'll end with one (1) final comment. The City of Winnipeg does not for a moment come here and say that Manitoba Hydro should get no increase. That would simply be unrealistic. What the City of Winnipeg says is increases in the range of 3.95 percent, as set out in NFAT, are the range of increases that the Board ought to consider.

So, Mr. Chair, those are the submissions of the City. Subject to any questions that you may have or the other panel members may have, thank you for the allowing the City of Winnipeg to participate, and the City looks forward to your decision.

THE CHAIRPERSON: Thank you very much, Mr. Ferguson. Does the panel have any questions? No? Thank you, sir.

MR. DARYL FERGUSON: Thank you.

THE CHAIRPERSON: Thank you for your attendance and your submission today.

MR. DARYL FERGUSON: Thank you.

THE CHAIRPERSON: We're a little behind so we're going to -- we're going to resume at -- we're going to have a shorter lunch. We'll resume at 12:40. Thank you.

--- Upon recessing at 11:52 a.m.

--- Upon resuming at 12:41 p.m.

THE CHAIRPERSON: Good afternoon. M. Hacault, we are under a tight timeframe so we'd like to finish before four o'clock, on or before 4:00 and with -- with a mid afternoon break which would give you -- your time as requested. So, please feel free to proceed.

FINAL SUBMISSIONS BY MIPUG:

MR. ANTOINE HACAULT: Thank you very much, Mr. Chair and members of the Board. The MIPUG members thank you for the opportunity to participate in this important hearing and given that we have a fairly extensive written submission broken up into issue briefs, I would encourage the Board to ask questions during the course of my presentation, if there are any.

So firstly, just to outline what is in our book. You will see on page Roman Numeral (I) that it's broken down into an introduction, summary of recommendations and various issue papers which, hopefully, if you're dealing with various issues in this hearing it will be easy to locate and have some reference materials on exhibits and extracts of transcripts. And I have a couple of references in legal authorities which are reproduced. Those were listed about a week and a half ago and distributed to all counsel, and we've extracted some of the cases which I know other people have also extracted.

As you know, the level of concern with respect to the application is unprecedented. It's actually resulted in new members for Manitoba Industrial Power Users Group, and I'm not too sure if

I can simplify the issues, but I think as broadly stated, the first issue is a new one which the PUB has never had to deal with in the last decades: It's whether the Board should depart from long-standing rate-making principles with respect to rate smoothing, rate stability and intergenerational equity with respect to Crown Utilities who are adding significant transmission and generation assets.

Manitoba Hydro is asking the PUB for the first time as it relates to the 2018/19 test year to put significant weight on targeting a 75/25 debt equity risk ratio, essentially, in six (6) years with Keeyask only falling -- only fully coming into service sometime in 2023.

The second issue which is one which this Board usually deals with and we wouldn't have to deal with a whole bunch of history and all this, is a more general issue as, what's the appropriate rate increase for the test year? But, keeping an eye on a twenty (20) year outlook. We inform ourselves, what's happening in that twenty (20) year horizon that might influence what we're going to give in a test year. Test year is good because we know what the results are. We have the facts. To what extent do we get influenced by that twenty (20) year outlook?

The third category is comprised of miscellaneous issues. They're discrete issues like rate structures, cost of service, optional time-of-use rates and recommendations to the government.

The first thing I want to deal with before going through the recommendations is what I call as a misconception of us against them. Mr. Bossons on behalf of MIPUG explained in his testimony we're not opposed to rate increases. In fact, we've openly supported rate increases in the past. We recognize the need for investment in Hydro's assets and we applaud their desire to maintain a long term reliable power supply system.

What is important to MIPUG members is that revenue requirements and rates are based on the true cost with a long-term outlook to the lifespan of the assets. MIPUG has in past hearings expressed concerns about the type of adversarial approach Hydro was taking in hearings. After all, it is a Crown corporation. It's there to serve Manitoba ratepayers who, ultimately, are on the hook for any of its expenses and liabilities.

MIPUG's, quite frankly, at a loss to understand why it views its own ratepayers as adversaries. We have encouraged and continue to encourage our Crown Utility to take a balanced approach to its rate applications. For example, why wouldn't Manitoba Hydro present options to this Board? There are pros and cons and make a recommended -- recommendation based on its preferred course of action on a balanced analysis. And I was listening to the City's presentation with respect to whether they believe it was a balanced analysis.

We submit that instead, in this application, Manitoba Hydro had a propensity to make some statements which may be viewed by some as one-sided and some statements which may be viewed as not being supported by the even -- evidentiary record.

I'll give you two (2) examples; one was on page 19 of its written submission. This is just for the record. We're at lines 7 to 13, Manitoba Hydro quotes some numbers, which is -- assumes zero percent rate increases from now to and including 2023 to 2024. And they do this to assert that interest will consume 70 percent of each ratepayer dollar. I ask you: What's the point of putting staff -- stuff like that in a submission? No one in this hearing is suggesting a 0 percent increase, why put big numbers like that that have absolutely no meaning.

A further example of not taking a

balanced approach in this application is found at page 17 of its written submission. Manitoba Hydro continues to use a rate scenario which it said it would never implement to argue that the new financial plan, that's what they call it, gives -- and I'm quoting -- "certainty of lower rates in the long term" end of quote, and that,

> "Manitoba Hydro's plan represents an acceleration of rate increases, but overall, the ability to keep rates lower in the long run as can be seen in figure 3.1."

And -- and that's scenario that they said they would never implement it but they're trying to illustrate again, and they've put that in their top 10 IRs and put it in the presentation slides that they would embark on these rate paths should you give 7.9 percent.

We say there's quite a few instances where Manitoba Hydro has made assertions in the written submission which are quite simply not supported by the evidentiary record. I'm not going to go through all of them. Our written submission doesn't go through all of them. We just ask the PUB to be mindful and critically look at any Manitoba

Hydro assertions in the light of the evidentiary record prior to put -- putting any weight on them.

Going into what I had initially said when I started the hearing. It's almost as if we are dealing with a new corporation, that's undergone a radical shift in its approach to rates, which nobody could have predicted. We all sat here through NFAT and previous rate hearings. It abandons its previous rate smoothing approach to absorb new major capital projects. It implicitly puts previous senior management under the bus, I would suggest, by asserting that the 3.95 percent rate plan has failed at a time when the plan has barely begun. I nearly brought the big schedule showing the different paths that we have over the next fifty (50) years that we looked at in NFAT. We -- we aren't even at the point of having a Keeyask build and it's already put as a failed plan. It can't be failed that quickly, surely.

It's forged a new ten (10) year 75/25 debt/equity ratio plan without taking time to consider the adverse in fact -- impact of that plan on ratepayers. It approaches forecasting and various components of its twenty (20) year forecast with unprecedented conservatism on major issues such as interest and export revenue.

But for the new Board of Directors' policy implemented by senior management, picked by the Chair of the Board of Directors, this hearing, I would suggest, would be about whether a rate increase needs to be in the range of 3.36 percent to 3.95 percent. The type of hearing we usually have as to what's a just and reasonable rate. We would not have had to spend time revisiting the role of Crown -- of this Crown corporation, reviewing how the Board in the past, and Manitoba Hydro in the past, have eased new major assets into the rate base.

Before getting into the recommendations, we make the general statement that it is our view that Manitoba Hydro has not satisfied the onus of proof on it -- proof on a balance of probabilities that a 7.9 percent rate increase is required for the next fis -- fiscal year.

Now, I'll go to the document itself at page roman numeral iv which starts the summary of MIPUG recommendations. I'll indicate the lines for the record as to where I'm going. Line 8. As we know Manitoba Hydro has record retained earnings and this balance has been going each year; in fact, that was something that was boasted in the NFAT hearings.

Line 16, we know that projects,

particularly Keeyask, are behind schedule. You'll hear later that is the source of why I say the twenty (20) year outlook should be pushed for two (2) years, because Keeyask has been pushed for two (2) years so we have to adapt.

They'll have much stronger balance sheet that was -- then was initially anticipated. And I'm going to jump up to line 28. In each passing year, Hydro continues to lock in more and more current critical financial variables: the capital costs, so that the risk scenario modelling shows an increasing tightening range of outcome -- possible outcomes.

Many of the worst-case scenarios that were considered when the projects were started are no longer considered possibilities and Mr. Bowman went through that and I may go through that graph again today.

I'm -- I'm on page roman numeral v. We've heard a lot about interest rate and I see a number of things in the submissions and I'm at line 5 of the paragraph that's there. Say, what's going to happen if we -- interest rates rise 1 percent? Well, the fact is we can through -- through the evidence and the drawings. They're already predicting they're going to go up to 5 percent -- over 5 percent in the next years.

So that we're really talking about is all the fore -- forecasters right that it's going to go up to 5 percent so it's going to go up another 2 percent for the long term debts so is it going to go higher than that? We've already got informed decisions that build in interest rates going up in the next years and the financial modelling reflects that.

So you've got to be careful about this plus or minus 1 percent, because there is already an informed prediction on where rates will be going up in the next year. And when we did that part of the hearing on interest rates, we were locking in debts for thirty (30) years at rates that were way lower than what was projected for this timeframe. So we're doing better than what the forecasts were saying. And there's also graphs that show that Manitoba Hydro was over forecasting how high the interest rates were going to be.

Now where we're at generally, and I'm at line 11, we've seen that Hydro has transitioned to low export prices and low natural gases. We've absorbed that issue. We've brought everything down, the expectations down. So am -- in fact, they're low enough that I don't think they're going to get much lower, you know, if there's going to be something it's the upside.

Another thing that's important is we always have discussions, what about that five (5) year drought; that was the metric that was used in NFAT. Can we handle that five (5) year drought? Well -- and now I'm at lines 23 to 25 for the record, on page roman number v,

The effect of a five (5) year drought has plummeted to about 50 percent of what they were a number of years ago. We've seen that on the record. Recall that this is the most significant reason that's always been discussed for having a reserve.

So the other thing that has evolved is DSM. I talk about that at the bottom of page roman numeral v, going to the top of page roman numeral vi. We had marginal costs that were higher; that meant that there was a lot more demand-side management programs that made sense. There were -- there was a reason to do them and a reason why we should have a fairly aggressive schedule on that.

But now with those marginal rates and the export prices being so low, and I'll speak more about that if I have time, in previous hearings we had discussions, well, in an integrated resource plan you treat DSM as a separate resource, almost like a new generating station. Well, what we're doing right now is we're building a Keeyask generating station and we're building a DSM energy and capacity component at the same time. And we've seen that doing those two (2) things at the same time is costly and why is that?

Because if I put LED in my house and I don't pay my $.08 cents or seven point whatever cents and that power gets dumped in the States and the opportunity markets at $.02 cents, there's a shortfall in revenue. Not only is there a shortfall in revenue, when I go to Costco to buy that bulb I'm getting subsidized by Hydro. So, Hydro has to pay for me to be able to save that money or that energy which then gets exported at low prices.

So that's why we've talked about in evidence and in our materials of treating demand-side management as an independent resource under IRP; so independent resource planning metrics. What about credit rating metrics? It's at the top of page roman numeral vi. And metrics as general. They've always been understood to be contextual; by that I'm saying, if you're going to add major new assets which are lumpy. I can't show you visually but it's like a big triangle, right, you all of a sudden you add Keeyask power, and it takes twenty (20) years before Manitobans have to start using that power. It's a lumpy asset. That changes all your metrics. It's a revenue generating asset. So, the credit rating agencies aren't concerned about the fact that for sometimes your metrics are not going to be met. They realize it's going to take at least twenty (20) years to absorb it; that's the evidence we've had. We don't really need it until 2037.

So that brings me to the recommendations and here's where I would encourage questions. I'm doing this upfront to make sure we have time to deal with them -- to deal with any questions because of the time issues that we have.

So our first recommendation at the top of page roman numeral vii is that you finalize the two (2) interim rate increases for August, including the one for August 1 of 2016 and 2017 at the 3.36 level.

Second recommendation, implement an average rate increase consistent with a twenty (20) year outlook and we've put a range. We haven't had the benefit of seeing whether the new runs make any difference with the export prices being treated as they were in the past, and we've intentionally put August 1 of 2018, and there's discussion in our material on that, previous Board decisions in their discretion. It will be up to this Board to -- as to whether it exercises. It's the same discretion and don't pile on two (2) rate increases within one (1) year.

And just as a reminder, this Board had specifically directed Manitoba Hydro to come back in advance to make sure that we weren't going to get into the situation of the rate -- interim rate increase that we saw last fall. And Manitoba Hydro, I know there were a bunch of circumstances that made it such that it didn't make that application as directed by the Board, but it's not the ratepayers that put us in this situation, it's the Corporation's decision not to follow the direction of this PUB and -- as to when it should file its rate application. So we say that August 1, 2018 is the appropriate date to implement increase; if that you choose.

The other two (2) factors with respect to that range, we don't know, as indicated in the evidence, although we've filed a clarification on that, to what extent a 7.9 percent rate increase impacts loads. Best information we have is that it would impact it by about 5.3 percent. Why does that make a difference? Because if you have decreased domestic load, you have decreased revenue. You have decreased revenue, you need to have higher rates because of the decreased load.

So we don't know for sure what that metric would do or result. Based on the evidence of Dr. Yatchew and others, there is a difference in elasticity and impact of a 7.9 percent increase and an increase in the range that we're suggesting.

Three, as far as a recommendation. Progressing towards this target of 75/25, going to 2035/2036. I've explained why. We've had a delay in the implementation of Keeyask. Keeyask is a revenue generating station. We -- seem it's appropriate to use that metric, given the delay in a revenue-generating assets by about two (2) years is the best estimate we have now.

(B) and this deals with signalling to both consumers and the debt credit agencies, et cetera, establish some kind of a minimum retained earnings test so that there is some assurance that they know that rates will be dealt with appropriately. If we hit an unfortunate event, like a five (5) year or seven (7) year drought, or some other unfortunate event, and see mov -- moving towards uncertainty analysis. Mr. Bowman talked about that and how that is a tool that might help this Board have a better sense of what's going to happen.

Now, one (1) of the biggest issues, and I don't know if I can count the number of IFF runs there are, but every time we have a hearing it seems like we have to dig to find an IFF that's compliant with the Board directions. And so we've set out that we believe it should be a direction of this Board to use -- use load forecast that apply elasticities consistent with the assumed rate increases, export price forecasts based on the best estimate, and not on a policy decision.

Turning over to the next page, an IFF with a consent -- consistent set of interest rate forecasts. We also suggest the O -- operating and administration expense reductions be reflected with respect to the staffing of -- reduction in staffing of nine hundred (900) positions. And then the issues of capitalization of overhead, depreciation, demand-side management and, in particular, the unspent demand-side management budget of 48.8 million.

Next, dealing with the C10 allocations. We've got an issue paper on that. We believe that there's a number of costs that are being attributed to the General Service Large customers which are not caused by them at all and cost of service is all about who causes the costs.

Then calculating the RCCs based on measured costs. We've given evidence on that. If we're short $20 million -- or short $20 million on 180 million, I don't know how people can do math and say, all of a sudden, that's less than 10 percent. My math says it's more than 10 percent. It's more like 12 percent but we'd like that clarified.

We'd like the PUB to review at the next GRA an optional time-of-use rate, and for that we would suggest that you direct Hydro to prepare the rate in consultation with the affected customers.

And finally, we recommend that this Board recommend to the government that it implement a ten (10) year forgiveness of capital tax and debt guarantee fees.

Moving on to the next page and it's a fairly lengthy list of recommendations supported by the materials that follow in this brief.

We would recommend that the government amend the relevant legislation to incorporate the effective provisions of the Order in Council to allow this Board to have oversight responsibility on capital programming. For those who were here on NFAT you'll recall you were saddled with Bipole III, and you couldn't take it out. You couldn't review whether or not that capital expenditure should be incurred or not.

Mr. Forrest spoke to that and spoke to the fact that in his view, learning on past experiences and problems, that this Board would be well-placed to have that jurisdiction. It might be as simple as having that Order in Council but removing for the GRA, you take that out. You'd have it on a permanent basis.

With respect to recommendation 12, we recommend that there be annual financial reviews by the PUB, especially in this critical time, at least until such time as Keeyask is brought into service. We suggest that the GRAs occur at no longer than two (2) year interval periods. And we've heard evidence that there's going to be substantial knowledge gained after the construction season this year on Keeyask, therefore, we recommend that the timeline take into account that Hydro should be asked to come back with that knowledge under its belt to this Board.

Recommendation 13. I'm not going to read the recommendations. They're there for your reading after my presentation is finished. So this deals with the uncertainty modelling for future risk scenarios. We believe that that would be a useful tool. It was one (1) of the recommendations by Mr. Forrest, who testified. It was also dealt with by Mr. Bowman.

And recommendation 14. This gets back to the previous list that I've been going through. We think it would be useful for all parties to have, from Manitoba Hydro, an IFF scenario that's consistent with the Board's directions for confirmation by the Board that the directions were appropriately applied. We did this in cost of service. They did a compliance filing, and we found that it was very useful.

Now, I recognize that that may, depending on what you order, result in some CSI issues, but I'm sure we can handle that if they do arise. That way, if we have a compliance filing, that can be considered a starting point in preparing future GRA financial forecasts.

Now, how do we make decisions? How do we learn about things? I take the view that history can teach us lessons. History can help inform us as to what happens. So you've heard evidence from Mr. Forrest, and Mr. Cam -- Osler on the legislative purpose in regulatory history and framework in

Manitoba. I think that's important to understand how we got here today, and what's worked and hasn't worked.

We can take comfort in that history, because it has taught us a number of things, I would suggest. Major Hydro capital projects are good, inflation-protected assets which represent the best long-term path to low rates in this Province. That type of issue was extensively analyzed and reconfirmed in NFAT.

Secondly, Manitoba Hydro has been able to absorb major Hydro capital projects with debt equity ratios which are substantially below what it is expected to happen in the current projections. I'm not reading at all from -- or going from my arg -- written argument at this time.

Thirdly, if we did not take a patient, long-term capital approach, those new generating stations which result in the lowest cost to Manitobans would effectively be screened out every time we'd say, Well, we're not going to do it. Look at the shock it's going to cost -- cause in rates. But they are the best long-term solution to low rates.

Fourthly, Manitoba Hydro and this Board have managed risk by setting a target for reserves, which would be mainly measured by the cost of drought. That helped us get through the 2004 drought.

Fifthly, this Board reacts to adverse events, if and when they arise, such as the 2004 drought. This Board has not, in the past, assumed a rate path which would result in adding to reserves when a drought is occurring, and that's what this rate path would be doing. Rather, reserves and the flexibility to have the debt/equity metric deteriorate during that drought is seen and has been seen as the appropriate way to deal with a drought.

Lastly, major projects are easier to absorb in the rate base if the Province waits to impose significant charges until after those major projects start paying their own way, and that's set out in the history that Mr. Osler and Mr. Forrest gave. And we'll -- there is in our materials a graph that shows you the big quantum of charges that is being put on these projects.

And I've talked to people on the street. They said, Well, no, the project's gone over by $5 billion. Isn't that a problem? I said, Well, the finance department of the Province of Manitoba is probably not complaining. Why? They get .5 percent on that capital, and they got 1 percent guarantee fee.

That's 1.5 percent. That means an annual revenue of an additional $75 million. Why would they complain? They just found $75 million because the project's gone over cost. That's why we made the recommendation to back off on those charges when we're trying to absorb this lumpy generating asset.

Manitoba Hydro didn't bring expert witnesses to challenge the evidence and wisdom brought to this hearing by Messrs. Osler and Forrest. Rather, the perspective of Manitoba Hydro's lead witnesses on this issue, Mr. Kelvin Shepherd and Mr. Jamie McCallum, was one of financial private equity markets. Neither of them have experience in managing a Crown utility, and prior to them establishing this new financial plan, neither of them took the time to inform themselves of the regulatory principles which this Board has applied over the last three (3) decades.

This is contrasted with the people Hydro had before. Manitoba Hydro senior management staff such as Mr. Vince Warden, who we've taken extracts of his testimony, Mr. Scott Thomson, who had utility, although it was Fortis, experience, Mr. Manny Schulz, who had extensive experience in the finance, and Mr. Darren Rainkie, who was CFO and also testified. Each of those previous wind -- witnesses addressed in previous hearings how Manitoba Hydro would relax its financial targets when taking on major capital projects.

What is the most striking, in our view, and this why I say we're -- it's almost as if we're dealing with a new Corporation, is that the new management advocating the new financial plan say that the previous Public Utility Boards, as then composed, and the previous senior management of Manitoba Hydro, as then composed, got it all wrong, even the submissions made in NFAT, it was all wrong.

And some of those submissions made in NFAT which were consistent with previous hearings would be unrecognizable in this hearing. Assertions were made of securing sales under memorandum of understanding and being well underway to secure sales for the output of Keeyask. Well, what happens at this hearing? Apply it as if it's just going to go on the opportunity market. Totally different.

Assertions of having a premium, dependable product that had value now only have an opportunity market value. Assertions that the plans with additional Hydro resources -- because remember, we looked at gas resources, and all of that -- were robust in their ability to absorb the incremental adverse financial effects related to a drought are forgotten now.

Assurances that gradual rate increases were important. It's in the slide decks. You can look at those submissions. Now they're being rejected as imprudent. Assurances that Manitoba Hydro was in the strongest position ever to undertake these metr -- major capital projects, given the debt/equity ratios. Now, all of a sudden, they're insufficient.

And different views on witnesses, also. There was some criticism in slide 43 on Monday's submissions of Manitoba Hydro of Mr. Colaiacovo, saying his evidence was inconsistent. And that slide took two (2) quotes on the level of debt. Well, surprise, surprise, if you go to NFAT submissions -- and I know submissions aren't evidence -- you see Manitoba Hydro quoting Cola -- Colaiacovo, and saying, No problem. We can handle the $30 billion debt under the -- and it won't affect the Province.

So the quote from Colaiacovo is used in NFAT to support the position, No problem, the debt isn't going to get too high. And then in the submission that you hear on Monday, they're saying, Colaiacovo is inconsistent. Well no, he wasn't. He was very consistent. They used him in NFAT to support the fact that the plans could tackle on those levels of debt.

(BRIEF PAUSE)

MR. ANTOINE HACAULT: I'm going to go to Tab 8, now. Sorry for going out of the order in the tabs. The reason I go to this tab is because in my respectful view or submission, Manitoba Hydro, now that it's realized it was weak on -- well, there's not enough cash flow and stuff that comes back. And in the first part of its submission, that's section 2, says, Well, you need to give a 7.9 percent increase in any event, because we've got Bipole and Keeyask coming. You don't need to look at anything else.

We had some discussion of that, but I guess it underscores the importance of having Hydro go first, because it certainly wasn't the position that was advocated as the main reason in the slides and the position that Hydro put at the beginning of its presentation. This is something that is evolved and is, in this essence, a newly-framed argument seen detailed to the extent it has, really, for the first time in its submission. I acknowledge it's based on evidence, but it is a different focus in a different position.

So at pages 5 to 7 of their written submission, they're saying, Well, just the incremental costs of Bipole justifies the request. And at pages 12 to 13, the incremental costs of Keeyask, which is coming online, justifies the request. So I apologize for going through a fairly tedious review of evidence that's on the record to deal with these items, but I would suggest it's important to understand that these are fallacies. It's unsupported and unprincipled.

So in the discussion and support on this issue, we start with Mr. Bowman's evidence that customers are already paying between somewhere 11 and 12 percent towards the Bipole project, even though it's not in service. And then we need to go and understand something that appears to be misunderstood by Manitoba Hydro in its calculations, and it's found on page 8.2. I dealt with this table in my cross-examination.

You will see that for the years 2017 and 2018 on this table -- and it's a Hydro table -- that there is already included in the rate base, because these numbers are from the IFFs for 2017, 39 million, and for 2018, 40 million. We're already paying for that. Why? Capital tax as explained in the evidence is not something that gets capitalized. The interest does, but not the capital tax. So we're already paying for the capital tax of this project.

We know that the total cost of the project in service as of 2019 and 2020 are $361 million, and we've got $217 million for finance expense, 13 million for operating, mainten -- maintenance, and amortization, 107 million for depreciation, and the $25 million for capital tax that's shown on this table.

We know based on Hydro's table that this cost is offset, shown on -- under the column 2020, by 20 -- by 71 million to the income statement from the Bipole III deferral account. I went through that in my cross-examination. It's a separate item. It's a deferral account. And now that amount is actually estimated to be about $80 million which will be available.

So that if we continue, and as I said, it's -- the reason I'm going through this is unfortunately, sometimes you have to go into the weeds to demonstrate an assertion is incorrect. And being able to understand why Manitoba Hydro's assertion at the beginning that we need the 7.9, just for Bipole is pretty important, because we conclude that there's only -- and this is set in the recommendation area -- 1.4 percent for two (2) years that's not included, and 2 percent that's not included for the next two (2) following years. And all the details of that is in the evidence. So if we go -- we've already -- to the bottom of that page, knowing that the cost -- and I'm at line 19 -- is 361 million, knowing that we've got 80 million from the deferral account, knowing that we already have 40 million that's already in rates, we got down to $241 million.

Now, the wisdom of this previous Board was to build into rates. So it's built in there. It collects that revenue every year, some 11.12 percent. Based on the current revenues that we've put there, that yields $181 million on an annual basis. So therefore, my math says we've $60 million that we need to deal with.

But the evidence also tells us -- and this is the top of 8-3, and this is Hydro's evidence, that there's a 15 million savings effect, because we have less line losses. Okay. So we're no longer at 60 million. We're down to 45 million. Now, that's an impact of about 2.8 percent. If it's spread over two (2) years, we're talking about 1.4 percent in each of those two (2) years.

Now, I know, because the table we looked at, when things come out of the deferral account, that deferral account will end so we're going to have to deal with about $80 million that we aren't going to have all of a sudden. So if we take that into account, we would need $40 million in two (2) consecutive years, which would give us 2 percent per -- per year in those additional years. So we say on the facts as shown on the record that Bipole III, in and of itself, does not, I repeat, does not justify a 7.9 percent rate increase. There are a lot of factors that are moving parts in this hearing, but Bipole III does not lead you to the conclusion of 7.9 percent.

Now, what about Keeyask? It's brought up kind of for the first time. It -- well, that's an interesting one. We smooth Bipole into rates. Hydro is suggesting that maybe we should do that for Keeyask. That's an interesting idea. I started thinking about that.

Bipole has -- has been repeated by Manitoba Hydro on a lot of occasions. It is not a generating asset. We're not going to see revenues from Bipole going forward. It's there for reliability. It's going to help us to export some of

Keeyask's power, but in and of itself, it doesn't generate revenue. Well, might that be a reason why we have to look at Keeyask differently? My submission to this Board is yes. And we go through that logic at pages 8-3 and 8-4.

In the past, we have always -- and this is the core issue -- slowly and gradually taken this lumpy asset which generates revenue over time. We have never dumped ruth -- rate smoothing in the garbage and rate stability in the garbage. We know that this facility will start producing revenue soon as it becomes fully in-service, and we know that it will continue to do so based on the evidence for some seventy (70) to a hundred years, or maybe more. So I would submit that the same logic does not apply to Keeyask.

Now, I'm not too sure when the Board wants that -- yes. Yes. Right there.

THE VICE-CHAIRPERSON: Just one (1) question.

MR. ANTOINE HACAULT: Yes.

THE VICE-CHAIRPERSON: You say that 1.4 percent increase is justified for Bipole III in '18/'19, and in '19/'20; 1.4 percent in addition to what?

MR. ANTOINE HACAULT: Well, that is already included in all the projections, and when we're making our recommendation between three point three-six (3.36) and three point five-seven (3.57), it's included in that. But I was testing whether or not, in and of itself, which was the assertion of Manitoba Hydro, we needed to add 7.9 percent rate increase just to deal with that issue, because they were suggesting based on their calculations that there was a shortfall of over some -- over 10 percent in their materials, I believe -- I'd have to check the specific reference -- and saying, Well, listen, if you've a shortfall of 10 percent, you need seven point nine (7.9). It's just like a no-brainer type of argument. But that's why -- so it's an easy assertion to make, but let's go dig deeper to see whether that's really so.

THE VICE-CHAIRPERSON: Okay. Thank you.

THE CHAIRPERSON: I would suggest that we continue and not break for another hour.

MR. ANTOINE HACAULT: I'm going to jump to Tab 4, then. One (1) of the messages I understood from Mr. Shepherd, and Mr. Jamie McCallum, and that's been presented by the Chair, Mr. Riley, which is also in evidence in the slide decks he did as well, we have got a totally, totally different set of facts, that we're not in the same economics, we're not where we were at all. And that in and of itself makes it such that we have to look at what we're doing in a totally different way.

And we say that assertion is just not borne out on the record, and there's quite a bit of discussion and support for that, but given I'm a visual guy, at page 4-2 of this topic, and say, Okay, well, we did a whole bunch of testing in NFAT. Let's see, because we know that forecasting, you're going to have some that are going to go up, some of them are going to go down. They're not necessarily all going to go up together. Let's see where -- let's see where we're at. Are we really -- did we really miss the boat? Did we really do that bad of a job as a Board and -- and Intervenors, and Hydro, and everybody else? I think this is a pretty visual explanation; there's no way.

We're pretty much bang on. There's some stuff that's a bit higher, some stuff that's a bit lower, but on this metric, they kind of balance each other out. And this metric is -- and -- and I'll note that no party to issue or offered a differing presentation about this particular exhibit. Mr. Bowman explained, and I -- that's at lines 7 to 9 that I'm going to, that what we wanted to test was whether the total cost of Hydro's system that aren't paid by exports, how does that compare today to what we considered in the range of outcomes in NFAT?

And where do we come in that cone? Are we outside? Are we kind of inside? So we looked at this metric. And I know there's a bunch of different ones. Mr. Bowman went through them. But this metric doesn't alarm me. It doesn't tell us we were way off track in our testing of these facilities. Capital costs have gone up; interests are down.

So the one (1) thing that these lines don't consider, though, is the changes in the load forecast, for example. We know that 7.9 percent, and some of these runs are based on that, is probably going to bring load down. And if you load down, you need higher rates to achieve the same outcome. It's not adjusted for that.

And this is where I quote on the next page, page 4-4, from Mr. Bowman's evidence. You may recall he was cross-examined, and Mr. Bowman said, Well, subject to check, I want to see if, you know, what the impact of that 7.9 percent elasticity is.

And Mr. Bowman's evidence, having had a chance to look at that and do the numbers, you'll see at line 6, of this amount, 5.3 percent is calculated to arise due to the assumed five (5) years of seven point nine (7.9) increases. Absent this rate effect, the load forecast would decrease by about 1.8 percent.

Now, what about the other evidence that you had? Mr. Harper, again, didn't make any adjustments for all the accounting changes in everything. He just took -- I'll their financials. Let's see. No matter how they reported it, where are we at? Has something really changed?

And you'll recall the slide that I've reproduced here on his conclusions. Interest coverage improved compared to prior IFFs. Capital coverage deteriorates. That's not a surprise, because of the higher capital costs of the projects. The debt ratio is in line with the previous IFFs's. So his conclusion, there was no significant deterioration in financial outcome.

We also got Manitoba Hydro 93 run with the schedules from the very last page. It might be useful to put that up, if you could, Ms. Schubert. Thank you very much. To see, well, is there anything really alarming that we see on the Hydro metrics and negative net income issues? And I would suggest that there's plus and minuses on that table too. They're maybe not all positive, but they're not all negative. It's not a bleak picture. We see minimum equity no longer being at 8 percent like we thought it was going to be. And Hydro says, We can handle that. It's 12 percent now. It's 4 percent better.

We see that even with a three-point-five-seven (3.57) rate increase over twenty (20) years. We're hitting the 75/25 targets and we chose over twenty (20) years back to 3036 because of the additional two (2) years that we don't have revenue from Keeyask. We thought that was the logical thing to do.

What about the maximum long-term debt? Yeah, it is a bit higher, but we know interest rates are lower than everybody thought they were going to be. So instead of being twenty-two-point-five (22.5) as we had planned and high Keeyask we're in the 24, 25 million -- billion dollar range. But with lower interests that are already locked in and we heard thirty (30) years being locked in, and fifty (50) years being locked in. I would suggest it's not a huge issue.

Where are we at with retained earnings?

Retained earnings under a 3.57 percent scenario and it has some conservatism to it, as I've explained. We're still at $5 billion, which is four (4) times what a drought costs us for five (5) years. Be concerned? I would suggest no.

What about negative net income? Hydro said, No problem. We can handle eight (8) years of negative income. That's the NFAT Plan Number 5, of some 638 million during 2015 to 2022. And that's another point. Based on NFAT we were supposed to be having losses right now. In 2015 and 2016, we were projecting losses.

And the Corporation said, That's not a problem. We can handle losses and we're expecting and the capital markets are expecting that we're going to have losses starting in 2015. That's not a problem, they said in NFAT. We're actually better. Yes, we've had good water, but we're better. We don't have to worry about those losses.

Now, what happens if we go down this rate path of three-point-five-seven (3.57)? Again, it's conservative, but we're looking at losses which are lower than what we thought in NFAT and they're pushed off a couple of years to 2022 instead of starting in 2060.

So I say the overall picture is not that dissimilar to what we thought. Sure, we can't predict the future. Sure, we aren't suggesting that Hydro or this Board commit itself to specific rates. We have to adjust based on what the current circumstances are. But we don't see the dramatic change that Hydro is alleging. It's -- the sky isn't falling, as said by the City of Winnipeg.

Now, what about on page 4-5, the issue of risk? And this brings me to the graphs that Mr. Bowman explained at page 4-7. Because we're being told, Well, it's risky. We're way too risky. And our point in the evidence and my submission is that area of risk as we've locked, in capital as we've locked in debt at historic low rates for thirty (30) years, and whatever their debt management portfolio is, and they do a good job at.

We've narrowed that band of risks. And that band will continue to be narrowed and that's why we recommend the annual reviews. The more capital we lock in, the more interest we lock in, the more we will know about where that risk is. So the risks scenario, I would suggest, has improved. We don't have to worry as much about risk as we had to when we were at NFAT.

Now, there's another table that was in the Hydro submission. It's at page 4-8 of this submission. And it had a whole bunch of red on it. And anybody in finance has an aversion to red. Anybody who runs a business has aversion to red. But let's remind ourselves, number 1, when we went into NFAT, when we did MH14, when we did all those things we knew that these years would lead us to some red where the metrics aren't being met exactly.

And we took time to -- to take out from the evidence, and in particular KPMG's report, which is in Hydro's application at four (4) point -- appendix 4.1, what Hydro was depicting for the IFF14, that forecast which precedes these forecasts. And that's taken out on the next page 4-9. I don't have the time or desire to go through all of these numbers.

The white ones are considered -- here they do it nicer. They don't do it in red. They're below the metrics, right, if you look on equity. Anything that's within 10 percent of the equity, they say, Well, we'll put in beige and the white ones, well, we aren't meeting our targets. But look in IFF14. Instead of being at 8 percent debt equity, as we thought we would be in NFAT, or at 11 percent. We're 3 percent better.

If we go through all of these metrics, again, there's not a huge surprise. We're doing better on some of them. Maybe a bit worse on others, but it's not something that we weren't expecting.

Subject to any questions, I'll move on to the page 1 of our submission, which is going to be an overview of all the tabs. Because I'm looking at the time, and I'm getting close to ten (10) to 2:00, and I've only covered basically three (3) subjects so far. So I want to make sure I've covered the overview before I get into any other specific issues.

The first one (1), and I will get to that so I won't pay it a whole lot of attention. We unfortunately say the Board cannot avoid the fact that it's assessing a plan. Because in our view, as I've explained so far, the only thing that leads you to conclude that you require seven-point-nine (7.9) is you're accepting this new approach, this new strategy by the new Board and the new management.

And although our focus has always been -- and -- and that's why I started my presentation. Usually we would be arguing about three-point-three-six (3.36) to three-point-nine-five (3.95). What's the rate increase? But the new component that has never been in front of this Board is, Let's throw the twenty (20) year projections out that inform what we do in the test years. And let's wrap that up and squeeze it so that we get most of our 25 percent, basically, a year after Keeyask is in service. The seven-point-nine (7.9) stop after that.

So, unfortunately, I think this Board has been put into a position which it has never been put before, is that it has to say, We're going to continue with what we used to do. Don't be alarmed, markets. Don't be alarmed, businesses. Take us off your risk list. We're going to continue doing what we've always done and do it gradually, as we have always done it. And, unfortunately, I think we need to address that. And that's our issue number 1.

Number 2, we get into a little bit more detail about how we view the -- the -- this new financial plan as a fundamental change. Number 3, I've already talked about that a little bit. And we believe that the plan is driven by a change in personnel and attitudes at Hydro, and an overriding focus on the capital markets.

And that's understandable. Why don't, I guess, fault Mr. McCallum and Mr. Shepherd in taking that view. That's -- you -- you deal with things based on your background. Their background was not Crown utilities, not managing Crown utilities. And that informs how you react to things.

I've dealt with the number 4 before going to this area. Number 5, the purported benefits of Hydro's plans we say are narrow and overstated. Here we're going to get into issues that you've heard from other Intervenors: a lack of economic analysis, getting into benefits on plans they say they aren't even going to implement, and storing taxpayers' money.

And on that point, I -- I'm mindful of one (1) of Dr. Grant's questions. Well, aren't we just switching the spending profile from what the consumers are going to spend to what Hydro's going to spend? Well, that's not the evidence on file, and we've taken quotes out of the evidence. The evidence is Hydro does not change its spending patterns based on whether it gets 3.57 percent or it gets 7.9 percent. Its evidence is that it's going to just not borrow as much or pay off debt. The spending does not change.

So giving Hydro more money is not like what the feds are trying to do to spend more money in capital infrastructure to generate results in the economy. They aren't going to do that with ratepayers' money. What's going to happen, and this was in Mr. Bossons's evidence, they're going to be taking $850 million out of the industry over that timeframe, and that $850 million won't be available for industry to do what it wants to do to make this economy grow in the North and elsewhere. And we talk about that in the issue 6, the risks and impacts of the plan are unknown, but potentially large.

(BRIEF PAUSE)

MR. ANTOINE HACAULT: And issue number 7, we get into the whole issue of whether the rates are sufficient for the plants that are now in service. That's the whole issue of are we covering our capital costs. And I had done quite a bit of cross-examination on that, and there's a lot that's in there.

But one (1) of the things and the rebuttal evidence and the reason why -- sorry -- I do these kind of -- and it's almost like pulling teeth, cross-examination sometimes. In the rebuttal I took Mr. McCallum through his calculations, without any adjustments, to see where that led us on the ability to do things and where it left us with equity. And you will recall, I produced a sheet that showed we were basically at 75/25 equity once we took the capital projects out.

That means every time I had Hydro in each year, and I'd gone through all those different projects, they're spending between 500 and $600 million in capital. We've been able to sock away 25 percent of those projects, because the project of 600 million has 25 percent equity in. We've been able to do that.

The other thing we've been able to do is handle these accounting changes. And, sorry, I see them even when I'm on the pension boards and stuff, this AOCI. What kind of animal is that? Unrealized gains in income. We report those things, even though they aren't real and we have to report them in our financials. And it has an impact on what we show as equity.

Well, what's happened with these accounting things? Over the years we've seen the rates for the Canadian dollar and the US dollar change. Well, those things go into that nice little pot, even though Manitoba Hydro's evidence is that has no impact, because they have a debt management strategy for exchange rates. They have enough US revenue to deal with the US obligations. When they actually occur it's a -- basically a zero sum issue.

But for financial purposes, we saw, and I took Mr. McCallum through this, there's nearly a billion dollar swing in this accounting notionally -- notional account. So instead of being at 2.8 billion we'd really be a $3.8 billion of equity.

And that's driven by two (2) major things: the accounting change in pension, which is also in that category, and this exchange rate, which is, I would respectfully submit, just a number that's there. It's not a number that's actually going to materialize because Hydro's got a very good plan on how it's going to deal with that contingent number.

Regulatory deferral accounts, we speak about that. I think those are pretty self-explanatory. If I don't have time to go through that, I'm not going to go through it. We don't have a disagreement on amortization of Conawapa costs and the Bipole III deferral account. That's at 9(a) on page 7.

On the issue of the deferred overheads, we've given evidence on that. We believe that Manitoba Hydro's view shouldn't be accepted. And we also take the view with depreciation that Manitoba Hydro ought to follow the Board's direction until it comes back with another study, and it doesn't look like it's going to come back. So we'd just like that to be off the table, quite frankly.

Depreciation, and I covered this in my cross-examination on a couple of occasions. Over time, because depreciation is based on the life of the asset, you come to the same result. The issue we had in previous hearings in changing the average service life method to the ELG, so equal life group method, was that we demonstrated that it front loads the depreciation, which is undesirable when you're in a major capital expansion. Because you're hitting a new project that's already hard enough to swallow with additional depreciation expense at the beginning of that asset's life when it has not been able to generate income the -- the way it should.

Sustaining capital investment. A couple of points there, which I may have time to get into further detail. I think Byron called me a dog that didn't want to let go of a bone when he was talking about Gillam, but there is a point to this dog going after that bone. It was that here we had a $360 million project that I'm thinking, Okay. Well, that's for twelve hundred (1,200) residents. I'm doing work for Town of Carman, that's about three thousand

(3,000) residents.

Now, let's -- let's just be safe. Let's double it and say, Well, that's like giving the Town of Carman, like, half a billion dollars. Well, not too bad. But does that relate to reliability? Does it really have to be spent? Can it be deferred?

And that was the point of my cross-examination. Without any real thought or consultation they snapped 100 million like that off that project without blinking an eye. No even alternatives. Then I'm on the stand and he says, Oh, it's even lower. We brought it down to another, you know, twenty (20) or whatever it was million dollars.

And that's why I then cross-examined METSCO. I said, Well, wouldn't you -- is -- is this okay? Is this an okay way to do it? He said, Well, no, we'd want to know, just like the impacts of doing zero. We want to know the impacts of doing something less. We'd like to see alternatives. And I also brought METSCO to the quote that says:

> "We've done all the infrastructure
> and we're finished that. We expect
> it to finish in March of 2018."

And after that, and I may not be quoting it exactly, it is in the -- in the paper, We will assess each request in each project, as it comes to us. Why do I raise this? Because Boston Consulting Group said a hammer is not the only tool in your toolbox. You don't have to hammer people with rates.

Hydro, to its credit, has cut nine hundred (900) positions, or is going to do that. That's another tool. Boston Consulting said another tool that you have is that you can defer the low value non-critical capital projects for a five (5) year time period, a hundred million in each of those years, and that will have a major impact on your debt equity metric. I went through that example to hopefully illustrate that there is opportunity there, but Hydro has not come to this Board and properly or thoroughly analyzed that opportunity.

The point number 11, it's an issue and some of that may be resolved and some of that you may see as a Board that we don't get to see. We say that we can only give you a range. We might've given you a range anyways, but because there's some things we don't get to see.

We know based on the advice of Daymark, and based on the graphs that we see where there's a spike after the 2025 contracts are assumed not to be renewed with NSP, that there is an impact in the last decade, for sure, of this policy decision in the IFF. We don't know what it is, but we know it's there. We've always taken a informed view of what is likely to happen in twenty (20) years, and unfortunately we don't know what that's going to do.

Daymark has said that this is basically at P100 assumption. It can't be worse. That's on the next page, page 9. So we know that even Hydro's forecasting, and I'm not saying they have to run in a different way, but they said that they want to achieve a P50 on what they're going to do. But you may recall my cross-examination where I did the difference between median water flows and the P50 water flows. And there's a $40 million difference there. So we've got built-in conservatism even our -- in our water flow metrics. It's not a P50 metric. It's a more conservative metric.

These -- I know there's puts and takes to everything. Capital costs, we don't know where they're going to go, but we heard evidence that we've been securing debt, large borrowings for thirty (30) year rates that will -- were well below forecast. And we covered that with that panel. So we don't know what the effects are. I guess when they come with the next GRA we're going to know the benefits.

And the other issue, which I raise, which we've got a look at, for sure. The possibility of cost overruns. But in that respect, we recommend that Hydro complete the 2018 summer construction season as soon as factual information is available regarding Keeyask productivity.

In the same way we can inform ourselves, generally, and be aware of interest rates and things like this. I would suggest that that's something that's going to be known fairly quickly. So we don't have to pre-build into rates possible problems which we will know will exist or will not exist by the end of next year or this year.

Demand-side management, that's issue number 12. The criticism of Hydro is -- and we deal with this in -- in this issue. Well, it's going to go to Efficiency Manitoba. Nothing we can do about it. Please take a close read of the legislation and of our issue paper and of Mr. Bowman's evidence on that issue.

When that was dealt with in NFAT, and also in the legislation, the intent of the legsli -- legislation was never to have increased costs on Manitobans. It was to ensure that Manitobans would have the lowest cost possible in their bills. It was never contemplated that we would have such low prices and marginal costs when we did this. And one (1) of the other recommendations confirmed in the Minister's letter was that this demand-side management should be dealt with as an integrated resource plan item, that we do that, DSM, instead of building a new generating station or instead of building a gas turbine.

What do we build? And this Board and the government will be looking at that pursuant to the criteria in the legislation. So we say that, at least for now when that legislation is not in place, we shouldn't assume the worst. Because we, I would respectfully submit, have to give government, this Board, and the people who are going to make recommendations and opportunity to properly analyze that issue and decide whether or not the targets that are set as initial targets are really the best targets for Manitobans.

Issue number 13 on page 10. Uncertainty analysis. We've got quite a bit of discussion on how that tool might help this Board make decisions. I don't intend to tend -- spend more time on that right now.

Item 14, we have a more detailed

discussion and extracts of evidence with respect to this additional issue of allocation under customer service general. You may recall, I had questions as to whether line locates when transmission lines are never located, we need to pay for that. And whether customer calls when we've got sixteen (16) customers, you know, and there's -- I forget what the number was. It's in the paper. It's a huge number. I can't fathom that sixteen (16) customers would make that many calls to justify think number that's put in there. It's a cost causation issue.

With respect to rate design and class revenues, I will take you to -- actually I don't need to because Mr. Monnin already did. There is one (1) case out of Nova Scotia, which I shared with Mr. Monnin, and I think he produced to you that suggested an adjustment of about 2 percent in that case to bring people in line with the cost of service coverage.

The bigger issue that's been raised in my view by other people, is whether when Bipole III comes in there's kind of a self-correcting of that zone of reasonableness. And I would just urge you to recall what Mr. Bowman's evidence was, that the same thing was said when the last generating station, Wuskwatim, came into line. Because by and far and large the view is that when you put a generating station, a big transmission line like Bipole III or a Keeyask generating station, it changes the cost of service metrics because that's the -- really the only part that the industrial's use, and the residentials have one (1) sector that's not affected by that cost. It's all the distribution costs.

But notwithstanding the speculation last time that Wuskwatim or the last generating station would have that effect. I've showed you the graph that we've always stayed on top. So I think we have to be careful because it's not a full cost of service study. People think it's going to have that direction. But what we're asking for is not a full correction of the 10 or 12 percent. We're suggesting a 1 to 2 percent adjustment as indicated in our materials.

And with respect to time of use rates, we've said that -- and I've done cross-examination on that. That is something that is of benefit to the system as a whole, not only to the industrials. So that if there's people that can do something that has benefit to the system as a whole we shouldn't stop that from happening.

I'm looking at the time that I got in

front of me. It's ten (10) after 2:00, according with my watch, a little bit past. After I've been going for a little bit -- or better than an hour and a half or so, so I'm not too sure what --

THE CHAIRPERSON: Yeah, I think it would be an appropriate time to take a break. So we'll break for fifteen (15) minutes.

MR. ANTOINE HACAULT: Thank you.

THE CHAIRPERSON: Thank you.

--- Upon recessing at 2:12 p.m.

--- Upon resuming at 2:32 p.m.

THE CHAIRPERSON: Mr. Simonsen has directed that we start. M. Hacault...?

CONTINUED BY MR. ANTOINE HACAULT:

MR. ANTOINE HACAULT: I'm going to start again by referring you to MH-93, and that particular table, and why am I going to do that? I had focused initially on NFAT but I think there's two (2) things, if I look at MH-14 which is going to answer, in part, the Vice Chair's question about that Bipole III, the 1.4, but it's also going to deal with this was a rate application, the 2015 rate application.

It was Manitoba Hydro knowing, if we go down that line, that its IFF was going to show a total of nearly $1 billion in losses over eight (8) years. What did it do? That's nearly $400 million more than what was in NFAT under the high scenario. Did it come with 7.9? Did it say, oh, things have gone so wrong that we have to take a totally different approach? Of course not, they came with a measured approach, which was tested. They asked for 3.95 and this Board awarded 3.95, but not on the basis that all should go to the revenue because they weren't satisfied that the metrics on the revenue had changed. What they did, if I recall correctly, is they said that 2.15 percent would go to Bipole III as a room rate smoothing issue.

And they said, you only need 1.8 percent and with 1.8 percent you'll be able to deal with what's happening here, and the 2.15 is going to be built into rates for Bipole III. So it wasn't that NFAT, we're all wrong. We've done the NFAT, now we're in a real rate hearing where they do an application, and everybody's testing it. The Intervenors are testing. Manitoba Hydro's putting its case. The PUB looks at it, analyses all the information and -- and in everybody's wisdom we end up at 3.95 percent.

And the reason I said it might answer part of Vice Chair Kapitany's question, you asked me, well, what about this 1.4 and said, well, we -- we did deal with that indirectly in previous rate hearings. It was included in our number. It was 3.95 and -- and -- and the project can be absorbed within the whole rate increase as opposed to saying, well, we've got to give an additional ride over the 3.95. So hopefully that's answered a bit of the question.

I want to maybe then -- I'll go through a little bit of the legislation and the cases because I think it's -- we need to be reminded of that from time to time, as boring as it may be. But, I'm going to start with the issue of balancing the financial interest of Manitoba Hydro with the interests of ratepayers; that's a Court of Appeal test.

And you may recall, in the very beginning, it's a long time ago, but on December 5, Mr. Shepherd, the president and CEO of Hydro testified, and we don't need to go to the transcript, I'll read what would happened, but I asked -- I was asking questions about the whole issue. Did you consider, you know, whether it'd impact people coming in or not and how it's going to affect, you know, the economy and the big companies. And I asked, but there's no analysis, for example, if this new pea plant Roquette had been told, we're on a 7.9 percent increase rate path for the next six (6) years, we would go -- we would choose to go elsewhere. And Mr. Shepherd's answer.

So, I don't want to get into individual customer discussions. I don't why he said that. To me it was implying when I was hearing that answer that he had an actual discussion with Roquette. But I would say that they're well aware of the rate environment and they're well aware of, you know, by reports, comments made by our chair publicly and I -- and so I think they certainly would be, I would say, can't remember the exact term but they would be well informed and expert in making their own business decisions and I'm sure they would have been aware of the environment here and have factored that into their decision they made.

And you'll then recall the Chair asking questions of the Roquette representative, Benoit Lentz, who's the global energy manager as to whether he was aware of that and when they made the decision and the response was that they made their decision 2016. They assumed that there would be a rate somewhere in between 0 and 3.95 percent. He explained the logic of how they chose places and the US was an option, Saskatchewan was an option and the reason why they chose Manitoba was because of the low rates.

So I guess was the president and CEO of Manitoba Hydro ill-informed about a major $400 million investment and why they came here and their decision-making process? I'm not too sure of why he answered the way he did. At least Roquette set the record straight.

You also had MIPUG members who testified as to the pressure they would have to either not expand or to change the location of their production. A lot of them can do that fairly easily as they explained, if there was a signalling that there may be consecutive 7.9 percent increases.

For example, Gerdau explained it had twenty (20) facilities worldwide on slide 7 of its presentation, it showed the decreasing average energy costs in those other jurisdictions and that Manitoba Hydro will be above the average -- the average of all its plants, so there are some that are lower, some are higher by 2019. He said it's not a threat, but he gave an example of plant shut down in a jurisdiction where costs escalated and explained that Gerdau can easily shift production to other plants.

Why am I talking about this? I'm talking about it for the same reason that the City of Winnipeg and others have. We've got a balancing test that should've been done, an onus which should have been met, consideration that should've been given on the interests of the consumers and it doesn't appear that the Utility did that.

We also take note that Mr. Taylor, who presented on behalf of the Business Council, seemed to exhibit a little understanding of the options and rates available in other jurisdictions to major users with plants in this province. In responding to chairs of the -- questions of the Chair, he limited his thought process as to whether someone would move operations and build elsewhere and didn't seem to have an idea that plants in other jurisdictions have competitive or lower electricity rates.

On reflection, I can't really fault Mr. Taylor for that. He's in a sector and the members of the Business Council generally are in sectors which are not major users of electricity, so he probably wouldn't need to know that.

We do note -- this more kind of a legal issue -- that Mr. Taylor was identified as a potential expert witness to testify on a bunch of credit rating and credit issues and Business Council chose not to call him as a witness and not to have him do a report.

And you've heard the City of Winnipeg counsel say, well, when somebody choose -- identifies somebody, says that he's going to present evidence on something, but then doesn't present evidence that an adverse inference should be drawn and that means that somebody, an experienced counsel like Mr. Williams and litigator, would choose not to have evidence on that because he wouldn't think that the evidence would be very favourable or could stand up to scrutiny.

We also had the executive director of the Mine Association and I'm mindful that I got chastised a couple times for bringing mines up that testified on behalf of the organization as to the concerns the mines had with respect to the direction that the rate increases might be going and that their view was that it would be crushing for the economy of the north.

That's another area which I bought back fairly consistently in my cross-examination and people answered, whether it was Dr. Simpson, Yatchew or others, yes, when it's a one company town and they're energy intensive and they're identified on Boston Consulting Group's slide as being the mos -- in the sector of big industries vulnerable to having job losses, in my respectful submission, Hydro did not adequately or even at all consider the impact on the development in our north and these intensive energy users in the North and the communities in the north that it supports; all the spinoff in having this aggressive rate increase. It wasn't a balanced view that they presented to this Board.

We submit that it is appropriate for this Board to continue on the path it has with the evidence that it had on keeping a slow steady pace. There's a lot of chatter about, oh, what may happen to the debt rating and might our costs go up and I'll deal with that separately. I say that was a lot of smoke and mirrors, a lot of smoke and mirrors.

If I thought I had a real case and I was Hydro, who's the first person I would call? Finance people from the province of Manitoba. They're the ones who tell me whether they're concerned or if there's a problem. They have chats with these people all the time. Who else might I call if I thought I had a good case? Well, maybe the credit rating. People instead of just putting the reports there. Well, is there anybody else I could call? Well, KPMG looked at all of that, hmm, maybe I could call them.

Well, I just paid some $4 million for Boston Consulting Group and they looked at the issue. Well, maybe they had somebody that talked about it in not only their slides but could have helped us here too.

What about -- about somebody like Mr. Pelino who deals with these markets all the time? Yeah, I guess I could have called that person too. If I thought I had a good case of putting any one of those people on, I would have called them. But the only thing we have, with due respect, because they are educated people, as Mr. McCallum, I'm not criticizing his credentials but not in the capital markets related to Utilities. Plus, we know that he was hand-picked to implement the new plan. Our definition as lawyers, when we have independent experts is that they are not advocates for a position. They come here and they provide their independent views and opinions. They don't -- they're not hand-picked people who are chosen to implement a strategy and advocate a position.

Now, another elephant in the room which we haven't talked much about except through Mr. Forrest and Mr. Osler is the government charges elephant. And page 6-9 has our chart on that, that's the original chart. It's not the Manitoba Hydro revised chart. There is a reason why we started the chart earlier on is because that's when we were dealing with projects and it gave us an idea of what our debt was during that time when we were building assets.

But what you see is that in those initial left-hand side charts, there is very little government charges and not anywhere close to what we see on the right-hand side. Can you imagine if we started the left-hand side with the black lines that we see on the right-hand side and tried to integrate all our older projects with that kind of a government charge? It would be devastating.

There's other governments who actually take note of this and give projects a chance to start and one of the places where I identify some of that information is small roman numeral vi at the beginning of our submission. We note, for example, that -- this is at lines 18 and following. The effects of these charges at 3.3 cents per kilowatt hour produced. And remember, at generation the marginal cost or value for the generation based on updated long term export markets is now only 4.23 cents. Government charges are swallowing practically everything.

What did BC do? We see that BC reduced the government-related charges on Site C by 2.6

percent -- or 2.6 cents per kilowatt, and the vast majority of Muskrat Falls borrowing will not face the debt guarantee fees. It's important, although we can't dictate to the government what to do, that it at least be aware that other governments are taking action and that there may be a role also in the government in not taking these additional -- because that's new money -- additional funds and give these projects a chance to have better financial metrics and have them quicker.

Now, I'm going to get into more of a theoretical discussion here, based on some case law, and also some of the legislation just to do my lawyer thing. But going back decades, and maybe over a century, Boards such as this one were set up by the government to deal with a monopoly. They were concerned about consumers and about -- there was nobody -- no normal competition.

So, the Board was there to protect the consumers and to make the company act as it would if it was in a competitive env -- environment. It can't just do what it wants, when it wants, it has to be controlled. And so there's a bunch of principles, we've seen Bonbright, but in the legislation under the PUB Act and -- and this is mentioned in the Brandon case at the Court of Appeal, one (1) of the guiding principles in Section 77 of the PUB Act quoted by the court is that rates shouldn't be unjust, they shouldn't be in reasonable. They can't be insufficient. They can't be unjustly discriminatory or prefer -- preferential.

And when we look at major capital projects, my question was, well, did the legislation say anything about how you deal with recovering the cost? Is there something that talks about amortization? Oddly enough, there is in Section 40(1)(c) of the Hydro Act it match -- it contemplates matching capital cost amortization with what? The useful life of the asset. And how is that achieved? Through the depreciation expense.

So it actually uses the word "useful life" and "amortization." So we do have some direction on that. And I say that we saw that jagged line, the slide -- infamous slide 30 from the first slide deck where it goes voom and then at just falls at the end of ten (10) years. That's inconsistent with the legislation. We're supposed to amortize it over the useful life. We're not supposed to get 25 percent of that asset's value within the first six (6) or seven (7) years.

What about expenses? The Manitoba Hydro Act says at subs -- at Section 39(1)(a), the necessary operating expenses. And I think that guides us in this whole thing about discussions like Gillam where they said, well, there is no alternative except to spend, like, 360 million. And then the next capital justification process says, well, there is no alternative expect -- except to spend like some 240 million, and then the next one -- then we say, oh, well, you know, 220 some million all of a sudden. How we do know any of those were really necessary and are still necessary?

The same issue was raised in NFAT. But there what led to the discussion -- and you may recall the cross-examination I did of Liz Carriere where she was saying, well, no, no, we didn't say that we were going to do any kind, you know, the rate scenarios that we might reasonably expect. And I said, well, yeah, well, it said right there. Sorry, but -- well, she said I didn't say it. Yeah, it's right there.

How did those scenarios come up? They came up as a result of long-term analysis that was done in NFAT which was much longer than twenty (20) years. We were looking at fifty (50) years plus, depending on the type of analysis financial or econ --

economic was even longer than that. The financial analysis gave us that same jagged tooth and that's why I extracted discussions between the Chair -- the then Chair, Gosselin, in our material. While they were discussing and say, well, listen after twenty (20) years, we just see a drop by 23 percent at 3.95 percent rate increases. Isn't there something we can do about that? Can't we smooth that out? Well, said, well, we've already looked at twenty (20) years, but, you know.

So, the discussion was on a twenty (20) year cycle, not on a seven (7) year cycle, on twenty (20) years, we were looking at rate scenarios that might help smooth out that same jagged tooth that was going to happen at the end of twenty (20) years. It was a 25.67 percent decrease that was projected in 2023 to hold the debt/equity ratio at 75/25. That was the NFAT jagged tooth.

So this is why we say that although we maybe aren't trying to do the same rate smoothing over a period that's longer than twenty (20) years, as we did in the NFAT, we say it's a target. It's something to aspire to. It has to adapt according to what's going to change in the next twenty (20) years. We don't know what's going to happen. It may be achieved quickly like we did before, because we've got excellent -- bounce back on export prices. We get delays like Keeyask, that may delay our need to achieve a target. It's adaptable. It's a target.

Legislation. Section 40(1)(b) of the Manitoba Hydro Act, that's the sister one to the previous one I just looked at, talking about useful life. It talks about setting aside of reserves or fund for self-insurance. I'm not that senior so I haven't seen the financials which show a separate line for insurance protection and for loss and damage to any property of the Corporation or to persons or properties of others. And this is distinct from insurance premiums, which we covered by the necessary operating expenses. We used to talk about that. Where is it in the discussions today? Where is the evidence, actuarial or otherwise, of the non-drought risks that we maybe have to ensure for. We did have a risk hearing about four (4) years ago I guess now, a little bit more. We talked about some of that them. We had probabilities, et cetera.

Now the next section C use -- 41(c) stabilization by the Board of rates. No, you had it. It's at the top. Or prices for power sold by the Corporation, the meeting of extraordinary contingencies or other requirements. So, drought would be one (1) of those, obvious. It's an extraordinary contingency. It's appropriate to set aside something for that. We know it's a 1.2 billion cost approximately and we have close to 3 billion in the bank so we're okay there. The other 1.8 million I guess notionally goes to some kind of an insurance fund. We don't know exactly what that is because no evidence has been on that basis.

Now, the one (1) thing I found interesting is the next section talks about the use and it parallels the first sections in 40(1) except (e), the last one, 40(2)(e). Hydro's not entitled to put something in reserves towards the cost of construction of new works without going to the Cabinet and getting an Order in Council. There's no evidence of an Order in Council.

The only thing that we have on record and it was in PUB book of documents -- they are so comprehensive, thank you, Mr. Peters -- page 18 is the Minister's letter of direction. And what does it tell us about reserves? It says:

"Also consistent with the PUB panel's advice, we request that Manitoba Hydro Electric Board review

its current 75 to 25 debt/equity
ratio target with the aim of
moderating rates for consumers while
ensuring strong financial health for
the Corporation, including
maintaining sufficient retained
earnings."

That was done in the context of the IFFs and the metrics that we went through with respect to NFAT and the discussions that I extracted between Mr. Rainkie and the Chair of smoothing the rates to avoid that sawtooth after twenty (20) years. Hydro should look at smoothing rates so we don't get that sawtooth on twenty (20) years.

And the government then approved the project, knowing all these facts. And knowing all the analysis and requesting the Utility to smooth the rates so we don't get that jagged tooth in twenty (20) years.

So we say that the legislative framework does not support this new attitude by the Corporation. The direction of the government in allowing these major new capital investments does not support this new attitude by Manitoba Hydro, and there's no Order in Council that authorizes setting up any reserves for any new works or using it for that purpose.

(BRIEF PAUSE)

MR. ANTOINE HACAULT: Now, with all the chatter we've had about financial targets and having to meet them, in our topic one, I think the only thing I'm going to take you through is two (2) statements, the first of which is at page 1-5, and we, in our materials, had extracted -- oh, he's getting a lot of attention today -- Mr. Peters' cross-examination of Manny Schultz who's in charge of all the money at Manitoba Hydro before and he's saying, well, listen what about this high leverage? It's one of the highest amongst government-owned integrated utilities in Canada, limiting its financial flexibility going forward. Did I read that correctly? Yep, you read that correctly.

So, they talk about equity in the eyes of the credit rating agencies but, remember, this is in the context of the metrics we saw in NFAT with consecutive losses. And he's saying -- and coming to the point about regulatory support, that's at line 10:

"If we had a situation where we're

not getting regulatory support in order for us to continue with that, they would consider that to be a weakness but thus far the regulatory regime has been supportive of our requirements."

And this is all about the regulatory signalling but, Mr. Peters, you know, it's going to be below target at least over the next twenty-two (22) years, twenty-two (22) years not just twenty (20). Mr. Schulz, correct? Correct. Yeah, they're aware of that. Not a problem. So, twenty-two (22) years isn't a problem in one (1) hearing for one (1) set of employees. We're hearing a different story, a different Manitoba Hydro today.

And what is somewhat odd, though, is I guess it's a template issue. I'm being maybe a little bit too critical here. But if we go to page 1-10 of our material, you'll see I've extracted from Hydro's GRA filing Appendix 4.2, page 1, lines 10 to 15 in this submission.

"In setting financial targets, it was recognized that the targets may not be attained during years of major investments in the generation, transmission system, but it would be necessary for Manitoba Hydro to demonstrate to credit rating agencies and other stakeholders that progress towards attaining the targets with occur over what the long term after, not before, after the major capital system expansion program."

Petty different than what we've been hearing testimony about; that's why I said, I know if I go back I'd find the same language and other stuff that maybe was a whoops, I don't know, but the language is pretty clear in its application. Over the long term after the major capital system expansion program.

(BRIEF PAUSE)

MR. ANTOINE HACAULT: We'll go to page 2-4 and 2-5, just kind of jumping over just a couple key points here, because I do want to finish in about half an hour, or a little bit more than that. We can -- this graph at the top shows the seven point nine (7.9) rate path and the lower rate path of three point nine-five (3.95). We see the lower rate path is generally better now, and that's shown in Manitoba Hydro 90 -- 93 also, than it was in the 2015 GRA. And that although there is downside, there is also upside, and I remind you again that we were initially projecting losses. We got high water; we didn't.

You can't just assume everything is going to go wrong in this business. We may go into the top part of the -- these whiskers that show what's going to happen with respect to various metrics such as export prices, interest prices, rate projections, et cetera. The issue is, Hydro consider -- continues to assert, based on a couple projections, and I'm going to line 6 on this page. The first one is we start the seven point nine (7.9) for the fiscal year coming. And then after the four point five-four (4.54), we moderate to 2 percent rate increases, and if we allow that to happen, lo and behold, in twenty (20) years, where are we at? We only have 36 percent debt. Way, way better than the 75/25 as we say is necessary.

But is that a realistic path? Well, it doesn't appear, according to the CFO, Mr. McCallum. He says, We don't have a goal to build 64 percent equity structure. What about the other one, where we go up to 25 percent equity, but then we hold it mechanically at 25 percent? That's our target. Well, as soon as we hit it, the next year, boom. Line 14, a 19.7 percent decrease. Can you imagine Hydro coming to this Board? I'd be the happiest guy in the world if they came in tomorrow and I said, You're going to decrease my Hydro bills tomorrow by 19 percent? Seriously?

So when I cross-examined the Chair on this issue, in my respectful submission, and this is on page 2-5, lines 6 to 8 is where I put the reference. The answer was basically, The scenario was only prepared because it was directed by the PUB. Is it really a serious plan, this new financial plan? Where does it lead us to in the future and intergenerational equity in ten (10) years from now?

What about if we do another scenario that's been shown? And -- and sorry, I'll go back to the previous one. That was put in the ten (10) best and most important IRs, that scenario. It was put on slide 30 of Manitoba Hydro's presentation marked as 64, Exhibit 64. That's what they've been showing the public, and the first slide they showed this Board. Then, on cross-examination, they take no ownership. It's just something that was asked to be done by the

PUB.

Last scenario. We still, under this scenario, with -- which has zero percent increases, so under inflation, after reaching a 75 percent debt/equity ratio, with zero percent -- so assuming inflation is 2 percent, we're going negative 2 every year. We're still achieving 51 percent equity ratio at the end of the twenty (20) years. Is that a credible financial plan for smoothing rates? We say no. It causes intergenerational issues.

I'm going to jump to Tab 5. And this issue topic deals with whether or not the alleged benefits are overstated by Manitoba Hydro. And Mr. Colaiacovo's evidence, I would suggest, is similar to what he said in the NFAT as quoted by Manitoba Hydro counsel. This is a lines 27. There's start of that discussion. In our view, his testimony essentially said that access to capital issue, there was little risk on Hydro's ability to access credit markets.

And he explained why. And if we flip to the next page, at line 5, he asks a rhetorical question: Is there any practical risk that Manitoba Hydro could not get the long-term debt that it needs? One (1) of the shortest answers I saw-- the only short answer to that question is an, Oh, no. And I've talked about the 2008 crisis. Very careful expert. I can stop there.

But that's consistent with what the CFO for Manitoba Hydro is saying that several years ago, and that's quoted again at -- starting at line 19 of this submission. Sorry, the treasurer, who's -- who's in charge of the money. I misspoke there. Thank you, Mr. Bowman and Mr. Peters.

So reading line 19, we're undertaking large pieces of financing, now. We have no reason to believe that there's going to be any interruption to the liquidity. And in fact, we're hearing that from many of the investors that, Yeah, of course, our ratio goes down through this.

But you're taking on more debt as part of the investments, but what you are getting out of it, as Mr. Rainkie said, and this is important, is a revenue-generating asset which is very positive for them, because they have stability cash flow. All of that reduces the risk and increases our ability to access the markets. Like I said, we have a different Hydro appearing before you today.

The long and short of this, you know, further to the point, you know, the hypothetical. I mean, this notion somehow that we're not self-supporting is a complete capital 'H' hypothetical in our minds.

(BRIEF PAUSE)

MR. ANTOINE HACAULT: If I go to page 5-4, the next question that I deal with in this submission with some quotes to support, at line 16, is that, Okay, well, suppose this capital 'H' hypothetical were to happen, and Mr. Colaiacovo is wrong, and the treasurer, Mr. Schulz, is completely wrong. Does that actually translate to increased borrowing costs? And Mr. Colaiacovo's evidence was, No, and he explained why.

And in cross-examination, I actually showed some decreases in ratings by some of the rating companies when I cross-examined Dr. Simpson, because he was being -- it was being put to him by Kevin Williams that if there was a downgrade in ratings, costs would go up. I brought him to the graph.

Mr. Simpson, it appears he's asking you to assume the opposite of what this graph is showing. I know it's just a point in time, but there were two (2) downgrades, and the rates actually went down. So you can't automatically conclude because there's a downgrading that the capital markets are going to ask you for more money compared to what they were asking before.

And Dr. Yatchew also spoke to this one, being cross-examined by Kevin Williams, and I'll go to page 5-6.

(BRIEF PAUSE)

MR. ANTOINE HACAULT: The issue Dr. Yatchew was bringing up in cross-examination by Kevin Williams is that if you increase the rates, you may actually harm the Province, as if they're rating the Province based on how well it's doing. And if some of these elasticities are right, and you reduce your industrial income and other income, you may be actually hurting the Province's credit rating by the very fact that you are charging the 7.9 percent rate increase.

And that's why Dr. Yatchew, I would suggest, when he was answering from lines 18 to 21, in answer to the questions, all things being equal, he said in general terms, Lending agencies are very much interested in whether you can pay the interest costs. And if you have a larger cushion, that risk goes down, the risk of downgrade -- downgrade goes down. But we're really talking here in very abstract terms.

Now, those were pretty intentional words, 'abstract terms', abstract in the sense we have to put a lot of numerical analysis and finance -- which financial analysts do, including the overall health of the Manitoba econo -- economy and the understood fact that it's backing the debt. So it's not -- unfortunately, it's not as easy as just saying, well, one moves the other. It depends what happening in the Province, and -- and rightfully or not, Manitoba Hydro can have a huge impact, depending on what it does with rates, on the Manitoba economy.

Page 5-7, I give some references to the evidence, and this is one (1) issue I spoke to a while earlier in answer to Dr. Grant's question in the evidence. At the, you know, it's at line 5, the only dir -- definite direct impact identified is a reduction in future interest costs and building up Hydro's retained earnings balance. Nobody's suggesting that with this extra money, we're going to do new capital projections and kickstart this economy. We're taking it out of other peoples' pockets and getting thirty (30) year 3 percent money for it, or 3.5 percent, or whatever the number is, a shorter-term, lesser amounts. So we say that Mr. Colaiacovo's evidence that equity is essentially dead money is really that. It earns no returns. It's taken out of the hands of the ratepayers who would otherwise use it.

(BRIEF PAUSE)

MR. ANTOINE HACAULT: Now, I'll take you to page 6-3. Still somewhat on this theme; it's a different issue. There's talk about the elasticity issues. And I'll particularly draw your attention to Dr. Yatchew's evidence from lines 7 to 10 on this submission, where Dr. Yatchew noted that rate increases may discourage future industrial investments, particularly in very electricity-intensive universe -- industries. And he noted that literature yields elasticities as high as negative one point four (-1.4) for the industrial sector, attributed to electricity-intensive industry and low price states.

So my submission is that the price response is a lot -- may be a lot higher for the industries that we've identified than what Hydro has assumed. And as noted at line 14, next -- Daymark similarly concluded with respect to the risk of load reduction among industrial customers that there may be a greater response than the current forecast.

And at the very bottom of this particular page, I'll direct your attention to lines 28 to 32, starting with:

"But in the interim, there are likely to be significant adjustment costs in some locations, particularly those that are heavily dependent on an industry that is sensitive to electricity price. There could be large local impacts on employment, on incomes, and on output."

And this is why I took some witnesses through the Development North Plan, it was talked about the mining -- the mining industry talked about that, and about the mines being a potential driver of the Northern economies.

We say that the evidence discloses this is a very real issue which hasn't been analyzed by Manitoba Hydro in any meaningful way, and the best evidence we have from respected economists is that we've got to be very careful about this, especially because those consumers don't have access to alternatives in Northern Manitoba. They don't have access to gas. You know, their plants aren't set up, and can't use other sources of energy, and page 6-4, it's at line -- or 7 to 14, I go through that.

So mines and paper mills don't have natural gas. The chemical industry -- we have two (2) of them in Manitoba. They use electricity. They can't do their process without electricity. They'll have no option. Pipelines, again, they require electricity for non-motive loads, the pumping and compression, and the furnaces, like we heard about, Gerdau. That's done by electricity. And a -- then there's the issue of the uncertainty around expenses related to pending carbon tax.

So we also had testimony from Messrs. Osler and Forrest about material, adverse impacts on customers and the Manitoba economy, and the economic policy goals of this government. It's pretty much public knowledge that they've got an $800 million deficit, or somewhere in that range, that they hate to deal with. There's two (2) options, right, for the government, to a large extent: increase revenues, decrease expenses. There's a lot of boards that I've been sitting on. We've been asked to decrease expenses. If you're hitting the economy and slowing it down, you're not going to generate the revenues.

And on page 6-5, I just extract the conversation I had with Tyler Markowsky of the City. Again, the same analysis I did with respect to the credit. They had a department of economists. They've done this before. They chose not to put any evidence -- that's Manitoba Hydro. Why do you think they didn't do it? They didn't have good news to tell you.

(BRIEF PAUSE)

MR. ANTOINE HACAULT: A little bit on moral hazard, page 6-8. It hasn't been talked about by a very many witnesses, except for people who have more experience than me. Mr. Forrest, who was deputy Minister and had various roles, Mr. Osler, who's got a lot of experience, and the issue that they raise at page 6-8, line 18, is a temptation that arises for Hydro and government to act differently when large equity surpluses are being generated with Hydro off of ratepayers. So it's not the way the Utility's intended to run, and we say this rate -- rate path increases that moral hazard and the possibility that that might be a temptation where ratepayers put money in this Corporation, but then it comes out differently.

Going to topic 7, this is the topic where Hydro has been saying, Well, we don't have enough to cover our costs, and that we're not really paying for continuing operations. And in order to assert that it has a cash deficit, Manitoba Hydro has argued that it has to fund about 600 million annually in business operation capital expenditures, without resorting to any debt financing.

When went through the cross-examination on that point, witnesses agreed that a lot of those investments had a long useful life of taking due to the legislation. Normally, we shouldn't be funding a hundred percent of that. It should be funded through depreciation over the useful life. That's the intent of the legislation. That's how we structure rates. Hydro is saying that its plan requires something totally different for the 600 million or so that they're going to spend in capital expenditures. They want to fund that at a hundred percent.

So the things that are included in this calculation also are that -- and if I go to page 7-5 for that table, which had been the foundation for that cross-examination, is we see that when they're talking about cash for the operations, midway through, we see Bipole III, another business operation capitalized expense. Well, that's going to be depreciated. You can -- why do you have to fund a hundred percent of something that -- you know, when we talk about $8.7 billion for Keeyask, you've got interest in there. Why, in addition, do we have to fund that a hundred percent? It's going to be depreciated over the useful life of that generating asset.

Once you start taking a harder look at this allegation that there isn't enough cash to cover current costs, we say that it's pretty apparent that you have plenty of cash to cover the current costs. And if you do it in the way it's supposed to be done according to the legislation and regulatory principles, you have of gobs of cash. There is nothing wrong with borrowing some money for a $600 million capital project. Nothing wrong. You don't have to pay a hundred percent of that every year in each and every year.

And in previous pages, I went through some of that -- some of those comments with Dr. Yatchew, at -- for example, at page 7-3. I went through a discussion, Well, you have paid all your interest, you've paid all your depreciation. And in addition to the depreciation, which is supposed to be based on the useful life, we're asking, in addition to that, let's collect 25 percent. Well, that's like, Let's ramp up depreciation by 25 percent in addition to depreciation. That's not what's intended by the legislation.

Just quickly to put a little bit more structure to my initial discussion on CapEx reductions, I'll go to 10-3. The reason I went into that is it was another tool in the toolbox that Boston Consulting Group said was a realistic possibility. And it had, by Boston Consulting Group's analysis, a material effect as seen on this graph. The green is the baseline. The yellow line is 100 million sustaining CapEx reduction, but the next slide provides context to what Boston Consulting was contemplating.

If you look on top of the slide, it has the heading 'Realistic Five (5) Year Change'. They weren't talking about something indefinite. A realistic five (5) year change, and what were they -- realistically think can -- could be done over five (5) years. If you go to the left-hand side, with respect to strengthen the core business, that's 4B as in 'Bob'. The third item is defer, not cancel, defer low value capital projects. They were talking about five (5) years, picking projects that they could defer for the tune of $100 million, and that was going to have the impact that you saw and you see on the -- on the chart.

So to say that these little things don't matter -- I mean, when we're talking billions of dollars, I guess a hundred million dollars on your equity is maybe not that big, but every little bit counts, and a hundred million is -- is a pretty significant number. That hasn't been explored.

THE CHAIRPERSON: Mr. Hacault, you've got ten (10) minutes.

MR. ANTOINE HACAULT: I'm going to finish in about five (5) minutes, I think.

(BRIEF PAUSE)

MR. ANTOINE HACAULT: Page 11-9 -- sorry, 11-8 firstly, the reason why we were saying that the -- we wanted to know what was happening with respect to the forecasts is illustrated in this line. As soon as we hit 2025, that's when the NSP contract ends, you see a market decline. It assumes that we're not going to get any revenues except for opportunity costs, and that, in fact, increases the risk, right, because you don't know where those opportunity markets are going to go. If you actually renew your contract in 2025, then that reduces the risk and increases your revenues, so it's got two (2) impacts.

Next page, 11-9. When we were saying that we were locking in rates and rates were lower than what they were projected, and that they were actually projected to ramp up, this is a visual of it. We see that the blue jagged line, or the thirty (30) year all-in rates was below what was being projected by nearly half a point when this hearing started, and they were locking in some of those good debts. And you see it ramps up so that by 2023, they're assuming that -- that they're -- they were thinking was going to be three point five (3.5) will only be available at over 5 percent at that time. So if we're into those kinds of rate increases over the next years, nobody should be alarmed.

(BRIEF PAUSE)

MR. ANTOINE HACAULT: 15-9 of my con -- cross-examination of Mr. Barnlund on time of use and load shifting in the industrial class. There would be an overall system benefit. The reason why we say that's important is because as the case law -- and I won't have time to go through it -- and the highlights, it shows that if you can demonstrate that there's a system benefit that helps all ratepayers, it lowers all their rates, you can do things like optional time of use rates, because every customer benefits from it. It doesn't create additional cost on any class. It, in fact, enhances the profile of the entire system. So I think that's an important point we need to understand.

Last little points, it's at Tab 1.

(BRIEF PAUSE)

MR. ANTOINE HACAULT: At -- not -- of the authorities. I had put a couple pages from the Needs for and Alternatives review final argument. I don't need to go through there. I'm just telling you why it was put in there. It gives us headings of the things that Hydro was saying in that submission.

For example, under item 10, that the NFAT analysis was robust, and it talks about longer-term metrics being appropriate, and it talked about things like drought, and managing drought, et cetera.

So a lot of the issues that we're dealing with in this hearing were also dealt with there.

And at Tab D as in 'Donald', this particular case is good because it does describe -- and I don't know if your pages are numbered, Ms. Schubert, but that's paragraph 81 in this case, on the left-hand side. It would be further down.

There's a very good discussion about the role -- it's further down, yeah, just 39 on the left-hand side. We have to go further. So 39, I've highlighted some discussion in these cases, to -- knowing that I might not have the time to go through them. But there is very good discussions about the role of the Board, and whether its primary role is a proxy for competition, or what there is.

And this is a majority decision that decided they had jurisdiction to deal with low income rates if there's a very good discussion about the role and -- and about the importance of a cost of service, and that the cost of service should be one (1) of the primary considerations and driving factor in setting rates. And we've given other authorities on that, too, in support of our position of a reduced -- or adjustment to industrial rates.

Thank you very much for your time and

attention. I think I've finished pretty much when I thought I would, and I would be willing to take any questions.

THE CHAIRPERSON: Thank you very much, Mr. Hacault. I'll -- I'll ask the panel if they have any questions. Dr. -- no? Thank you very much. Thank you. Mr. Bowman, Mr. Hacault, enjoy your -- your vacation.

At this time, we're -- we've now concluded the closing submissions from all the parties. On February 14th we are scheduled in the morning to hear Manitoba Hydro's reply submission. As a reminder, as with the Board's rulings on rebuttal -- ruling on rebuttal evidence in this proceeding, the right of reply is limited to addressing new issues raised by the Intervenors in argument that could not reasonably have been anticipated by Manitoba Hydro. I suspect we know of one (1) from this morning.

The right of reply is not an opportunity for the applicant to repeat its closing submission or present the submission it may have made, whether in its oral argument, or in its supporting written argument filed by the applicant.

With that brief reminder, the Board is adjourned until 9:00 a.m. on Wednesday, February 14th.

Thank you very much.

--- Upon adjourning at 3:44 p.m.

Certified Correct,

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Cheryl Lavigne, Ms.