MANITOBA PUBLIC UTILITIES BOARD

Re: MANITOBA HYDRO

2017/18 and 2018/19

GENERAL RATE APPLICATION

PUBLIC HEARING

Before Board Panel:

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

HELD AT:

Public Utilities Board

400, 330 Portage Avenue

Winnipeg, Manitoba

February 1st, 2018

Pages 7568 to 7794

APPEARANCES

Bob Peters	)Board Counsel
Dayna Steinfeld	)
Patti Ramage	)Manitoba Hydro
Odette Fernandes	)
Helga Van Iderstine (np)	)
Doug Bedford (np)	)
Marla Boyd	)
Matthew Ghikas (np)	)
Brent Czarnecki (np)	)
Byron Williams	)Consumers Coalition
Katrine Dilay	)
William Gange (np)	)GAC
Peter Miller	)
David Cordingley	)
Antoine Hacault	)MIPUG
George Orle (np)	)MKO
Senwung Luk (np)	) Assembly of
Corey Shefman (np)	) Manitoba Chiefs

LIST OF APPEARANCES (cont'd)

Kevin Williams		) Business Council
Douglas Finkbeiner		) of Manitoba
Daryl Ferguson	(np)	) City of Winnipeg
Christian Monnin	(np)	)General Service
		)Small, General
		)Service Medium
		)Customer Classes
William Haight	(np)	)Independent Expert
William Gardner	(np)	)Witnesses
Kimberley Gilson	(np)	)

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--- Upon Commencing at 10:32 a.m

THE CHAIRPERSON: Good morning, everyone. I note that we're into a new month. We're here for rebuttal evidence unless there's anything else to deal with. Ms. Ramage...?

MS. PATTI RAMAGE: The only thing to deal with is the rebuttal presentation and entering it as an exhibit. It should be identified as Manitoba Hydro Exhibit 135 and the attachment to it should be Manitoba Hydro 135-1 I'm advised by Mr. Simonsen.

Is that correct?

MR. KURT SIMONSEN: That's correct. Thank you.

--- EXHIBIT NO. MH-135: Manitoba Hydro rebuttal presentation

--- EXHIBIT NO. MH-135-1: Attachment to Rebuttal presentation

MS. PATTI RAMAGE: So, and with that, to simplify things, I am just simply going to turn it over to Mr. McCallum to walk through Manitoba Hydro's rebuttal evidence.

THE CHAIRPERSON: Thank you.

MANITOBA HYDRO - REBUTTAL PANEL

JAMES MCCALLUM, Previously Sworn

PRESENTATION:

MR. JAMES MCCALLUM: Thank you. Good morning, Panel, nice to be -- to be back again. If I could have the slide presentation turn to slide 2.

So what arose in the -- in the direct evidence of Morrison Park Associates back in the middle part of January was an analysis that we had not seen in their -- in their October report and, therefore, had not had an opportunity to ask questions on and -- and provide rebuttal to. So, we're -- we're grateful for the opportunity today to -- to put into the record what we would have done through that -- through that normal process.

And the analysis that Morrison Park produced was -- was designed -- it was an interesting analysis but it was really -- at least as we understood it, an effort to -- and I think a worthwhile effort actually to think about Manitoba Hydro as kind of two (2) separate companies. Taking all of the construction activity going on for Keeyask and Bipole III, and the other significant projects, and saying, look, we're going to debt fund all of that and we're going to put that to the side and now let's focus on the core operating company and see what's happening to its capitalization and its balance sheet.

Because that's where -- where this question of whether rates today, and in the recent past, have been sufficient to keep up with the expanding needs of the -- of kind of the core operation, which is a fundamental kind of plank to -- to Manitoba Hydro's case here is that -- is that they haven't.

And so this was -- it was an analysis I actually thought about. Before this hearing talked to my accounting team who -- who -- who got into the detail of how difficult it would really be to kind of, on a pro forma basis, separate the two (2) companies. So this is an illustrative exercise which I think Morrison Park would -- would acknowledge and we would -- we would concur, but there are some significant assumptions that you need to -- to put into the exercise to have any confidence in -- in the output and that's where we think Morrison Park, you know, candidly made some -- made some oversights.

So, Morrison Park's conclusion, which

I've put on the page here at the bottom in red font, because it was in red font in their presentation, was that:

> "The two (2) major projects have been 100 percent debt funded over the past five (5) years and while all other incremental spending, whether major or not, has been funded with approximately 73 percent debt and 27 percent customer contributions."

So the idea being that the customer contributions, or rates, have been maintaining the capital structure of Manitoba Hydro over the last five (5) years.

Turning to the next pag -- page -- slide, slide 3 please. This is a -- a, hopefully, faithful reproduction of -- of Morrison Park's methodology. We did cut out a few columns just to -- to simplify things. But this comes right out of Exhibit I think it's 45-1. And what they've done here just to -- to recap, because it's been a few weeks, is they restated Manitoba Hydro's results to adjust for this transition from IFRS -- sorry, from Canadian generally accounted -- generally accepted accounting principles to IFRS, which I think is a -- a reasonable and legitimate assumption to make; to do an apples-to-apples comparison.

And the principal adjustment that needed to be made was to adjust and add back a -- a deduction to equity that we now make on account of pension liability that's showing up in AOCI or other comprehensive income. And you can see that kind of down below as you go to 2015, '16 and '17 in the -- in the table below, you see adjusted net equity numbers where we've added back -- or -- or Morrison Park has added back, and we'd concur, you know, kind of in the order of four to $500 million of AOCI related to the pension liability.

What they've then also done is looked at our debt at the year end March 31st, 2017 of 15.4 billion which you see in the net debt column and said, while 6 1/2 billion dollars of that is tied to the major capital projects being Keeyask, Bipole, GNTL and the Minnesota -- Manitoba/Minnesota transmission project. And so we ought to, if we're going to do this analysis, to look at kind of what I'll -- I'll term sort of OPCO or operating company and its balance sheet. We ought to put that to the side.

And so that results in this very last

line, which I've circled, in kind of an adjusted pro forma net equity of $3.3 billion and an adjusted pro forma net debt of $9 billion. And if we compare that to where we were in 2012, we had 3.1 billion of equity and $8.7 billion of net debt. And you can kind of see that the equity ratio is, you know, more or less the same, or is actually by this analysis improved slightly.

And so the conclusion being that the customer rates have appropriately funded the customer's contribution to the ongoing growth of the business which is sort of perpetual just by virtue of the need to keep reinvesting in the Company, and that the assets that we need to put into the business today are -- are more expensive than the assets they're replacing. And this analysis is saying, well, the -- the customers are paying their -- their sort of share that to keep our balance sheet intact and where we want it around this, you know, 25 percent capitalization level.

So Manitoba Hydro does take -- take issue with -- with some pieces of the analysis. We feel that MPA's neglected to adjust for some pretty important facts which, when you -- when you make those adjustments change the conclusion that one should --

should draw from the analysis.

The first one, which would actually be -- be probably more favourable to -- to MPA's conclusion is that in our debt is $400 million that we borrowed to advance Conawapa; that's in our March 31st, 2017 debt. So if we're going to take out the debt associated with the capital projects, we think we should probably take that debt out too because that's not -- you know, that's part of the -- the -- the development as opposed to the -- the current operation.

Next we have the Bipole deferred revenues. The MPA analysis leaves inside OPCO, as I'm calling it, the $200 million that we have collected from our customers and deferred into the Bipole III reserve account; that shows up in both the way we calculate equity and the way -- and it is a reduction to our debt. If we hadn't had those funds we would've had to borrow more.

So I think leaving that -- we have to adjust both sides. We have to add that back to the debt. We have to reduce it from the equity. If we hadn't been building Bipole or hadn't been building Keeyask, but principally Bipole, presumably we would not have been assigning rates to -- to plan for that transition into our system. And -- and, you know, the idea here is to imagine you weren't building these major projects, what would you look like?

The next one is a wind farm loan receivables. So -- so well before 2012. I'd -- I'd have to go check the exact year, I apologize, but Manitoba Hydro made a $250 million investment -- debt investment -- debt funded investment to -- to assist the wind farm project. And so that in -- in our starting point debt in 2012, we would had an extra 250 million of debt and we got repay that debt in 2015.

So, again, if you're trying to look at a beginning point and an endpoint and understand the change in your debt, you need to add that back, because that's not connected to the operation and the starting debt would've been -- would've been inflated effectively for having made that investment and -- and -- and so the differential would then be understated.

The next one I believe Mr. Cathcart, to my right, has his hands around this one. And I -- I hope, not being an accountant, to have to get into this too far, but we've at -- at a few points made fleeting reference to there's a -- there's a what I'll call -- and if I had an accounting designation I'd have to rip it up -- but call a phenomenon really associated with Bipole III and the way that the capitalized interest flows through our -- our financials.

But if we weren't doing Bipole III, we wouldn't be capitalizing interest on Bipole III, of course. But this OPCP analysis that -- that Morrison Park has produced doesn't take into account that we have had, in the last several years, a positive net income contribution from having capitalized to Bipole interest at a higher rate than we are actually borrowing those new funds to -- to advance the project.

And so I -- if there's questions on this, I'm happy to entertain them, but it's -- it's really the point there's -- there's -- if we weren't doing this, we wouldn't have had the income contribution from -- from this -- this sort of the side-effect of accounting policy. And so we need to adjust for that.

The next one I think is important because the question here is: Are the rates, were the rates being set to -- to provide for Manitoba Hydro's customers to be making contributions to net income that resulted in -- in the maintenance of -- of Manitoba Hydro's capital structure? And this is the contribution from high water. We've had high water for fourteen (14) straight years, as we know; that would be all five (5) years in this analysis. I -- I don't have at hand -- I haven't had somebody do the analysis to calculate what the impact of high water was to the 2012 and 2013 and 2014 results, but, we did do that analysis and have that in evidence for 2015, 2016 and 2017. And its substantial. It's a $220 million tailwind that's gone into equity and gone to -- to abey or avoid debt.

And we think you need to adjust for that if you are going to truly look at whether the Manitoba ratepayer has been paying for the contributions to the system because we don't believe you can set rates based on the assumption of high water, but we got highwater, it's great. It's -- it's -- I'm not arguing it isn't real. I'm not arguing it, you know, isn't in our balance sheet, of course, it is but if we're evaluating whether the rates have been appropriate, the work of the equity contribution has been -- has been completed by the ratepayer in conjunction with highwater. And we're asking the question of: What has the ratepayer added? So I think you need to adjust this out.

And then there's just a little one

we're trying to get to operations and the sufficiency of rates. We had a little windfall last year where we sold -- this was a popular story in the media, we sold some spare land, land we acquired in -- in 1930 for -- for about $27 and we sold it for 20 million. The first question I asked as the CFO was whether we had more land we could sell but this was a bit of a windfall. It's a minor issue, but for completeness, we think you -- you should -- should adjust that out too.

So when you -- you tally that all -- and I just add -- and I'll -- I'll get to the tally on the next page here, but when you -- there's -- as I said, I mean, my -- my -- my accounting staff when I suggested this idea to them months ago got very excited about the level of detail. There's a lot that -- this is illustrative and -- and -- and our reason for rebutting it is the illustration was getting to the wrong conclusion, but the -- which we didn't have a chance to challenge.

The -- you know, there's stuff that's not in this. There's complications when you try and think about separating into two (2) companies, effectively, what goes on as an integrated business. But we haven't -- you know, there's -- there's the --

the -- the value of -- of -- of cash and paying down debt and avoiding debt is interest, interest savings, and that's not an additional factor in here. If we'd, you know, by virtue of having the Bipole III reserve cash, we've avoided interest cost by virtue of getting repaid the -- the wind farm loan. We've avoided interest cost. None of that is in that -- in this analysis which would be not immaterial additional addbacks to it.

So, turning to page 5, if I could Kristen, the starting point to Morrison Park's analysis is also incorrect. Remember we're -- we're looking here at a relative question. How much has debt increased and how much has equity changed between 2012 and 2027, exempting the major capital projects?

Well, at the end of 2012, inclusive of Conawapa, we had already invested the better part of $900 million in the -- in Conawapa, Keeyask and Bipole III. So in -- in the starting point debt in 2012 that Morrison Park is working from, there's $900 million in that that -- that is -- that is -- belongs to this capital company. This entirely debt funded capital company. So, that's materially understating the differential looking point-to-point and that's a really important adjustment to make.

And when you do that, the starting point of the equity doesn't change at 3.1 billion. If you look back to -- to Morrison Park's analysis of the 2012 levels but the starting point debt drops from 8.7 to 7.8 billion, and that's the number we need to compare to, in terms of where the debt is today.

So on page 6 we've kind of brought this altogether into what we'll call, anyway, the -- a corrected analysis. And you can see the first line here is what Morrison Park would've put forward as their 2017 adjusted kind of picture of where this -- this OPCO capitalization was 3. -- just under $3.3 billion of -- of equity, 9 billion of debt resulting in a -- call it a 27 to 73 equity-to-debt ratio; 73/27 if you prefer the other way.

Then we've got all the adjustments we just talked about which -- which we think are -- are -- are reasonable and appropriate, but they reduce the equity by $500 million and they increase the debt by four -- almost $400 million.

So the -- the truer picture we think of the -- of the OPCO equ -- OPCO capitalization at March 31st, 2017 is $2.8 billion of equity and $9.3 billion of debt, which would be a 23 percent equity picture. When you also go back and adjust our starting point

2012, principally for -- for removing this $900 million of debt attributable to the major projects, you have a $3.1 billion equity component and a $7.8 billion debt component.

So your starting point equity ratio is 28 1/2 percent. So, when you look at 28 percent -- 28 1/2 percent in 2012 to 23.1 percent today, you've seen a 5.4 percent erosion in the equity driven by, in our minds, rate insufficiency. Rates not keeping up with customer contributions to -- to the funding needs of the Corporation.

And what does that kind of ratio means? Well, it means that in aggregate to move that back to -- to -- to no change from 2012, you would've needed another $450 million of rate revenue over that five (5) years, which is in the order just to -- to simple average it of $90 million a year; a little less because you'd pick up some interest savings from having had that additional rate. But $90 million against a billion for -- of average, you know, domestic rate revenue is kind of -- means your rates were in the order of 6 percent low through the piece.

So, that kind of concludes my -- my remarks. I maybe apologize for all the fanfare of getting everybody together for ten (10) minutes but --

but, obviously, welcome questions and cross-examine.

THE CHAIRPERSON: Thank you, Mr. McCallum. Did you want to -- were you planning to refer to this document at all? I know we received this one as well and -- and I don't know if it's simply to show it -- how it looks on the spreadsheet or if you actually wanted to make comments to --

MR. JAMES MCCALLUM: No, I have no comments. We provided it as backup. It was really a -- a -- a replication of -- of the initial Morrison Park analysis, which was attached to their presentation as Exhibit 45-1, I believe, and we just wanted to kind of provide that consistency so people could follow along the analysis.

THE CHAIRPERSON: Thank you. Dr. Williams...?

DR. BYRON WILLIAMS: I believe My Friend M. Hacault will -- will start off. I may have a few questions afterwards. Oops, Mr. Peters, I -- I --

THE CHAIRPERSON: Oh, Mr. Peters?

MR. BYRON WILLIAMS: I guess we should --

MR. BOB PETERS: That's not the first time Dr. Williams has ignored me. I have a few questions of Mr. McCallum if he's prepared to -- to stay with us.

CROSS-EXAMINATION BY MR. BOB PETERS:

MR. BOB PETERS: Let's stay with Mr. McCallum's last slide, please, slide 6. I heard all of your qualifications, Mr. McCallum, about this being in an illustrative analysis. So, I want to -- I want to make sure that we understand that, but does your last conclusion indicate that, from your current chair, Manitoba Hydro's rate increase requests in the past have been insufficient?

MR. JAMES MCCALLUM: That is my perspective, yes.

MR. BOB PETERS: And that wasn't the perspective from those who occupied your chair previously.

Do you accept that?

MR. JAMES MCCALLUM: I accept the record that's in evidence, yes.

MR. BOB PETERS: And if it was 6 1/2 percent of a -- of a rate increase shortfall, does that translate to roughly 1 1/2 percent per year, or thereabouts?

MR. JAMES MCCALLUM: Well and I

haven't done that analysis. No, it would not be that high. You'd need to figure out the compounding that builds up to there but it would be 1, 1 1/4 call it, something like that.

MR. BOB PETERS: So in the neighbourhood of 1 percent a year more should have been sought if Manitoba Hydro was to use this type of analysis to support its rate case?

MR. JAMES MCCALLUM: Solely this, which is not our -- our -- not my argument here today. I'm just --

MR. BOB PETERS: Your argument here today, and I thank you for that, is simply to say, Mr. Colaiacovo had one view of an analysis; Manitoba Hydro has a different view of that analysis?

MR. JAMES MCCALLUM: Well, that -- that -- that's exactly right and -- and the reason this was important to us, candidly, is that one (1) of our fundamental arguments here, and I'm very cautious about not trying to make argument today, but -- but -- but is that the rates today have been inadequate.

And so it was important to take an analysis that said, well, the rates have been adequate and say, no, we -- we disagree.

MR. BOB PETERS: Mr. McCallum, I know

you don't wear an accounting designation but is there an accounting standard as to the only way to calculate the debt/equity ratio?

MR. JAMES MCCALLUM: Subject to check, no, I don't believe so. I think it's -- the debt/equity ratio is not in an IFRS ordained metric. It's a conventional financial analysis which means -- and I've mentioned this to Madam Vice Chair Kapitany a few times that there -- there is a -- financial ratios are a little bit like Baskin-Robbins, there's -- there's a lot of flavours.

MR. BOB PETERS: I like the analogy. Maybe I could have PUB minimum filing requirement 17 put up on the screen for you, Mr. McCallum, and as this is -- page 2 of 5 of MFR-17.

Manitoba Hydro provided the Board and the parties with their debt ratio calculations.

Do you have a recollection of that, sir?

MR. JAMES MCCALLUM: Yes, I've seen this before.

MR. BOB PETERS: And -- and what I should caution you and all others watching is that this is not the revised version that has subsequently been filed by Manitoba Hydro, but the reason I posted this version is that it contains the historic record, going back to 2012.

Do you see that?

MR. JAMES MCCALLUM: I do.

MR. BOB PETERS: And when you say that there are a variety of ways to calculate debt/equity ratios, this is the ratio that Manitoba Hydro uses; correct?

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

MR. BOB PETERS: And the formula is set out and it comes out into the column on the far right?

MR. JAMES MCCALLUM: That's right.

MR. BOB PETERS: Are you able to tell the Board whether other Utilities use the same methodology of calculating their debt-to-equity ratio?

MR. JAMES MCCALLUM: I am not.

MR. BOB PETERS: Are you able to tell the Board whether other Utilities reporting to debt rating agencies use the same methodology as Manitoba Hydro?

MR. JAMES MCCALLUM: I cannot. We can certainly undertake to get back to you on that. I think the key issue at question is probably one of whether other Utilities deduct for AOCI, accumulated other comprehensive income, as a charge or -- or add back, if it's positive, to equity.

And our understanding or my understanding would be that -- not unanimously, but other -- other Utilities, other certainly Crown Utilities in Canada, do make the same adjustment we do in calculating their equity ratio.

MR. BOB PETERS: One (1) of your -- I haven't asked for it. If Mr. McCallum's going to do that work that will be on him to decide and his lawyers and I don't get along well on undertakings so I'm going to -- I'll stay away from that.

Mr. McCallum, one (1) of your concerns in your slide deck with the Morrison Park methodology -- and maybe we can start -- if we have the Morrison Park slide presentation that was made by Mr. Colaiacovo, and I apologize, I don't know the number. Slide number 17, please.

(BRIEF PAUSE)

MR. BOB PETERS: What I -- yes, Consumer Coalition Exhibit 45.

The very first bullet, Mr. McCallum,

was the Morrison Park Advisors indicating that as a starting point Manitoba Hydro's debt/equity ratio after -- on March 31st of 2012 was a ratio of 74 percent debt, and it would been 26 percent equity.

Do you see that?

MR. JAMES MCCALLUM: I do see that, yes.

MR. BOB PETERS: And I took from the comments that you made in your slide presentation that you don't agree that that's the right number as a starting point?

MR. JAMES MCCALLUM: Well, I believe what is being reported here is the actual consolidated -- or sorry, electric statement -- electric operations, pardon me, equity ratio or -- or they've expressed it as -- as the debt ratio, which is fine.

This is before any -- any adjustment. So I don't have any -- any quibble with what has pres -- been presented here but when you go to saying how has the debt changed? If you pull out the capital projects then I would say you'd best -- if you want to do that analysis, you have to pull out the capital projects from both sides of the -- of the equation. You have to pull it out of 2017, which they've done, but you also need to pull it out of 2012.

So our debt ratio there of 74 percent in 2012 reflected having spent $900 million of debt financed investment in Conawapa, Keeyask and the Bipole III reliability project.

MR. BOB PETERS: And so -- what the point I was getting at is Manitoba Hydro says that if there was debt on its books related to those major new projects, it should have been removed if you're doing this analysis for comparative purposes?

MR. JAMES MCCALLUM: For comparative purposes, correct.

MR. BOB PETERS: And it -- Morrison Park Advi -- Advisors didn't do that, so Manitoba Hydro is suggesting that would be a worthwhile revision?

MR. JAMES MCCALLUM: That's correct. It overstates --

MR. BOB PETERS: And --

MR. JAMES MCCALLUM: -- the conclusion without having done that adjustment.

MR. BOB PETERS: And in -- in 2012, Manitoba Hydro started making accounting changes to institute policies that were consistent with international financial reporting standards.

Is that correct?

MR. JAMES MCCALLUM: I can't speak to the timing, but clearly, over this period from 2012 to 2017, we've transitioned to IFRS.

MR. BOB PETERS: And on minimum filing requirement 100 filed in these proceedings -- that's MFR-100, page 6 of 8, we see in the paragraph above the chart, words to the effect that in Manitoba Hydro's transition, $62 million annually has been taken out of capitalized overheads and has been brought into the operating and administrative expenses on the income statement, correct?

MR. JAMES MCCALLUM: I -- I did not familiarize myself with this MFR before today, but I -- I accept that that's what it says there.

MR. BOB PETERS: All right. And if -- if there's any additional information comes to light after these questions, Mr. McCallum, that can assist the panel, please make sure through your counsel you -- you provide that.

But my -- my point is in addition to the 62 million, I think if we scroll further, we see that an additional -- on the next page, there was an additional $57 million identified by Manitoba Hydro that Manitoba Hydro wanted to take out of its capitalized overheads and bring into the income statement. Would you accept that?

MR. JAMES MCCALLUM: Subject to check, sure.

MR. BOB PETERS: And of that 57 million, this Board only allowed $37 million to come over to the -- to the operating statement, and that gives rise to the oft-debated $20 million of -- of capital -- capitalized overheads that hasn't been permitted to come to the income statement?

MR. JAMES MCCALLUM: I'll accept that, sure.

MR. BOB PETERS: All right. So if we take the 62 million and the 37 million, that's an additional $99 million of accounting changes that have resulted in higher rate increases, correct?

MR. JAMES MCCALLUM: I'm -- maybe -- I'm not in a position to --

MR. BOB PETERS: Let me -- let me ask it this way. That $99 million of adjustments has flow-through to net income, whereas previously, it -- it did not?

MR. JAMES MCCALLUM: Subject to check, I'll accept that, but.

MR. BOB PETERS: Did Manitoba Hydro's analysis consider this extra $99 million, and how it should be treated?

MR. JAMES MCCALLUM: No. Our analysis was to take Morrison Park's position and adjust it for -- for clear mistakes. And Morrison Park went through an effort to -- to restate our to -- to try and the -- the accounting standard they've chosen is adjusted, which is an effort to restate our current IFRS equity back to -- to Canadian gap equity through an adjustment to AOCI.

MR. BOB PETERS: And -- and Manitoba Hydro, I understood from your presentation, agrees with that?

MR. JAMES MCCALLUM: I think for an indicative analysis, it's an appropriate adjustment, correct.

MR. BOB PETERS: And on Morrison Park slide deck -- I believe it was Consumers 45 exhibit -- we see on the dash -- just at the middle of the -- sorry, on page 18, please. We see just above the second bullet that the pension adjustment to the accumulated other comprehensive income alone moves the ratio by 2 to 3 percent, depending on the year. Do -- does the Board understand you to be agreeing with -- with that statement?

MR. JAMES MCCALLUM: I think that's

just a -- a mathematical conclusion. I think what we've -- what Morrison Park has done, and we've maintained is -- is an apples to apples comparison of the -- the treatment of this AOCI account. And so if the analysis is -- the analysis is an analysis of -- of relativity, what has happened from 2012 to 2017. And so this, you know, adjustment has been -- has been effectively neutered. It's taken out of both sides.

MR. BOB PETERS: Yes, thank you, Mr. McCallum. Does Manitoba Hydro expect ratepayers to pay the cost of new assets before those assets come into service?

MR. JAMES MCCALLUM: I think that -- I'm not sure this isn't off-topic, Mr. Peters, but -- but I think that you need to look at -- I mean, you're getting at this -- this regulatory principle of used and useful. And this is exactly what I was properly chastised by the Chair for -- for not leaving to final argument.

MR. BOB PETERS: Well, you're reading too much into the question, if I could interrupt you on it. What I'm -- what I'm coming at is, is it appropriate for Manitoba Hydro to consider these major new generating and transmission assets to be financed 100 percent by debt?

MR. JAMES MCCALLUM: As a prudent financial planning matter, no, I don't believe so. I think there should be, and I think the Board has endorsed, via the creation of the Bipole III reserve account, the appropriateness of -- of collecting contributions while these projects are -- are in-flight to avoid very sig -- significant disruption when, you know, kind of with the flip of a switch, we double the asset base and double our carrying costs.

MR. BOB PETERS: Prior to the Bipole III deferral account, Mr. McCallum, has there been other pre-funding of major assets sought by Manitoba Hydro?

MR. JAMES MCCALLUM: I'm not aware of anything, but I -- I certainly am not in a position to -- to provide that history.

(BRIEF PAUSE)

MR. BOB PETERS: I wanted to understand your suggested revision to the Morrison Park methodology, or analysis respecting the Bipole III deferral account, Mr. McCallum. As a starting point, the Bipole III deferral account is contained in the equity portion of Manitoba Hydro's current financial statements. Would that be true?

MR. JAMES MCCALLUM: Yes, that's correct. We -- we count in our equity calculation the -- even though we have not recognized that revenue -- we have not recognized those customer rate contributions in our revenue, and therefore not in our historical net income, we still recognize that it's -- it -- it -- we will be doing so once the project comes on -- on-stream, and we begin amortizing that deferral account.

And so in calculating our equity, we believe that should be a positive addition. And so -- so we add that back to -- to retained earnings and -- and other adjustments in coming up with our -- our equity.

And likewise, the Bipole III reserve account is not a -- a funded trust account that sits at -- there's not a bank account at Manitoba Hydro that has 200 and -- and now, you know, well over 300 million, I believe, in -- in Bipole III contributions. It's just gone into general -- general cash, meaning we have not borrowed 200 million at March 31st, 2017, because we had the cash from these customer contributions. It hasn't been segregated and held off, you know, only to be used once Bipole is in service, next, you know, in six (6) months.

MR. BOB PETERS: So, Mr. McCallum, help me understand, then, the Manitoba Hydro adjustment for the Bipole III deferral account is to suggest that that $200 million approximately be added back on the debt side of the ledger?

MR. JAMES MCCALLUM: That's correct.

MR. BOB PETERS: And basically saying, If Manitoba Hydro didn't have that Bipole III deferral account, it would have had to gone out and borrow that -- that money?

MR. JAMES MCCALLUM: If we didn't have those contributions from customers to -- to effectively partially assist with the -- the funding of -- of the Bipole III project, then, you know, we would have to borrow additional money to run our core operation.

MR. BOB PETERS: You will acknowledge that there's approximately -- I'm going to say 11, 11 1/2, to 12 percent of rates that contribute revenues to this Bipole III deferral account?

MR. JAMES MCCALLUM: Yes.

MR. BOB PETERS: And in 2018, that Bipole III deferral account and all the revenue that's associated with that will, for the first year, flow into the net income of the Corporation?

MR. JAMES MCCALLUM: Subject to -- to a -- some direction on the amortization period to apply, but yes, that's correct. We have assumed in our financial forecast we amortize the balance over five (5) years.

MR. BOB PETERS: But leaving aside the accumulated amount that's in the --

MR. JAMES MCCALLUM: Pard -- pardon me, Mr. Peters. You're absolutely right. The rate portion will start flowing into revenue. I was -- I -- I was on a different track.

MR. BOB PETERS: All right. Well, let's try to stay on the same track.

MR. JAMES MCCALLUM: Perhaps the track you're about to get on.

MR. BOB PETERS: Thank you, sir, The -- in addition to the 11 1/2 percent rate increases that this Board has approved that have flowed into the Bipole III deferral account, you've pointed out that Manitoba Hydro has approximately $300 million that's going to have to be spread out in terms of being given back to the consumers to amortize it in the rates going forward?

MR. JAMES MCCALLUM: I -- subject to

check, I -- I just -- the three hundred (300) is a bit higher, but I'm going by recollection. I believe it will be almost 400 million when Bipole comes in service, but that's subject to check. I don't know that I'd agree with the characterization of giving it back to consumers.

What we will do is -- is begin recognizing cash -- cash receipt that we've received over the last three (3) or four (4) years. We'll begin recognizing that in our financial results. It will not affect our -- our equity in that we will be -- we're already recognizing this in our equity. We will be reducing the -- the Bipole III reserve account and increasing our income by virtue of amortizing the -- the reserve, and the two (2) will -- will wash. The -- the -- the amortization of the Bipole III reserve will not add anything to our equity ratio going forward.

MR. BOB PETERS: I thank you. Your last point is where I was headed was that it -- it is a wash. It balances out the fact that Manitoba Hydro has used the money to now is one (1) issue, but it will now be reflected back through the operating statement --

MR. JAMES MCCALLUM: That's right.

MR. BOB PETERS: -- and so that it doesn't affect the equity of the Corporation at all?

MR. JAMES MCCALLUM: It does not.

MR. BOB PETERS: All right.

MR. JAMES MCCALLUM: Not -- not in isolation.

MR. BOB PETERS: I think we're on the same page, there. In terms of capitalized interest, Mr. McCallum, the interest is capitalized and is on the balance sheet, included long-term debt?

MR. JAMES MCCALLUM: The capitalized interest isn't -- well, no, capitalized interest shows up in -- in the property --

MR. BOB PETERS: Property, plant --

MR. JAMES MCCALLUM: -- plant, and equipment line, yeah. It's not in addition to our debt. Our debt is -- is the cash liability. It's what we owe our lenders. We -- we make accruals between, you know, quarterly or semiannual interest payments for, you know, month-to-month that -- that, you know, we -- we pay semiannually, but -- but the capitalized interest portion where we are reducing our finance expense on the income statement by virtue of the interest that we are tagging to these major projects, or all projects, shows up in a higher PPE, property, plant, and equipment balance.

MR. BOB PETERS: More accurately, it shows up in the --

MR. JAMES MCCALLUM: Construction work in --

MR. BOB PETERS: Construction and --

MR. JAMES MCCALLUM: -- in process, yes.

MR. BOB PETERS: Thank you, sir.

(BRIEF PAUSE)

MR. BOB PETERS: In terms of that loan for the wind farm that you mentioned, Manitoba Hydro, in this calculation, Mr. McCallum, is saying if Manitoba Hydro hadn't loaned out that money, it would be $250 million stronger?

MR. JAMES MCCALLUM: No, not exactly. We -- the -- the -- again, the analysis is comparing 2012 debt level to 2017 debt level and saying, What has been the change in debt? How much more in debt is this -- is this kind of notional operating company? And so the 2012 debt level reflected having borrowed $250 million to -- to invested it in -- in -- to loan it to the wind farm operation. And then in 2015, we got paid back.

And so your -- your 2012 starting balance reflects having made this investment. Your 2017 balance has -- reflects having review -- you have a timing issue.

MR. BOB PETERS: So you could have deducted it --

MR. JAMES MCCALLUM: But the only --

MR. BOB PETERS: -- in one (1) side, or added it on the other side?

MR. JAMES MCCALLUM: I -- I could have just as easily --

MR. BOB PETERS: All right.

MR. JAMES MCCALLUM: -- deducted it from the 2012 starting point.

MR. BOB PETERS: Okay. I've got that point. And in terms of the high water levels -- I'm not sure I need Mr. Cormie for this, but you're saying that the adjustment under the Manitoba Hydro methodology is to add $220 million -- or to recognize a $220 million has gone into -- into the equity side of the equation used by Morrison Park Advisors?

MR. JAMES MCCALLUM: That -- that's right. We -- we've produced evidence that -- that the last three (3) years of net income have effectively been -- been entirely, if not more than, produced by -- by the positive impact of high water flows.

MR. BOB PETERS: And do you accept the view that if Manitoba Hydro had low water flows, the rate in -- the rate increase request before this Board would have been different than what Manitoba Hydro filed?

MR. JAMES MCCALLUM: Well, I -- I don't know that I can -- I can speak to that. I think the idea of rate setting out to be to target what rates ought to be to -- to cover costs and -- and make whatever allocation to reserves you feel is appropriate with the -- the basic assumption that you have normal water. So we -- we can't predict it. It's entirely beyond our control.

So if I'm looking back, and which I think this analysis does, and says, Did -- would my rates have been sufficient with the rates I asked for, and the -- ultimately, the rates that got approved and implemented? And really, over these three (3) years, almost all of these rates ended up being ascribed to the -- to the Bipole III reserve, in any event. But were they sufficient? I would say that -- that we need to -- we need to break down the work being done by the impact of water from the work being done by the impact of rate.

MR. BOB PETERS: Should there be adjustments in these analyses that both Manitoba Hydro and Morrison Park have done for lower than forecast interest rates? Should we start getting into some of the other operating statement adjustments?

MR. JAMES MCCALLUM: No. I would say that the impact of lower -- one (1) of -- one (1) of the issues here, Mr. Peters, is when to stop, right? This is an illustrative example. We thought there were some pretty obvious misses that needed to be -- and -- and ultimately, it's the conclusion we take the most issue with and had no chance to -- to rebut on.

MR. BOB PETERS: So in terms of where to stop, Mr. McCallum --

MR. JAMES MCCALLUM: The bulk -- the bulk of -- bulk of the benefit of declining interest rates is accrued to the capital projects. I mean, we are, in our view, borrowing to fund the core operation. However, I mean, the vast preponderance of our borrowing is on account of the major projects. And so the benefit of interest rates having gone below where we forecast them to has accrued to the projects --

MR. BOB PETERS: And so Morrison

Parks' --

MR. JAMES MCCALLUM: -- if you will.

MR. BOB PETERS: I'm sorry. Morrison Parks' analysis only isolated the capital and accounting factors. And with this adjustment to water, Manitoba Hydro has adjusted for actual operating conditions, correct?

MR. JAMES MCCALLUM: It's pretty material.

MR. BOB PETERS: So the answer is yes?

MR. JAMES MCCALLUM: The answer is yes.

MR. BOB PETERS: All right. Thank you. With that answer, Mr. Chair, I'd like to thank Mr. McCallum for his cameo appearance, and I have no further questions.

THE CHAIRPERSON: Thank you. Thank you, Mr. Peters. M. Hacault...?

CROSS-EXAMINATION BY MR. ANTOINE HACAULT:

MR. ANTOINE HACAULT: Yes. Good morning, all. Good morning, Mr. McCallum.

MR. JAMES MCCALLUM: Good morning.

MR. ANTOINE HACAULT: Mr. Chair, this is more kind of a housekeeping matter. We had the three (3) responses that we needed to provide by way of undertakings of the -- the panel, and we had distributed those that this morning when we arrived to Mr. Simonsen. There may be one (1) additional document that may need a number, and I'm scared that if I don't deal with my preliminary matters, and --

THE CHAIRPERSON: Yeah. Why don't you put them into the record --

MR. ANTOINE HACAULT: Okay.

THE CHAIRPERSON: -- and then we can -- we can proceed.

MR. ANTOINE HACAULT: So the first one which will be distributed was a subject to check response found at transcript pages 6,298 to 6,302 and again, pages 6,323 to 6,324. And we propose to have the response marked as Exhibit 29.

--- EXHIBIT NO. MIPUG-29: Subject to check response found at transcript pages 6,298 to 6,302 and 6,323 to 6,324. 2013 Electric Load Forecast.

MR. KURT SIMONSEN: Thank you.

MR. ANTOINE HACAULT: The next one (1)

was undertaking -- recorded as an Undertaking 65 at transcript pages 6459 to 6465. And we'd propose to have that marked as Exhibit MIPUG-30.

MR. KURT SIMONSEN: Thank you.

--- EXHIBIT NO. MIPUG-30: MIPUG response to
Undertaking Number 65 -
Water Rentals

MR. ANTOINE HACAULT: And the last one (1) was an undertaking at transcript pages 6469 to 6470. And we propose to have that marked as Exhibit MIPUG-31.

MR. KURT SIMONSEN: Thank you.

--- EXHIBIT NO. MIPUG-31: Unit Costs of Hydro
Domestic System -
Transcript page 6469-6470.

MR. KURT SIMONSEN: The panel as all those copies, too, by the way, Mr. Hacault.

MS. PATTI RAMAGE: Mr. Hacault, have those been distributed electronically?

MR. KURT SIMONSEN: We don't have them electronically, I don't think, as of yet.

(BRIEF PAUSE)

CONTINUED BY MR. ANTOINE HACAULT:

MR. ANTOINE HACAULT: The first document I'd like to bring you back to, Mr. McCallum, which is, I understand, to a large extent the source of all the numbers that have been put on the record this morning is the consolidated financial statements for the year ending March 31, 2017, which at page 47 of the annual report has the management report with two (2) signatures at the bottom, being those of Kelvin Shepherd and yourself, sir.

Is that correct?

MR. JAMES MCCALLUM: That is my signature, yeah.

MR. ANTOINE HACAULT: And I take it that given this is an audited report there would've been the standard audit assurances from management, including that the financial statements are fairly presented in accordance with international financial reporting standards; correct?

MR. JAMES MCCALLUM: Correct.

MR. ANTOINE HACAULT: Okay. And at page 51 of those consolidated financial statements, there is a heading under long-term debt. And the heading is "deferred revenue."

Do you see that heading, sir?

MR. JAMES MCCALLUM: Yes, I do.

MR. ANTOINE HACAULT: And that item is an item which is distinct from and separate from the calculation of equity, which is found below that; correct?

MR. JAMES MCCALLUM: For IFRS presentation, that's correct.

MR. ANTOINE HACAULT: Okay. And the reason I'm asking that, sir, is I understood your answer to Mr. Peters just a while ago that Bipole III was included in the equity calculation on your financial statements. Now, if we go to note 26, which is --

MR. JAMES MCCALLUM: Is -- is that a question, Mr. Hacault?

MR. ANTOINE HACAULT: It's a preface to bring it to the question.

MR. JAMES MCCALLUM: Okay. Because I think we should clar -- the financial statements, I don't believe, reference an equity ratio. Our financial reporting certainly does. And perhaps I -- I was not quick enough to correct Mr. Peters on that nuance.

MR. ANTOINE HACAULT: Okay. So just for clarification then of the record, if we go to note 26 which explains what the deferred revenue line is, and that explanation is found at page 84 of this document. If we go to the bottom of that page we'll see note 26. We're now -- and the second line, and will see this number in the spreadsheet that's been produced this morning as Manitoba Hydro Exhibit 135-1.

We will see the number Bipole III contribution at $196 million; correct?

MR. JAMES MCCALLUM: Correct.

MR. ANTOINE HACAULT: Now, I would like to just make sure that we're ad idem. And Mr. Peters referenced you to the utility's calculation on the metric of long-term -- of debt equity, and it went to two (2) -- the year 2016. The more current one (1) I have is PUB/Manitoba-Round 1-33.

And what I'd like to do, sir, is by looking at this Manitoba Hydro document is to determine whether or not the numbers on Manitoba Hydro Exhibit 135-1, at the line where it talks the year 2017, are in fact numbers that were produced and replicated from Manitoba Hydro's own document. So if we go to the top line, which is Manitoba Hydro's document under the heading 'A' for apple, and on the left-hand side the year 2017, we see the retained earnings number of two billion eight hundred and ninety-nine dollars (2,000,000,899); correct?

MR. JAMES MCCALLUM: Those are in millions, but yes.

MR. ANTOINE HACAULT: And that same number -- I don't know if we can zoom in a little bit on the bottom exhibit that was filed this morning -- we see that same number being reproduced under the first column of Exhibit 135-1; correct?

MR. JAMES MCCALLUM: Correct.

MR. ANTOINE HACAULT: And if we continue going towards the right, in both documents at the year 2017, would you agree with me, sir, that up to and including the line that talks about the sinking fund investments, and including the short-term investments, the numbers are replicated exactly from Manitoba Hydro's document?

MR. JAMES MCCALLUM: I subject to check will accept that. I, to be candid, didn't check your consultants' work to make sure they'd drawn from the source document. I used their work and adjusted from there.

MR. ANTOINE HACAULT: Okay. But I just wanted to clarify for the record that, subject to check as you've indicated, the numbers on the table which is -- is before us and marked as Exhibit 135-1 are identical to Manitoba Hydro's numbers, starting from column A to and including column N as in Norman for the year 2017.

MR. JAMES MCCALLUM: I mean, I'll accept that. I haven't reviewed every number but it looks to be fairly -- a fairly accurate reproduction.

MR. ANTOINE HACAULT: Okay. Thank you, sir.

(BRIEF PAUSE)

MR. ANTOINE HACAULT: Now, sir the debt equity ratio for the year 2017 under Manitoba Hydro's metric in its Round 1 Interrogatory Response Number 33 shows a debt ratio of point-eight-five (.85); correct?

MR. JAMES MCCALLUM: Pardon me, Mr. Hacault. For which year?

MR. ANTOINE HACAULT: 2017.

MR. JAMES MCCALLUM: I see that.

MR. ANTOINE HACAULT: Okay. And these are all numbers which are taken from the audited financial statement data that lead to the financial statements which you signed and which we initially started with; correct?

MR. JAMES MCCALLUM: These are a -- these are drawn from the unaudited electric segment results. We don't have a separate audit on the electric segment results, but these would be figures that would be a part of the consolidated accounts Manitoba Hydro.

MR. ANTOINE HACAULT: Are you saying they aren't accurate?

MR. JAMES MCCALLUM: Mr. Hacault, of course I'm not saying that.

MR. ANTOINE HACAULT: Okay. So they can be relied on?

MR. JAMES MCCALLUM: I think that's fair.

MR. ANTOINE HACAULT: Okay. Now, sir, if I were to ignore all of the discussion you were having with Mr. Peters on adjustments for IFRS and CGAAP, and focused only on taking out the capital costs using Manitoba Hydro's own numbers and IFRS, would it be appropriate to start with the net equity that's shown on the bottom of -- the bottom right-hand side for the year 2012 of Exhibit 135-1, which is $2.816 billion?

MR. JAMES MCCALLUM: I thought I'd understood you to say, 2012 where I see three-point-one-o-two (3.102).

MR. ANTOINE HACAULT: No, 2017.

MR. JAMES MCCALLUM: I see two-point-eight-one-six (2.816) for 2017, yes.

MR. ANTOINE HACAULT: Yeah. So that would be an appropriate number to start with, sir?

MR. JAMES MCCALLUM: It depends on where you're going after you start, but that's what the number on the page is, yes.

MR. ANTOINE HACAULT: And the number as far as the net debt, which is the next one (1), and it's at the extreme bottom right-hand corner for the year 2017, we have 15 billion 444 million; correct?

MR. JAMES MCCALLUM: I see that.

MR. ANTOINE HACAULT: Okay. Perhaps so that we can follow, sir, as to what I'm going to be going through without doing any adjustments for accounting, is I'd proposed to give you just, like, something that'll help you follow my numbers.

Is -- is that acceptable to just have a spreadsheet, subject to...

MR. JAMES MCCALLUM: I don't know how to respond to that.

MR. ANTOINE HACAULT: Okay. I'm just going to take him through the numbers on capital cost because those, I don't think, are clearly on the record and where they were taken. And they are all taken from Manitoba Hydro documents. If you have any objection at any point in time, you can let me know.

MS. PATTI RAMAGE: I'm not sure how to respond. We haven't looked at this.

THE CHAIRPERSON: Mr. Hacault, are you referring to a specific document? I mean, if -- if it's Manitoba Hydro's numbers for capital cost, I would assume they're on the record.

MR. ANTOINE HACAULT: Yes, it's a PUB/MFR-90, nine-zero (90).

THE CHAIRPERSON: Well, then pull -- pull them up and --

MS. PATTI RAMAGE: Well, then let's pull up the document.

THE CHAIRPERSON: That way we'll know what we're looking at.

CONTINUED BY MR. ANTOINE HACAULT:

MR. ANTOINE HACAULT: And if I were to do the analysis for the year 2017 without all these accounting adjustments, I -- by looking at your documents this morning, sir, believe that the number for Bipole -- or for Keeyask, fir -- firstly, that was used in the calculations was the one (1) shown on this MFR actual to March 31, 2017, of 3.276 billion.

Is that correct?

MR. JAMES MCCALLUM: Again, I worked from the Morrison Park Associates analysis. I would assume that they correctly obtained the exact figure. And it appears they did. So, yes.

MR. ANTOINE HACAULT: And for Bipole III for the year 2017 actual to March 31, 2017, we would take the number on this PUB/MFR-90 for Bipole III at 3 billion 152 million; correct?

MR. JAMES MCCALLUM: Correct.

MR. ANTOINE HACAULT: And if we go to Conawapa, which is another number that's identified in the calculations, we would go down and under the heading actual March to March 31, 2017, we see the number 375 million; correct?

MR. JAMES MCCALLUM: That's correct.

MR. ANTOINE HACAULT: And that's number we should use?

THE CHAIRPERSON: Yeah, I believe that for the record it's three hundred and seventy-nine (379).

MR. ANTOINE HACAULT: Three-seventy-nine (379), sorry.

MR. JAMES MCCALLUM: Oh, pardon me. Thank you, Mr. Chair.

THE CHAIRPERSON: Well, no, you were right. I -- I think Mr. Hacault did it as thee seventy-five (375), so --

MR. JAMES MCCALLUM: Oh, three hundred and seventy-nine (379) is the number we used in our analysis.

CONTINUED BY MR. ANTOINE HACAULT:

MR. ANTOINE HACAULT: Yes. And then the Manitoba Minnesota Transmission Project, the number is 30 million actual to March 31, 2017.

And that's the correct number to use?

MR. JAMES MCCALLUM: Yes.

MR. ANTOINE HACAULT: Okay. And the only one (1) that was identified in the materials as not being in this MFR, but it was in MFR-49, was the Great Northern Transmission Line with a 2016 value of 25 million; correct?

MR. JAMES MCCALLUM: Subject to check, that sounds correct.

MR. ANTOINE HACAULT: Okay. So if we

did that, and I could show you a sheet for the calculation so it's easier for you to check, we would have a revised debt of eight billion five hundred and eighty two million (8,582,000,000)?

MR. JAMES MCCALLUM: What -- what am I doing to arrive at that, Mr. Hacault?

MR. ANTOINE HACAULT: I think it would be easier for me to -- to show you. But we've gone through each of these numbers verbally, sir. The equity number at $2.86 billion, which was in the exhibit that we saw, and the debt number of 15 billion triple four (4) in the new exhibit we saw. And then I took you through each of the capital projects that were --

MR. JAMES MCCALLUM: I accept your math.

MR. ANTOINE HACAULT: Okay. The math shown on -- on this particular slide you accept, sir?

(BRIEF PAUSE)

MR. JAMES MCCALLUM: Yes, I do.

MR. ANTOINE HACAULT: Mr. Chairman, so it would be easier for the record, I would suggest that we mark this sheet now that he's confirmed that it's an accurate calculation into the record as an exhibit.

MS. PATTI RAMAGE: I would suggest it be an exhibit for identification purposes.

MR. JAMES MCCALLUM: Yeah, I'm not asserting I -- I agree with what you're -- what it represents. I'm asserting that I agree the math adds, right? I -- I don't know what you want to assert with this.

MR. ANTOINE HACAULT: As long as we have it on the record, I think it's going to be --

THE CHAIRPERSON: Yeah. No, I -- I think -- it'd be more appropriate as for identification. It's not his document and I don't think he's -- he's going to testify to the veracity, but simply that the calculations appear correct on the document.

MR. ANTOINE HACAULT: So I'll leave it to the discretion of the Secretary as to what number we give that.

MR. KURT SIMONSEN: It's going to be MIPUG-32.

MR. ANTOINE HACAULT: For identification, it would have to continue.

THE CHAIRPERSON: Yeah, it'll indicate

for identification purposes.

--- EXHIBIT NO. MIPUG-32: Debt Ratio example calculation.

(BRIEF PAUSE)

CONTINUED BY MR. ANTOINE HACAULT:

MR. ANTOINE HACAULT: Thank you. Sir, we've talked about accumulated other comprehensive income, and it's shown on the new Exhibit 135-1. It has a separate heading, and it shows numbers from 2012 to and including 2017, both as reported in the financial statements and then next adjusted; correct?

MR. JAMES MCCALLUM: If, "by next" you mean in the next group of numbers below. Is that what you're referring to?

MR. ANTOINE HACAULT: Yeah, we're referring to --

MR. JAMES MCCALLUM: With the yellow on it, with the yellow bars. That -- these are, again, Morrison Park adjustments to make an effort, and -- and I think a laudable one (1), to see through so that we are comparing on like accounting standards.

MR. ANTOINE HACAULT: And I looked in

Manitoba Hydro documents and found in MIPUG/Manitoba Hydro-Round 1 at 2M, as in mother, that Manitoba Hydro described the objective as accumulated other comprehensive income as follows. It is to provide a transparent manner in which to report unrealized gains and losses on the balance sheet.

Would you agree with that statement, sir?

MR. JAMES MCCALLUM: Sorry, what's the reference?

MR. ANTOINE HACAULT: It was to a response provided by Manitoba Hydro to Round 1, and in the answer Manitoba Hydro described the objective of accumulated other comprehensive income as being to provide a transparent manner in which to report unrealized gains and losses on the balance sheet.

And I'm asking you whether you're comfortable with that purpose?

MS. PATTI RAMAGE: Could that be brought up?

THE CHAIRPERSON: Perhaps we should pull the document --

MS. PATTI RAMAGE: Yes.

THE CHAIRPERSON: -- so we can see the context of the statement, so. Yeah. Thank you.

(BRIEF PAUSE)

MR. ANTOINE HACAULT: Yeah, you can show the question so that...

(BRIEF PAUSE)

CONTINUED BY MR. ANTOINE HACAULT:

MR. ANTOINE HACAULT: You'll let me know when you've had a chance to read the question and will go to the answer, sir?

MR. JAMES MCCALLUM: I've read the question.

(BRIEF PAUSE)

MR. ANTOINE HACAULT: And my question to you, sir, whether -- was whether you agreed that the objective of accumulated other comprehensive income is to provide a transparent manner in which to report unrealized gains and losses on the balance sheet.

(BRIEF PAUSE)

MS. PATTI RAMAGE: Can we scroll down the response so we can see the entire response, please?

MR. JAMES MCCALLUM: Okay. I've read our response. Sorry, could you -- can you just repeat your question, Mr. Hacault? I have a short-term memory problem.

CONTINUED BY MR. ANTOINE HACAULT:

MR. ANTOINE HACAULT: I was just hope -- I thought this was going to be a quick one (1). I thought --

MR. JAMES MCCALLUM: Yeah.

MR. ANTOINE HACAULT: I was hoping you were just going to say --

MR. JAMES MCCALLUM: That's what the -- that's what Manitoba Hydro response is -- that's what our response and I agree with it.

MR. ANTOINE HACAULT: And maybe it will be a bit easier if I just ask you an open-ended question to explain what unrealized, in the context of this response, which is to provide a transparent manner in which to report unrealized gains and losses.

Could you give me two (2) examples of

that occurring in your financials?

MR. JAMES MCCALLUM: Well, one (1) example I can point to would be we book into the AOCI unrealized gains and losses on our debt instruments, for example, our US dollar debt instruments when we -- when those debt instruments -- and -- and I am -- we'll need to get Ms. Stephen back here to -- to explain the accounting in more detail.

But as a general matter when those instruments mature we go from -- that -- that's when we have to repay the liability in the US dollars at whatever price they cost on that day. Now, we've through the piece been recording, as the exchange rate moves up and down, what -- we call that unrealized and then when the maturity date is reached we -- it becomes a aa a realized liability. And so -- and -- then that's the point where you crystallize or, you know, know what you actually had to pay. Up until then you're estimating what you might have to pay.

MR. ANTOINE HACAULT: And while I won't get into it that's part of the -- where there's a strategy by Manitoba Hydro to deal with those exchange rates so that there is an offsetting mechanism that's implemented by Manitoba Hydro to offset those possible losses or gains on foreign-exchange; correct?

MR. JAMES MCCALLUM: So --

MS. PATTI RAMAGE: Mr. Chairman --

MR. JAMES MCCALLUM: -- I'll -- I'll answer this, Patti.

MS. PATTI RAMAGE: Okay.

MR. JAMES MCCALLUM: It's okay. What we're doing is those are -- if the exchange rates don't change from here forward, we have an account in -- in AOCI reflecting losses in that the exchange rate shifted -- right now they're in a loss position -- shifted since we borrowed the money, meaning we're -- we're going to have to repay more in Canadian dollars than we -- we realized when we issued the -- the debt security.

So what happens is that comes into our income over the next months and months and years until maturity dates. So it really reflects, and hence is appropriately charged to equity. You know, subject to the exchange rates moving up and down, that your future income is going to be charged for -- for realizing on -- on -- pardon me. Lost my train of thought. Realizing on these -- on these losses much like our equity is going to benefit from at least the retained earnings from the depletion of the Bipole III reserve account.

THE CHAIRPERSON: Mr. Hacault, here's the problem I'm having. At -- at the beginning we had this on re-examination. And on the rebuttal the -- Manitoba Hydro was asked to focus on the issues relating to Morrison Park. You know, I -- we actually allow quite a bit of leeway, but now we're going into areas that were part of the initial cross-examination. I thought what we were here was to have Manitoba Hydro talk about how they thought the Morrison Park numbers were not accurate or misleading, and then we would have cross-examination on that.

We -- we seem to be going back into unrelated things, or at least it appears to be unrelated, and issues that I -- I believe if I went through the transcript, I think were touched on much earlier in the hearing. So unless I'm missing something...

MR. ANTOINE HACAULT: And we got off into this, because I just wanted a definition. Remember we started on slide 135-1, and we were looking at the column accumulated other comprehensive income. And I just asked the witness whether he agreed to a definition, and then I was going to have a question with respect to that particular column we were looking at.

THE CHAIRPERSON: Okay. Well, if we could go -- but I -- I certainly would like to have it focused so that we're looking at -- at the issue of the Morrison Park analysis and -- and that.

CONTINUED BY MR. ANTOINE HACAULT:

MR. ANTOINE HACAULT: So if I could go back to where I had started and hoped I didn't have to drift from, the slide that's been marked as 135-1, under the calculation leading to the debt equity ratio accumulative of other comprehensive income is a line which moves that equity ratio; correct?

MR. JAMES MCCALLUM: That is correct.

MR. ANTOINE HACAULT: And roughly the math and the movement of those unrealized gains or losses from 2012 to 2017 is at about $1 billion. That being, we started positive 327 million and we move to negative 709 million; correct?

MR. JAMES MCCALLUM: That would result in about a billion dollar of movement. Correct.

MR. ANTOINE HACAULT: And it's an adverse movement to the equity number; correct?

MR. JAMES MCCALLUM: It's an adverse movement to the equity number, in part caused by the shift to IFRS, which is what Morrison Park has adjusted for down below. But I'm not sure -- like, to be clear that I can -- and defer to the Chair on this. We've taken Morrison Park Associates -- and Associates, who are your consultant, their numbers, their methodology at face value and said, Look, there are a whole bunch of -- of pockets of cash and we've -- we've almost implored folks to focus on the cash here that -- that shouldn't be counted in our debt. And -- and so we've -- we've adjusted accordingly. And...

MR. ANTOINE HACAULT: Sir, just one (1) last question, and it's kind of a follow-up of Mr. Peters's questions. In your list of adjustments on slide 20 year staff focused on items that were, I'm going to say, starting at $20 million as being important enough to talk about; correct?

(BRIEF PAUSE)

THE CHAIRPERSON: I think we better get the right screen.

CONTINUED BY MR. ANTOINE HACAULT:

MR. ANTOINE HACAULT: Their slide,

page 6. It's Exhibit 135.

MR. JAMES MCCALLUM: Yeah, I see -- and I'm not sure what to make or how to respond of your comment "important enough to focus on." But in any event, I see that we have a $20 million adjustment.

MR. ANTOINE HACAULT: And would you agree, sir, that capital tax for Keeyask and Bipole, if we adjust for those, he number would actually be higher than a $20 million variance with the opposite effect?

MR. JAMES MCCALLUM: Capital tax for Keeyask and Bipole would reduce both sides of the equation, yes.

MR. ANTOINE HACAULT: And those are in the order of -- if we go to PUB/MFR-20, And this will be the last document I refer to just to have the numbers on the record. PUB/MFR-20, at page 5 for Keeyask for the year 2017, the adjustment would be $16 million; correct?

MR. JAMES MCCALLUM: For 2017 it would be two thousand (2,000), yes, that's -- I agree with that.

MR. ANTOINE HACAULT: And for -- and that's already in costs; correct?

MR. JAMES MCCALLUM: That has been expensed.

MR. ANTOINE HACAULT: And at page 9 of that same document to the MF -- PUB/MFR-20 for Bipole III for the year 2017, there's a number of $16 million; correct?

MR. JAMES MCCALLUM: I see that.

MR. ANTOINE HACAULT: And the same would apply to that number; correct?

MR. JAMES MCCALLUM: Correct.

MR. ANTOINE HACAULT: Those are all my questions. Thank you very much, sir.

THE CHAIRPERSON: Thank you, sir. Dr. Williams...?

DR. BYRON WILLIAMS: Quite properly, PUB counsel preempted my questions. We have no questions.

THE CHAIRPERSON: Thank you. Mr. Cordingley...?

MR. DAVID CORDINGLEY: We have no questions, Mr. Chair.

THE CHAIRPERSON: Thank you. Thank you, all. That will end the rebuttal. We'll adjourn until 1:00 p.m., when we have public presentations for the afternoon. Thank you.

--- Upon recessing at 11:54 a.m.
--- Upon resuming at 1:02 p.m.

THE CHAIRPERSON: Good afternoon everyone. We're at the portion of the hearing where we are, again, going to hear from -- from public through presentations and before we start, I'd indicate two (2) things: We're on a very tight time frame and I will apologize ahead of time if I'm going to have to interrupt you, but I may, in certain instances.

And before we begin with the first witness, I'd like to call on Board counsel.

MS. DAYNA STEINFELD: Thank you, Mr. Chair. Just for the purposes of the record and as well as parties, to bring to your attention that in addition to the oral presentations that we've had to date and the ones scheduled today, the Board has also received written submissions that pursuant to direction from the Board have been certified and are, as such, being accepted as evidence.

There are two (2) public written submissions, one (1) from the Manitoba School Board's Association and one (1) from the Portage Regional

Recreation -- Recreational Authority. Both are available on the Board's website under the presenters' evidence page. Board counsel just wish to bring that to the attention of parties.

MR. KURT SIMONSEN: It's Board secretary. I'm expecting one (1) more based on the telephone call I had over lunch.

MS. DAYNA STEINFELD: And we expect that that will also be posted on the website once received, and -- and should it be properly certified. Thank you.

THE CHAIRPERSON: Thank you. Mr. Simonsen, would you like to swear in the first witness.

PUBLIC PRESENTATIONS:

DENNIS WOODFORD, Sworn

THE CHAIRPERSON: Thank you for coming, Mr. Woodford. If you could do your presentation in about ten (10) minutes and we'll see if counsel has questions for you.

PRESENTATION BY MR. DENNIS WOODFORD:

MR. DENNIS WOODFORD: Yes, I'm the representing the Bipole III Coalition and I have my associate, David Ennis here from the Bipole III Coalition.

And good afternoon, Mr. Chair, Panel members, Manitoba Hydro, if you're here, representatives and Intervenors, PUB personnel and guests. This is the second public presentation by the Coalition.

This presentation focuses on the need for a modern electric power Utility to be nimble and to react quickly to the rapidly changing energy situation that's upon us. Manitoba Hydro's preferred development plan was predicated on exports as was stated in the June 2014 PUB NFAT report.

Slide 2, please. Wholesale electricity prices are falling in the US for most fuel sources as shown in this slide. When the PUB gave approval to proceed with Keeyask, its capital cost was 6.5 billion, long-term interest rates were assumed to be risk at -- rise at 6.75 percent from 2019 onwards; using these values and expl -- and excluding maintenance and operations and water rentals.

The cost of energy at the terminals of Keeyask will be $128 Canadian dollars per megawatt hour. This price is added to slide 2 but converted to US dollars at $108 per megawatt hour. It was evident in 2014 that load growth for electric Utilities was falling; in part, because of aggressive DSM and because of growth of home generation from solar panels, investor-owned utilities and a market south.

Just for your information, slide 3 please. There's ample hours of sunshine in Manitoba. We were on the same latitude as northern Europe, and we get better sunshine here than they do, even at Churchill.

Slide 4, please. Solar power is a disruption and you can see what would happen here with the 7.9 percent increase, the yellow line going up, crossing the red line going down, which is cost of PV -- photovoltaic sol -- solar cells price coming down. In a disruption, the usual is no, no, no, no, no, it will never happened. But then, yes, it does. And the reason it does is because of economics. And economics will be a factor that will cause this to happen and people will start to put on solar panels on their roofs and it will leave -- it will be energy that Keeyask will not be able to supply.

Next slide, please. The average price of electricity around the world, for your information.

It's been falling since about 2006, that's the Utility -- Utility demand growth and the US is fairly stable in the middle there but load growth has been falling.

Next slide, please. Now, from the Manitoba Hydro annual reports you can calculate from the export energy delivered to the price that you gain from those exports what the average price for exports was and from 2010 onward it's dropped and it's been soft.

And in 2014 when permission was granted from the NFAT -- from the PUB NFAT hearing proceed with Keeyask, there was plenty of evidence from past history that the market -- export market was soft, as this graph shows. But Manitoba Hydro put its trust in load forecasts at a great deal of risk and it is damn the torpedoes, full speed ahead command.

Next slide. Now, just look at PEV for a minute, plug-in electric vehicles or electric vehicles. This is the world growth over the past few years. And I've put in there Moore's Law. Moore's Law has been the growth of computing power and we know what that's like. We've seen forty (40) years ago something that took up a tennis court, you can put in your pocket today. And in the past few years international growth in --in electric vehicles has been faster than Moore's Law.

Next slide, please. All Right, now, let's look at what Manitoba Hydro did in the 2016 load forecast. You see the green and the orange lines, the EV is electric vehicle forecast's going to be put in place in -- in Manitoba up to 2035. And the orange is the internal combustion engine, the regular cars.

Now, this has been scaled against Bloomberg New Energy Finance predictions in 2017. And you will see there's a vast difference. I added in the Moore's Law just for interest.

What happens with things like this, any disruption, like, colour TV. Huge increase all of a sudden then everyone gets colour TVs and then it flattens so it's kind of a 'S' curve.

So, in the past years, Hydro has demonstrated that by using -- being nimble and quick in its decision-making process it would save much money. For example, in 1976 construction started on Limestone. Two (2) years later the executive recognized that load growth was tapering off; meetings were quickly arranged to make a critical review of the need for Limestone generating station. In a matter of weeks a decision was made to halt construction. It must be said that there was opposition within the Corporation from the construction people who had a personal stake in proceeding.

Nevertheless, engineering arguments prevailed and construction was stopped in 1978. The cost estimate for Limestone at that time was $2.9 billion. The station remained mothballed until 1985, at which time contracts were negotiated with US Utilities and it came in under budget at $1.5 billion. During the main portion of the export contracts Hydro received a total of 6 billion. During a ten (10) year period Limestone was paid for in three (3) years.

MR. KURT SIMONSEN: Couple of minutes please, Mr. Woodford.

MR. DENNIS WOODFORD: Yes. So, there are -- next slide, please. So this was Limestone.

Hydro had ample time -- opportunity to -- to reassess the need for Keeyask and to stop construction, especially in light of the aggressive demand-side management program it was proposing and in predicting the saving of twelve hundred and eighty-eight (1288) megawatts in the next fifteen (15) years. But Hydro kept a straight course.

Now, let's just go to the next slide, please. And here we have -- yes, I just wanted to jump over that past slide. They put Keeyask way up the river for what the crazy -- why do they do that? Conawapa, you guys stopped Conawapa, but they still put the Keeyask -- the -- the Keewatinohk converter station way up river. Why didn't they put it down where the generation was. They got to go up the river -- down the river I should say to -- to -- to Keewatinohk and then back. That's money. They could've put it down where the generation was and they didn't.

So here's my recommendations:

1. And this is pretty heavy. Change the Hydro grid to open access for the competitive marketing of electricity between consumers and producers of electricity.

2. Hydro's debt be assumed by the provincial government and taken off the back -- back of ratepayers.

Next slide. Open access and trade across the grid. Tariff would apply to all electricity transactions across the grid. So, an open access grid would provide needed competition to the unfettered monopoly of Manitoba Hydro. Manitoba Hydro's generation competes with other generators from rooftop solar to investor-owned wind farms.

Next slide, please. And debt transfer more equitable to low income earners due to graduated tax system and more in line with other provinces with electric Crown Utilities. Why is Manitoba Hydro charging all their debt to the ratepayers? Moving debt to government allows for financial reorganization in Hydro; provide a gentler paydown at provincial debt rates and better for credit rating; treated differently in the provincial budget and improve provincial economy.

Next slide, please. So finally to the conclusion. Continuing forward in an archaic and now inflexible electric Utility monopoly that is destroying the Manitoba advantage must cease and dramatic surgery applied.

Next slide. Thank you.

THE CHAIRPERSON: Thank you, Mr. Woodford. Are there any questions for Mr. Woodford?

DR. BYRON WILLIAMS: Mr. Chair, I'll just indicate for the Consumers Coalition, we'll thank all the presenters in advance, but we will not be asking questions of any of them just in the interests of time.

THE CHAIRPERSON: Okay, thank you. Any questions?

MR. ANTOINE HACAULT: I can also indicate the same thing, but I would have a comment or two (2) before the BCM presentation.

THE CHAIRPERSON: Okay. Any other questions? Does the Panel have any questions? Oh, sorry.

MS. PATTI RAMAGE: I was just going to pipe in, we had none. Thank you.

THE CHAIRPERSON: Okay, thank you. Panel...?

Mr. Woodford, I've got a question in terms of the concept of transferring debt; that the province would be responsible for the debt.

Do you see it that this would reduce the debt or simply it would just make government responsible for all -- all debt?

MR. DENNIS WOODFORD: Most of the debt, yes. I'm not saying all of it, but most of it, yes. And the rate charged to consumers should be stay -- kept within the rate of inflation or the cost of living.

THE CHAIRPERSON: Thank you very much, sir. Appreciate you coming today.

MR. DENNIS WOODFORD: Thank you. Thank you very much.

THE CHAIRPERSON: Thank you. And by the way, if anybody's interested we're live streaming everything so you can see the hearing or yourself if you go to our website.

(BRIEF PAUSE)

THE CHAIRPERSON: If you could swear in Mr. Taylor, and then we'll deal with Dr. Williams and Mr. Hacault.

MURRAY TAYLOR, Sworn

THE CHAIRPERSON: Dr. Williams...?

DR. BYRON WILLIAMS: Yes, thank you. Just our clients in terms of this witness -- or this presenter would simply note that Mr. Taylor was identified as a potential witness by the Business Council of Manitoba, which is an Intervenor in this hearing.

Ultimately, he did not provide prefiled evidence and to the extent that his evidence -- and there's two (2) or three (3) slides that probably venture into opinion evidence, to the extent that they venture into opinion evidence, our client would urge caution in terms of the weight that is given to that evidence given that there was no prefiled evidence, no Information Requests, and no formal discovery process. Those are our cl -- our comments. Our clients does look forward to hearing the thoughts of the Business Council, though.

THE CHAIRPERSON: Okay, Mr. Hacault...?

MR. ANTOINE HACAULT: Yes, I won't repeat. In the application of the Business Council they identified Mr. Taylor to provide expert evidence on process bond ratings for corporations, public institutions; considerations affect ratings assigned; how these ratings impact on borrowing costs; implications of lower bond ratings for ratepayers.

And the PUB in its August 2016 letter approved this person as a proposed expert and he has not filed any prefiled evidence. So, I'm not going to take more time. There'd be a fuller argument to deal with this but either with respect to the issues that he was approved as an expert disregard his evidence or place little or no weight on it.

THE CHAIRPERSON: Okay --

MR. KEVIN WILLIAMS: I'm beginning to -- to have regrets about being courteous in providing the slide presentation in advanced to My Friends.

I can tell you that our position is is that the slide deck was reviewed very carefully to make sure that he's not offering opinions that are contentious as it -- as it relates to the matters in issue.

There's a history to where the Business Council is today as it relates to this proceeding, and -- and so I don't intend to deal with it beyond that at the stage.

THE CHAIRPERSON: Mr. Williams, before you start, can you introduce --

MR. KEVIN WILLIAMS: I was just going to do that.

THE CHAIRPERSON: -- to the Panel.

MR. KEVIN WILLIAMS: That was my next step. Kevin Williams, as you're aware, counsel to the Business Council. Immediately to my right is Murray Taylor, our witness for today. To his right is Doug Finkbeiner, also counsel to the Business Council. Don Leitch, president of the Business Council and Carrie Ho from our firm as well.

THE CHAIRPERSON: Thank you. For the purpose of this hearing, I haven't seen the screens so I look forward to seeing the screens.

We have a process to have someone declared an expert witness. So in terms of the information you provide, we will review the information. We'll receive it from you and review it. The Board always has the discretion to determine what weight it will attach to that evidence.

And we just point that out to you. But we'd ask you to proceed.

MR. KEVIN WILLIAMS: Yeah and it's our intention at the conclusion of his comments to -- to file as exhibits both the PowerPoint presentation, as well as a written summary of his -- of his evidence.

THE CHAIRPERSON: That -- that's fine. And my comments relate to both those as well.

MR. KEVIN WILLIAMS: Thank you.

THE CHAIRPERSON: But please proceed.

PRESENTATION BY MR. MURRAY TAYLOR:

MR. MURRAY TAYLOR: Well, thank you for having us here today and I'll address my remarks to Mr. Chair and -- and all assembled guests and representatives.

If we can go to slide -- the next slide, yeah. The Business Council of Manitoba sets about to do research and advocate positions that we believe will be good for the future health of Manitoba. We do that focusing on this as a place to live, work and invest, and we do that with a view to the long term without partisan politics.

If we go to the next slide. Just a little bit about my personal background. Academically, I trained and then became an actuary. I served within industry at Great West life and Investors Group for a forty (40) year period. I concluded that work period last year in May retiring as CEO of Investors Group. I also became a member of the Business Council in 2004. I served on its board since 2006 and shared its fiscal issues committee since 2012.

Now the fiscal issues committee each year puts together positions and thoughts and considerations to brief at the invitation of our finance Minister as they move in to the annual budget process. And for each of the last three (3) years, I have chaired the group that has come in to have those conversations and in each of those years, we have talked about the growing debt of Manitoba Hydro and the province of Manitoba and the consequential effects of that.

In our written materials we've taken excerpts from those public documents and added them as appendix A for your reference and -- and for you able to review.

If we can go to the next slide. The context of those conversations over the last number of years has been that there is a growing debt in Manitoba. The current Manitoba Hydro debt as of 2017 of 15.4 billion is projected to grow to 23.3 billion by 2021 to support major projects. Bipole III at 5 billion and Keeyask at 8.7 billion of costs and interest costs for the projects do not yet appear in the Manitoba Hydro financial operational costs. Interest costs on the construction debt are currently being capitalized in project costs until completion which masks these debt costs being incurred for the rate setting period that's currently under your consideration.

Next slide. Manitoba Hydro needed to borrow over $200 million in each of 2016 and 2017 just to pay operating costs and is projected to be borrowing in excess of 800 million from 2018 to 2024 for operating costs. Total annual interest costs and depreciation charged in Manitoba Hydro expenses are currently about 969 million as of 2018. And that is projected to go to in excess of 2 billion by 2024, more than doubling in a six (6) year period.

Next slide. Why hold rates well below -- or below operating costs when we have rates that are to the customers, in most cases, well below the rest of our country and most of North America. If we turn to the West as an example in Regina, the residential hydro rates are 77 percent higher than Winnipeg. To the east using Ottawa as a proxy for Ontario, we see that residential hydro rates are 47 percent higher than Winnipeg.

Next slide. The forecasts into the future have looked at things in what I would consider to be a fairly optimistic pattern. I would point to the fact that we've not had any significant drought scenarios in the last fourteen (14) years, which affect the water supplies. We have seen demand and price for Manitoba energy under pressure in the export markets. Current major projects may cost more than even projected and the sheer volume of debt increasing into the future will increase interest costs and the potential for higher interest rates on that debt will also increase costs.

Next slide. Now, interest rates are at record low levels and can change very quickly. At

Manitoba Hydro increases in debt levels and refinancing of existing debt could potentially be done at much higher rates than we're saying today. Currently, the economies of Manitoba, Canada and globally are actually quite strong and that can change very quickly too and during a time like that the issuing of debt becomes more limited or more challenging.

Next slide. Excessive debt in Manitoba arising in large measure for Manitoba Hydro combined with potential unfavourable economic environments could lead to various increases in credit spreads, and I've used half a percent as an example which has been seen in the past. And on top of that, interest rates could rise by, for example, 1 percent.

Now, if Manitoba Hydro was exposed, as an example, to a 1.5 percent higher interest rate on an estimated debt of 23.3 billion in 2021, Manitoba Hydro would be incurring an additional annual interest cost of 350 million. Now, that's just an example. The debt could be higher than that if project costs are higher. It could be 2 percent. It could be 1 percent. It could be 1/2 percent.

But I use that as an example, and then to put in that context, the difference in looking at the -- the forecasts of a 7.9 percent rate increase and a 3.95 percent increase for the next year is approximately $70 million. So it's a mere small comparison to the example of the potential that could be there for higher interest costs in the future.

Now, the next slide. Credit rating agencies who influence the bond market comment, of course, on Manitoba Hydro and the government of Manitoba. Those agencies have become much more rigourous in their activities as we went through the financial crisis ten (10) years ago, there was a lot of criticism of rating agencies and they have stepped up to that and right across all industries and all patterns and all countries, they have intensified their approach, their analytics, their commentary and so on.

Within the context of comments on Manitoba Hydro, they've identified the potential for rate increases as a tool that Manitoba Hydro has to maintain financial responsibility. We believe that appropriate rate increases, when needed, is an important signal to these marketplaces and that -- that the credit rating agencies and the bond investors they serve would be looking for activity here around a rate increase when it's appropriately so.

We believe that showing leadership to increase rates substantially over the next two (2) years is an important signal.

Now, in my own past experience, next slide, I found as a business leader and in personal financial affairs that the best time to acquire good terms on debt is when you can prove you don't need it. And although we might say that's a euphemism, the opposite of that is also very true; that when your financial affairs are built on increasing debt and the environment may turn against you, it becomes very difficult and unattractive to get good terms, and often if the global environment is -- is distressed, it can become extremely expensive, and unmanageable.

I certainly recall in 2008 when we found periods of time when nothing was issued in the bond market for lengthy periods of time because of the markets, other than federal government debt where they were trying to bring liquidity into the marketplace.

MR. KURT SIMONSEN: Two (2) minutes please.

MR. MURRAY TAYLOR: Yep. So when the markets turn, they can turn very quickly and quite severely.

Next slide. On reflection, Manitoba

Hydro could have been gradually increasing rates with this huge amount of debt coming their way over a period of time, and we would still have very competitive rates compared to our neighbours. Such increased rates could have been done to create a better economic footing to absorb the costs of Bipole III which creates no or little revenue; at Keeyask where short-term revenue generation does not cover the building costs and financing costs, particularly, if they come in higher than currently estimated. And instead, rates have not increased and, in part, I would suggest technically because there is no actual expense to Hydro until the project's completed and it starts to get charged to the financials of Manitoba Hydro.

But I would also say that pending our rate setting to this accounting rule that defers reality is hardly wise stewardship in all cases. I'll give you the little parable.

Next slide. That if your child has accumulated tuition debt of a hundred thousand dollars ($100,000), it's a rare parent that would say to the child, Don't worry about it because it's not really an expense until you have all your credentials and start working. Instead, we would usually counsel our children to get a summer job, start picking away at those costs and get prepared so that you don't have that huge cost of debt when that time comes.

Next slide. So in conclusion, the Business Council of Manitoba would appeal to the Public Utilities Board to make a good and solid decision, which will affect the next two (2) years, which I believe is your mandate here in this consideration, to show financial stability for Manitoba Hydro and not to be so focused on low costs in the short term, exposing us to potentially higher costs in total in the future. Thank you very much.

THE CHAIRPERSON: Thank you very much, Mr. Taylor. Are there any questions from anybody? No? Panel...? Ms. Kapitany...?

THE VICE-CHAIRPERSON: Thank you, Mr. Taylor. Could we go back to your slide 9, please.

MR. MURRAY TAYLOR: Yes.

THE VICE-CHAIRPERSON: The last 9, please. Thank you. The last bullet there says "showing leadership to increase rates substantially will be important."

Could you tell me in your thought there who would be showing the leadership to whom and with what result?

MR. MURRAY TAYLOR: The -- my understanding -- or the -- the context of my comment on behalf of the Business Council would be that the consideration of where rates go for the next two (2) year period is -- is in the mat -- is in the role of these hearings that are underway and the conclusions that the Public Utilities Board would come to.

And so the comment is being addressed to the Public Utilities Board in terms of consideration. I think there's been a lot of conversation about the rate path for extended periods of time in the future and by a number of the comments I've made here and by stressing it in my -- in my remark now, our feeling is that rates could be varied in the future from various paths but what happens over the next two (2) years given the significant amount of debt coming our way as -- as anyone look subjectively at -- at what the kinds of costs that Manitoba Hydro customers will have to pay sometime in the near future.

But to inch away at that and to try to deal with that in some fashion over the next two (2) years that would give a good signal to the marketplaces, to the customers that this is something we have a responsibility for. The customers of

Manitoba Hydro have to pay for all this into the future unless the province of Manitoba decide to subsidize it, but that's a whole different political decision and responsibility.

Our understanding is that Manitoba Hydro does have a mandate to support the costs of Manitoba Hydro with rates so.

THE CHAIRPERSON: Mr. Taylor, in one (1) of your slides you referred to unfavourable economic developments. We have later this afternoon a series of people testifying from large companies. I suspect that they won't share your sentiment. I don't know for sure.

What do you do with large companies who say, we moved to Manitoba because of low electricity; That's the thing that keeps us there. If you're going to raise them considerably, Manitoba isn't as competitive.

MR. MURRAY TAYLOR: Well, I'm sure through the hearings you've had a thorough review of our competitiveness, but from the evidence that I looked at, it's hard for me to imagine how a 7.9 percent increase, as an example, would put us uncompetitive with any other jurisdiction and would be of sufficient -- well, first of all, I -- I'd love to hear where they would move to, if I can put it that way, and get better rates and, at the same time, incur the entire cost of making that move and come out better in the farther position. I find that implausible.

I think one can get there if you imagine that that rate increase is going to have to be heavily substantial into the future for a long period of time, but that is conjecture. I do not see how a rate increase of 7.9 percent over the next two (2) years, which is the mandate under question, would have that impact and would cause that decision.

THE CHAIRPERSON: If I could just put on the record, and you mentioned this for two (2) years, the -- the request to this Board is that we confirm a rate of 3.36 percent for 2016, an interim rate, we confirm an interim rate of 3.36 percent for 2017, and -- and in fact, we're looking at a one (1) year rate of 7.9 percent. And I'm -- I'm not trying to criticize you. This is a matter, as all counsel here have known, is --

MR. MURRAY TAYLOR: I understand, yeah.

THE CHAIRPERSON: -- is -- has been put forward. What's been put forward by different people are rate forecasts, or rate paths --

MR. MURRAY TAYLOR: Yeah.

THE CHAIRPERSON: -- that project the rate over a twenty (20) year per -- twenty (20) or longer period. But in fact, that's that's the rate request currently before this Board.

MR. MURRAY TAYLOR: And -- and if I might clarify, my -- my reference was to really agree with that --

THE CHAIRPERSON: Okay.

MR. MURRAY TAYLOR: -- position that -- that -- it is a two (2) year period. You're not looking at twenty (20) year rates. You're not looking at --

THE CHAIRPERSON: Right.

MR. MURRAY TAYLOR: -- ten (10) year rates or five (5) year rates.

THE CHAIRPERSON: Thank you very much, sir. If there are -- oh, Mr. Hacault...?

MR. ANTOINE HACAULT: I just want to put on the record that I'm reserving the rights on behalf of my clients with respect to the unfiled written material which Kevin Williams said, "I don't know what it is." So I just -- reserving rights with respect to that.

THE CHAIRPERSON: Yeah, I -- I understood that from your earlier comment, sir, but I appreciate that.

MR. KEVIN WILLIAMS: So -- so with -- with that, then, could I mark as the -- as two (2) exhibits, the -- the PowerPoint presentation as --

THE CHAIRPERSON: I don't -- you raise an interesting point. I'm not sure how we're doing this. Is -- I mean, they will be entered into evidence. How are we showing these as exhibits? Are we showing just his public presentation exhibits?

MR. KURT SIMONSEN: We generally have a category for public presentations with the -- with the representative's name followed by the materials, and that's how we're classifying them as exhibits so far.

Counsel and myself are probably going to have a discussion as to how we actually physically number these things, Mr. Chair.

THE CHAIRPERSON: Okay. They -- they will be -- they will be entered as exhibits, though, Mr. Williams.

MR. KEVIN WILLIAMS: Okay, so --

THE CHAIRPERSON: So if you give than to Mr. Simonsen --

MR. KEVIN WILLIAMS: I'll do that.

THE CHAIRPERSON: -- we'll ensure they get -- they get entered, and they're on the website.

MR. KEVIN WILLIAMS: Okay. Thank you, Mr. Chair.

THE CHAIRPERSON: Thank you, sir. Thank you --

MR. MURRAY TAYLOR: Thank you very much.

THE CHAIRPERSON: -- Mr. Taylor. Thank you all.

The next the person will be Andrea McLandress from the Mining Association.

MS. ANDREA MCLANDRESS: I'm here with all my friends.

(BRIEF PAUSE)

THE CHAIRPERSON: Please swear her in.

ANDREA MCLANDRESS, Sworn

THE CHAIRPERSON: Good afternoon, Ms. McLandress. If -- if you could take about ten (10) minutes for your presentation, then we'll see if there are any questions. Thank you.

PRESENTATION BY MS. ANDREA MCLANDRESS:

MS. ANDREA MCLANDRESS: Thank you. Good afternoon, Board members, hearing participants, and observers. My name is Andrea McLandress. I am the Executive Director of the Mining Association of Manitoba. I joined the mining Association exactly one (1) year ago today. This is quite a way to spend an anniversary.

THE CHAIRPERSON: Happy anniversary.

MS. ANDREA MCLANDRESS: Thank you. Thank you. This is -- it's great to be back home in Winnipeg after living and working in Alberta for eight (8) years. I was born and raised here. I'm a Metis nation citizen and a proud graduate of the University of Manitoba. I want to acknowledge that we're in Treaty 1 territory, and the homeland of the Metis Nation.

The purpose of my presentation here today is to describe the mining industry in Manitoba, highlight our significant positive impact on the Province, especially in the North, as well as the mining industry's significant potential. Most importantly, I'll explain how Manitoba Hydro's rate increase plan would have a disastrous effect on our member companies and how that will, in turn, be crushing for the economy of the North and the entire Province.

Next. The Mining Association of Manitoba was established in 1940. We have twenty-three (23) member companies, operators, exploration companies, mining suppliers, and service providers. As I'm sure you're aware, our members are typically the largest private employers in their communities and represent the largest private economic drivers in their regions. Our members are also some of Manitoba Hydro's largest customers, which means that they will bear the hardship of Hydro's planned rate increases. The potential impact of this plan on mining operators within the Province represents a very real risk to the economies of the Northern and rural communities that our members and our employees call home.

I'm just going to highlight some key measures showing that mining is one (1) of the most important sources of income in Northern and rural Manitoba. We have thirty-one hundred (3,100) employees, largely in the North and in rural communities. The average annual income of a mine worker is a hundred and thirty-one thousand dollars

($131,000), compared to about sixty thousand (60,000) average annual income for all Manitobans, and that's as of 2015. Total annual purchases from Manitoba suppliers by mining companies is in excess of $130 million. We make electricity purchases in excess of $82 million, and our total sales or revenues are $136 billion.

We know that mining is a major positive impact on the Province, but there's also tremendous untapped potential. Manitoba is under-explored in relation to other jurisdictions, and we have a much less developed mining industry than our neighbours in Saskatchewan, and Ontario, and increasingly, Nunavut. Mining and resource development is the single greatest economic opportunity in Northern Manitoba. New discoveries and potential development, potentially in diamonds, gold, and lithium, could translate into jobs, education, taxes paid, and revenue for Manitoba Hydro.

I'll draw your attention to one (1) comparison in the table in the blue. Manitoba and Saskatchewan each have 6.5 percent of Canada's area, but in 2015, there was $3.7 billion spent on mineral develop -- development in Saskatchewan, compared to a paltry 239 million spent in Manitoba. The question is: Why is our mining potential going unrealized?

I'll talk a little bit more now about the nature of our business and somewhat unique features of our industry. The key points here, we'll see that mining companies are price takers. Our members compete on cost in a global market. Our members are subject to intense global competition. They are regularly -- have -- they are heavily impacted by the cost of labour, transportation, regulations, and energy. They're also subject to foreign exchange rates, which we know can be highly volatile.

Mining projects have a long lead time and are capital-intensive. Significant upfront capital investment is required to develop a project, and there's typically ten (10) to fifteen (15) years between exploration and production. There is a need for significant, ongoing, annual sustaining capital investment in projects. This means that investments in mining are high risk and a long-term commitment.

And, as we know, mining is energy-intensive. Mining -- mining and conversion of ore to finished metal, for example, requires large amounts of energy. So the key here, the point is that large energy cost increases, as well as the signal that those increases will continue over time, have major, material, detrimental effect on project valuations upon which investment decisions are based.

Next, please. And industry at risk. Now that we've discussed the nature of our business, I'll explain how Manitoba is a high cost, uncompetitive, and uncertain jurisdiction for mining, which is why our industry, as it stands today, is at risk, and why our significant mineral potential is untapped. Key points are in the slide.

We're the furthest possible distance from our customers, many of whom are in Asia. Transportation costs are great, but our transportation infrastructure is not. Because of the absence of viable rail and port options, intermodal transportation logistics are complex and expensive.

Manitoba taxes are high compared to other mining jurisdictions in Canada, and compared to other manufacturing sectors within Manitoba. Just one (1) example of this is the mining tax rate, which is a flat 10 percent in Saskatchewan and Ontario, compared to Manitoba's 10, 15, and 17 percent rate.

The regulatory climate here in Manitoba is uncertain. The absence of a well-defined and consistently-applied permitting and consultation framework within the Province stands as a barrier to exploration expenditure, new discoveries, and new project development.

So in essence, the point is that electricity rates within the Province represent Manitoba's only competitive advantage in mining. Eroding that one (1) remaining factor could be disastrous for this entire sector of the Manitoba economy.

We understand that the scope of this hearing is the one (1) year proposed rate increase, but we're aware that Manitoba Hydro is planning at least five (5) years of 7.9 percent increases. So from the position of the mining industry, the perspective -- from our perspective, the proposed cure is worse than the disease.

A mining operator in Northern Manitoba -- this is a real example -- currently has a twenty-five (25) year life-of-mine plan. The total economic benefit over twenty (20) year -- twenty-five (25) years life of this mine is $10 billion. The annual mine and mill electricity cost currently is $20 million.

With an annual impact in five (5) years at 7.9 percent, this is effectively a 46.3 percent rate increase for this operator. The increased revenue to Manitoba Hydro over this period would be 231.5 million. That means that -- that means a 231.5 million significant reduction in value of the site, which affects a company's ongoing investment decision.

MR. KURT SIMONSEN: Two (2) minutes, please.

MS. ANDREA MCLANDRESS: In a quest to raise additional twenty (20) -- 230 million in revenue, Maniti -- Manitoba Hydro could cost the Province $10 billion over twenty-five (25) years in total life-of-mine economic activity.

On to my next slide, please. I would like to respectfully remind you that there's a very real human cost to all of this. Manitoba Hydro may not have provided analysis of how this could impact the North, but that's a key point I want to make here today. Our industry and our organization has played an active role in the development of our Province's Look North Report and action plan. We'll be working hard on implementation of the plan as well. We have strong, positive relationships with other organizations working to develop the Northern economy, provide training, and create jobs. Mining is identified in the Look North Report as the only potential magic bullet for Northern Manitoba.

There is a sobering statistic you're likely aware of that demonstates -- strates how crucial economic development is for Northern Manitoba. Of the fifty-five (55) First Nation reserves in Manitoba tabulated by Stats Canada from the 2016 cent -- census, only two (2) have median incomes above the poverty line. Poverty rates are highest for First Nations children on reserve in Manitoba, at 76 percent. These are facts that must be considered vital to the public interest and in the best interests of the North and all of Manitoba as you decide whether to approve this proposal.

I respectfully urge you to consider that this proposed increase could destroy mining, drive current operating mines out of the Province, and deter future exploration and investment. This is the industry with the greatest potential to bring employment, opportunity, and economic development to the North and to the entire Province.

Thank you. I thank you very much for your time and attention, and I welcome questions.

THE CHAIRPERSON: Okay. Thank you. Are there any questions from the Intervenors or from Manitoba Hydro?

MS. MARLA BOYD: Thank you, Mr. Chair. I just have a couple questions. I'm Marla Boyd. I'm the lawyer for Manitoba Hydro.

Ms. McLandress, is it fair to say that mine -- several mines in Manitoba are reaching the end of their life?

MS. ANDREA MCLANDRESS: I'm aware of that there -- there is some planning for future changes in some of our operations.

MS. MARLA BOYD: One (1) of the -- sorry. One (1) of the documents that we've looked at in this hearing is a Conference Board of Canada outlook, and I'm wondering if that could be brought up on the screen, please. It was attached as an exhibit to Coalition/City of Winnipeg number 1.

(BRIEF PAUSE)

MS. MARLA BOYD: Thank you. Could we go to page 106 of the document, please. Sorry, 105. You'll note on the right-hand side of the page, there, under "Current State," that:

"The Conference Board has identified upcoming mine closures will reduce the mining sector in Manitoba to a

fraction of its current size by
2021."

Were you familiar --

MS. ANDREA MCLANDRESS: Yes, I see that.

MS. MARLA BOYD: -- were you familiar with that?

MS. ANDREA MCLANDRESS: I haven't seen this slide before, no.

MS. MARLA BOYD: Are you aware of the -- the indication that there's an intention that -- or an expectation that mine closures are going to impact the Manitoba economy?

MS. ANDREA MCLANDRESS: I'm certain that there are plans that some of our members might have that could impact the economy. But what I also want to point out, as we mentioned here today, is that the life cycle of mining and these rate increases will have an effect on that life cycle as well. So that's future exploration, and construction, and production.

MS. MARLA BOYD: You're not suggesting that the fact that mines are reaching the end of their life is driven by the electricity prices, are you?

MS. ANDREA MCLANDRESS: No.

MS. MARLA BOYD: And you showed us a

slide -- I think it was about slide number 4 in your presentation --

MS. ANDREA MCLANDRESS: M-hm.

MS. MARLA BOYD: -- that indicated that the exploration and development or mine development in Saskatchewan is significantly higher than Manitoba?

MS. ANDREA MCLANDRESS: Yes.

MS. MARLA BOYD: And are you aware of the comparison between the Saskatchewan power prices and the Manitoba power prices?

MS. ANDREA MCLANDRESS: Yes.

MS. MARLA BOYD: So Saskatchewan is in the order of 60 percent higher?

MS. ANDREA MCLANDRESS: Again, we look at all factors here, and when we look at a proposed 7.9 percent increase, that -- in any cost element of our budgeting, that would be significant.

MS. MARLA BOYD: But certainly, it -- it suggests that electricity prices are not solely what's driving the mining development?

MS. ANDREA MCLANDRESS: No.

(BRIEF PAUSE)

MS. MARLA BOYD: Thank you very much. Thank you. Those are our questions.

THE CHAIRPERSON: I'll ask the panel if they have any questions. Dr. Grant...?

BOARD MEMBER GRANT: Just the one (1) point. When you mentioned the energy intensity of the industry, do you have any sense of what -- I -- I know you can't generalize across all mining, but what percentage of annual operating costs might be electricity, and would they -- would it be for, like, con -- like, running a concentrator, or something? Is that where --

MS. ANDREA MCLANDRESS: So I -- I don't know that percentage right now. I can get that information.

BOARD MEMBER GRANT: Okay. Thank you.

MS. ANDREA MCLANDRESS: I -- I could point out that we have no other power sources in Manitoba. There's no gas -- natural gas pipeline to the North, where our mines operate.

THE VICE-CHAIRPERSON: You mentioned that the proposed increase would have a very detrimental effect on the mining industry. I can't believe that Dr. grant is letting me ask a price elasticity question, however, what price increase would the mining industry find acceptable in terms of the -- the impact on their operations?

MS. ANDREA MCLANDRESS: Zero.

THE CHAIRPERSON: Dr. Grant stole my question, so I'm going to ask if you could canvass your members and ask them what the percentage of their total costs for electricity are, and send it to the Board, and then we will advise all the parties.

BOARD MEMBER GRANT: I think while I'm on a roll here, I'm just a bit curious, too, about the nature of mining, because you said it's an energy-intensive industry, and it's also a capital-intensive industry, which would lead to the assumption that it's not very labour-intensive.

So you -- you indicated there's a lot of high-paying jobs, but it would imply there's not a lot of employment that's created, right? You've got, say, three (3) inputs, and they use a lot of capital, and they use a lot of energy, but it means that you tend -- in a relative sense, not using much labour.

MS. ANDREA MCLANDRESS: The labour is a -- a high cost for us, and I would again go back to the numbers of employees that we do have in the North.

BOARD MEMBER GRANT: I'm sorry, can you remind me, was it on the slide?

MS. ANDREA MCLANDRESS: Thirty-one hundred (3,100) employees, yeah, primarily in the North. Yeah.

THE CHAIRPERSON: Ms. McLandress, you -- you're presenting a -- a pretty negative picture of mining in Manitoba. When was it more positive?

MS. ANDREA MCLANDRESS: It was probably more positive about ten (10) years ago, before commodity prices went down.

THE CHAIRPERSON: Okay. And that -- and you -- you would pinpoint that as the primary reason for it?

MS. ANDREA MCLANDRESS: It's one (1) factor, but when we go back to the issue of confidence of investors in our market, that's when we would also bring in the other factors at play, which is the uncertainty of the permitting and regulatory processes, signals regarding electricity rate increases, that makes investors nervous when you're talking about a twenty-five (25) year life-of-mine plan with a significant investment.

THE CHAIRPERSON: Okay.

MS. ANDREA MCLANDRESS: So the factors are combined.

(BRIEF PAUSE)

BOARD MEMBER MCKAY: Hello.

MS. ANDREA MCLANDRESS: Hello.

BOARD MEMBER MCKAY: I want to thank you for the Treaty acknowledgment and the Metis acknowledgment. In addition to the fifty-five (55) First Nations, I'm presuming that there are other communities that are also below that poverty line that you talked about. Can you --

MS. ANDREA MCLANDRESS: So within Northern municipalities, the average annual income is much higher than it is among First Nations. But what I can say, to answer the question a slightly different way, is a number of towns and cities where mining is the main industry will just simply go out of business if mining isn't there.

BOARD MEMBER MCKAY: And one (1) other point on that. And those communities also do not have alternate sources of energy to heat their homes?

MS. ANDREA MCLANDRESS: Right.

BOARD MEMBER MCKAY: Thank you.

THE CHAIRPERSON: Ms. McLandress, thank you very much for -- for attending and presenting to us.

MS. ANDREA MCLANDRESS: Thank you.

THE CHAIRPERSON: Thank you.

MS. ANDREA MCLANDRESS: Thank you.

THE CHAIRPERSON: The next presenter -- and I apologize if I mispronounce it -- is Mike Velie. Velie? I -- you know, in my head, I was either going to say "Velly" or "Velie," and I just went, No matter which way I do it, it's going to be wrong, so pardon me. Mike Velie.

(BRIEF PAUSE)

THE CHAIRPERSON: Thank you, Mr. -- thank you, Mr. Velie. If you could present -- take about ten (10) to twelve (12) minutes?

MR. MICHAEL VELIE: Yeah.

THE CHAIRPERSON: Thank you. Swear him in.

MICHAEL VELIE, Sworn

MR. KURT SIMONSEN: Please proceed.

PRESENTATION BY MR. MICHAEL VELIE:

MR. MICHAEL VELIE: I'd like to thank

the Board for allowing the IBEW to present here today. By way of introduction, I'm Mike Velie, business manager of IBEW local 2034. I'm here today to speak in partial support of Manitoba Hydro's rate application.

While a rate increase for Manitoba Hydro is necessary for a variety of reasons, the most compelling of these is the safety of Hydro's employees and its customers. Hydro has a responsibility to provide safe hydroelectric power to Manitobans and to protect this renewals -- renewable resource and its environment. This takes proactive thinking and plan -- and planning on the part of everyone involved. Hydro been following this Board's direction to find internal efficiencies. A side effect of this has been that Hydro has had adopt practices that have proven dangerous to both its employees and its customers.

As it's been widely broadcast, Manitoba Hydro has recently gone through an exercise to reduce its staff complement by nine hundred (900) employees. What is not widely publicized is that ever-increasing number of safety incidents and resulting incident investigations that now take place. In 2017, no less than sixty-seven (67) individual safety incidents were reported and investigated. This does not take into account any safety infractions that occurred and were not formally reported and scrutinized.

When reviewing these different incidents, an alarming trend has become evident. More and more lack of situlat -- situational awareness and experience have been identified as major contributors to the safety incidents and/or near miss events. Evidence shows that employees are feeling pressured to accomplish more and more work with fewer resources to complete the required tasks. The end result is that shortcuts are developed to keep pace with the increase in demands, and the necessary focus on safety gradually gets lost because of the ever-mounting pressure to do more with less.

Safety for employees in the workplace and safety for customers paying for a public utility are not luxuries, nor are they negotiable. A portion of Manitoba Hydro's requested rate increase needs to be granted, but under specific conditions. While the Board is not in the habit of directing how Manitoba Hydro should run its business, the time has come to impose certain constraints on Hydro's operations in the public's best interest.

To date, the Board has treated the term 'public's best interest' as synonymous with reducing costs. It's now time to recognize that the public's -- public interest cannot be defined so narrowly as to exclude anything other than monetary consideration. The IBEW 2034 recognizes the importance of fiscal prudence, and is not trying to make light of monetary concerns that have been identified by the Board and government. We feel that found -- sound financial stewardship must always remain an important emphasis of the Board, and I'll comment on that later.

Hydro repeatedly asserts that the work is not going away, and that we have more work than we can manage. In view of these admissions, it would be irresponsible for this Board to allow the Corporation to further gut its workforce, by so doing, to advance its inability to foster a culture of safety that is critical to its employees and customers.

Approval of Manitoba Hydro's rate application could help prevent further erosion of safety in the workplace, but it won't unless Board has the courage, wisdom, and political fortitude to direct to the Corporation to maintain its workforce numbers, and to find other financial efficiencies to control ballooning costs.

Earlier mentioned sound financial stewardship. At present, the -- the reigning practice to appear prudent has been to reduce expenditures. This is carried out in a slash and burn manner, app -- concerned only with reducing final numbers on a particular budgeter -- budgetary expenditure line. No thought appears to have been given to implications and side effects of such a rudimentary approach.

Witness the recent voluntary departure program implemented at Manitoba Hydro in response to this Board's direction to reduce expenditures. A percentage target was established to meet some established numerical requirement, and no further thought was put into the process. As a result, Manitoba Hydro now finds itself in a situation where an uncontrolled reduction in human resources have all but crippled the Utility's ability to perform the work and to provide the services that are its primary mandate. A program which encourages and supports the gutting of entire work units, departments, or locations, without any plan of how these areas will continue to function, is knee-jerk at best and irresponsible at worst.

At Manitoba Hydro's last rate hearing, we appeared before this body to argue in favour of the application. At that time, we raised concerns about flagrant inefficiencies within the Corporation. One

(1) such concern was the use of contractors to perform work where the Corporation had insufficient human resources to meet the demand. In our presentation, we highlighted the many weaknesses and negative aspects of Manitoba Hydro's inability to train sufficient numbers of employees needed to carry out its work. We also highlighted a number safety concerns that this deficit created. Whenever work in excess of Hydro's manpower capacity becomes necessary, the only recourse left to the Corporation is to rely on contractors with -- with less training to perform work on our generating stations and our distribution systems.

While using contractors gets the work done, it is invariably performed by people who have not been trained to the same level and standard, or in the same way as Manitoba Hydro employees. As well, contractors do not have the same commitment to Manitoba Hydro as do Hydro's own employees. Contractors have no ownership of, and do not have to live with the system every day. We have seen many examples of contractor work that does not come up to the standard expected and required by Manitoba Hydro employees. When contractors leave substandard work behind, its Manitoba Hydro employees and its customers that have to deal with it.

Today, while Hydro seeks another massive infusion of capital from Manitobans to cover its costs, it conse -- continues to increase the use of Province con -- of contractors to get the work done. While more money may be needed, it should be used to the maximum benefit of Manitobans within the Province. Funneling millions of dollars to contractors who then take that money and all of its economic spinoffs to other provinces is working against the best interests of Manitobans. Putting Manitobans to work, maintaining the workforce, and increasing workforce numbers where needed is the responsible way forward. This Board needs to guide the Corporation in this direction.

While the government and Manitoba Hydro fly the banners of fiscal responsibility and efficiency, there's a notable lack of creativity and innovation in their strategies. Every day, we see results of an operating model that has gravitated to basing every decision calculated solely on cutting costs. As an example, Manitoba Hydro managers have long said that engaging outside contractors is two (2) to three (3) times more expensive than doing the work in-house, yet despite this knowledge, no one has attempted to create a more efficient or responsible solution to the problem.

To back up that statement, I refer the Board to the terms of a contracted -- contracted work on the Winnipeg River system in 2015 and '16. During that period, Manitoba Hydro paid -- paid the contractor six thousand and thirty-four dollars ($6,034) per calendar week for the services of journman -- journeymen millwrights. Meanwhile, Manitoba Hydro staff with all those same credentials would have cost the Corporation two thousand and eight o-three (2,008.03), inclusive of all benefits, for the same week.

Manitoba Hydro willingly paid three (3) times it would have cost to use in-house labour. I inserted a little bit of a chart, there. If it was one (1) journeyperson, you'd see that there would be a savings on an annual basis of two hundred and nine thou -- thousand dollars ($209,000). If it was two hundred (200) journeypersons, which, when you look at the amount of work that's being contracted out of Manitoba Hydro, would probably be a -- a reasonable estimitation (sic), it would be a savings of forty (40) -- over $40 million dollars a year.

This Board has the power to grant Manitoba Hydro's rate application. It also has the power, as per section 77 of the Public Utilities Board Act, to place restrictions and conditions on the Corporation in return for any approval of a rate hike. It's inconceivable that this Board would grant Manitoba Hydro any rate increase it requests without attaching specific requirements to ensure that the Corporation's business practices going forward will truly protect Manitoba's ratepayers from fiscal irresponsibility under the guise of economic restraint.

Declaring that salary and benefit costs will be lower by reducing the in-house employment count, and then paying three (3) times as much to fulfil ongoing work requirements, is nothing short of fraudulent. Manitoba Hydro, like every other business, is a closed system. Taking money from one (1) area to pay for work in another area is not a real savings. It's a shell game.

If this Board is seriously concerned with the sustainability of Manitoba Hydro, it will mandate practices that will require the Utility to maximize the value of every dollar spent. If current practices continue, and if there's no access to additional revenues, Manitoba Hydro's plight will likely worsen. Reducing employee numbers as cost --

cost-cutting strategy will only exasperate the problem. Making up for the loss in employee numbers by paying three (3) times the normal costs will simply reduce -- reduce by two thirds (2/3s) the amount of work that could be accomplished in-house if the appropriate staff complement was in place.

A rate increase is necessary to help Manitoba Hydro overcome its manpower shortage and to reduce safety risk to persons and property, but such a rate increase by itself could further put the Utility at risk for Manitobans, unless accompany -- accompanied by some firm direction.

Simply throwing more money at the problem will not have the desired effect of maintaining an affordable hydroelectric rates in the Province. Granting the requested increase without conditions will give Manitoba Hydro carte blanche to continue current practices without any critical analysis of best practices. By so doing, the Board runs the risk of becoming an enabler of poor practices rather than a protector of Hydro's sustainability for all Manitobans.

At this time, our support for Hydro's application is for one (1) year only. It would be imprudent to grant a 40 percent rate increase over five (5) years without any check stop along the way to ensure that the increased burden for Manitobans is having the desired effect. Any further rate increase should be requested through this Board on the basis of a demonstrated need. Our support is also contingent on the Board exercising its discretion in requiring the Utility to curtail any further reduction in staffing levels, and to explore creative options for reducing exorbitant costs of engaging contractors.

Where such options exist, and where costs are kept to a minimum without compromising safety and responsibility, the Corp -- the Corporation needs to be directed to use them. As an example, Manitoba Hydro retirees who have the training, skills, and ability to perform the work, and who express an interest in performing work for the Utility could be hired as term employees at far more competitive rates.

An added bonus here is the quality of work, the sufficiency of training, and the familiarity with the whole -- the Hydro system would all be known by the Corporation when engaging retirees as potential contractors. And of course, there would be a -- no ongoing liability for benefits or further placement beyond the contracts expiry. This is but one (1) example of a creative approach to reducing costs while getting the work done. There are no doubt others, and Manitoba Hydro must be directed to explore these and use these wherever possible.

At the outset, I stated that a rate increase for Manitoba Hydro needed to be approved for a variety of reasons, and not just for safety. A second and related reason is protection of -- of the system's reliability. Without a rate increase, Manitoba Hydro's restricted ability to employ sufficient numbers will continue. This will ensure that Hydro does not keep up with infrastructure maintenance, and this will, in turn, continue directly impacting reliability of electrical service to Manitobans. A third reason why Hydro's application needs to be granted is to ensure that the electricity Manitobans enjoy is provided to them at an economical rate.

Unfortunately, what we're seeing now are the futes (sic) of merely interpreting 'economical' to mean 'cost-cutting'. We're already seeing Hydro's projection of huge rate increases for the next five (5) years. If any part of the current application is granted, the Board needs to direct Hydro to use it in such a way that all further escalation in rates is kept in check. Otherwise, the

Board is simply going to establish a pattern of charitable giving to Manitoba Hydro on the backs of Manitobans.

We appreciate the important role that the Public Utility Boards (sic) plays as a regulatory body charged with protecting the interests of all Manitobans. However, as with all complex organizations, Manitoba Hydro needs to have more than one (1) instrument in its toolbox. If the only requirement placed on Manitoba Hydro to balance its book -- books is to come before this body requesting a rate increase, then the system is broken. Likewise, if this Board -- Board determines that it'll only simply decide whether to grant an application or not, then it's crippling the Utility.

In closing, Mr. Chairman, we urge the board to go beyond simply approving carte blanche or rejecting this application, and to truly help Manitoba Hydro by providing it with the direction it needs to regain fiscal health without compromising the safety of employees and customers, and without diminishing the reliability and affordability of power in the province. By so doing, the Board will render the men -- render all Manitobans the highest level of service. Thank you for the opportunity to present today.

THE CHAIRPERSON: Thank you, Mr. Velie. I'll ask if there any questions from the parties. No? Anything from the panel members?

BOARD MEMBER GRANT: I was just -- I was just hoping to get some background. I -- IBEW would represent about how many workers? Or do you know what proportion of Hydro employees?

MR. MICHAEL VELIE: We used to per -- we used to represent over 50 percent of the employees of Manitoba Hydro. From 2006 to 2016 there's significant growth -- growth in the Corporation. I could say with quite a bit of confidence a year ago that we didn't represent half of the employees anymore.

But with the vert -- the most recent voluntary departure program, and those last employees left yesterday, my best guess would be we represent around twenty-six hundred (2,600) to twenty-seven hundred (2,700) employees right now. I'm not too sure even what the current employee count is at Manitoba Hydro effective today.

BOARD MEMBER GRANT: And would you have taken a -- a larger than proportional hit in the voluntary with --

MR. MICHAEL VELIE: We took the

largest hit. I believe the IBEW was approximately three hundred and four (304) positions.

BOARD MEMBER GRANT: Okay. And, sorry, last point was does IBEW make an effort to try to track contracting out or -- I -- I know it's a hard thing to try to quantify, but...

MR. MICHAEL VELIE: We -- we certainly follow it. We've negotiated language with Manitoba Hydro in the last couple of collective agreements. Whenever the Corporation is supposed to be -- whenever the Corporation is making decisions to contract out it's supposed to involve our -- our members. Our members are supposed to be notified of work that's to be contracted out. Not very often receive that. For example, today we received a notification from the Corporation and there is one (1) successful contractor that's received a large amount of work.

And there -- I think there's about five (5) other out-of-province contractors that have been approved for their -- it's like unit pricing, is -- is what it is. But, you know, I -- I want to make clear, like, we're -- we're not opposed to contracting out. We -- we see a need for contracting out at times, but we -- we believe it should also be a last resort.

You know, there's -- first of all,

Manitoba Hydro, we believe, should have the proper staffing levels to perform the daily operating and maintenance of the system. Our members at Manitoba Hydro we're -- we're in the north. We're the ones that are generating the power in the -- in the generating stations. We -- we distribute that power down to the south or transmit it to the south. We distribute it to all -- all of Manitoba Hydro's customers. We're the people that maintain the trucks.

When you look at that power outage that was taking place on Monday evening, you know, that -- that's not just linemen out there. That's linemen, it's haulage services getting our major equipment out to that job site. It's storekeepers, it's electricians, it's a massive undertaking. We all work interdependently for that success. So we -- we want Manitoba Hydro to have the proper staffing levels to do that on a regular basis.

That's not what we're seeing right now. When Manitoba Hydro has to start considering contracting out, we would like them to seek alternatives. Can -- can we create out of the crews that we have now, maybe special crews that could work ten (10) hour workdays throughout the summer, and people bid on those positions. And you -- you'd be restricted to taking maybe one (1) week's vacation or two (2) weeks vacation during our peak construction periods for people that bid onto these crews.

We -- you know, retirees. With -- with the most recent voluntary departure program. I -- I believe the cost of that is $55 million to Manitoba Hydro's ratepayers. You know, if you talk to any of these people that are retiring, a lot of them didn't want to retire.

But if they were given the opportunity -- and -- and there's other utilities in Canada that are doing this right now, that they allow a person to retire, but they'll hire them back as a term employee for up to two (2) years. And -- and as a term employee, they're not getting all of the same benefits. Essentially what they would be getting is their -- the rate of pay when they retired, plus their vacation pay and holiday pay, about 11 1/2 percent above that.

The total package for Manitoba Hydro employees is anywhere between 30 and 35 percent. So there's significant savings right there. And when -- when you look at the Corporation is willingly paying two (2) to three (3) times the amount, and you could do this with a term employee who has considerable knowledge of Manitoba Hydro, we -- we would -- we would expect Manitoba Hydro to consider those alternatives first.

THE CHAIRPERSON: Mr. Velie, can I go over a few things? I understand you've lost three hundred and four (304) employees.

Can you tell me what it was before and what it is now?

MR. MICHAEL VELIE: I don't have those exact numbers right now, but it would be twenty-nine hundred (2,900) to twenty-six hundred (2,600) somewhere.

THE CHAIRPERSON: Okay. And when you are suggesting that we put in a condition in terms of maintaining employees, are you talking about your members? Or are you talking about everybody who works for Manitoba Hydro? Because I assume there's quite a few people who don't work within your union.

MR. MICHAEL VELIE: Yeah. You know -- you know, half the Corporation is outside of the IBEW.

THE CHAIRPERSON: Right.

MR. MICHAEL VELIE: And certainly there are synergies across the Corporation. I'm not too sure what reviews are taking place. A -- a lot of the employees are kept in the dark right now. But, you know, again, what we expect is Manitoba Hydro to have the proper staffing levels for the day-to-day operation of the utility.

THE CHAIRPERSON: And I guess my final question is: Have you had any -- you or anybody else at -- at the IBEW had any of the -- any discussions with Manitoba Hydro with the suggestions that you've put forward for us today?

MR. MICHAEL VELIE: We've -- we've -- so when I indicated we've negotiated some language or we have these meetings in regards to contract. And we just recently had one (1) with our electrical construction department. And when we bring up these -- these type of solutions, it's -- it's made clear to us that the people in the room don't have the authority to discuss those. They -- they are given budgets. That's what they have to -- to operate with. They have no power or authority to hire anyone.

So we're going into negotiations later this year, so certainly we're going to be proposing some of these alternatives. But, you know, just on that, you know, and -- and we -- 2018 is our 60th anniversary at Manitoba Hydro for the IBEW. For the first fifty-five (55) years of -- of being at Manitoba Hydro, Manitoba Hydro was doing that work in-house.

And that resulted in Manitobans enjoying some of the lowest electrical ral -- rates in the world. So I don't know why you'd want to change that model.

THE CHAIRPERSON: So, Mr. Velie, thank you very much for -- for appearing today. We appreciate your presentation.

MS. MARLA BOYD: Mr. Chair, I'm sorry --

THE CHAIRPERSON: Sorry.

MS. MARLA BOYD: -- to interrupt. I didn't have any questions of Mr. Velie when he finished his presentation --

THE CHAIRPERSON: Okay.

MS. MARLA BOYD: -- but the recent exchange has prompted one (1) --

THE CHAIRPERSON: Okay. Certainly.

MS. MARLA BOYD: -- if you'll -- if you'll grant me permission.

THE CHAIRPERSON: Yeah. We've -- we've only got a couple of minutes, though, before the next --

MS. MARLA BOYD: I appreciate that.

THE CHAIRPERSON: -- presenters though.

MS. MARLA BOYD: Mr. Velie, subject to

check, would you accept that the take-up of the voluntary departure program among IBEW members was the lowest in the Corporation in the order of about 10 percent of its members?

MR. MICHAEL VELIE: As a percentage base, yes. Number based, we'd -- and obviously because we've got the -- the largest group of employees, and also when take into consider the people in the IBEW jurisdiction are probably the youngest employees of Manitoba Hydro, yes.

MS. MARLA BOYD: Thank you. Those are all my questions.

THE CHAIRPERSON: You get a second thank you, Mr. Velie. Thank you very much.

MR. MICHAEL VELIE: Thank you for your time.

THE CHAIRPERSON: The next presenter, sorry, will be Chris Hornby.

(BRIEF PAUSE)

THE CHAIRPERSON: Yes, please proceed.

CHRIS HORNBY, Sworn

THE CHAIRPERSON: Good afternoon, Mr. Hornby. Just to start, if you could take about ten (10) minutes for your presentation and then we'll see if people have questions for you.

MR. CHRIS HORNBY: Sounds good.

THE CHAIRPERSON: Thank you.

PRESENTATION BY MR. CHRIS HORNBY:

MR. CHRIS HORNBY: To introduce myself, I'm Chris Hornby. I'm the current president for the Interlake Recreation Practitioners. And thank you guys for the opportunity to present to you about our concerns with the rate application.

So the IRPA is a relatively new organizationally. We've developed out of a -- sort of a monthly informal meeting of the -- the rec directors of the Interlake, and we're trying to become more formal and conduct training advocacy, those kind of things. Advocacy is obviously something new for us.

The rate increase, we're concerned about it. We're worried about its impact on the ability of our members to continue offering the -- the wide range of recreation programs and services and the facilities in the Interlake and the province as well. So obviously recreation is an important aspect in quality of life through our communities.

Our Interlake region holds a variety of recuta -- recreation opportunities, facilities, and operating structures, approximately a hundred facilities across the region. And our models run from municipal departments to municipally owned infrastructure to board-governed operations to facilities that are entirely owned and operated by non-profits. The smaller communities and the non-profits are a primary concern for the rate increase because they have no fallback position if -- if it goes through. Some of them will -- they have no ability to raise the funds or continue operations.

If the rate increase goes through my quick back-of-the-napkin math says it's about 46 percent if they get the five (5) year increase that's been requested. Our members feel we could lose between twenty (20) and fifty (50) of our facilities across the region, you know, out of a hundred. We're expecting many of them to shut. And that's just sort of an informal survey of our -- our membership and some of our municipal members.

An arena, for example, would see operating costs increase around twenty thousand dollars ($20,000) as an average, just on the Hydro rates. And for those of you in minor hockey that's can relate back to about a thousand dollars per team extra for a season. The ability of fili -- facilities to make up the difference on the increased rent -- rental rates is sort of self-defeating in our -- our world. We're -- we're looking at people that will have to go back to the community to either fund raise more or charge their members more. Basically pull money out of our communities and our programs and send it to something we can't effect.

On the other side we've lost support from Hydro as well recently. In past rate applications there was a program put in place at one (1) point in time where Hydro was advertising in each area and arena curling club, and that was something that's been cut recently. Some of the longtime recreation staff have told me that came in after a rate increase application years ago and it was sort of, We'll help you out a little bit. And that's been discontinued.

Although, we did notice that Hydro is still funding many festivals and events and other organizations, but took the recreation funding out. From Global News they reported over a hundred thousand dollars in Hydro sponsorship to the Jets recent -- for the last fiscal year. But we don't have any -- anything back to our local non-profits.

So we'd like you guys to take a long look at this, consider how it impacts, you know, small communities, the rink, the curling club, the -- the community centre, and how that impact on recreations is going to roll out across the province.

We'd like to make the Board aware of some of the other cuts we've been receiving, too, just as recreation as a whole cuts have been across the province, but we did lose recreation funding from the province, and our recreation opportunities program was cut. We lost a training allocation that was entirely eliminated. Recently we lost the Manitoba Community Services Council. The Hydro rates would just be compounding cuts on cuts on cuts, and we're -- we're really concerned.

So to summarize 46 percent, it's gonna cost us a lot. We're definitely going to lose facilities. We are really concerned with the rate increase. I don't know if we can affect it at all, but we'd like to come and just state our case for it. And it's going to reduce the availability of recreation programs and services across the Interlake region for sure and across province as well. And the ones that are left, we're going to have to redirect funding from frontline programs and services into paying the bills every month. Thank you, guys.

THE CHAIRPERSON: Thank you -- thank you very much, sir. Are there any questions from any of the parties, the panel? Questions? The -- the fast -- fast finger at the end will ask you a question.

BOARD MEMBER GRANT: Actually, I found this quite interesting because I think of the various people we've talked to it's -- it's -- and helpful to find out how people would respond to rate increases and whether they could substitute, you know, a way from higher electricity prices.

Could you -- maybe with an arena or something like that, how important is electricity cost to the overall operation? I -- I assume --

MR. CHRIS HORNBY: For the -- for the rinks I'm familiar with, anywhere from 20 to 40 percent depending what their -- their rentals are. When you look at rec buildings, they're very variable depending who's using it and ow many hours. I always look for about a thousand hours in an arena, but some of our smaller communities, they might only have five hundred (500) hours of -- of ice time rented out in a year.

You know, as our organization, we have brought Power Smart in to -- to talk about the programs that are available, the lighting programs and the -- the arena energy audit, and those things. And they're very useful. But unfortunately, we still have to turn that big compressor and turn that motor and that's what we need to make the ice and keep the lights on.

And again, many of our facilities, they don't have an option. It's -- its electricity. Lots of our communities don't have gas service, and they're using electricity for heat, electricity for lights, and electricity to make ice.

BOARD MEMBER GRANT: And so on the revenue side, how much -- would you be covering your costs through rentals or are you dependent upon some sort of municipal transfer or...

MR. CHRIS HORNBY: I believe everybody is subsidized in some way, shape, or form. It depends on the community and how much they want to invest into the recreation.

BOARD MEMBER GRANT: So if -- if your -- if your electricity rates went up you could attempt to pass them on in rental rates?

MR. CHRIS HORNBY: We could attempt to pass them on. In my case, I would be looking at about twenty-five (25) to thirty dollars ($30) an hour additional for ice time based on the -- the rate increase as proposed. Some of the other ones might be more, some might be a little bit less.

BOARD MEMBER GRANT: Thanks very much.

MR. CHRIS HORNBY: Welcome.

THE CHAIRPERSON: Sir, if I could go back. Interlake Recreational Practitioners Association, how many members in your group?

MR. CHRIS HORNBY: I think we have twenty (20) paid members right now. We have representation from basically all the municipalities and -- that have paid -- paid staff looking after recreation. So that's a combination of municipal staff and some are -- are board-governed staffed in the case where there's a -- there's one (1) or more principalities that'll form what they call a rec commission.

THE CHAIRPERSON: And is the primary recreational facility, then, an arena in each of these communities?

MR. CHRIS HORNBY: From my count I think we have eighteen (18) arenas in the Interlake region.

THE CHAIRPERSON: Okay.

MR. CHRIS HORNBY: A rough guess is about a hundred facilities altogether, in everything from small community hall that's 2,500 square feet to, you know, the full on arena like -- like Selkirk or Peguis would have built.

THE CHAIRPERSON: Okay. Now, you mentioned -- and I -- I'm not sure I caught this correctly, but for an arena, you said that your -- that the portion of your costs would be about 20 to 40 percent for electricity? Did I get that correct?

MR. CHRIS HORNBY: Yeah.

THE CHAIRPERSON: Okay.

MR. CHRIS HORNBY: Depending on staffing and how busy it is.

THE CHAIRPERSON: Okay. Now, I don't know if you were here when I spoke before. This application -- the application before us is to confirm two (2) interim rates, 3.36 percent for 2016 and a 3.36 percent interim rate for 2017, which I assume you've been receiving in your bills. And 7.9 percent for one (1) year. There's -- there's continual reference in the media and else -- elsewhere for -- for five (5) year rate increases.

MR. CHRIS HORNBY: Okay.

THE CHAIRPERSON: The -- the increase before us is simply one (1) year --

MR. CHRIS HORNBY: Is just the current year?

THE CHAIRPERSON: -- and then Manitoba Hydro comes back and applies for a rate which is either higher or lower or the same or whatever --

MR. CHRIS HORNBY: That's fine.

THE CHAIRPERSON: -- that's -- that's up to them. Going forward, rather than this 46 percent, if it was raised 7.9 percent next year for a year -- for year time frame, do you have any idea what that would do for your -- for your costs for your arena?

MR. CHRIS HORNBY: For my operation, I'd be looking at about eight thousand dollars ($8,000).

THE CHAIRPERSON: Okay. And what would the -- what would the total expenses for your arena be?

MR. CHRIS HORNBY: My arena, we're a combined building, so it gets a little bit more difficult to source out.

THE CHAIRPERSON: Okay.

MR. CHRIS HORNBY: But I'd be looking about 25 to 30 percent as my utility costs.

THE CHAIRPERSON: Okay. And has -- has the cost of your programs -- do you increase them every year or -- or what's the frequency of increasing the cost --

MR. CHRIS HORNBY: We try to do an annual review on it.

THE CHAIRPERSON: Okay.

MR. CHRIS HORNBY: I have done the lighting upgrade, so I've changed all the lights in every building we have over to LEDs to reduce our costs. I've spoken with the -- the energy advisors to -- to operate more efficiently, and we will be looking at reducing the number of months that we -- we offer artificial ice.

THE CHAIRPERSON: Okay. Those are my questions. Do you have any more questions? Mr. Hornby, thank you very much for --

MR. CHRIS HORNBY: Okay.

THE CHAIRPERSON: -- attending. We appreciate --

MR. CHRIS HORNBY: Thank you guys for having me.

THE CHAIRPERSON: -- we appreciate

your assistance. We're going to take a break now for -- we're a little early. I'm just wondering if we can come back in twenty (20) minutes. So we'll -- we'll resume at the ten (10) to -- ten (10) to 3:00. Thank you.

--- Upon recessing at 2:32 p.m.
--- Upon resuming at 2:49 p.m.

THE CHAIRPERSON: Thank you. We will now proceed with a panel of members from the Manitoba Industrial Power Users Group, and I call on Dale Bossons to introduce the members and then Mr. Simonsen will swear them in.

If you could introduce either Mr. Bossons or you could introduce yourself and just indicate who you work for and your position. Thank you.

MR. DALE BOSSONS: My name is Dale Bossons and I'm actually going to ask my -- my members here to introduce themselves quickly so I make sure I don't mispronounce any names.

MR. MICHAEL ST. PIERRE: Michael St. Pierre from ChemTrade.

MR. DARREN MACDONALD: Darren

MacDonald from Gerdau.

MR. GERALD SAMUEL: Gerald Samuel from Koch Fertilizer, Brandon.

MR. MORGAN CURRAN-BLANEY: Morgan Curran-Blaney from Maple Leaf Foods.

MIPUG PUBLIC PANEL PRESENTATION:

DALE BOSSONS, Sworn

MICHAEL ST. PIERRE, Sworn

DARREN MACDONALD, Sworn

GERALD SAMUEL, Sworn

MORGAN CURRAN-BLANEY, Sworn

MS. MARLA BOYD: Mr. Chair, just before the presentations begin?

THE CHAIRPERSON: Yes, ma'am.

MS. MARLA BOYD: Could I note for the record that we listened with interest to Mr. Hacault's comments before the Business Council appeared this morning -- or earlier this afternoon and we echo many of those same comments.

We did not have the opportunity that Mr. Hacault was afforded to review the presentations of the people that are about to make presentations because they arrived at 1:09 today. However, some of the same concerns which were raised by Mr. Hacault and echoed by the Coalition are of concern to Hydro as well.

There is no opportunity for pretrial discovery of any of the statements that are contained in the presentations that you're about to see, and accordingly, we would suggest that they be given the same considerations in terms of weight that Mr. Hacault was advocating earlier today.

THE CHAIRPERSON: Mr. Hacault...?

MR. ANTOINE HACAULT: Yes, my comments were specifically directed to the fact that there -- the witness on behalf of the Coun -- Business Council of Manitoba was identified as an expert.

And my comments should reflect on the transcript that I had no issue with respect to him testifying with respect to other matters but with respect to matters in which there was purported expert advice for which he was approved as an expert, that's where I indicated that there should be limited weight given to any such purported expert advice or evidence.

THE CHAIRPERSON: Thank you. The Board has discretion to determine what weight it gives to its -- to witnesses, and we'll, with these witnesses as with other witnesses, use that discretion.

Mr. Bossons, could you proceed. We have until approximately 4:00 p.m.

MR. DALE BOSSONS: Okay, thank you. Mr. Chairman, members of the Board, I would first like to thank the Board for granting us the opportunity to speak before you today. My name is Dale Bossons, I am the current chair of the Manitoba Industrial Power Users Group, and I am in attendance today, along with four (4) of our MIPUG company members to express to you our thoughts and concerns regarding the rate request currently before the Board.

Slide 2, please. The Manitoba Industrial Power Users Group or MIPUG is an association of twelve (12) major industrial power users representing over 6,000 full-time jobs spread throughout the province. Our members operate their businesses across Manitoba and are often the key employers in their communities.

Slide 3, please. This association has acted as an Intervenor representing the interests of industry and our employees before this Board on many occasions over the last thirty (30) years. Our intention is to provide a fact-based perspective that considers the needs and impacts of electrical power supply and its cost to our members.

One (1) point of note -- of interest is that MIPG membership has grown considerably over the last eighteen (18) months as companies have become increasingly concerned in regards to the potential electricity rate increases will have on their companies and are looking for representation to have their voices heard.

Slide 4, please. MIPUG's core focus specifically on electricity rates and the reliability of supply. We are not opposed to rate increases, in fact, we have openly supported rate increases in the past. We recognize the need for reinvestment 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 and with a long-term outlook to the lifespan of the assets. We desire rates that are fairly distributed across classes. We encourage the inclusion of options to assist energy intensive businesses with mutually beneficial cost mitigation programs such as the curtailable rate program, which is currently capped, and we seek stable predictable energy rates that allow us to manage our business and plan for our futures.

Slide 5, please. And why does any of this matter? It matters because the economic contribution that MIPUG members represent is very important to the province of Manitoba. As mentioned earlier, MIPUG members employ over six thousand (6,000) Manitobans with $345 million in salaries and an additional $72 million in contract labour costs, representing an additional thirteen hundred (1300) jobs. We contr -- we contribute $223 million in taxes and have invested over $6.4 billion of capital into the province. We are high contributors to the local province -- province's GDP and provide $165 million per year in revenue to Hydro. We are an integral part of the province's economic engine and we help to bring prosperity to our province and its citizens.

Slide 6. The impact of these proposed rate increases to our members is potentially game changing. Over the next ten (10) years the difference in costs to the operations of the GSL classes we represent of the proposed 7.9 percent compared to the previous 3.9 percent rate increase that has been brought before this Board is almost $850 million.

We have one (1) member company here

today that will incur additional costs of over $170 million due to the proposed rate increase. This will impact decision-making regarding future investment in these operations and, for some, it threatens their very future.

A concentrated load impact resulting from a load reduction or a plant closure has not even been considered in Hydro's models, as far as we are aware.

Slide 7, please. For many MIPUG members energy costs were the reasons that their companies invested in the province in the first place. For some energy intensive industries, electricity makes up a very high percentage of the operating cost. For these commodity businesses, there is very little opportunity to pass along these rate increases.

Manitoba is a province that has many challenges from an industrial operational perspective. We're often far more -- we are often far from our markets. We operate our plants in challenging conditions. We struggle to find highly skilled employees and we find that there are limited oper -- options to allow us to offset our energy costs.

We have chosen to invest and grow our businesses here, partially, due to what has traditionally been a favourable electricity rate. This Manitoba advantage is currently under threat. Today we have four (4) of our member companies here to express to you their direct concern: ChemTrade Logistics, Maple Leaf Foods, Koch Industries and Gerdau Long Steel. All twelve (12) members would've gladly spoken today, but our time is limited. I believe ChemTrade Logistics will speak first.

THE CHAIRPERSON: Thank you.

MR. MICHAEL ST. PIERRE: Thank you, Dale. Dear Mr. Chairman and members of the Board.

Slide -- just go to slide 2 if you can, please. Thank you. My name is Michael St. Pierre, a group vice-president with ChemTrade, a Canadian domiciled company with sales of $1.5 billion and listed on the Toronto Stock Exchange. We operate more than sixty (60) facilities in North America. Our facility in Brandon, Manitoba is the largest plant making sodium chlorate in the world, and as such, it has high global visibility.

We have grave concerns regarding the effects of the excessive proposed electricity rate increases, as well as the reasons offered to underpin Manitoba Hydro's rate proposal. My comments today will -- will address two (2) main areas:

First, the economic contribution that are Brandon facility generates and the detrimental impact these costs increases will have.

Secondly, our perspective and concern regarding the long-term effect of multiple aggressive power rate increases on Manitoba's image as a desirable jurisdiction in which to invest and expand business.

Slide 3, please. Sodium chlorate, the product manufactured at our Brandon facility, is used almost exclusively in the bleaching of wood pulp. Used to produce paper, tissue and other products. A commodity market where everyone competes globally on delivered costs. Costs are driven by raw materials, economies of scale and transportation costs.

Slide 4, please. Sodium chlorate is produced by an electro chemical process whereby sodium chloride, or table salt, is combined with water and is then exposed to electrical power. This process is used -- uses electricity to transform the salt into sodium chlorate. The importance of electrical power to our process cannot be overstated.

The electrical power is the dominant raw material for our -- for our sodium in Brandon, accounting for 70 percent of our raw material or our variable manufacturing cost. Every 1 percent increase in the price of electricity has a negative impact to our costs of more than $700,000 a year.

The rate increases being proposed signify a $5.6 million increase to us in year one alone. This is staggering. Similarly, a reduction in our production rate of 10 percent would result in a $7 million revenue that will be forgone to Manitoba Hydro. Electrical power is such an important raw material for us that we have had discussions over the years with Manitoba Hydro to understand their views, outlook and direction before we made any investment to expand our economies of scale. We sought input from Manitoba Hydro about the benefits we could bring the power system of Manitoba and their future capacity and rate forecast.

There are no customers for chlorate in Manitoba and, therefore, all of the product manufactured in Brandon, some 320,000 tons of sodium chlorate annually, is shipped outside the province. Seventy-five percent of this is shipped into the US. ChemTrade currently operates three (3) sodium chlorate facilities in North America. This time last year we actually had four (4). In 2017, unfortunately, we closed one of these facilities because of the noncompetitive cost position.

Decisions to invest and grow the Brandon facility has always considered the significant disadvantage of weather and geography countered with the excellent cooperation and long-term view of support of Manitoba Hydro. We are having to re-evaluate this equation, again, for ongoing investment decisions in light of Hydro's actions and our corresponding loss of confidence in the future.

Next slide, please. Slide 5, yep. Our Brandon plant celebrates its 50th anniversary in 2018. We are very proud of this and our history of collaboration and benefits for Hydro and the province. Our facility is a significant contributor to the economy of Brandon and with the province.

In addition to consuming approximately 5 percent of the province's electrical load and providing over $70 million a year of revenue to Manitoba Hydro, the facility contributes $600 million to the Canadian GDP. It contributed more than 130 million direct benefit to Canada; two-thirds of which stays in the province and 13 percent of which is Brandon itself.

We spent approximate $10 million a year on capital at the facility and would like to spend more. In 2016 we paid more than $2 1/2 million dollars in taxes and the average salary of our workforce is significantly higher than the 2015 Manitoba median family income. We provide strong support as well at sponsoring community organizations and activities.

Slide 6, please. Needless to say, our Brandon plant has not just happened. It has been planned. It has been purposeful. It has been transparent and it has been mutually beneficial.

While Brandon is our largest chlorate plant, we do use our three (3) plants as part of a system. We have the ability to shift production within the system and will continue to actively manage our system to obtain the lowest delivered cost to our customers.

Obviously, any shift of production out of the province is lost revenue for Hydro, as well as the rest of the province. We will spend a certain amount of subsistence capital for sure, as long as the plant operates. And we have publicly announced intentions to invest an additional $50 million into our facility. These discussionary investments have plans and timelines to implement.

However, we find it difficult to

proceed in light of the numerous and significant electricity cost increases announced by Hydro. We, and our competitors across North America and internationally, are watching what Manitoba will do. The signal PUB will send to industry regarding current rates, as well as future projected rate increases, will clearly signal the province's desire to compete with other jurisdictions and attract competitive and additional investments. The world is watching.

Slide 7, please. Our competitors operate in different geographies and they too are driven by their delivered cost. We see moderate tariff increases or none at all in many competing jurisdictions. As per IHS, a consulting company, the largest chlorate producing countries in Europe are seeing decreasing power costs in 2018 and 2019.

Furthermore, in the US, many jurisdictions allow for large consumers electricity to pay lower than published tariff -- tariff rates and that is achieved through private, confidential contracts. Economic activity is key to the province's future success and the zero-sum game being proposed by Manitoba Hydro is detrimental to all stakeholders. We need to consider North America and global competitiveness.

Slide 8, please. Our discussions with the executive levels at Manitoba Hydro left us with two (2) impressions: Executive seem to assume that driving excessive rates at Hydro will automatically benefit the province as a whole. We have two (2) comments to make about that assumption.

First, we would've thought that the provincial elected government and not Hydro executive were the proper representative -- representatives of the citizens of Manitoba.

Secondly, the Hydro executive seem to assume that a Hydro rate increase would benefit the province without any consideration of a potential reduction in current or future economic activity that increased Hydro rates could create.

Furthermore, Hydro purports that they needed to make successive substantial rate increases to act like a publicly traded company and restore its balance sheet through increasing the retained earnings.

There are numerous comments we can make about this as well -- this assertion, but we will only make a few.

First, Hydro is not a public publicly traded company, and there is no mandate from the province, that we know of, that directs the Hydro executive to act as a public traded company. Further, many of their actions are contrary to how, in our view, a publicly traded company would operate. For example, Hydro's decision to keep investing in the Keeyask dam despite BCG's report stating that could have stopped is inconsistent with a publicly traded company decision. It would've saved 3.4 to 4.2 billion in extra costs for power that was not needed and has no return. A public -- publicly company -- sorry, a publicly traded company would have made a decision to stop, despite the sunk cost. We believe they did not stop this investment precisely because they are not a publicly traded company and believed they could pass on these costs to ratepayers.

In addition, the focus on balance sheet retained earnings is ill-conceived. Others will comment with more expertise on this subject, but the wholly arbitrate timeline to build retained earnings driven by an artificial and noncommercial assumption of asset life leads to nonsensical nonpublic company actions.

Slide 9. The energy market is changing fast. We see global changes across North America and here in Canada. Solar energy is moving down the cost curve even faster than wind has done previously and the future of the energy market is lower cost not higher.

In our dealings with Manitoba Hydro, we have not heard any long-term competitive strategy. Higher rates will only speed up alternative thinking and decrease economic activity in Manitoba and discourage new businesses from locating here.

We fear that significant and multiple rate increases will drive industry out of the province and decrease the baseload electricity demand that the province currently enjoys. This will place even more burden on those of us who want to live, work and operate in this great province.

Manitoba has a truly huge opportunity. It has the opportunity to use its plentiful green power, which also happens to have low incremental cost to attract and grow the economic wealth of the province over the long-term. This conversation needs to happen, and we believe the PUB has a distinct role to play.

We need Manitoba to a place where doing business is a good thing for all. The path forward cannot be insular and must recognize the changing environment which we are all competing over the next ten (10), twenty (20) and fifty (50) years. We are looking to the PUB for leadership and a clear signal to what investment atmosphere you're looking to establish.

Slide 10. In summary, we believe that the reasons given to increase rates by 7.9 percent compounded over multiple years is flawed to the core. We believe that Hydro is not and should not act as a public -- publicly traded company. It is not one. Further, its actions are not consistent with those of a publicly traded company and its economic assumptions have no basis and commercial reality.

We believe that more electricity demand is good for Hydro and the province. Massive increases in rates is not the way to encourage that. In fact, it is contradictory to achieving that goal.

We believe Manitoba has a competitive advantage with a low cost, green electricity -- electricity supply and should use this as a tool to drive economic growth in the province in a fast changing marketplace.

Finally, in addition to those statements applicable to all industry, we believe that the electro chemical industry must continue to be encouraged to produce in Manitoba. At a time when

Hydro is worried about the out-of-province sales of power, the production of chlorate in the province for sales outside is effectively a long-term efficient sale of power to geographies not reachable by Hydro directly.

The industry has, and can continue, to facilitate these notional power sales without any additional investment by Hydro and infrastructure to reach those distant geographies. The battle cannot be between Manitoba Hydro and Manitoba industry in the zero-sum game.

We urge the PUB to help set a path forward which allows for cooperative effort to attract business by utilizing the green and low cost electricity supply as a strategic tool. The markets are changing quickly, and we need your help not to only remain relevant but to thrive and drive growth. The electricity rate must be kept as low as possible to ensure a relative cost advantage and to offset geographic disadvantage. Thank you.

THE CHAIRPERSON: Thank you, sir. I think what we'll do is we'll hold questions from everybody until the panel's finished.

MR. DARREN MACDONALD: Good afternoon. I liked to thank the Board for allowing a energy intensive and trade exposed company to address the Board with -- with a -- an industrial manufacturing perspective. And when I say "energy intensive trade exposed," I'm referring to a company that has a high degree of exposure to electricity prices, and it has no ability to pass through incremental costs to our customers because we're trading a commodity that's traded globally. So I just wanted to start with that -- with that perspective.

My name is Darren MacDonald. I'm the Director of Energy and Environment for Gerdau Long Steel North America. We have facilities, twenty (20) of them, spread between Canada, US and Mexico that I have responsibility for.

And me -- behind me is Gavin Tobin, vice-president of the Selkirk facility, in case we have some -- some questions after that -- that get into business, local business. Gavin's here to also support me with those specific questions.

So, Gerdau itself is a -- a mini mill steel producers, that means we are a recycler by -- by design. We are the second largest mini mill steel producer in North America. We have a capacity of about 10 million tons of finished steel capacity. We employ about 10,000 people, and we are one (1) of the largest special steel suppliers in -- in North America. You can see on the -- on the chart there the -- the types of products that we make; rebar, angles, channels, that sort of thing.

Next slide, please. Gerdau has a global presence. You can see on this chart mostly North and South America but we have sixty (60) steel mills worldwide. And we have invested and continue to invest where we have a low cost structure, and that's very, very important. We need -- it's where we have one and where we look to the future of a stable and competitive cost structure is where we make investments.

Internally, I have the responsibility to make my management team aware of anywhere where we see a risk to that stable cost structure, and I can tell you that Manitoba is now on the list for the first time in -- since I've been in charge of the -- the position which is 2001 until today.

So it is now both rising electricity costs and the potential carbon tax impact on our location here in Manitoba that are -- are two (2) concerns for us. We have a large exposure to natural gas costs and logistics. So that's why the carbon tax is an issue for us as well.

Next slide, please. So this slide's talking a little bit about history. The facility here in Selkirk's been in -- in operation since 1907; acquired by Gerdau in 1995 and -- and continues to be operated by Gerdau. You can see on the right-hand side the contributions to the -- social responsibility contributions that the facility is making and some of the products that the mill makes in the bottom left-hand corner.

Next slide, please. So this is where I'm -- I'm talking about the recycling facility. You can see on the far left that we take cars and - car bodies and -- and appliances, we shred material and we feed that shredded material into an arc furnace. The arc furnace is 50 megawatts of electricity and that's the main input to converting the scrap material to molten metal. We take that molten metal and -- and cast it into a billet and heat that billet up to the -- the right temperature for rolling into those products that we -- we saw on the previous page. So we have a very large impact of -- of electricity costs on our overall manufacturing costs.

We ship the remains -- we ship the product out on -- on rail or by truck and so some of our -- our costs of doing business in Manitoba since a lot of the product gets shipped to the US is transportation related.

Next slide, please. Economic impact in the province. So $44 million in wages; half a billion dollars -- half a million dollars in property tax; 13 million in -- in Capex Invested; and a $8 million a year power bill.

For sensitivity understanding, $.01 cent per kilowatt hour change in electricity costs means $1.8 million a year to our bottom line. We have four hundred and thirty-six (436) employees at the steel plant, and an additional three hundred (300) employees at downstream locations that are basically customers of ours because we are located here in Manitoba. So, they are dependent on us -- us being here.

We also support other -- other Winnipeg-based industries, a little over seven hundred and twenty-one (721) vendors in the province of Manitoba. So a significant buy in the province.

As I said before, we rec -- we recycle four hundred thousand (400,000) tons of scrap per year. Without us being here that material would have to go offsite, out of province. And we have over a hundred and fifty (150) trucks and twenty-five (25) railcars per week feeding that facility.

Next slide, please. This is the problem slide. This -- grey bars on this chart is Gerdau's actual cost of electricity at the twenty (20) facilities in North America, our average cost. And you can see that in 2016 -- as of 2016, we've had year-over-year decreases in North America. Low natural gas prices, the influx of wind power and solar power in the regions that we operate our making Manitoba's cost look higher and, quite frankly, are higher in comparison to the average.

So what we've done on this slide is taken the 7.9 percent increases year-over-year for five (5) years and showed how that compares to the forecasts of price in our other locations. Of course, it's a forecast so the grey bar is based -- based on the fact that we are seeing more wind, more solar, which is free energy and seeing the -- the gas prices in the -- in the forward curve to be fairly flat. This is our forecast to the future.

So this one is deeply concerning for us. This is why Manitoba's on the risk alert awareness for our senior management team. And I can tell you that if we see a situation like this, Gerdau has twenty (20) facilities in North America, we can --

we can make investments at any one (1) of those and those Capex decisions are based on where we see a bright future and -- and a good return on that investment and this is a concern for us.

If you don't invest in a steel mill significant investment year after year, you start a downward spiral, because that facility becomes less competitive with the remaining facilities. And we have the ability to shift our production to other facilities and -- and we do that routinely.

I'll -- I'll make a comment not -- not as a threat but just as a reality. In 2007 I had to make this same sort of report to our senior management team for facility in Perth Amboy, New Jersey, and in large part due to our electricity cost situation in forecasts in that situation we shut that mill down. So, electricity costs are really important and can have a very big effect on where we invest and -- and which mills we continue to load or operate.

Next slide, please. Having said that, Gerdau does everything in its power to control our costs. We have sixty (60) facilities worldwide, as I said. We have specialists that -- that go from mill to mill to mill helping us reduce our costs, helping us manage our efficiency, helping us operate those facilities as cost-effectively as we can.

And just as an example, we control the demand in -- in our facility here in Selkirk. The demand charge, the rate structure in Manitoba is actually punitive for us. We're a cyclical business. In a downturn economy we pay a demand charge that is significant; where other locations we pay on a total variable basis, this one, hits us when we're down and so the -- the rate design is tough on -- on a manufacturer.

Energy efficiency. We do everything we can, as I said, to -- to lower our costs.

Curtailable rate program. The Manitoba facility is the only one that we have in North America that does not have an opportunity to manage its cost using a curtailable rate. We have demand response opportunities -- a whole host of them. We have interruptible contracts. We have some way to manage our costs or get credit for our ability to interrupt in every jurisdiction we operate in North America except here. So that's a significant difference and it's -- it -- it leaves us with no way to -- to control our costs.

The time-of-use rates was a proposal that we supported and -- and were very interested in.

I know that Manitoba Hydro worked hard on that, got it Board approved but was never implemented.

And incentive rates. I can tell you there's jurisdictions that we operate in and I gave an example here in TVA, Tennessee Valley, there's a Valley investment initiative that provides an economic incentive based on your FTEs, full-time equivalents; the Capex that you put into your plant; how much electricity consume; all of those are -- go into their black box, but they -- they provide you a significant reduction in your electricity bill for operating and making investments in -- in their jurisdiction.

Next slide, please. So what can be done? Number 1, we appreciate the -- the reduction to the rate increase request down to 3.46, but even -- even increases at that level hurt our competitiveness going forward.

We -- we're looking for more risk sharing. If you look at these -- these bullets in the top paragraph here, "reduce or eliminate the hundred basis points added for the Hydro debt guarantee." It used to be fifty (50).

Corporate capital tax reduction and elimination of that for Keeyask or the new transmission lines, plural would -- would -- would help reduce costs.

Reduce water rental fees. When we look at just those that is $0.18 of every dollar we pay on electricity goes to just those bullets. So we're being, you know, we're making a large contribution and effectively tax in -- in those three (3) bullets alone.

The fourth one is, you know, this debt/equity ratio of going for a twenty (20) year lifespan over which to get to a 75 percent debt level is, in our opinion a lot -- a lot more in line with the life expectancy of the equipment and doesn't hurt -- harm ratepayers by jamming -- frontloading the costs.

Industrial rates, I talked about those three (3) options already. Something that we could do here, look at each one (1) of those components.

And I'll leave you with a final issue for us. The first quarter of 2014 where we had the polar vortex and we -- we saw those outlandish electri -- or sorry, natural gas prices. Those also hurt the energy intensive trade exposed companies and so keeping an eye on the efforts at the NEB to maintain lower and stable rates for natural gas is helpful as well.

So thank you, and I'd be happy to answer any questions later.

MR. GERALD SAMUEL: Mr. Chair, members of the Board and others. I'm Gerald Samuel, I represent Koch Fertilizer Brandon as a member of the leadership team.

I would like to start by providing an overview of our Brandon plant and continue with the role of energy in our business and close with the current issue and challenges that are coming out of Manitoba Hydro rate increase.

We are a continuous operation plant. We produce anhydrous ammonia, urea and other fertilizers. In 2017, we achieved a milestone of fifty (50) years of successful operation in Brandon. We provide employment to more than two hundred and fifteen (215) permanent employees and contractors. We also employ more than one thousand (1,000) contractors during out plant shutdowns, periodic plant shutdowns.

We are close to our market, but we are far from natural gas generating -- generating source. We are part of a network of five (5) fertilizer plants. The only one (1) in Canada. Our shareholders have shown willingness to invest in the Brandon plant. Recently, we had a start-up of a $30 million air machine. It's an example.

Brandon needs to be competent within our fleet of plants for future sustaining capital investments. Shareholder -- shareholders would rather invest into other locations with higher internal rate of return.

What's the role of energy to Koch? Electricity and natural gas are the (2) key energy sources for the operation, and natural gas is also a process feedstock for us. Electricity is a substantial input to the operation, about 20 percent of our cost, utility cost. If the cost of electricity increases, there is minimal opportunity to reduce our load. There's no option of switching suppliers.

So the issues and challenges, there is a general concern about high ongoing regulatory cost in Canada. No ammonia plants have been installed in Canada during the latest business cycle. Implementation of carbon tax in Manitoba and Canada, federal multisector air polluting regulations may require potential upgrades to existing boilers and heaters in our plant, running into millions of dollars. Clean fuel standard initiatives are being proposed. Now, increased Hydro rates that's coming over and above all this, that's an adverse impact of over -- it's -- it's a more than $20 million in the next ten (10) years, this proposed increase.

The impacts -- significant impact on cost structure, which will negatively affect the attractiveness of capital investments, and ultimately impact the long-term competitiveness of the site. The nature of ammonia technology provides limited opportunity to offset any electrical rate -- electrical rate increases through energy reduction.

So the take-away that I would like to leave with you is fertilizer is a global market. Increased regional costs through higher rates or taxes cannot be passed along to customers, and it affects our competitiveness. Thank you.

THE CHAIRPERSON: Thank you, sir. Mr. Curran-Blaney?

MR. MORGAN CURRAN-BLANEY: First of all, thank you for allowing us to come here and -- and speak to you and present. I'd like to present Maple Leaf Foods.

So we can go to the next slide. So I'll just give you a quick company overview. Maple Leaf Foods is Canada's leading consumer packaged goods company. We've got operations all across Canada, and we export our -- our products to twenty (20) global markets, including the US, Mexico, and Asia. In the Province of Manitoba alone, we have five (5) feed mills, over a hundred barns, a prepared meats facility. We have the largest primary processing plant in Canada. That's where I'm from. And we also have a regional office.

In Manitoba, we employ approximately four thousand (4,000) people. That represents almost one-third (1/3) of Maple Leaf's workforce. We represent approximately $753 million in direct economic benefits, and approximately one (1) and a bil -- $1 1/4 billion dollars in indirect economic benets -- benefits to the Province.

Slide -- so the Brandon plant, we're -- we're about 650,000 square feet. We sit on 320 acres. Like I say, we're Canada's largest primary processing plant for -- for hogs, and we started in 1999. We double-shifted the plant in 2008. So we employ approximately nineteen hundred and fifty (1,950) hourly workers, and -- and a hundred and fifty (150) salaried workers there.

Okay. Next slide, please. So our business in the pork industry, we're global, commodity-driven, free-market industry. So our pricing is based on the USDA market index, and that's used to derive the base meat of our price. Our opportunity on -- on the business side to increase our margins is to move cuts from -- from primal, bone-in states to further converted value-added products. So basically, taking a bone-in loin and making pork chops, or making a belly into bacon, okay?

One (1) of the biggest advantages we have in -- in the Brandon facility is our abil -- ability to produce chilled pork for the Japanese market. It's a very labour-intensive and energy-intensive product, requiring a very controlled cooling program.

Next slide. So just to give you an idea of our process, in the Brandon plant, hogs are received. They go through the front-end kill. They're -- they're slaughtered, eviscerated, and then they hit the blast chill, and -- and so for a hundred and eight (108) minutes, these pigs go through a conveyor system that -- that chills the product down to minus forty (-40), high wind speeds, and -- and really, what does is it crust freezes the -- the carcass, and that's necessary for this Japanese chilled pork market.

They then go into our cooler and -- and the hogs are then chilled down for eighteen (18) to twenty (20) hours. They -- they reach an internal temperature of about 4 degrees Celsius. Then the next day, we push them out onto the cut floor, and that's where we add value.

So the carcass is broken up, deboned, packaged, and then goes out through our shipping, okay? So the process from -- from the -- the cut floor to packaging is about seven (7) minutes, from -- from a carcass into -- into a box. So we're -- we're a high line speed plant, and there's not many like us in North America.

So the challenges that we face, Hydro represents our highest utility cost in Brandon. So it's approximately $4.6 million annually. And again, as I mentioned before, it's primarily used in the powering of equipment and refrigeration.

So our refrigeration, we're the second largest ammonia plant in North America. We have about 72 metric tons of -- of ammonia used in our chilling process. And like I said, our snap chill, that blast chill uses -- approximately one third (1/3) of our Hydro cost is just doing that.

Global competition in the -- in the pork markets has many disadvantages to Canadian companies. One (1) of the few key advantages that we have being located in Manitoba is our electricity rate. But even with that favourable rate, as I'll show you in the next slide, we still have one (1) of the highest utility costs among North American meat packers.

So -- so we -- we subscribe to a company called Agri-Stats, as do twenty-six (26) other North American primary processors, and we submit our financials. We submit our -- our yields, our labour reports to this company, and they publish a report so we can get an idea of our competitive set. So you can see this graph here. On the -- on the top graph, the green bars represent Maple Leaf's energy cost, okay? And that's utility costs per -- per kilogram killed. Okay?

The -- the blue -- the light blue dashed line is last year's costs so you can see how well we did versus last year, but the key things to note here, the red line, or the top 25 percent represent about eight (8) meat packers, the top of the group. And you can see how far our energy cost -- utility cost per kilogram is compared to them.

The orange line is the US, and -- and you can see the US meat packers, of which the majority of -- of these are, their energy costs. And then the dark blue line is the Canadian set. So even though we have some of the -- the, you know, the most -- the most competitive pricing, we still have some of the highest utility costs, okay, in -- in the Brandon facility.

Okay. Next slide. So aside from -- from our -- from our costs, the other operating challenge that we have being in Brandon, Manitoba is our access to labour. It's -- it's probably one (1) of our biggest challenges in -- in Maple Leaf today, and -- and what we're looking to do to fill that gap is automation, okay? So we're looking to -- to convert over -- upgrade people's skill set and -- and move them into -- to jobs that we can't automate, and automate those jobs that we can. With the power requirements that we -- we look for these robots, the proposed rate increase would negatively affect these projects, and would also create additional ongoing costs through our products.

Next slide. The impact for the rate increase to us, as I mentioned before, we operate on a commodity-based market. Cost increase cannot be passed on. I mean, we're -- we're held to competitive set, again, the US, Canada. Canadian pork, however, is priced at a premium, and that's merely due to the quality of the product when we compare it to the US pork. So we do -- we do get a premium compared to our US competitors.

I was in Japan three (3) weeks ago and -- and the market feedback that we got from our customers is we are at the point of inflection between price and quality, and they're actually -- we have -- we have importers there that are starting to move away from Canadian pork and get into US pork. So the threat is real that -- that we are actually not able to get these -- these prices for the -- the difference in quality, okay?

The impact to the rate increase to Maple Leaf's operations in Manitoba is about $4 million over five (5) years. The Brandon plant alone would experience an increase of $2 million.

Maple Leaf -- we operate under a zero-based budgeting scheme. So any additional cost to the system has to be found within the system. And in the short term, the impact is likely felt in discretionary spend, employee headcounts, reduce capital spending, community donations. The long term, we would look at potentially pulling back some of the work in Brandon. So we will remain killing and cutting pigs in Brandon, but it's what other value-added processes do we do?

What other expansions to be look for, okay, and/or look at alternate power source generation to fill that gap. So that's something that we've looked for in Ontario where we have experienced a -- a rate increase.

Next slide. So as I mentioned, in Ontario, we've seen this rate increase, and -- and there's ways that -- that government has eased the impact. They've offered offsetting incentives for us. Some have been user reclassifications to favour larger consumers with a new rate structure, demand/response programs.

So the first one, our -- our user reclassification, we've -- we have realized about a million dollars in savings across seven (7) plants. The demand/response, we've been able to enrol eight (8) plants in that, and we've seen a -- a savings of about two hundred and fifty thousand (250,000), okay? They're also talking to us about exploring a -- a virtual net metering. This would be the ability to produce renewable electricity for the grid anywhere in the Province and receive a credit against our consumption. So something that -- that they're working with us on right now today.

Next slide. But I don't want to leave

this is an us versus them. We certainly value the positive relationship we've had with Manitoba Hydro. We have worked very closely with our reps. Any time we've had power issues or emergency upsets, they've been there two, three o'clock in the morning, helping us get this back up and running.

We understand the need for reasonable increases, but it's got to be done in conjunction with industry, not in a vacuum. So I appreciate the time and -- and effort of everybody, and thank you very much.

THE CHAIRPERSON: Thank you, sir. I would ask the parties, Intervenors, and Manitoba Hydro if they have any questions for any of the witnesses. Manitoba Hydro...?

MS. MARLA BOYD: Thank you. Good afternoon, gentlemen. I have a few questions that I'll direct to -- perhaps to deal with the specific businesses. And I have a couple just for the panels generally.

First off -- first off, Mr. St. Pierre, on slide 5 of your presentation, and we don't need to go there -- maybe we can go there quite quickly. Very good. Thank you.

You indicate there that you have a

payroll of $7.5 million and hundred and fifteen thousand dollars ($115,000) being the annual salary. By my calculation, that means you have roughly sixty-five (65) employees. Is that right? No, feel free --

MR. DALE BOYD: We work -- we work together, yeah.

MR. MICHAEL ST. PIERRE: He makes me do --

DALE BOYD: We have, actually have eighty-one (81) employees on site.

MS. MARLA BOYD: And can you tell me where ChemTrade's head office is located?

MR. MICHAEL ST. PIERRE: Toronto.

MS. MARLA BOYD: Thank you. Mr. Curran-Blaney, you mentioned a couple of statistics relating to utility cost.

MR. MORGAN CURRAN-BLANEY: Yes.

MS. MARLA BOYD: First off, on slide 6, you indicate that Hydro represents your highest utility cost?

MR. MORGAN CURRAN-BLANEY: Yes.

MS. MARLA BOYD: Can you specify, does that mean electricity and natural gas, or is that electricity only?

MR. MORGAN CURRAN-BLANEY: Yes, that's

electricity only.

MS. MARLA BOYD: Okay. And when you say it -- your highest cost, are you comparing it to other plants, or are you -- what are you comparing to?

MR. MORGAN CURRAN-BLANEY: Just within Brandon itself, all of our utility costs.

MS. MARLA BOYD: And your other utility costs would be natural gas, water, sewer?

MR. MORGAN CURRAN-BLANEY: Yes.

MS. MARLA BOYD: Anything else?

MR. MORGAN CURRAN-BLANEY: No, that's about it.

MS. MARLA BOYD: So when we flip over to slide 7, and we show the Agri-Stats that show utility cost per kill, is that a combination of all of those utility costs?

MR. MORGAN CURRAN-BLANEY: Yes, it is, yeah.

MS. MARLA BOYD: To the panel generally, we noticed throughout your presentations that there is no information offered that would provide your revenue, your net revenue, or your profitability that would give the Board an opportunity to have a context to compare your cost of electricity compared to your revenue. And I appreciate that may be private, but is there anyone that is prepared to share that information to provide the Board the context?

MR. MICHAEL ST. PIERRE: I can. So there -- we don't disclose them to market. So our investors don't have that information, so we won't disclose that.

Having said that, I think the point that certainly I was trying to make was that in discussions -- reverse engineering our P&Ls to look at what we could afford is not the same as looking at the competition we're facing, both at the market and the supply side.

(BRIEF PAUSE)

MS. MARLA BOYD: Thank you, gentlemen. Those are our questions.

THE CHAIRPERSON: Any questions from the Consumers Coalition? Mr. Cordingley...? I'll ask the panel if they have any questions. No, you can -- well, it's a question of who's going to steal my question, either you or Dr. Grant, so you can steal it.

THE VICE-CHAIRPERSON: Mr. St. Pierre,

I believe you said that you had four (4) plants, and one (1) plant closed because of there were noncompetitive conditions. Can you give a sense of what those noncompetitive conditions were? And in particular, of course, I'm interested in whether or not one (1) of them was an electricity price increase.

MR. MICHAEL ST. PIERRE: For that particular one, it wasn't. It's in Nanaimo, and so the customers basically went away, and so to get there -- and -- and to look at that plant moving, certainly there's cost increases versus other ones in terms of electricity, but the transportation is another factor, there.

Suffice it to say, though, that the customers that we were servicing from that mill, we -- we just shifted that load to other plants. So that was an example where we've gone from four (4) to three (3), but we're -- an example of shifting load.

THE VICE-CHAIRPERSON: Thank you. Yeah, Mr. MacDonald, you spoke on one (1) of your slides about time of use rates that were approved by the Manitoba Hydro Board, but never implemented?

MR. DARREN MACDONALD: Yes.

THE VICE-CHAIRPERSON: Were you given a sense of why those rates were not implemented?

MR. DARREN MACDONALD: No. We've -- we've talked about it several times over the years, but I have no idea why we -- we didn't implement it. They were fully developed and -- and it would have been beneficial for a -- a manufacturer that is cyclical to -- to adjust its load in it during a downturn, but I'm not -- I'm not sure why was it was -- was not approved or implemented -- or sorry, not implemented.

THE VICE-CHAIRPERSON: Thank you. And still on the issue of time of use rates, Mr. Samuel, I believe you said that you had minimal opportunities to reduce your load if electricity prices went up, but would time of use rates be of help to you?

MR. GERALD SAMUEL: It -- it really would not help, I think. It would not help, because we -- what -- what happens is that -- the load is fixed. We cannot reduce it any further. We have come to the stage when we cannot reduce the loads any further. And so therefore, that the time of use -- it would -- it's not going to help.

THE VICE-CHAIRPERSON: So your use is steady through a twenty-four (24) hour period?

MR. GERALD SAMUEL: Yes. You're right.

THE VICE-CHAIRPERSON: Okay. Thank you. And finally, Mr. Curran-Blaney, you mentioned at the end of your presentation that you understand the need for reasonable rate increases. Could you give a sense of what you would see as a reasonable rate increase?

MR. MORGAN CURRAN-BLANEY: I think the historical -- you know, the historical increases that we've seen in the past is something that we've been able to work with and -- and find within.

THE VICE-CHAIRPERSON: You also said that if prices of Hydro were to increase, you would remain in Brandon, but you would potentially not do increases in your plant size that you might otherwise do. Is that because of the supply of quality hogs in the area?

MR. MORGAN CURRAN-BLANEY: No, it would -- it would be -- we would look at where else can we do that value-added work for -- for a reduced cost? So we would still -- our -- our facility, it's -- it's fairly new in -- in terms of -- of meat packing plants. We're not going anywhere, and -- and we would continue to process hogs there. It's just, what else do we do in that plant, and what other work do we do beyond that -- that cooler -- that cooler wall?

THE VICE-CHAIRPERSON: Okay. Thank you.

THE CHAIRPERSON: Dr. Grant...?

BOARD MEMBER GRANT: Are you sure you're done?

THE CHAIRPERSON: I haven't even started.

THE VICE-CHAIRPERSON: I think he was talking to me.

THE CHAIRPERSON: You're talking to --

BOARD MEMBER GRANT: Well --

THE CHAIRPERSON: -- whatever.

BOARD MEMBER GRANT: Yeah.

THE CHAIRPERSON: Okay.

BOARD MEMBER GRANT: Could I -- I was trying to understand a little bit about some of the location decisions involved when electricity charges are a big part of your bill. And so maybe -- could I do it in the context of sodium chloride, because I think -- it may be that your explanation was so clear that I'm thinking of opening a sodium chloride plant.

And so, you know, I just grab a high school chemistry grad, and I was thinking when you were talking that I'd need access to salt. I want some cheap power, cheap electricity, and I guess I've got a final market I want to -- and I'm not sure what the transportation costs are, how -- but those three (3) things, if I was -- can you give me a sense of the relative importance of those three (3) factors? I take it salt is not that crucial to --

MR. MICHAEL ST. PIERRE: Well, quality salt is. And so -- and so it all depends on how much capital you put in your plan to clean up the salt to get it to a -- a quality for electrochemistry. Otherwise, just --

BOARD MEMBER GRANT: Sorry. Is it expensive to ship? I mean, is it -- is it throwing it into a railway --

MR. MICHAEL ST. PIERRE: Well, for salt, the biggest cost is transportation, because the salt itself is not usually expensive. The cost is the treating it when it gets to your facility, and getting it there.

BOARD MEMBER GRANT: And so your salt would be -- the salt that you're using is coming from where?

MR. MICHAEL ST. PIERRE: Potash mines close by in Man -- or Saskatchewan, for the most part.

BOARD MEMBER GRANT: And -- and so the

electricity -- I mean, I guess it's hard to say exactly what the calculus is in deciding to --

MR. MICHAEL ST. PIERRE: Well, it -- it -- well, it -- it's a -- it's a question of delivered costs, and those three (3) I've put out are -- are the main ones.

So an example would be, in -- in the case of -- of Brandon, electricity trumps a lot of the other disadvantages. However, depending where the customer is, and so for instance, I -- I believe that something like -- and I have the numbers, but not off the top of my head, 60 to 65 percent of the production of sodium chloride in North America is in Canada, and about the reverse, or 60 percent, or 70 percent of the demand's in the US. And part -- particularly, a lot of the demand for -- for the pulp mill is in the southern US.

And so we're competing with mills in Georgia. And we know in public record, and it's not private, and there are some people operating in Manitoba. We know their overall power costs down there are less expensive than here. So it depends by the mill. It depends where it is. And sometimes depends if that mill is near a -- one (1) of our service lines -- rail lines versus a competitor's. So it's not just distance. It's also location versus -- versus spurs and -- and rail lines. But that's why we're looking to optimize all the time between customers, locations, and clearly deliver cost total. But as you can see, electricity has a big weighting on it.

BOARD MEMBER GRANT: Just one (1) other small question, if I could. You mentioned virtual metering, reverse metering?

MR. MICHAEL ST. PIERRE: Yeah. Yeah. Yeah.

BOARD MEMBER GRANT: Does this -- does this mean that Ontario would encourage you to put a wind farm in Thunder Bay, and would it be a credit towards your --

MR. MORGAN CURRAN-BLANEY: I'm -- I'm far from an expert from it, but yeah, that's -- the -- the idea is you could buy -- buy land, put up a new -- a renewable energy source, and -- and then you would get a credit back.

BOARD MEMBER GRANT: So it could be in the other end of the Province?

MR. MORGAN CURRAN-BLANEY: Yeah. It -- it doesn't have to be in the location where your -- you are operating.

BOARD MEMBER GRANT: Thank you.

THE CHAIRPERSON: Gentlemen, you belong to companies that are -- are large and have a number of different locations. So what I'd like to do is ask the same question to each of you. So if you could sort of canvass. And I will put it this way. The question I would ask is: What is your percentage of expenses in Manitoba for electricity? What is your expenses for electricity on a percentage basis at your other plants? How does your -- how does your electric -- how do your electricity costs compare to your competitors?

And then the final area is what Ms. Kapitany was on is time of use, whether your other plants use time of use, your experience there, and whether your competitors use time of use.

So, Mr. Curran-Blaney, maybe we'll go in reverse order. Can you give me that information? What's your percentage of your total expenses for electricity?

MR. MORGAN CURRAN-BLANEY: So for this, I -- I'll actually have to get back to you on this with our other facilities and -- and get some of that, but I will -- Hydro versus our competitors, we actually have a -- a very favourable -- I don't have the exact numbers, but again, I can -- I can look at that, and that's just from our Agri-Stats comparison. So when we do a break out --

THE CHAIRPERSON: Sorry -- sorry to interrupt. That would include US competitors?

MR. MORGAN CURRAN-BLANEY: That would include US competitors.

THE CHAIRPERSON: Okay.

MR. MORGAN CURRAN-BLANEY: Yes. And -- and for time of use, we historically haven't done it, and we're starting to do that in Ontario. We haven't really explored what that would look like here in -- in our Manitoba operations.

THE CHAIRPERSON: Okay. And if you wanted to explore it in your decision-making process, how long would it take you -- your company to look at it?

MR. MORGAN CURRAN-BLANEY: We would prob -- we would have to study it. We'd have to probably launch it as a project to make sure that, you know, what -- what does it impact for labour? What does it impact for product quality? You know, much -- much like Gerald, our -- our energy has to remain on to cool product --

THE CHAIRPERSON: That's right.

MR. MORGAN CURRAN-BLANEY: -- twenty-four (24) hours.

THE CHAIRPERSON: It's a twenty-four (24) hour a day --

MR. MORGAN CURRAN-BLANEY: Yeah.

THE CHAIRPERSON: -- plant, yeah.

MR. MORGAN CURRAN-BLANEY: Yeah.

THE CHAIRPERSON: Mr. Samuel, do you know what the percentage of your total expenses for Manitoba's electricity?

MR. GERALD SAMUEL: See, most of the answers, I'd have to come back actually, because --

THE CHAIRPERSON: Okay.

MR. GERALD SAMUEL: -- we have --

THE CHAIRPERSON: Good --

MR. GERALD SAMUEL: -- four (4) plants in the US, and one (1) -- one (1) here. So a lot of information has to be compared with the US.

THE CHAIRPERSON: Yeah. No, if you could, I'd appreciate it. And -- and I know you mentioned you don't use time of use, given the nature of your industry.

Mr. MacDonald, percentage of your expenses for electricity here?

MR. DARREN MACDONALD: Right. So --

THE CHAIRPERSON: You're on.

MR. DARREN MACDONALD: Yeah. We have -- our -- our largest cost is the scrap material. The second is -- is labour, and third behind that, at a much smaller percentage, around 8 percent for Manitoba --

THE CHAIRPERSON: Okay.

MR. DARREN MACDONALD: -- is electricity, but it -- electricity and natural gas costs are really the one that can make a difference, because we -- the -- the labour costs aren't significantly different; the scrap costs are significantly different, but the energy costs and -- and the efficiency and the way that we use that are two (2) things that we really focus on as more of a controllable cost.

THE CHAIRPERSON: M-hm.

MR. DARREN MACDONALD: If you look at that chart that I put up, in 2018, Manitoba's costs are pretty much equal to the average cost that we're paying in the US.

THE CHAIRPERSON: Okay.

MR. DARREN MACDONALD: So it would be a very comparable number with a very small increase from where we are today. Manitoba used to hold the pole position in our graph from lowest to highest electricity costs, and now there are multiple jurisdictions in North America below Manitoba's costs, which has -- has been a significant change.

THE CHAIRPERSON: And was electricity one (1) of the reasons you came to Manitoba?

MR. DARREN MACDONALD: That's one (1) of the reasons -- I mean, been over a hundred and eleven (111) years here, you know, so I -- I can't --

THE CHAIRPERSON: You were here before electricity?

MR. DARREN MACDONALD: -- fully answer -- fully answer that question, however, I -- I can say it's one (1) of the reasons that we, you know, competitive electricity is one (1) of the reasons that we've continued to invest, and a lot of confidence that that price would stay low and competitive to make up for the transportation costs associated with being located here and a lot of our -- our customers south of the border.

THE CHAIRPERSON: Mr. St. Pierre, what's the percentage of costs?

MR. MICHAEL ST. PIERRE: So I'm going to -- I'm going to give it in tiers, because we have many plants, and they're all different products.

THE CHAIRPERSON: Okay.

MR. MICHAEL ST. PIERRE: So -- so --

THE CHAIRPERSON: It's a more complicated question, than I --

MR. MICHAEL ST. PIERRE: But I'll make it simple. So like Brandon, that type of thing, it's the same percentage across those plants, because it's stoichiometric. It's part of the chemistry.

THE CHAIRPERSON: Okay.

MR. MICHAEL ST. PIERRE: So the percentage is going to be around 70 percent for manufacturing variable cost.

THE CHAIRPERSON: Yeah.

MR. MICHAEL ST. PIERRE: And those plants are in British Columbia, Manitoba, and Quebec.

THE CHAIRPERSON: And how does -- how does your electricity costs for Manitoba compare to BC and Quebec?

MR. MICHAEL ST. PIERRE: So in -- in those jurisdictions -- so the tariff rate, for sure, is -- is lower. I mean, that's published and that's clear, right?

THE CHAIRPERSON: Yeah.

MR. MICHAEL ST. PIERRE: So it depends on what we're allowed to do with the freshet in BC, for instance, and -- and curtailable power. So it depends what levers you have to use.

It has historically always been the least expensive world scale plant, Manitoba has been, right?

THE CHAIRPERSON: Manitoba has been?

MR. MICHAEL ST. PIERRE: For sure, right? And that's why we've kept on expanding it, because it's been that advantage. And so with that variable advantage and the economies of scale, because we've done our part in investing in that facility to -- to drive your -- your cost -- fixed cost per ton down even -- commensurate with it. So it has been.

That being said, if you look at -- depending on how you want to project. And I know you've been very clear about looking only at one (1) year, unfortunately, our capital is looking out ten (10), twenty (20) years.

The signals that Quebec's, for instance, signaling at .8 percent, and the deals we're making signaling much more stable environment. So Manitoba has historically always been the lowest-cost plant because of scale and because of cost, bar none.

So now when we look at what's going on with the current rate, plus what's happening in many jurisdictions in the US, one (1) of the -- one (1) of the phases that we -- we actually -- part of the plant in Brandon was moved from Louisiana because of electricity -- what -- what year?

MR. DALE BOSSONS: 2005.

MR. MICHAEL ST. PIERRE: 2005, and we moved it to Brandon. And -- and if we were to bring that back now, it -- it would operate cheaper than it does in Brandon. So it -- the -- and -- and what you're looking at is an equilibrium in the market based on what the economics have been. And as they change, everything's changing.

So what we see as a competitor is because everyone is looking at Manitoba, our customers look at us different because they're wondering what's going to happen. Our competitors are acting a bit different. And some of our competitor costs -- we don't actually know, because they're private contracts, but we're looking at the activity, and -- and I won't say I'm scared. I'm concerned, right? So -- so we see that, and people are watching.

THE CHAIRPERSON: Okay. Final question to you, sir, was time of use.

MR. MICHAEL ST. PIERRE: No effect at all. We run -- run --

THE CHAIRPERSON: Okay.

MR. MICHAEL ST. PIERRE: -- around the clock, so it's -- probably, we -- we supported it, because I think it's good for industry for people who can use it --

THE CHAIRPERSON: Yeah.

MR. MICHAEL ST. PIERRE: -- yeah, but it actually hurt us.

THE CHAIRPERSON: Okay. Sir, go ahead.

BOARD MEMBER MCCUTCHEON: So following up on the Chair's question about competitiveness, and -- and competitors, and other plants that you have, we had testimony earlier in this hearing on carbon footprint. So Manitoba, on -- on a electricity basis, has very green energy.

So maybe -- maybe two (2) parts to this, but one (1), what would your sense be both on your competitors and your other plants available to you for this production on the electricity basis, how the electricity will be being produced, will -- will be coal, natural gas, mainly when you're looking at these other jurisdictions?

MR. DARREN MACDONALD: Are -- are you talking specifically our competitors or our -- our other locations we're --

BOARD MEMBER MCCUTCHEON: Probably both, if you could --

MR. DARREN MACDONALD: Okay, well --

BOARD MEMBER MCCUTCHEON: Comment on that.

MR. DARREN MACDONALD: -- specific to -- to Manitoba, we have an extremely low carbon footprint with -- with a hundred percent Hydro, basically, and -- and a process for making steel that's highly electrical intensive as the conversion.

So we would have a -- a very, very low carbon footprint for made in Manitoba steel. Our competitors in the Midwest US will have a higher carbon footprint in the southern and -- and Midwest, because they have a higher, obviously, fuel mixed with some coal and some -- some natural gas in it. So Manitoba has a -- a very big advantage from a carbon footprint perspective.

Compared to Ontario, you know, they were 91 percent nonfossil last year. So those -- those steel mills -- our steel mills in -- in Ontario are also in a very competitive situation. So it all -- it all depends, basically, the fuel mix, where it's made, and the distance that the material has to -- has to be transported really make the big -- two (2) biggest differences to carbon footprint.

MR. MICHAEL ST. PIERRE: And if I may, so because of the way our operations work, and we're using electricity, our carbon footprint's really in our transportation. So we're going to be penalized by the railways, because we're moving it. And that's true across the other jurisdictions in Canada, because they're also hydroelectric driven in terms of the two (2) jurisdictions I spoke about earlier. And a lot of our compet -- competition is in the US, and they're not even on the same playing field, right?

BOARD MEMBER MCCUTCHEON: Okay. Okay. Thank you. So I think the point was, and the testimony we heard before was carbon leakage. So if we -- if things happen in this Province where we're dealing with largely green energy, and -- and have green industry, that if we end up forcing this production to somewhere else, we've actually self-defeated the purpose of having green energy here. So -- and part of that discussion was the use of the carbon taxes coming online and how we could use that to support keeping green industries in this Province. That -- that was the basis of my question.

THE CHAIRPERSON: Thank you very much,

gentlemen. It was -- it was very important to hear from you, and we appreciate your participation, your presentations, and your assistance to the Board. Thank you.

We're going to take a -- a brief recess until 4:15, and then we'll resume for the last three (3) presentations. Thank you.

--- Upon recessing at 3:56 p.m.

--- Upon resuming at 4:15 p.m.

THE CHAIRPERSON: If we -- if we could continue. The next -- the next witness is Benoit Lentz. Mr. Simonsen, if he could swear Mr. Lentz in please.

BENOIT LENTZ, Sworn.

THE CHAIRPERSON: Welcome, Mr. Lentz. We would ask if you spend about ten (10) minutes and give us your presentation then we'll see if we have any -- anyone has questions for you. Thank you, sir.

PRESENTATION BY MR. BENOIT LENTZ:

MR. BENOIT LENTZ: Thank you, Mr.

Chairman and thanks to you and all the members of -- of the Board for allow -- allowing me to be here today and please let me start by introducing what is Roquette and who is Roquette and myself.

So I'm Benoit Lentz. I'm global energy manager and Roquette is a family-owned company founded eighty (80) years ago in France. In a nutshell what we do is we -- we process raw materials into plant-based ingredients to sell to nutrition house and food markets. Roquette is about twenty (20) plants worldwide and employs eight thousand (8,000) people. We have a turnover of 3.5 billion Euro which is approximately $5 million Canadian dollars and that makes us the fifth global player in our local business, which is starch business.

And also, and that's the reason why I'm here today, a pioneer pea proteins. So Roquette has adopted a long-term vision and approach of paramount innovation and investment and to do that, we invest about 10 percent of our revenue in industrial capital and research development.

So the -- the reason I'm here today, you may read it or you may have heard about it, in January 2017, Roquette decided to invest $400 million Canadian dollars here in Manitoba in Portage La

Prairie to build a new facility. This unit will be dedicated to pea processing and will allow us to transform pea, for example, from Manitoba and Saskatchewan, in -- to serve the growing demands for meat alternatives driven by new eating behaviour, sustainability concerns and health consciousness.

So initially, the site will employ about one hundred and fifty (150) people from a wide array of profiles so, engineers, technician, operators, administrative profile. And in addition to that, about the same number of indirect position linked to transportation, utilities and so on.

And during the construction phase, we forecast about three hundred (300) contracted jobs during a two (2) year period. So regarding the raw materiel supply that's -- that's going to come in -- in a significant part from Manitoban farmers and last, but not least, in regards of our social responsibility with the community in Portage. We have already started to support an after school program for kids.

So our decision to locate this investment in Manitoba resulted from -- from four (4) main criterias. The first one was a reliable sustainable and competitive hydraulic facility provided by Manitoba Hydro.

The second one was a strong logistic, with access to multi-model transportation links throughout North America.

The third one, obviously, was the raw material availability, the peas.

And the fourth one was the business friendly spirit from Manitoba -- Manitoba province and at the locale administration and authorities.

Basically, the raw materials availability led us to area of choices comprising Prairie provinces and the equivalent area in the southern side of the border; so in the United State. And what led us specifically among that to Manitoba was our perception of stable and reliable electricity supply.

Indeed, after raw materials, electricity is by far our biggest valuable cost. We have energy intensive process to separate and give value to all the components of the pea in order to provide our customer with highly purified ingredients to meet the requirement in nutritional function and functional values.

To achieve this, we have a lot of energy intensive processes such as washing, drying, heating, crushing, sieving, centrifugation and so on.

So for us, for Roquette, Manitoba low and stable cost of electricity was a chance to have competitiveness against our competition, for example, based in the US or in China where they operate without carbon tax, where they operate the ability to resort to cheap fossil fuels such as coal.

So in taking our final investment decision, we obviously had conducted comparative analysis and we had heard and we had read about the environment and the previous years of rate increase and the request of an incremental 3.95 percent per annum over a certain number of years. And although we were not familiar with Manitoba situation, we understood that the final call would be the Public Utility Board that would likely arbitrate between 0 and 3.95 percent.

So our decision was based on this equilibrium and we had no information that led us to believe that twice this maximum rate could happen here and that's significantly -- that would significantly impact our operation and profitability here.

This would have two (2) obvious consequence. The first one, as I said in the beginning, we have a long lasting story of investing into our facilities and with twenty (20) plants throughout the world, of course, any further investment is guided by the profitability of the plant and the business line linked to the plant and this rate increase would significantly impact the competitiveness and, hence, render us much less likely any further investment there.

And secondly, a key decision for such an investment is obviously based on a perception of an environment and our perception is that Canada is a very stable business environment and the full extent of this rate increase would clearly change for us the picture there.

So, in short, Roquette's involvement within Manitoba economy reflects its strong willingness to for a long time presence and to have an impact -- a positive impact on its environment, but we are very concerned about this electricity rate increase that would undermine the advantage of Manitoba, which is first and foremost its stable and reliable competitive electricity. And that would put a big disadvantage versus for example the US and would -- yeah, would really hurt our viability. And that's it.

THE CHAIRPERSON: Thank you, sir. Any questions from, okay, Consumers Coalition, MIPUG, Manitoba Hydro. No questions? Ms. Kapitany...?

THE VICE-CHAIRPERSON: Thank you and welcome to Winnipeg. I believe I heard you say that your expectation when you were making the plans to come to Portage la Prairie was that there would be a rate increase between 0 percent and 3.95 percent?

MR. BENOIT LENTZ: Well, it's -- it's our internal perception was that the 3.95 percent, the history and what -- what was known would mostly be the worse case and arbitration would be between 0 and that. It was just a perception that we had.

THE VICE-CHAIRPERSON: So at the 3.95 percent, then your business case for the plant in Portage la Prairie was solid?

MR. BENOIT LENTZ: It -- it was a sensitivity that -- that we took into account to build the business case and to take this idea.

THE VICE-CHAIRPERSON: Merci.

THE CHAIRPERSON: Can you tell me when you would've started the process to look at Portage la Prairie?

MR. BENOIT LENTZ: The -- the decision was announced in January 2017, and we have extended -- I was not part of the project to check the various possibilities, but I understand it was mostly done in

2016.

THE CHAIRPERSON: Okay. At -- at the time -- you mentioned four (4) factors: stable and reliable hydro, transportation, raw materials and business friendly spirit.

Were all of those factors of equal value or were they of different values. So, for example, if you were looking at our scale is it -- you'd say 25 percent to this, 25 percent to this, 20 - or was, you know, for example, were the most important things hydro and raw material or transportation and raw material.

I'm trying to figure how you -- how you would have weighted the decision or how the company would have weighted the decision and I understand the stable and reliable hydro was one (1) of the four (4), I'm just trying to figure out how important it was in one (1) of those four (4).

MR. BENOIT LENTZ: Okay, is -- is just, again, my perception because there is no strict metrics to -- to give ponderation to logistics versus business friendly administration, but, the -- it was mandatory to have pea but -- and Canada is the number 1 producer in -- in pea but peas produce in the Prairie provinces and the -- south of the border, the state that would commodity that.

So once we had pinpoint this area where the peas were available, then to me the key point was sustainable and competitive electricity energy.

THE CHAIRPERSON: Okay. Can you tell us of your total expenses, what percentage is -- is Manitoba Hydro?

MR. BENOIT LENTZ: Based on the business plan because we don't know yet exactly our consumption --

THE CHAIRPERSON: Right.

MR. BENOIT LENTZ: -- we think about 10 to 15 percent.

THE CHAIRPERSON: Okay. And do you have locations in the United States?

MR. BENOIT LENTZ: In Iowa.

THE CHAIRPERSON: In Iowa. And how does the Manitoba site compare to the Iowa site in terms of costs?

MR. BENOIT LENTZ: In term of electricity Manitoba is cheaper than Iowa for sure.

THE CHAIRPERSON: Okay. And if the rates in -- if the rates are increased, are they -- are they getting closer to Iowa, are they still cheaper than Iowa?

MR. BENOIT LENTZ: It -- already with current prices it was a close call so it -- it -- it's changing the picture significantly in term of energy, but I think that even with the increase they would be bit cheaper than Iowa if we consider a similar demand and consumption profile.

THE CHAIRPERSON: Okay. I take it that they have raw material in Saskatchewan as well?

MR. BENOIT LENTZ: Yes, Saskatchewan is the biggest pea producer.

THE CHAIRPERSON: So what is the reason why you would locate in Manitoba versus Saskatchewan?

MR. BENOIT LENTZ: That one is energy.

THE CHAIRPERSON: It's the energy costs?

MR. BENOIT LENTZ: Yeah.

THE CHAIRPERSON: Okay. Dr. Grant...?

BOARD MEMBER GRANT: Just in the context, your final markets maybe where, for the Portage plant say?

MR. BENOIT LENTZ: Most of it -- by most it means -- majority, I don't want to -- to give too specific information, but it's out of the Canada. Most is the US. The demand for alternatives to meat protein is mostly grow -- it's mostly growing in the US.

BOARD MEMBER GRANT: And the transportation costs are significant there as -- or is it more at getting the pea to mark -- pea to the factory?

MR. BENOIT LENTZ: Transportation costs are significant, yeah.

BOARD MEMBER GRANT: The final --to the final market.

THE CHAIRPERSON: Transportation is -- is it mostly truck or is it rail?

MR. BENOIT LENTZ: I -- I --

THE CHAIRPERSON: You don't know?

MR. BENOIT LENTZ: No, I'm -- I'm not sure about that and it's really not my field.

THE CHAIRPERSON: Okay. Any other questions. No? Thank you very much, sir, that was very formative.

MR. BENOIT LENTZ: Appreciated.

THE CHAIRPERSON: So we're ahead of time. Is John Gray in the room.

(BRIEF PAUSE)

THE CHAIRPERSON: Please proceed.

JOHN GRAY, Sworn

THE CHAIRPERSON: Thank you for coming, Mr. Gray. Dr. Grant is extremely excited to have another economist in the room. Good you --

DR. JOHN GRAY: He may have some difficult questions for me, we'll see.

THE CHAIRPERSON: Well, good you take about ten (10) minutes or so and give us your presentation and then we'll see if there are questions. Thank you, sir.

PRESENTATION BY DR. JOHN GRAY:

DR. JOHN GRAY: Yes. Well, you -- you see before you the overhead outline of what I intend to carry -- what I intend to cover and moving first, just a brief thing on my credentials.

So I've been teaching economics at the University of Manitoba for a number of years. I have a background in -- PhD in Economics, and also Master's degree in Business Administration and -- and finally, way back when, a Forester degree. So I have, you might say, a checkered background, okay. And some experience in consulting with provincial governments, internationally as well, for World Bank and other organizations, okay.

First point I'm speaking about is the disproportional impact of electricity on heating customers. And I'm speaking personally and if I was in the position of being an Intervenor I might be able to speak on behalf of the other electric heating customers throughout Manitoba, but there are a number of them, and -- and you have information on that I daresay already.

A substantial number of those are rural customers and I would -- I would say that they have maybe a disproportional impact possibly -- so I -- I don't have information on this, but possibly in a income they may be -- the rural customers may be lower income customers. I -- I can't say on that, okay.

I think I have seen something of Hydro's suggestion or proposal for an electrical heating rate, which I find from the -- at least from the preliminary information that I did see that it's rather token -- minimal and token.

And another point that troubled me when I did see the initial one was that it put -- pits one (1) set of customers against another one which I don't think is a very appropriate way to handle things, okay.

General impact of the rate increase on consumers' budgets and inflation, and the provincial economy was the other point that I'm going to touch upon and there may be some questions on that, I suppose, okay.

The proposed rate increase of which you're familiar 7.9 percent per year, which is roughly 50 percent over the five (5) years. Well, I -- I would say it would have a significant impact on Manitoban's budgets. Manitobans are fairly tightly budgeted at the moment, I think that's fair to say, in terms of mortgage, consumer debt and so forth. So, there is not much room in Manitoba's budget. So, it's bound to have an impact on the rest of their consumption and, therefore, on the rest of the Manitoba economy.

So, in a sense that I would argue that this is a -- from the point of view of the economy, a deflationary one in the sense that it's going to impact upon jobs, spending, consumer spending and other things, okay. Yet on the other hand, it's going to be inflationary in that these price increases are going to be into -- wrapped into the consumer price index. So Man -- Manitobans are going to feel their budget pinched and -- and the -- perhaps some job losses as a result of that. And at the same time, find that prices are rising mainly, of course, the electricity rise, okay.

Third, I'm moving to the impact that Hydro's advantage is an opportunity, okay. The -- the proposed price increase over the short term will give people little opportunity for reduced consumption, but I -- I believe over time and especially if we're looking at a five (5) year horizon, there -- there's going to be significant impact on Hydro's sale of electricity, okay.

Reduce consumption and the cost of renewables which is on the -- is certainly on the decline. The cost of renewable energy is, from other sources, is going to impact upon the -- and I give a reference here to an article in the Economist magazine. There's been a series and I -- I -- elsewhere in the presentation, I present references to those as well that show some of the significant impacts and opportunities for renewable resources.

So, I think Hydro may be under estimating, in my mind, some of the impacts of their price increase on their own sales of electricity, okay.

So -- and thirdly, the point is that this is going to be a significant loss in Hydro's advantage of a low-cost province and we're competing with other provinces, Quebec in particular, probably, but also elsewhere, okay. Interestingly enough, just this last Friday, I received a -- received a piece from the CIBC Wood Gundy Investment firm talking about the location of energy for production of Bitcoins which, of course, we all know is very much in the evidence, okay, and some Chinese companies are looking at sighting electricity plants on top of gas wells in Alberta to produce electricity to produce Bitcoins and the other component mentioned in the article is Hydro Quebec has been approached about providing electricity for Bitcoin production. So that's just one (1) point of the competitive advantage of Manitoba that is going to be, I feel, somewhat threatened by this.

We have an important resource there and we've been very proud of that. It would be a shame to lose that competitive advantage, okay.

Thirdly, there's the impact of Hydro's advantage of which I mention briefly. Several ones I've mentioned and I -- I'm quoting again from several series of articles in the Economist magazine that talk of the technological changes and the drama -- impacts of that, okay.

MR. KURT SIMONSEN: Couple of minutes please, Mr. Gray, or Dr. Gray.

DR. JOHN GRAY: Particularly electric motors and I was thinking in the previous presentation of the processing plant -- Maple leaf processing plant that there's opportunities for much more -- much improved energy efficiency and electric motors that are -- they're taking place, okay.

Charging. There's charging stations and opportunities for Hydro in terms of electric cars, potential advantages significant in terms of electric cars, okay. And recent articles that charging -- charging stations and induction charging is another possibility on the -- that is -- that is in the -- right on the forefront of introduction.

So you can imagine yourself perhaps one (1) day fairly shortly driving through Tim's lineup and asking for a medium coffee with sugar and cream and 15, 20, 30 kilowatt hours of electricity for your car, okay. Now, it may take a little more time so you may have to go inside and order it online or order it online ahead of time in order to get that, but there is one (1) advantage.

And turning to the next page. Just to highlight that there is some significant figures on the lines there. You'll see the top -- the top lines are forecasts of electric vehicle sales in -- by Bloomberg's and the upward adjustment that took place just over one (1) year. OPEC adjustment upward is the second one down, but all three (3) of those shows significant increases over the next few years. So, Hydro has lots of opportunities if it can maintain its price advantage.

And finally, I'm ending up with the Hydro's problem and -- and this is the thrust that's before you -- you people, before the Public Utilities Board, Hydro's problem of cash flow and the capital problem, okay.

And I offer or I throw out a possible solution because what a number of the private sector corporations have been doing and faced with similar problems of cash flow problems is to focus on their core assets and diverse of non-core assets. So, I'm not sure whether this is within the preview of the Public Utilities Board, but perhaps Hydro could think about that and maybe divest some of its non-core assets.

Now, the one that comes to mind off the

top of my head is the natural gas utility, okay, which is in competition with the other side of Hydro, the electric utility. And I've always wondered, in my mind, whether there's par -- possibilities and whether Hydro might be inclined towards cross-subsidization of electricity for export by promoting natural gas, okay.

And as a electric customer, electric heating customer, I wonder whether that promotion is part of a problem of cross-subsidization. Now, I know the Board has had to struggle with this and, hopefully, very successfully, but just that I'm not sure whether that's within the preview of the Board to decide on that. But I just throw that out for interest and now we're ready for questions, I guess.

THE CHAIRPERSON: Thank you, Dr. Gray.

MS. KATRINE DILAY: And, Mr. Chairman, I just -- we have no questions. I just wanted to -- to say -- my name is Katrine Dilay. I'm one of the lawyers for the Consumers Coalition. We just wanted to thank you for your -- for your presentation today.

THE CHAIRPERSON: Manitoba Hydro...?

MS. MARLA BOYD: We have no questions, thank you.

THE CHAIRPERSON: Do you have any questions? Dr. Grant...? Okay, I have a question.

And Dr. Grant keeps stealing my questions or I like to think so.

Electric cars. I read the Economist too so --

DR. JOHN GRAY: Oh, okay.

THE CHAIRPERSON: -- the Economist loves -- hates Donald Trump and loves electric cars. But I had experience with a project in -- in Israel which was an electric car --

DR. JOHN GRAY: YES.

THE CHAIRPERSON: -- which ended up losing about $1 billion. And I know -- I keep hearing stories about the bright future of electric cars but I remember the days of Ballard where people are looking at battery storage and it seems to me that the future of electric cars depends, to a large degree, on battery storage and how far you can go before you have to fill up.

DR. JOHN GRAY: Yes, right.

THE CHAIRPERSON: Because the evidence we've had actually, I believe in this hearing, was that a fast charge is -- is five (5) hours and a slow charge can take up to 24 hours. And to install a unit that does fast charge is -- is probably more than most people can -- can afford.

How confident are you that in the near future we're going to have batteries that can hold the charge for long enough that electric cars become reality? I just preface that I remember in the '60s people would ask, what's going to happen by the end of the centuries and everybody was talking about sort of flying cars and that was how people thought we'd get around. Well, that didn't happen.

So I'm just wondering if electric cars really are going to be -- you know, I can't remember what they say, 50 percent of the market in 2040 or whether it's just simply more a wish than reality.

DR. JOHN GRAY: Yeah. Well, you know, I -- I'm not an expert on electric batteries and so forth, but -- that -- this is based upon what I read and studied.

There is one (1) or two (2) of the other articles I can provide the Board with the references, in fact, I could perhaps even send you a PDF versions of these if -- if this excites the Board in any way. But there are significant impacts and that. The aircraft industry is now exploring electric planes as well, okay. There -- and the -- oh dear me, sorry, the -- not Bowing, the other one?

THE CHAIRPERSON: Lockheed Airbus.

DR. JOHN GRAY: No, no, the -- Airbus, yeah, Airbus is -- is installing an electric engine -- electric operated jet engine in one (1) of their planes already to -- and -- and that also depends on lightweight, very lightweight batteries.

The other important thing that I saw for Hydro was induction charging. So you don't need to plug it in, you just need to park it over top of the induction coil which is just as efficient as that.

THE CHAIRPERSON: Okay. Dr. Grant...?

BOARD MEMBER GRANT: I think I'd be more convinced with your futuristic scenario. You've got to drop the Tim Hortons thing because it will be gone and I guess you'll be pulling into the marijuana shop to smoke a doobie and get your car recharged.

But it brought me to one (1) question, these cars better fly because we have a whole economy based on taxing gasoline to pay for the roads. How would you -- how are you going to pay for all infrastructure?

DR. JOHN GRAY: Well, you may end up taxing a electric use of -- for cars, who knows, whatever. Or there may be increased road taxes or tolls or whatever you get -- that's beyond my -- beyond my sense of vision at the moment, but that's another public finance issue for me perhaps in the future.

No, the major point I'm making is that -- that these opportunities are sitting there, are developing rapidly and Hydro if it blows its advantage is not going to be in the position to take full advantage of this, whereas at the moment towards the future, it seems to me that Manitoba has a unique advantage in the centre of the country with the lowest -- hopefully, the lowest electricity costs anywhere, okay, to sell more electricity for automobiles and for -- for other uses, for electric motors, maybe for making -- producing Bitcoins and using the electric extra heat that's generated to produce marijuana, goodness knows what all but this is flying off into -- literally flying off into the realms of possibility.

But, my major point is that it seems to me, from all that I've done and thought about and studied, that there are opportunities out there for the future that Hydro is not really looking at and their price increase endanger that future. That's -- that's the key point.

BOARD MEMBER GRANT: Okay, I -- I just want to bring you back to the -- I'm going to say, back to earth, come -- back to the provincial economic impacts of a rate increase, would you not argue that the best way to think about this problem, it's akin to a tax. It's transferring money from one (1) group of Manitobans to another group, but the money is really staying within the province.

And so the best way to think about is really is a redistribution. It's not some additional cost, and unless those two (2) parties have radically different spending patterns and habits and propensities, there is no economic impact.

How would you respond to that?

DR. JOHN GRAY: Well, generally we'd -- as economists we tend to think that consumers will spend it much more quickly, I suppose. And --

BOARD MEMBER GRANT: Well, do you remember --

DR. JOHN GRAY: -- and if people's budgets are stretched and they have to cut back on other necess -- things that they might consider necessities, or if they, you know, if they can't change their mortgage payments, they've got to cut back on something else. It might be -- well, even cut back on some other spending in -- in restaurant meals. I was going to say on food, but maybe not on foods maybe on -- on that.

BOARD MEMBER GRANT: But you're transferring that money to Hydro who is going to spend it.

DR. JOHN GRANT: Yeah, yeah, could.

BOARD MEMBER GRANT: So isn't it -- unless they've got radically different consumption patterns or propensity --

DR. JOHN GRAY: But where's Hydro going to spend it?

BOARD MEMBER GRANT: Oh, they'll spend it.

DR. JOHN GRAY: They'll spend it, yeah. Apparently up north is where they're going to spend it, right.

THE CHAIRPERSON: Thank you, Dr. Gray. We appreciate you coming here today --

DR. JOHN GRAY: Okay. Okay, well --

THE CHAIRPERSON: -- and speaking too us. Thank you, sir.

DR. JOHN GRAY: I -- I do appreciate the challenge that you people face. So, good luck.

THE CHAIRPERSON: Yes. Yes. Thank you very much, sir.

We have one (1) other person who's scheduled for five o'clock. I don't know, Mr.

Simonsen, have we heard from Mr. Marshall?

MR. KURT SIMONSEN: Is George Marshall here?

THE CHAIRPERSON: No, he isn't. Well, he's scheduled for 5:00 so we will wait until 5:00 and so if you want to mill about for a few minutes, you may, but we'll wait until five o'clock for him. Thank you.

--- Upon recessing at 4:54 p.m.
--- Upon resuming at 5:04 p.m.

THE CHAIRPERSON: Okay, it's 5:05. Mr. Marshall isn't here, unfortunately, if -- if he does come, we can at a later time, we can have him file materials.

So, I'm going to adjourn the hearing until 9:00 a.m. on Monday when we will start closing argument. Thank you all, have a good weekend.

--- Upon adjourning at 5:05 p.m.

Certified Correct,

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Cheryl Lavigne, Ms.